

**The Accountant Profession**  
 creating tomorrow's success of the future

**TAS awareness seminars**

**Life / Health and Care**

21 June 2010




---

---

---

---

---

---

---

---

**Agenda**

- TASs – implementation and scope
- Insurance TAS
- TAS R
- TAS D
- TAS M
- Implementation summary
- Case study
- TAS top issues

1

---

---

---

---

---

---

---

---

**Agenda**

- TASs – implementation and scope
- Insurance TAS
- TAS R
- TAS D
- TAS M
- Implementation summary
- Case study
- TAS top issues

2

---

---

---

---

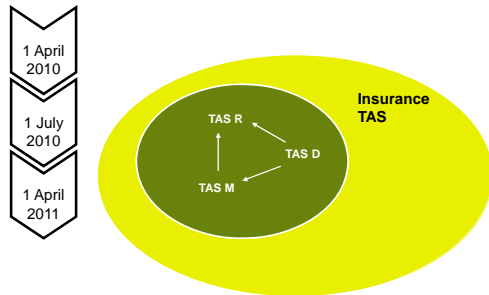
---

---

---

---

## The TASs – implementation and scope



© 2010 The Actuarial Profession  
www.actuarial.org.uk

3

## Scope – UK plus ?

- The geographic scope of TASs is ... limited to work done in relation to the UK operations of entities and any overseas operations which report into the UK within the context of UK legislation or regulation
- This definition of scope applies regardless of the location or domicile of the person carrying out the work
- Although the standards only apply to the members of the UK actuarial profession, wider adoption is encouraged.

© 2010 The Actuarial Profession  
www.actuarial.org.uk

4

## Spirit and objectives of the TASs

- The TASs are driven by the "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"*  
(Scope & Authority, paragraph 8)
- *"The 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)

© 2010 The Actuarial Profession  
www.actuarial.org.uk

5

## Agenda

- TASs – implementation and scope
- Insurance TAS
- TAS R
- TAS D
- TAS M
- Implementation summary
- Case study
- TAS top issues

© 2010 The Actuarial Profession  
www.actuarial.org.uk

6

---

---

---

---

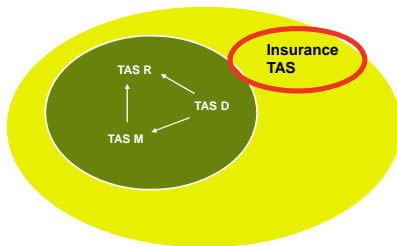
---

---

---

---

## Insurance TAS



© 2010 The Actuarial Profession  
www.actuarial.org.uk

7

---

---

---

---

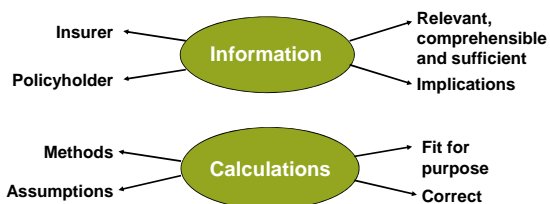
---

---

---

---

## Insurance TAS - coverage



- Insurance TAS covers principles for setting and using assumptions, using models and specific reporting issues
- In particular, it includes the exercise of discretion in long term insurance

© 2010 The Actuarial Profession  
www.actuarial.org.uk

8

---

---

---

---

---

---

---

---

## Insurance TAS - applicability

- Insurance TAS applies to all reserved work plus actuarial work that is performed:
  - in connection with financial statements...
  - to fulfil obligations to regulators/tax authorities
  - to report embedded value
  - to support opinions on underwriting policy/adequacy of reinsurance
  - to support opinions on regulatory returns
  - to support pricing

© 2010 The Actuarial Profession  
www.actuarial.org.uk

9

## Insurance TAS – applicability (cont.)

- Insurance TAS applies to all reserved work plus actuarial work that is performed:
  - to support the production of financial projections for business planning
  - to support the production of management information
  - in an insurance transformation
  - in relation to a sale or purchase
  - in relation to the exercise of discretion

© 2010 The Actuarial Profession  
www.actuarial.org.uk

10

## TAS R



© 2010 The Actuarial Profession  
www.actuarial.org.uk

11

## TAS R - coverage

### Relevance

- Sufficient information
- State purpose, who commissioned and who addressed to

### Comprehensible

- Report tailored to user – style, structure, content
- Clarification post-issue
- Exclude non-material info if it clouds meaning
- Explain what results represent
- Should include descriptions of terms such as “best estimate”, “prudent” etc.

TAS R deals with the interface between the Actuary and the user of the information

### Complete

- All material matters
- Nature / extent / significance of uncertainties, risk
- Nature / objective / method for material calculations
- Timing / quantification of future cashflows
- Meaning of statistics and probabilities

### Transparent

- Data / information used
- Source of data
- Any inaccuracies, uncertainties
- Rationale behind assumptions / methods

© 2010 The Actuarial Profession  
www.actuarial.org.uk

12

## TAS R - applicability

### FSA Supervision Handbook

#### Actuarial Function Holder

- Advise management on the risks run by the firm
- Monitor the risks
- Advise, perform and report on the methods and assumptions used for periodic actuarial investigations

#### With-Profits Actuary

- Advise management on discretion applied to WP business
- Check assumptions are consistent with PPFM
- Report to the governing body on key aspects of discretion applied to WP business
- Produce a report to WP policyholders

### Reports

- Financial condition report
- Persistency and data report
- Valuation report
- Part VII transfer report
- PPFM
- Financial condition report
- Annual report to with-profits policyholder
- Part VII transfer reports (for WP funds)

© 2010 The Actuarial Profession  
www.actuarial.org.uk

13

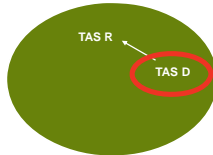
## TAS R – additional points

- Concept of aggregate and component reports
- Reports should consider users' needs and should be understandable to users
- Descriptions of terms such as “best estimate” and “prudent” should be included in reports
- Care must be taken not to obscure material information by including immaterial information which reduces clarity
- Indication of the uncertainty in the report
- Nature / significance of risks should be described

© 2010 The Actuarial Profession  
www.actuarial.org.uk

14

## TAS D



© 2010 The Actuarial Profession  
www.actuarial.org.uk

15

## Data

- Data is a fundamental part of insurance business and is entrenched in every decision – operational and strategic
- TAS D aims to enhance the reliability of data used in actuarial work:
  - *“data used in work ... is subject to sufficient scrutiny and checking so that users can rely on the resulting actuarial information”*

© 2010 The Actuarial Profession  
www.actuarial.org.uk

16

## TAS D – key points

- Assess the data required
- Check data
  - Sufficient, accurate, relevant and complete
- Assess ability to improve incomplete or inadequate data
- Documentation required:
  - Data definitions, checks performed, data improvements

© 2010 The Actuarial Profession  
www.actuarial.org.uk

17

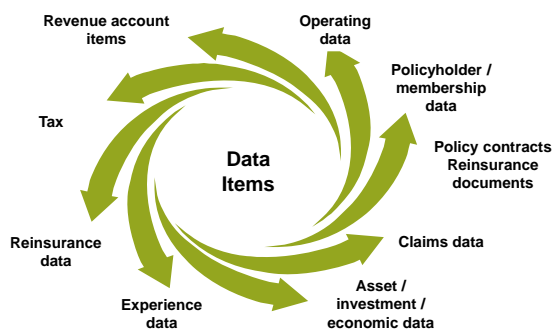
## TAS D – link with Solvency II

	TAS D	Solvency II
Overarching principle	<ul style="list-style-type: none"> <li>Show that data used is accurate, appropriate and complete</li> </ul>	<ul style="list-style-type: none"> <li>Data should be accurate, appropriate and complete</li> </ul>
Scope	<ul style="list-style-type: none"> <li>Applies to all data used in preparing actuarial information for a report</li> </ul>	<ul style="list-style-type: none"> <li>Part of wider risk management framework and are used for the calculation of technical provision and in internal models</li> </ul>
Documentation	<ul style="list-style-type: none"> <li>Specific data documentation required which includes a statement of purpose and is clear and unambiguous</li> </ul>	<ul style="list-style-type: none"> <li>Adequate data required to identify, assess, monitor, manage and report on risk within business</li> <li>Policy on data quality is required</li> </ul>
Definition of data	<ul style="list-style-type: none"> <li>A collection of facts or information usually collected from records or as a result of experience or observation</li> </ul>	<ul style="list-style-type: none"> <li>Each company should have a definition of data. Usually it is defined as the information which is directly or indirectly needed for the calculation of the liabilities</li> </ul>
Validation	<ul style="list-style-type: none"> <li>Checks are required to determine whether the data is sufficiently accurate, relevant and complete.</li> </ul>	<ul style="list-style-type: none"> <li>Internal process will be in place</li> <li>External audit will include data in scope</li> <li>AFM will review the quality of data for reasonableness and consistency</li> </ul>
Data adjustment	<ul style="list-style-type: none"> <li>Adjustments can be made to improve the data reliability when the data is incomplete or materially inaccurate.</li> <li>Document the action taken</li> </ul>	<ul style="list-style-type: none"> <li>If data deficiencies arise then take immediate remedial action or apply judgment or apply adjustment</li> <li>Document the action taken</li> </ul>

© 2010 The Actuarial Profession  
www.actuarial.org.uk

18

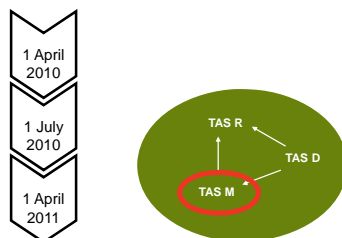
## Data items to think about...



© 2010 The Actuarial Profession  
www.actuarial.org.uk

19

## TAS M



© 2010 The Actuarial Profession  
www.actuarial.org.uk

20

## Models

- Models play a significant role in actuarial work, for example evaluating the solvency of insurance companies, part of the risk management process and in making strategic decisions
- TAS M aims to enhance the reliability of actuarial models:
  - *"models sufficiently represent the matters that are relevant to the decisions for which the actuarial information based on them will be used"*
  - *"models are fit for purpose both in theory and in practice"*

© 2010 The Actuarial Profession  
www.actuarial.org.uk

21

---

---

---

---

---

---

---

---

## TAS M – key points

- Model must be a satisfactory representation
- Must check model to determine fitness for purpose
- Neutral measures, assumptions and judgements
- Complexity must be justified
- Documentation required:
  - How model is satisfactory, fitness for purpose checks
  - Data, grouping/removal, assumptions
  - Limitations and how users' needs are met

© 2010 The Actuarial Profession  
www.actuarial.org.uk

22

---

---

---

---

---

---

---

---

## TAS M – link with Solvency II

- TAS M is narrower in scope and specifically relates to the use of models as tools for calculation purposes rather than the wider definition of models used in SII
- TAS M and Solvency II overlap around documentation and model validation

© 2010 The Actuarial Profession  
www.actuarial.org.uk

23

---

---

---

---

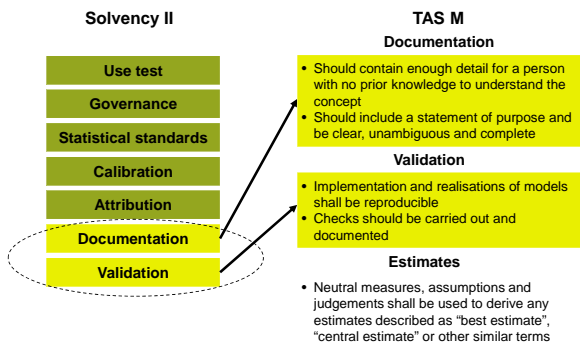
---

---

---

---

## TAS M – link with Solvency II (cont.)



## Sample model controls

- Ensure there is a model change control process in place
- Model changes are documented and tested
- Ensure the systems are backed up
- Ensure there are sufficient controls on spreadsheet based models
- Review the controls over consolidation spreadsheets to ensure completeness of data and that adjustments have been applied correctly
- Sense check the movement in liabilities over the year and between different reporting standards

## Agenda

- TASs – implementation and scope
- Insurance TAS
- TAS R
- TAS D
- TAS M
- Implementation summary
- Case study
- TAS top issues

## Implementation summary

- Consider implementing TASs as soon as possible as data, practices and models existing before the deadlines may well impact practices after
- TASs not only impact work done by actuaries, but also the understanding and use of it by the outside world
- Significant overlap in TAS D and TAS M with requirements for Internal Models under Solvency II – some SII requirements are precise and process based, which, while not required by the TASs, should not be inconsistent
- Intention of the TASs is not to require significant additional work, but to formalise and standardise practice

© 2010 The Actuarial Profession  
www.actuarial.org.uk

27

---

---

---

---

---

---

---

---

## Agenda

- TASs – implementation and scope
- Insurance TAS
- TAS R
- TAS D
- TAS M
- Implementation summary
- Case study
- TAS top issues

© 2010 The Actuarial Profession  
www.actuarial.org.uk

28

---

---

---

---

---

---

---

---

## Case study – the problem

- Scenario
  - You are asked a question
  - You know that you will need to run a model to determine the answer
  - You know that you will need to write a report to communicate the answer
  - You might currently expect the report to run to about 2 pages...

© 2010 The Actuarial Profession  
www.actuarial.org.uk

29

---

---

---

---

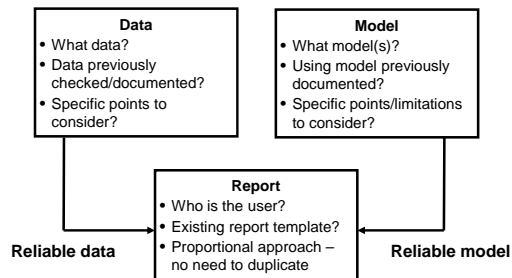
---

---

---

---

## Case study – the process



© 2010 The Accountant Profession  
www.accountants.org.uk

20

## Case study – conclusions

- Identify key reports – aggregate and component
  - Develop template for key reports
  - Develop process for principal ad-hoc requests
- Identify key models
  - Document models, controls, key assumptions
  - Identify and document shortcomings
  - Document process for determining key assumptions
- Identify key data
  - Agree sign-off processes for data
  - Where external, identify internal checks/responsibilities

© 2010 The Accountant Profession  
www.accountants.org.uk

21

## Case study – conclusions (cont.)

- Identify key users
  - Familiarise users with key models, assumptions etc.
  - Familiarise users with main TAS requirements and agree approach

© 2010 The Accountant Profession  
www.accountants.org.uk

22

## Agenda

- TASs – implementation and scope
- Insurance TAS
- TAS R
- TAS D
- TAS M
- Implementation summary
- Case study
- TAS top issues

© 2010 The Actuarial Profession  
www.actuarial.org.uk

25

## TAS top issues

1. Transition – resource/cost
2. Transition – timescales
3. Actuary vs. non-actuary
4. UK vs. non-UK
5. Breadth of scope
6. Determining what is in scope
7. Interaction/conflict with SII
8. Use of external models (e.g. ESGs)
9. Determining materiality
10. Compliant reports vs. summary board reports

© 2010 The Actuarial Profession  
www.actuarial.org.uk

26

## Presenter's contact details

**Paul Shallis**  
**KPMG LLP (UK)**  
**+44 (0) 20 7311 5514**  
**paul.shallis@kpmg.co.uk**  
**www.kpmg.co.uk**

© 2010 The Actuarial Profession  
www.actuarial.org.uk

27