

Norwich Actuarial Society

Revised TASs – July 2017

Simon Wasserman and Erica Nicholson
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What we will cover

Background to TAS development

Framework and TAS 100

Specific TASs

Case studies

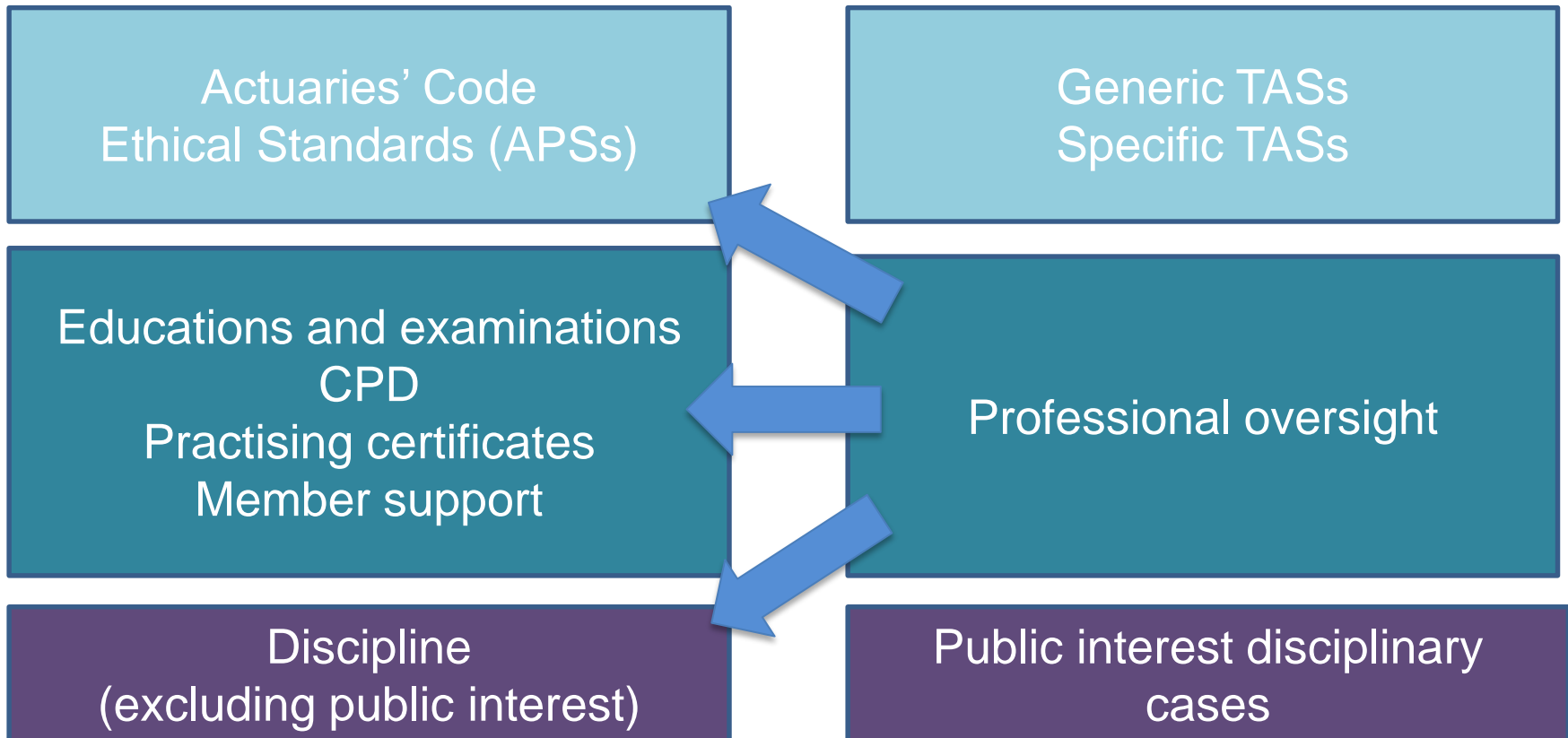


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Actuarial Regulation Today

IFoA

FRC

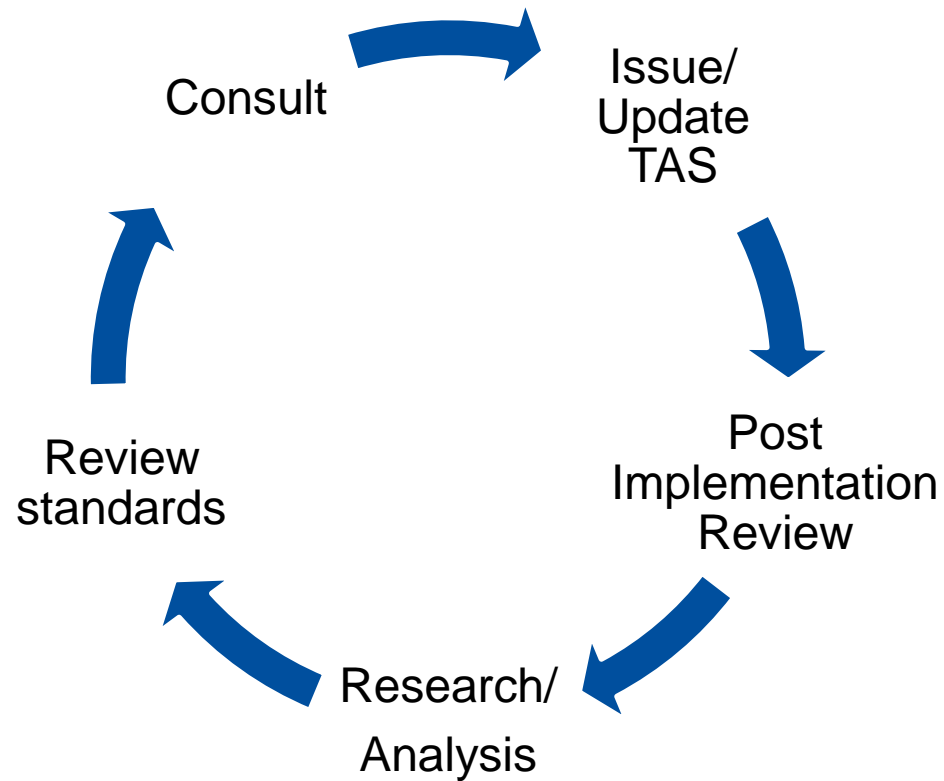


Background to TAS Development

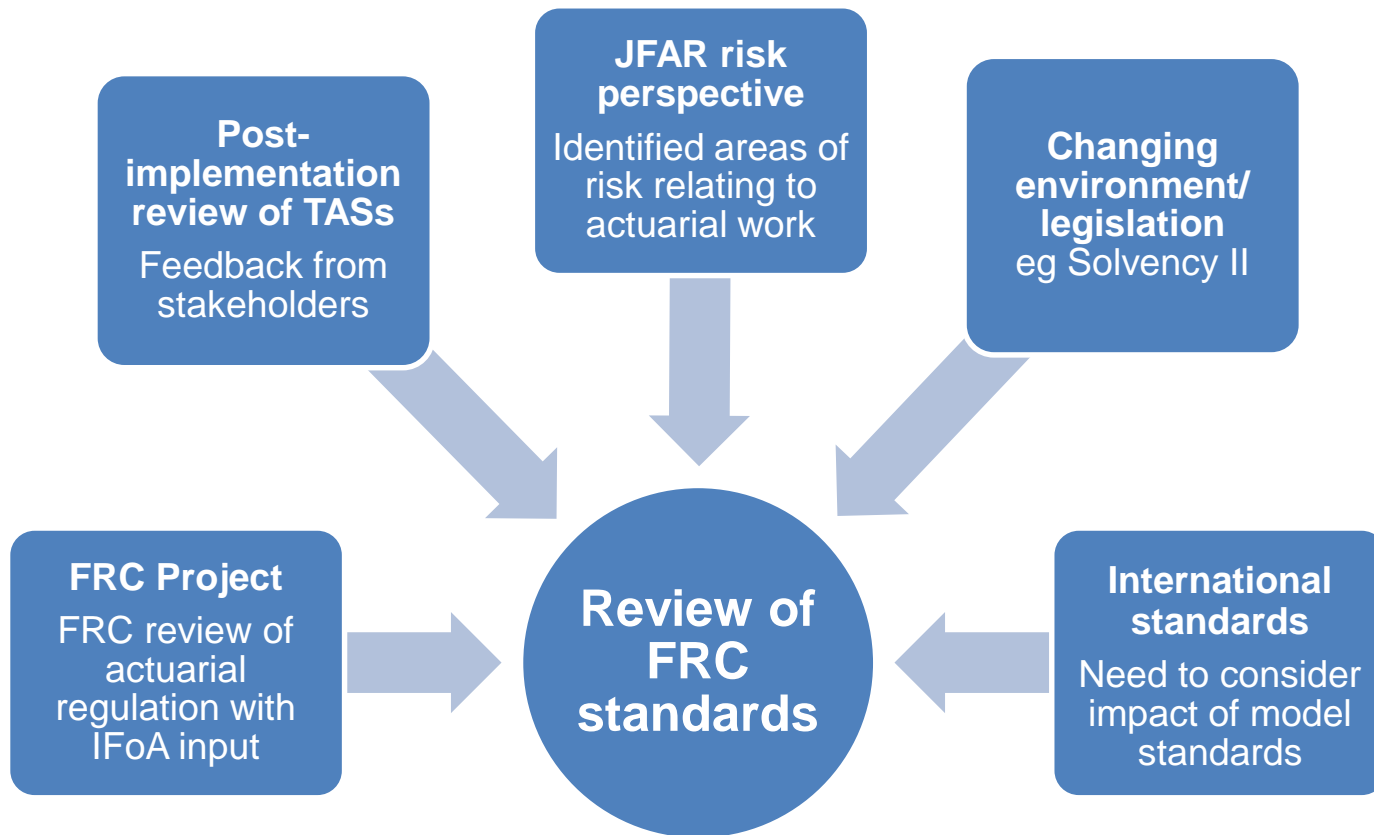


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TAS review cycle



Background to the TAS Review



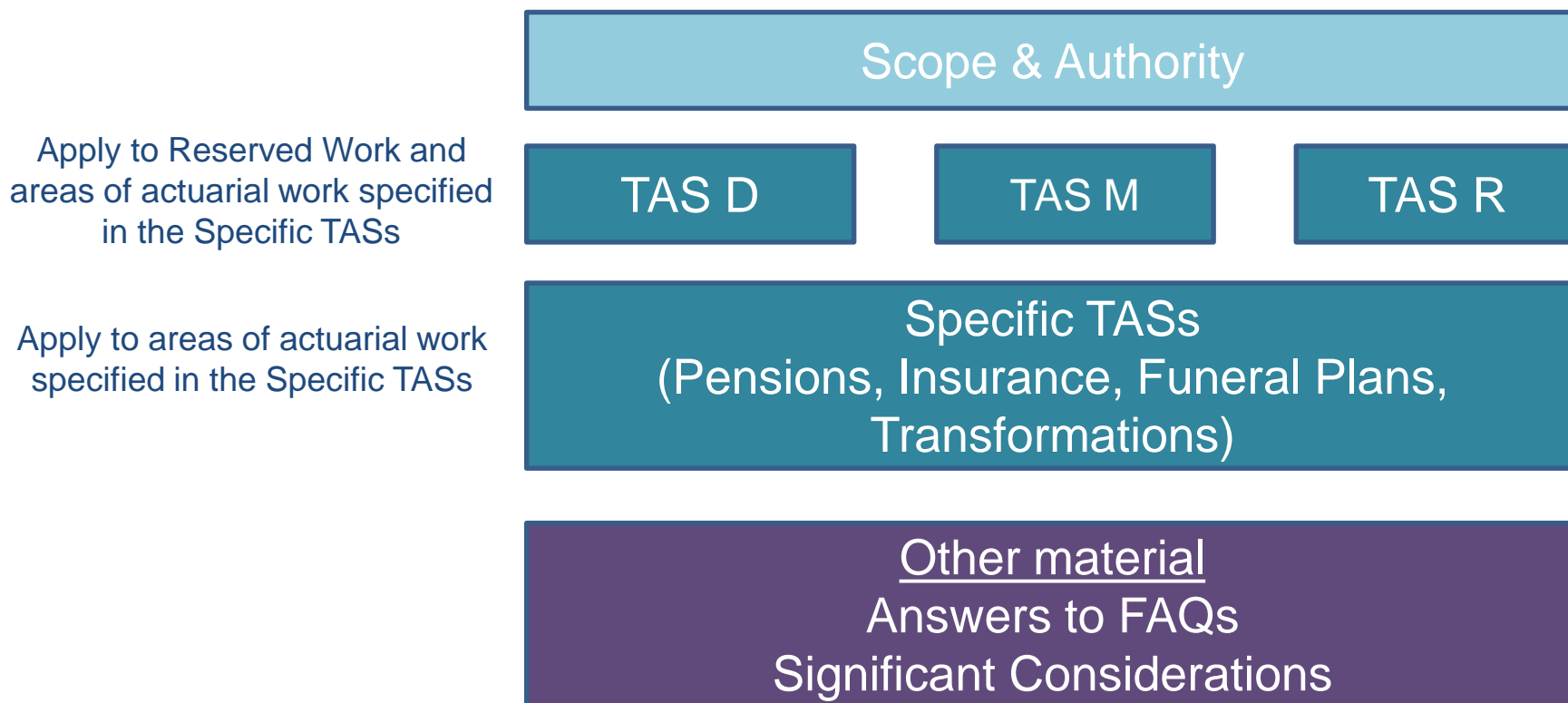
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Framework and TAS 100



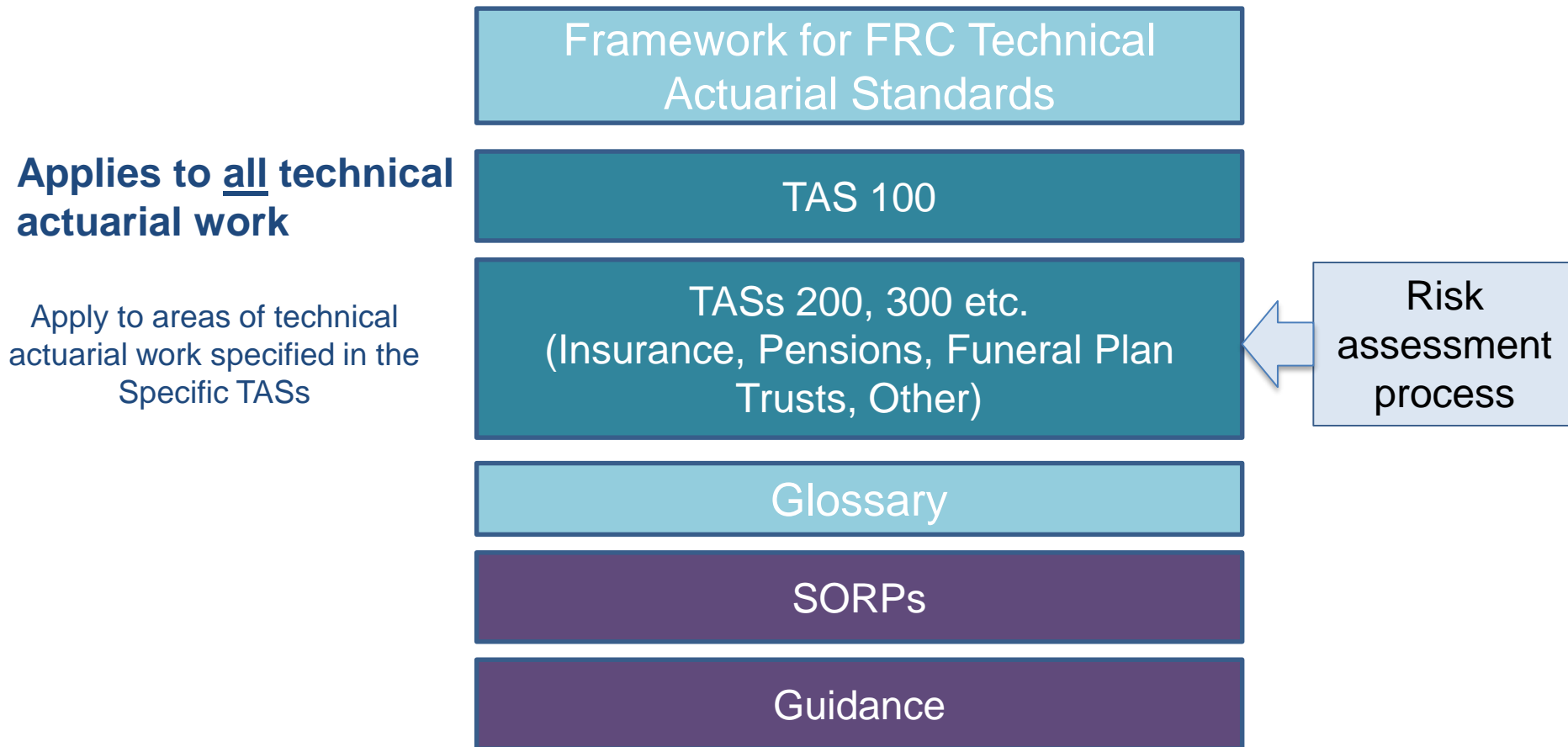
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Current Technical Standards Framework



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Revised Framework for TAS



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Framework for FRC Actuarial Standards

Historical context

FRC principles for development of codes, standards and guidance

Reliability Objective

Authority

Scope and Application

- Including Technical Actuarial Work and Geographic Scope



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Reliability Objective

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

Definition of Users: Those people whose decisions a communication is intended (at the time it is provided) to assist



Geographic Scope

Framework for FRC technical actuarial standards:

.....work done in relation to the UK operations of entities, as well as to any overseas operations which report into the UK, within the context of UK law or regulation

APS X1 sets out approach for work outside geographic scope



TAS 100

High-level outcome-focused principles

Judgement

Data

Assumptions

Modelling

Communications

Documentation



Supporting provisions

Applies to all technical actuarial work

Based on existing Generic TASs

No guidance



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Definition of technical actuarial work

Technical actuarial work is work performed for a **user**:

- where the use of principles and/or techniques of actuarial science is central and which involves the exercise of judgement; or
- which the **user** may reasonably regard as technical actuarial work by virtue of the manner of its presentation.



Application

Departures (from provisions related to Communications)	Permitted if they are unlikely to have a material effect on the decisions of users.
Proportionality	Nothing in TAS 100 should be interpreted as requiring work to be performed that is not proportionate to the nature, scale and complexity of the decision or assignment to which the work relates and the benefit that users would be expected to obtain from the work.
Compliance	Communications for <ul style="list-style-type: none">• reserved work;• work in the scope of a Specific TAS; and• technical actuarial work which is central to a significant decision by the user.



The Principles

Judgement shall be exercised in a reasoned and justifiable manner; material judgements shall be communicated to users so that they are able to make informed decisions understanding the matters relevant to the actuarial information

Data used in technical actuarial work shall be appropriate for the purpose of that work so that users can rely on the resulting actuarial information



The Principles (2)

Assumptions used, or proposed for use, in technical actuarial work shall be appropriate for the purpose of that work so that users can rely on the resulting actuarial information

Models used in technical actuarial work shall be fit for purpose for which they are used and be subject to sufficient controls and testing so that users can rely on the resulting actuarial information



The Principles (3)

Communications shall be clear, comprehensive and comprehensible so that users are able to make informed decisions understanding the matters relevant to the actuarial information

Documentation shall contain enough detail for a technically competent person with no previous knowledge of the technical actuarial work to understand the matters involved and assess the judgements made



What's not in TAS 100

Valuation vs planning (TAS R C.3.7)

Cash flows (TAS R C.5.10)

Explanation of probabilities (TAS R C.5.13)

Projections (TAS R C.5.20)

Model parsimony (TAS M C.3.14)

Reproducibility of models (TAS M C.3.17)

Grouped data (TAS M C.4.9)

Data points (TAS M C.4.13)



Breakout Session

Case Study



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Case Study – Technical Actuarial Work

You are presenting at a conference on the implications of long term low and negative interest rates. The audience includes a wide range of participants from the insurance industry. Your presentation includes some simple modelled valuation examples under different interest rates.

You also mention the conference to your team at work and share the conference materials with them as they weren't all able to attend the conference.

A few weeks later a member of the Risk Team says they are interested in considering the impact of different interest rate scenarios as part of the stress and scenario analysis and asks you to present your previous modelling work to the Risk Team.

When would TAS 100 apply?

Definition of technical actuarial work

Technical actuarial work is work performed for a **user**:

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- which the **user** may reasonably regard as technical actuarial work by virtue of the manner of its presentation.



Case Study – Geographical Application

Your role in the Group actuarial team requires to you produce consolidated valuations for the Group financial reporting using information sent to you by the various local actuarial teams based in other countries.

Each of the local actuarial teams have a few IFoA members and a number of local actuaries.

Some of the returns within the UK, for UK legal entities, are being prepared by accountants even though it is actuarial material.

You also have to send valuation results to the local territory for their regulatory returns.

Which TASs apply to you and your colleagues in the local teams?

Geographic Scope (recap)

Framework for FRC technical actuarial standards:

.....work done in relation to the UK operations of entities, as well as to any overseas operations which report into the UK, within the context of UK law or regulation

APS X1 sets out approach for work outside geographic scope



Specific TASs



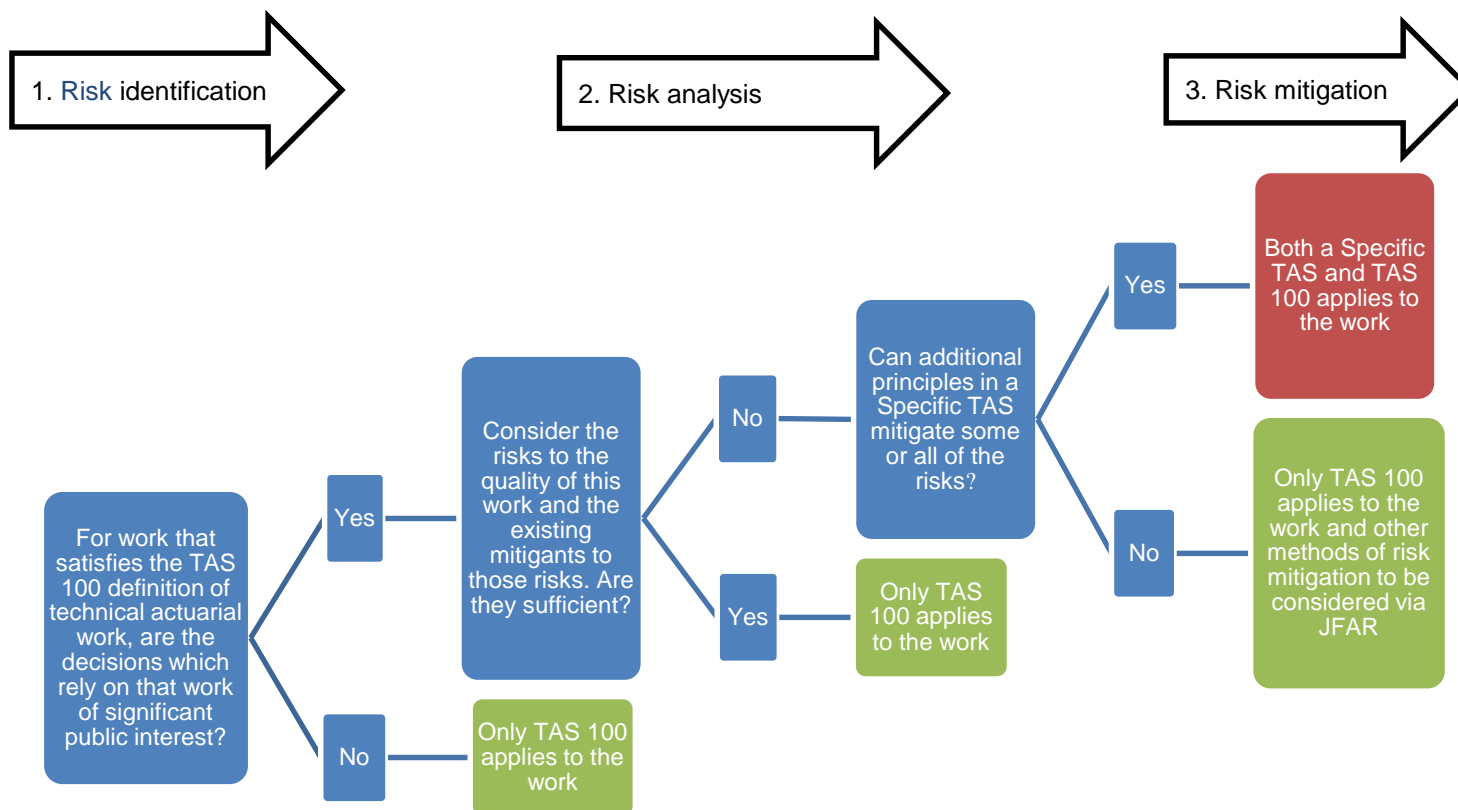
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Specific TASs

Three TASs	Pensions, Insurance and Funeral plan trusts – in future could be others Transformations provisions moved to pensions and insurance TASs
Scope	Work where there is a high degree of risk to the public interest – identified using risk assessment process
Provisions	Support TAS 100 principles Core and work-specific



Risk assessment process



Scope of TAS 200 compared with current Insurance TAS

Retained	New – Scope Clarified	Removed
Regulatory balance sheets and financial statements Risk modelling for regulatory capital and ORSA Insurance Transformations Audit and Assurance Pricing frameworks Lloyds syndicates With-profits discretion General Insurance tax	ORSA risk modelling Extension of audit support	Embedded values Pricing of individual contracts of significant risk to the insurer M&A work Commutations Lloyds reinsurance to close Reviewable rate contracts

Note : All technical actuarial work subject to TAS 100



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TAS 200 Core provisions

Judgements	<ol style="list-style-type: none">1. Reflect the nature of the insurance obligations, the material risks faced and the purpose of the work2. Describe the sensitivity of results to judgements that are material either individually or in combination
Data	<ol style="list-style-type: none">3. Documentation: data definitions, sources, checks and controls, the source and justification of data proxies4. Documentation: rationale for data groupings and removing data points5. Perform checks to determine if the data is sufficiently accurate, complete and appropriate for users to rely on the resulting actuarial information6. Communication: rationale for any data proxies used
Assumptions	<ol style="list-style-type: none">7. Communications shall include the derivations of material assumptions



TAS 200 Core Provisions

Models	<ul style="list-style-type: none">8. “Best Estimate” measures, assumptions & judgements: shall be neither optimistic nor pessimistic and not contain adjustments to reflect a desired outcome9. Implementations and realisations of models shall be reproducible10. Communications shall describe the nature of any cash flows that are quantified including their timing
Communication	<ul style="list-style-type: none">11. State and confirm compliance with any regulation



TAS 200 Provisions for Specified work (1)

Valuation exercises	<p>12. Actual experience emerging versus assumed</p> <p>13. a) Relationship between any estimated asset/liability and a best estimate</p> <p>b) Derivation of any risk adjustment</p> <p>c) Changes in the estimated value, best estimate or risk adjustment from prior exercise</p>
Capital and ORSA	<p>14. Communicate any differences between the work and the prudential regulatory balance sheet basis:</p> <p>a) the balance sheet being stressed</p> <p>b) changes to the management actions assumed</p> <p>c) changes in assumptions about dependencies</p> <p>15. Communications should include a description of how the projection period has been determined and how time dependent risks and limitations have been allowed for</p>



TAS 200 Provisions for Specified work (2)

Pricing Frameworks	<ul style="list-style-type: none">• No Specific provisions but Core provisions apply
Transformations	<p>16. Assumptions and documentation to include proper emphasis on the interests of all relevant parties</p> <p>17. Communications sufficient to enable users to understand how different policyholders might be affected</p>
Audit & Assurance	<p>18. Document scope and subsequent variations</p> <p>19. Perform work with professional scepticism</p> <p>20. State reliance on data provided by others</p>
With-profits	<p>21. & 22. For the exercise of discretion, communicate the effects on policyholder benefits, amounts allocated to shareholders and the with-profits estate</p> <p>23. When projecting cash flows under different scenarios, communicate how any changes in assumptions are consistent with the fair treatment of policyholders</p>



Scope of TAS 300 compared with current Pensions TAS

Retained	New	Removed
Funding/financing Factors Incentive exercises Scheme modifications (trustees) Bulk transfers (trustees) Section 75 calculations	Scheme modifications (employers) Bulk transfers (employers)	Some Reserved Work eg PPF levy calculations Directors' pensions disclosure Financial statements

Note : All technical actuarial work subject to TAS 100



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Scope of TAS 400 compared with current Funeral Plan Trusts TAS

TAS 400 covers the determination, calculation and verification of the assets and liabilities of a funeral plan trust required by legislation or the rules of the Funeral Planning Authority.

The content of TAS 400 is unchanged from the previous TAS and is fundamentally a reformatting of the previous TAS consistent with the other revised TASs.

Note : All technical actuarial work subject to TAS 100

Timescale



Scheme Funding exercises with effective dates on or before 1 October 2016 and completing after 1 July 2017 may comply with existing TASs

Questions ?



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Case Studies



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Case Study – Compliance Statement

Ahead of presenting the financial results to the market, the finance director has emailed you urgently to provide confirmation that there have been no material changes in lapse experience in the first two months of the year.

Several weeks after the financial results have been announced the finance director asks if the lapse rates are still in line with expectations.

Do you need to give a statement of compliance with TAS when you reply to the finance director?



Case Study – Use of Work

After a discussion on underwriting strategy, you are tasked to do some crude actuarial analysis to get a ballpark figure to test the sensitivity of the combined loss ratio for a small class of business to a key assumption.

You believe the recipient may not understand the limitations of the analysis.

How would the TASs apply to this request?

The recipient believes the change in assumption could be significant for a number of other classes and asks you to include your analysis in a paper to the Risk Committee on sensitivities that will be part of the documentation for the Own Risk and Solvency Assessment.

How would the TASs apply to this request?



Case Study – External Models

In the course of your valuation work you use a proprietary modelling tool sourced from an independent external third party.

How would the TASs apply?

In future you will be changing to using a modelling tool that has been developed by a specialist in-house team based outside the UK.

How would the TASs apply?

You have decide to develop your own valuation tool and sell it to clients. The tool will include some pre-entered parameters based on publically available data sets analysed by your team.

How would the TASs apply?

Next Steps

- Review work and decide is it Technical Actuarial work in scope of TAS 100?
- Does it fall within the scope of a specific TAS?
- What processes will need to change?
- TASs go live 1 July 2017



Presenters Contact Details:

s.wasserman@frc.org.uk

e.nicholson@frc.org.uk

Link to revised TAS:

<https://www.frc.org.uk/Our-Work/Audit-and-Actuarial-Regulation/Actuarial-Policy/Technical-Actuarial-Standards-2017.aspx>



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