The Actuarial Profession
making financial sense of the future

Consultation Response

Financial Services Authority

CP 12/10 Mortality Assumptions

29 June 2012

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.

The Actuarial Profession
making financial sense of the future

Sandra Graham
Conduct Policy Division
Financial Services Authority
25 The North Colonnade
Canary Wharf
London
E14 5HS

Friday 29 June 2012

Dear Sandra,

Please find below the response from the Institute and Faculty of Actuaries to the first three questions in this consultation that relate to the mortality assumptions suggested in chapter 2 of the consultation. Below we respond to the specific points raised in the consultation.

Q1: Do you agree with the new revised mortality basis? If not, please explain what alternative basis you think is more appropriate.

As we outlined in our response to CP12/4, given the research already undertaken by the Board for Actuarial Standards in revising TM1, we would view the revised mortality basis as appropriate at the current time for the purpose of projecting benefits and that it will be appropriate to keep the mortality assumption under review to ensure it does not become out-of-date over time.

There are advantages for providers and users of information in using a consistent set of mortality assumptions across both SMPI and personal pension illustrations. We also support specifying how the male and female tables should be blended to determine gender equal rates as this will lead to greater market consistency.

However we recognise that in practice the pricing of annuities by market participants is likely to be more sophisticated than the model suggested and may amongst other things reflect different proportions of males and females on their books. In addition, as recognised in the consultation document, there are not firm conclusions on how gender equal rates will be determined in practice and there may be some volatility in price over the coming year as market participants work through the implementation of the ECJ Ruling. This additional uncertainty, along with the changing demographics of individuals who are personal pension policy holders (through the increase of defined contribution pensions), reinforces the need to keep the mortality basis under review.

Q2: Do you agree with the timing for the introduction of the new mortality basis? If not, please describe the approach you believe should be taken.

We agree with the principle of looking for opportunities to minimise the costs of implementation. Some members have suggested that for the firms they work in it would be more cost effective to implement these changes at the time of moving over to the RDR regime. Others will be better placed than us to supply the FSA with details of how the implementation costs could be reduced.

Q3: Do you have any comments on the cost benefit analysis for our proposals in Chapter 2?

We have no specific comments to make on the cost benefit calculations.

Yours Sincerely,

Philip Scott

President
Institute and Faculty of Actuaries