



The Actuarial Profession

making financial sense of the future



CILA II

TAS overview

1 September 2010

Agenda

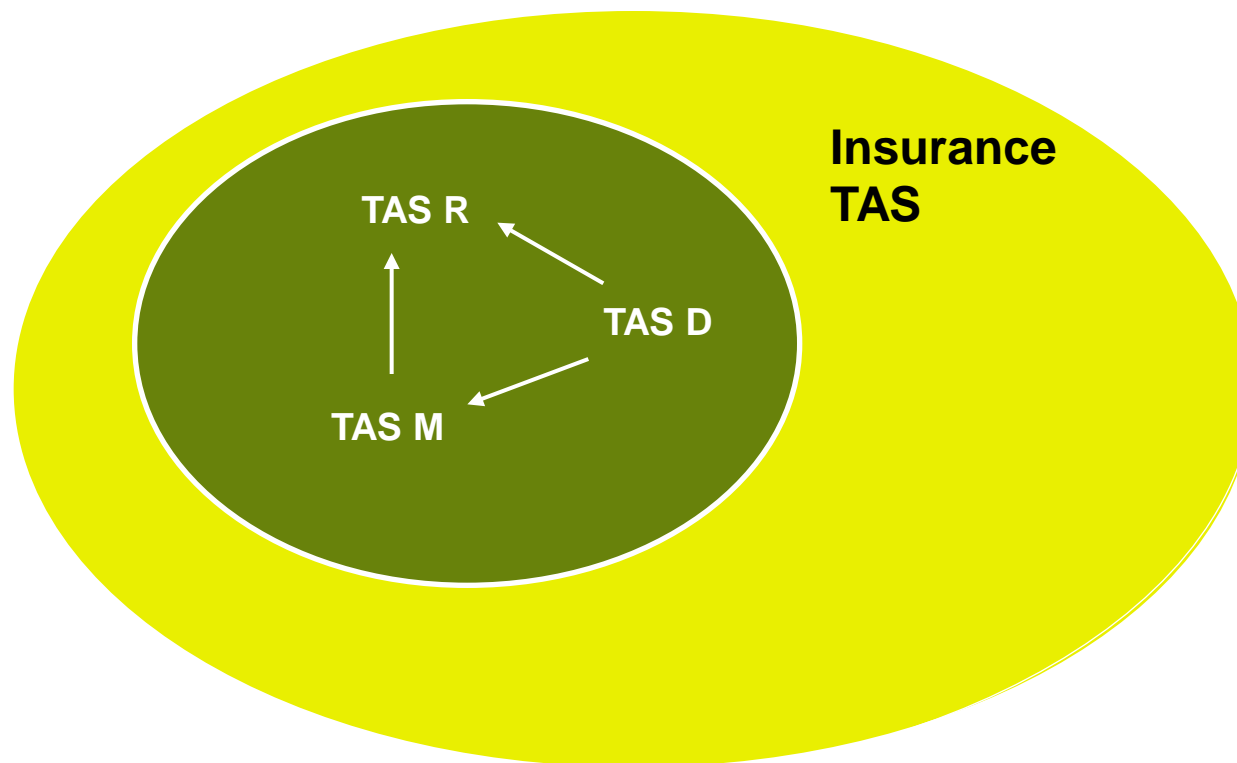
- TASs – implementation and scope
- TAS R, D & M – key points
- Insurance TAS – coverage and applicability
- Interaction with Solvency II - TAS D & M
- Implementation summary
- TAS top issues

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The TASs – implementation and scope



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.

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)

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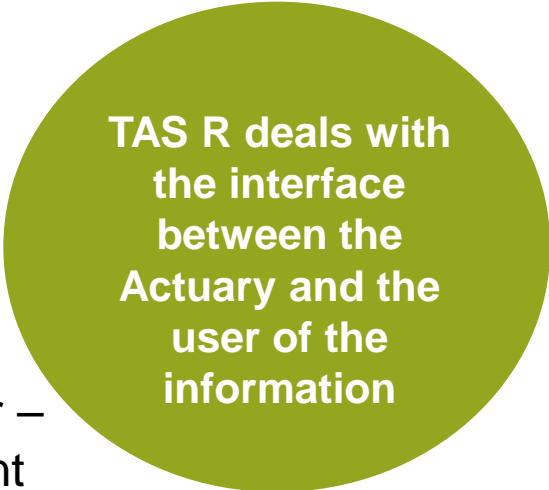
TAS R - coverage

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

TAS R - applicability

FSA Supervision Handbook

Reports

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

- Financial condition report
- Persistency and data report
- Valuation report
- Part VII transfer report

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

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

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

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”*

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

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”*

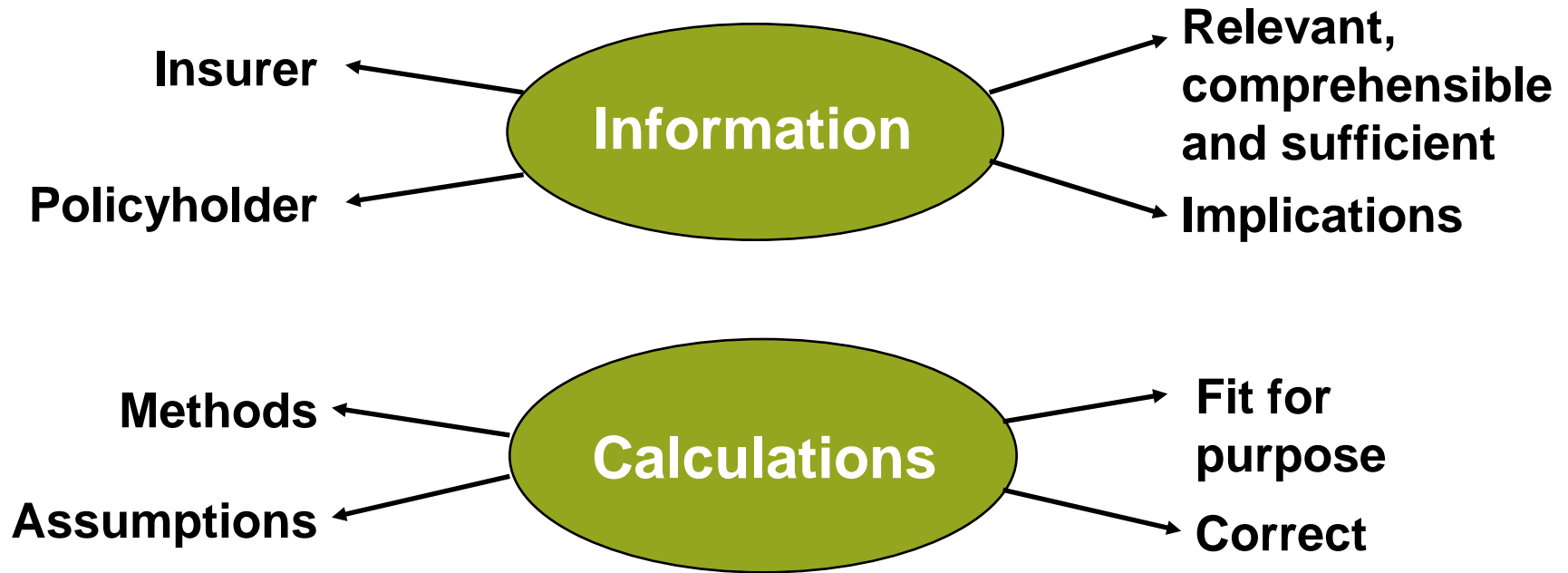
TAS M – key points

- 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

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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

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

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

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TAS D – link with Solvency II

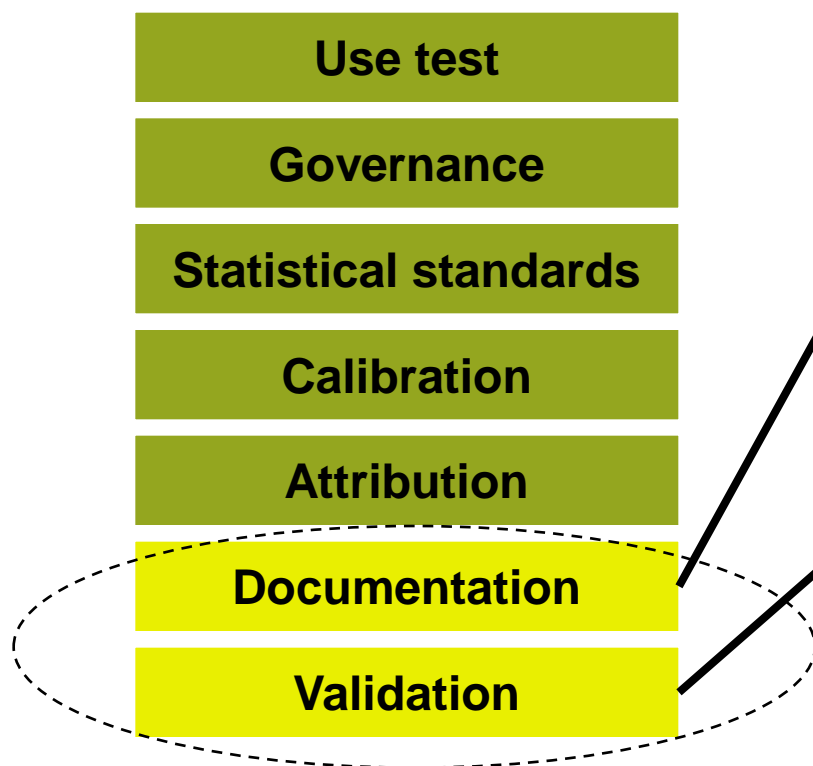
	TAS D	Solvency II
Overarching principle	<ul style="list-style-type: none"> Show that data used is accurate, appropriate and complete 	<ul style="list-style-type: none"> Data should be accurate, appropriate and complete
Scope	<ul style="list-style-type: none"> Applies to all data used in preparing actuarial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

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

TAS M – link with Solvency II (cont.)

Solvency II



TAS M Documentation

- Should contain enough detail for a person with no prior knowledge to understand the concept
- Should include a statement of purpose and be clear, unambiguous and complete

Validation

- Implementation and realisations of models shall be reproducible
- Checks should be carried out and documented

Estimates

- Neutral measures, assumptions and judgements shall be used to derive any estimates described as “best estimate”, “central estimate” or other similar terms

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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

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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
11. Support from the profession

TAS top issues

1. Transition – resource/cost

2. Transition – timescales

3. Actuary vs. non-actuary

4. UK vs. non-UK

5. Breadth of scope

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8. Use of external models (e.g. ESGs)

9. Determining materiality

10. Compliant reports vs. summary board reports

11. Support from the profession

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