

Implications of the TASs for insurance actuaries

A2: Pricing, business reorganisations and the exercise of discretion

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Edinburgh, 20 April 2011

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Overview of the TASs

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1. Introduction

- TASs are a step forward in compliance linking with existing and emerging regulation:
 - FSA
 - Solvency II
- Avoid being a tick-box exercise
- Principle of proportionality & materiality
- TASs are a minimum requirement

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Scope – UK plus ?

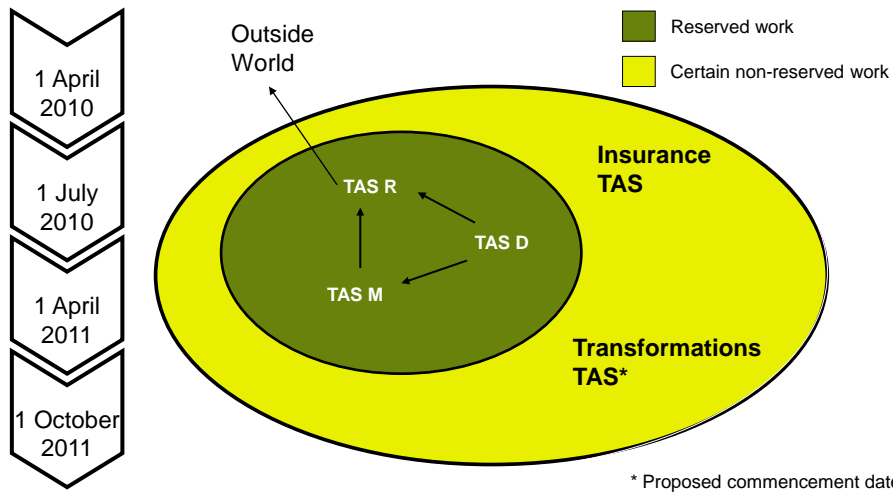
- The geographic scope of TASs is ... limited to work done in relation to the UK operations of entities and **any overseas operations which report into the UK within the context of UK legislation or regulation.**
- This definition of scope applies **regardless of the location or domicile** of the person carrying out the work.
- Strictly speaking though, the standards only apply to the **members of the UK actuarial profession**, although wider adoption is encouraged
- In addition need to consider compliance where non actuaries feed into work within scope

Spirit and Objective 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”
- “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*

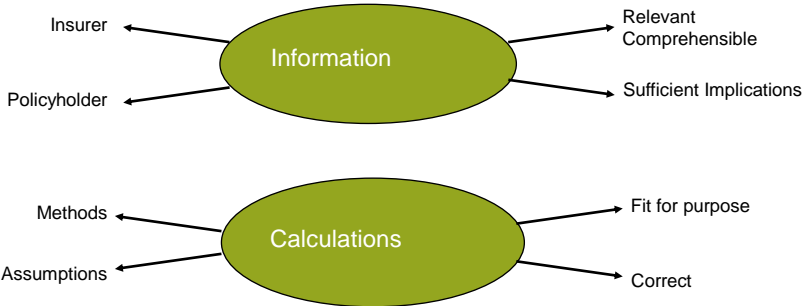
The TASs – implementation and scope



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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

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Insurance TAS - Applicability

- Actuarial reports and supporting models and data for:
 - Accounts
 - FSA Returns
 - Tax returns
 - Pricing reports
 - Business transformation
 - Policyholder charges/benefits
 - Effective 1 October 2011
 - Embedded Values
 - Adequacy of Reinsurance under SII
 - Reviewing Actuary
 - Mergers and Acquisitions
 - Exercise of Discretion

TAS R - coverage

Relevance

- Sufficient information
- State:
 - Purpose
 - Who commissioned
 - Who addressed to

Transparent

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

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
- Changes to the report

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 - applicability

	SUP	Reports
Actuarial Function Holder	<ul style="list-style-type: none"> • Advise the firm's management on the risks run by the firm • Monitor the risks • Advise, perform and report on the methods and assumptions used for period actuarial investigations 	<ul style="list-style-type: none"> • Financial condition report • Persistency and data report • Valuation report • Part VII transfer report
With-Profit Actuary	<ul style="list-style-type: none"> • Advise the firms management on discretion applied to WP business • Check assumptions are consistent with PPFM • Once a year report to the governing body on key aspects of discretion applied to WP business • Produce a report to WP policyholders 	<ul style="list-style-type: none"> • PPFM • Financial condition report • Annual report to with-profits policyholder • Part VII transfer reports (where WP Funds are part of the transfer)

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TAS R – Key points

- TAS R was effective from 1 April 2010
- Concept of component and aggregate reports are introduced
 - Where there may be several preliminary reports which are combined into a final report, only the aggregate report needs to be compliant with the TASs
- 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
 - Judgement must be exercised as to what is and isn't material
- An indication must be provided about the uncertainty in the report
- Nature / significance of risks should be described
- An indication of cashflows should be included

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TAS D

- Data is a fundamental part of insurance business and is entrenched in every decision e.g. day to day operation or strategic Board level decision
- The BAS has introduced TAS D to:
 - outline a quality standard
 - improve reliability of data
 - enable users to rely on actuarial judgement based on underlying data
- TAS D was effective from 1st July 2010.

The aim of TAS D is to ensure that data used is subject to sufficient scrutiny and checking, so that users can rely on the resulting actuarial information and any actions taken to mitigate inaccuracy or incompleteness of data increase the reliability of the resulting actuarial information.

TAS D – Key points

- Existing documentation or checks that have already been performed and documented can contribute to compliance
- Generally this will mean improving the documentation of existing checks
- Data used in reports on reserved work after 1st July 2010 will have to comply with TAS D
- However, wider scope will follow after the implementation of the Insurance TAS in October 2011
- It is important to document the purpose and limitation of the report
- Level of detail required in documentation and reporting is a matter of judgement

TAS M

- Models play a significant role in actuarial work for e.g. evaluating the solvency of insurance companies, part of the risk management process and in making strategic decisions.
- The BAS introduced TAS M to enhance reliability of actuarial models
- TAS M was effective from 1st April 2011.
- In addition, TAS R should ensure that users are aware of the limitations of the models and the results derived from them.

The aim of TAS M is to promote the reliability and usefulness of actuarial models and to improve the communication of actuarial information and advice. Compliance with TAS M will require models to be adequately documented and this will apply to both new implementation and existing models which are still being used once TAS M comes into force

TAS M – Key points

- TAS M will apply to models used in the preparation of aggregate reports completed on or after 1 April 2011
- TAS M will apply to models in existence before that date in so far as their results are used in reports after 1 April 2011
- If data ideally suited to the model is not available, alternative data can be used
- Where a number of data points are removed it is not necessary to document each point individually
- Externally produced models and documentation are within the scope of TAS M
- Existing complex model that can be justified can be used
- Users must be made aware of the limitations of models and the results derived from them

Case Study 1 – Pricing Requirements

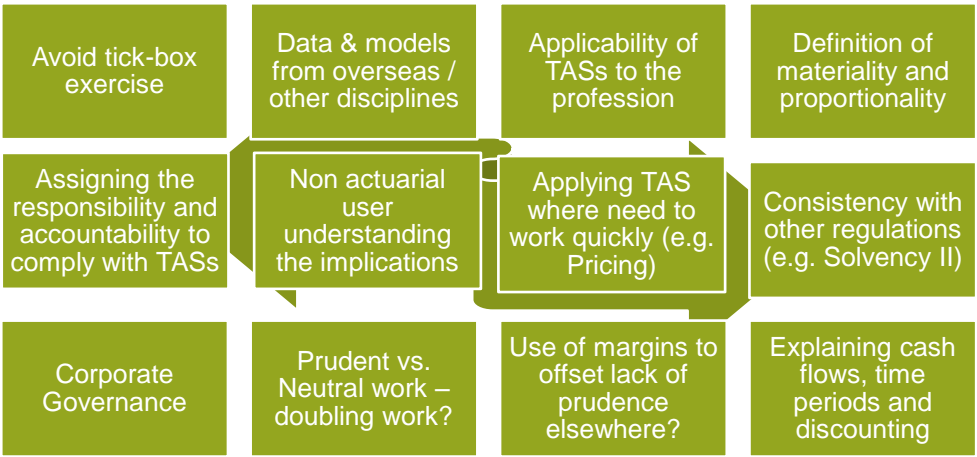


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Topical issues



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Case study 1: Pricing Requirements



BACKGROUND

- Go back a couple of months: the life and pensions industry is waiting the final judgement from the Test Achats case with great trepidation in respect of gender discrimination ruling. Your sales director expects the European Court of Justice (ECJ) judgement to be handed down on 1 March 2011. There is the possibility that this ruling could apply immediately!

TASK

- Your sales director has asked you to prepare a recommendation on how to amend pricing taking into consideration:
 - Assumptions we should make vs. market reaction (e.g. Business mix)
 - Differences in assumptions between pricing and reporting
 - Speed of implementation
 - Applicability to existing business

CHALLENGE

- The Actuarial Function Holder is concerned that should there be an enquiry into the business, TAS compliance could come into focus hence has asked that we understand what we need to do to be TAS compliant as well as reacting quickly.

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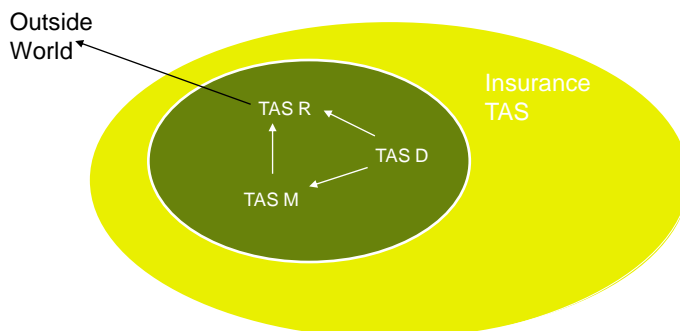
Case study 1: Pricing Requirements Considerations (A)



SCOPE

- Insurance TAS does not include the commercial decision concerning actual level of charges
- TAS reliability objective – guided by spirit and reasoning – reliability of actuarial information
- Compliance with TAS taken account when actuarial work is being considered in a court of law

Insurance TAS



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Case study 1: Pricing Requirements Considerations (A)



SCOPE

- Insurance TAS does not include the commercial decision concerning actual level of charges
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Insurance TAS

- Uncertainty about market reaction – provide information to support choice of appropriate method
- Setting assumptions that are fit for purpose – apply reasoned judgement – need to ensure assumptions are based on information and understanding communicated. Supply sufficient information – understand risks and uncertainty.
- Different assumption/method in pricing vs. reporting – e.g price rates on unisex but report based on gender – justified if we judge to be appropriate for different purposes – we need to explain why.
- Is it inappropriate to treat male and female the same in actuarial work? – calculations should be performed correctly – legislation overrules TAS.
- Compliance with TAS with such limited timescale for big change – work should be proportionate to the scope of the assignment

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Case study 1: Pricing Requirements Considerations (B)



TAS M

- Using an existing model – what checks/confidence can be placed on it – communicate any significant limitations of the model – are we confident it is a reliable model?
- Model not formally documented – documentation takes many forms – need to document why it is a satisfactory representation.

TAS D

- Making a quick decision using data at hand to set assumed gender mix – is data reliable? – what actions taken where data unreliable? – checks made on data – document source of data.
- Unable to get data quickly from historic platform – is it material? – can this be suitably supplemented by data already available

TAS R

- Is a pricing note a report? – A report is a document (could even be an e-mail) containing material information on work that is within scope – I would suggest yes.
- Time limitation on producing formal report – a report doesn't need to be long, just needs to have enough to enable users to understand and judge relevance of information.
- How much documentation? – material and proportionate – don't obscure material information

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Case Study 4 - Strategy

Discussion Groups

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Case study 4: Strategy

- Introduction of Auto Enrolment in 2012 will affect your back book of Corporate Pension schemes. You have been asked to review the pricing strategy in light of this change.
- What issues are there in complying with TAS and how do you overcome them?
- Consider:
 - Assumptions you have to make
 - Modelling
 - Communicating the impact and strategy

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Case study 4: Strategy

BACKGROUND

- Auto Enrolment will be introduced to employers gradually from 2012 in line with the introduction of the NEST scheme. Larger companies are required to adopt first. Your company has a large book of Corporate Pensions schemes that may decide to use their existing scheme for Auto Enrolment. The sales director has sent you an e-mail outlining some high level assumptions with little evidence.

TASK

- Your senior management team are concerned about impact of Auto Enrolment on your large book of Corporate Pension schemes. They have asked for a 5 page report on the impact of Auto Enrolment on the future financial attractiveness of these schemes along with options for any strategic pricing actions they could take to mitigate Auto Enrolment.

CHALLENGE

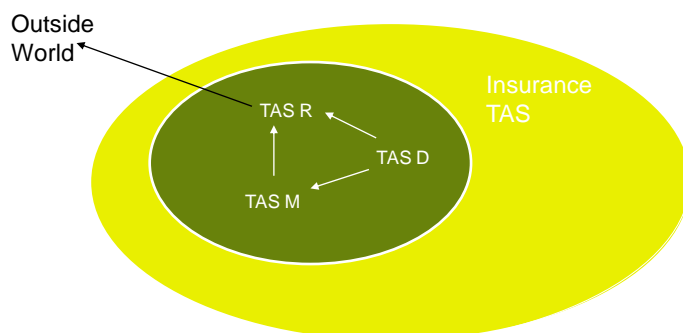
- The Head of Finance has asked you to ensure the report is TAS compliant given it is likely to evolve on the run up to 2012 and hence still be under discussion after the Insurance TAS is introduced. Before you begin you want to determine where TAS compliance seems challenging and consider how you will handle these.

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Case study 4: Strategy

- Split into 5 groups
- Appoint a lead in each group
- 30 minutes to determine at least one issue – approach - risk for each of:



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Feedback and Discussion



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Case study 4: Strategy
Discussion Points/Learning

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Case study 4: Strategy

Discussion Points

TAS I

- Is this in scope of the TAS I – Is it “Financial Reporting” or “Pricing”. Or does this fall into “Commercial Decisions” or “Non Actuarial work” (and therefore out of scope)?
- Need to consider if this should be classified as actuarial work or if it is best practice to ensure TAS compliance.

TAS R

- Is this an aggregate report or component report – can it feasibly be compliant in 5 pages given the lack of information that will be in the report and the requirement for many references.
- Reports will have multiple users – Will need to consider how is info going to be used need to structure reports appropriately and define complaint reports
- Need to emphasise that uncertainty is high. Will need to consider multiple scenarios and the materiality of assumptions being used –need to ensure the embed user understanding of the degree of uncertainty

Case study 4: Strategy

Discussion Points

TAS D

- Need to consider the data limitations and the source of the data.
- Data issues – reliance on work already done, allows greater proxies, different data owned by different groups.
- Reliant on non actuarial data – how to get comfort over this?
- If we are “estimating” the impacts based on results from existing model runs, could we treat such items as data (or do we need to ensure the underlying models used are TAS M compliant).
- Materiality and Proportionality concept when considering where TAS D must apply.

TAS M

- Can we assume that models are TAS compliant already? Therefore they models fit for our current purpose of business planning.
- Model issues – reliance on validation and TAS M work already done.
- Limitations of the model – which are material, how to communicate, aggregation issues.

Concluding remarks

TAS compliance in practice

- The Insurance TAS is believed to present the most difficulties and most work, because of the number of actuaries impacted and that it brings in the other generic TAS's behind it
- The implementation of TAS-M and TAS-D complements work being done for Solvency II so this explains need to be taken into account
- Much of the TASs were already previously being complied with – but may need to formalise documentation

Benefits of being TASs compliant:

- Solvency II
- Data and information flow
- Audit trail & documentation
- Facilitates stakeholders management
- Facilitates actuarial related processes – pricing, financial reporting, MI
- Reduction in key man dependencies

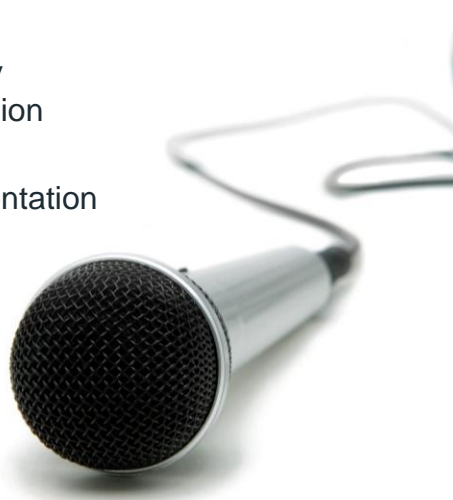
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Questions or comments?

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