

Implications of TASs for pricing

Louise Pryor
Board for Actuarial Standards



Agenda

- TASs: the big picture
- Insurance TAS: how will it affect pricing?



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- TASs: the big picture
- Insurance TAS: how will it affect you?

Reliability Objective

“The users for whom a piece of actuarial information was created should be able to place a high degree of reliance on the information’s relevance, transparency of assumptions, completeness and comprehensibility, including the communication of any uncertainty inherent in the information.”

Spirit

“TASs are intended to assist in the achievement of the Reliability Objective. In applying TASs, it is important to be guided by the spirit and reasoning behind them, as well as following any detailed rules.”

Scope & Authority paragraph 20

TASs

- Address work that is done, rather than the people doing the work
- Expect those complying with them to exercise judgement
- Stand on their own, without relying on regulation
- Sometimes state the obvious

TAS Commencement

The Generic TASs apply to work for aggregate reports completed on or after

| | |
|-------|--------------|
| TAS R | 1 April 2010 |
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|-------|-------------|
| TAS D | 1 July 2010 |
|-------|-------------|

| | |
|-------|--------------|
| TAS M | 1 April 2011 |
|-------|--------------|

And to work that is

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|---------------|
| Reserved Work |
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|--------------------------------------|
| Within the scope of any Specific TAS |
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| Presented as complying with actuarial standards |
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TAS R: how it works

Users should have the right information on which to base their decisions

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| Aggregate report | Must comply with standard Consists of one or more CRs (needn't be a single formal document) |
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|------------------|--------------------------------|
| Component report | Contributes towards compliance |
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- TASs: the big picture
- Insurance TAS: how will it affect pricing?

Insurance TAS: proposed scope

C.1.13 This standard shall apply to actuarial work that supports the pricing of insurance products.

C.1.14 The work described in paragraph C.1.13 includes:

- providing information to support the choice of appropriate measures and methods to determine premiums;
- providing information to support the setting of assumptions; and
- making the calculations to support proposed premiums.

C.1.15 The work described in paragraph C.1.13 does not include commercial decisions concerning the actual premiums charged.

Users can request non-compliance

Rationale

- Pricing is fundamental to success of insurers
 - Users should understand inherent uncertainty
- TASs are designed to accommodate
 - Tight timescales
 - Iterative processes
 - Work performed jointly with non-actuaries
 - Departure by request of users

Question

- Does the wording work?
 - Only actuarial work supporting pricing
- Judgement will be required
 - Would more examples help?
 - Can you supply examples?
 - Where are the grey areas (with reasons)?

What would compliance involve?

- Comply with TAS R, TAS M, TAS D, Insurance TAS
- Assumptions
 - Appropriate
 - Based on sufficient relevant information
 - No compensation
- Reporting, documentation

Reporting to users

| | |
|--|---|
| State the purpose and the intended user(s) | R |
| Describe data and state its source | |
| Describe uncertainty in data and explain the approach taken | |
| State the assumptions and explain rationale | |
| Explain and rationalise calculations | |
| Indicate nature and extent of uncertainty in results | |
| State nature and significance of material risks and explain approach | |
| Compliance statement | |

Reporting to users - contd

| | |
|--|-----|
| Explain rationale for data grouping | M |
| Explain the limitations of any models used | |
| Explain how models meet the users needs, limitations | |
| Explain the rationale for a changed approach | Ins |
| Sensitivity testing to indicate uncertainty | |

Documentation for practitioners

| | |
|---|-----|
| Data definitions | D |
| Data checks that have been performed | |
| Treatment of incomplete or inaccurate data | |
| Why model is satisfactory representation | M |
| Model checks performed (for fitness for purpose) | |
| Data used (and removed), and any grouping | |
| Assumptions | |
| Explain how claim severity and frequency modelled | Ins |

Key points

- No formal report required
 - No single report containing all information required
 - Could have standard description and report by exception
 - Level of detail depends on user
- Documentation can take many forms
 - Including electronic files (eg spreadsheets)
 - Could have standard description and document by exception

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Insurance TAS: timetable

- ED consultation closes 16 July 2010
- Final TAS expected 4Q 2010
- Proposed commencement date 1 April 2011
- Please respond to the consultation!
 - Give reasons for your views
 - Suggest alternative ways of achieving goal

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