

Initial Thoughts on Mortality

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BAS & FRC Regulatory Philosophy

- A **well-informed market** is the best regulator
- **Targeted** use of powers (proactive, risk-based)
- **Principles** and clarity in standards and codes
- **Consultative**, practitioner decision-making ... but independent
- Recognise the importance of **professional judgment**
- **Fairness** in decision-making
- **Transparency**, accountability and awareness

BAS Agenda

- Starting out on a development program
- First stage is a conceptual framework
- Consideration of mortality will be later

Actuarial Practice

- **What is the purpose?**
Providing information to assist planning for a variable future
- **What does it involve?**
Financial payments
Contingencies
Discounting
- **What is it not about?**
Fortune telling
Making the future less variable

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Financial Payments & Contingencies

Payments involving people

- Premiums
- Annuities
- Lump sums
- Sickness benefits
- Medical expense benefits

Most are affected by death

Mortality issues are of high importance

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Mortality – Initial Thoughts Related Concepts

- Insurance
 - Pooling concept
 - Exchange of individual risk (impact) for a share of group risk
- Actuarial Practice
 - Extrapolation
 - Past experience provides a guide to the future

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True or False

- Mortality concerns risk √
- Risk concerns events that are variable √
- Greater understanding is gained by studying past experience √
- Greater reliability is achieved by increasing the data studied – pooling √
- The average outcome from a group will be closer to the true average as group size increases √
- Actuaries have treated mortality as fixed probabilities √
- Variables have been treated as certainties √

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Challenges

- **How should the past be relied on?**
 - Averages
 - Trends
 - Dispersion
- **When does pooling break down?**
 - Minimum pool size
 - Increased dispersion
- **Why is “best estimate” associated with the communication of averages?**
 - Computational limitations
 - Analysis limitations
 - Comprehension limitations
- **Is actuarial practice concerned with individuals or pools?**

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What Affects How Mortality Affects Pools?

- Membership
 - entry selection
 - exit conditions
 - individual mortality
- Pool size
- Risk hedging
- Risk exclusions

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Pool Mortality

What information is required?

- Expected level (or trend)
- Expected dispersion – variance, range
- Disaster scenario (realistic)
- Impact of potential management actions

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Three Questions

- What information should be provided
- How should it be calculated
- How should it be communicated

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