The TASs – Where are they taking the reserving process?

Graham Finlay
Board for Actuarial Standards

Agenda

• TASs: the big picture
• TAS R, TAS D, TAS M and the Insurance
• TAS: how will they affect reserving?
Agenda

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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.”
**Spirit**

“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*

**TASs**

- Address work that is done, rather than the people doing the work
- Expect those complying with them to exercise judgement
- Stand on their own, without relying on regulation
- Sometimes state the obvious
TAS Commencement

The Generic TASs apply to work for aggregate reports completed on or after

<table>
<thead>
<tr>
<th>TAS</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>R</td>
<td>1 April 2010</td>
</tr>
<tr>
<td>D</td>
<td>1 July 2010</td>
</tr>
<tr>
<td>M</td>
<td>1 April 2011</td>
</tr>
</tbody>
</table>

And to work that is

- Reserved Work
- Within the scope of any Specific TAS
- Presented as complying with actuarial standards

TAS R: how it works

Users should have the right information on which to base their decisions

<table>
<thead>
<tr>
<th>Aggregate report</th>
<th>Must comply with standard Consists of one or more CRs (needn’t be a single formal document)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Component report</td>
<td>Contributes towards compliance</td>
</tr>
</tbody>
</table>
Agenda

• TASs: the big picture
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TAS: how will they affect reserving?

Insurance TAS: proposed scope

C.1.2 Reserved work – providing an opinion on technical provisions of a Lloyd’s syndicate writing GI business
C.1.5 Actuarial work performed in connection with financial statements that are intended to give a true and fair view
C.1.7 Actuarial work performed to enable an insurer to fulfil its obligations to its regulators and to the tax authorities.
C.1.8 This work includes:
  • determining an insurer’s technical provisions
  • providing confirmation for tax regulations
  • providing information for regulatory capital assessments

Generic TASs apply to all work in scope
Insurance TAS: proposed scope

C.1.12 Actuarial work for an auditor to support their opinion on an insurer’s regulatory returns
C.1.16 Actuarial work supporting the production of financial projections for an insurer’s business planning
C.1.17 Actuarial work supporting the production of management information used to monitor an insurer’s business performance
C.1.20 Actuarial work concerning an intended sale or purchase of an insurer, or of a block of insurance business, or a commutation or a capital raising exercise
C.1.24 Actuarial work supporting the determination of the premium for reinsurance to close of a Lloyd’s syndicate

Generic TASs apply to all work in scope

Question

• Does the wording work?
• Judgement will be required
  – Would more examples help?
  – Can you supply examples?
  – Where are the grey areas (with reasons)?
What would compliance involve?

- Comply with TAS R, TAS M, TAS D, Insurance TAS
- Assumptions
  - Appropriate
  - Based on sufficient relevant information
  - No compensation
  - Explain discount rates
  - Separate assumptions about base claim rates and future changes
  - Allow for high impact low probability events
- Reporting, documentation

Reporting to users

<table>
<thead>
<tr>
<th>State the purpose and the intended user(s)</th>
<th>R</th>
</tr>
</thead>
<tbody>
<tr>
<td>Describe data and state its source</td>
<td></td>
</tr>
<tr>
<td>Describe uncertainty in data and explain the approach taken</td>
<td></td>
</tr>
<tr>
<td>State the assumptions and explain rationale</td>
<td></td>
</tr>
<tr>
<td>Explain and rationalise calculations</td>
<td></td>
</tr>
<tr>
<td>Indicate nature and extent of uncertainty in reserve estimates</td>
<td></td>
</tr>
<tr>
<td>State what might cause the reserves to be inadequate</td>
<td></td>
</tr>
<tr>
<td>Indicate nature and timing of cash flows</td>
<td></td>
</tr>
<tr>
<td>Compare assumptions and reconcile with previous results</td>
<td></td>
</tr>
<tr>
<td>Project expected reserve development</td>
<td></td>
</tr>
<tr>
<td>Compliance statement</td>
<td></td>
</tr>
</tbody>
</table>
## Reporting to users - contd

<table>
<thead>
<tr>
<th>Explain rationale for data grouping</th>
<th>M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Explain the limitations of any models used</td>
<td></td>
</tr>
<tr>
<td>Explain how models meet the users needs, limitations</td>
<td></td>
</tr>
<tr>
<td>Explain the rationale for a changed approach</td>
<td>Ins</td>
</tr>
<tr>
<td>Sensitivity testing to indicate uncertainty</td>
<td></td>
</tr>
<tr>
<td>Material changes in running costs /implications</td>
<td></td>
</tr>
<tr>
<td>Stressed scenario impact on co-dependencies</td>
<td></td>
</tr>
</tbody>
</table>

## Documentation for practitioners

<table>
<thead>
<tr>
<th>Data definitions</th>
<th>D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data checks that have been performed</td>
<td></td>
</tr>
<tr>
<td>Treatment of incomplete or inaccurate data</td>
<td></td>
</tr>
<tr>
<td>Why model is satisfactory representation</td>
<td>M</td>
</tr>
<tr>
<td>Model checks performed (for fitness for purpose)</td>
<td></td>
</tr>
<tr>
<td>Data used (and removed), and any grouping</td>
<td></td>
</tr>
<tr>
<td>Assumptions</td>
<td></td>
</tr>
<tr>
<td>Explain how claim severity and frequency modelled</td>
<td>Ins</td>
</tr>
</tbody>
</table>
Key points

• No formal report required
  – No single report containing all information required – except Lloyd’s SAO
  – Could have standard description and report by exception
  – Level of detail depends on user

• Documentation can take many forms
  – Including electronic files (e.g. spreadsheets)
  – Could have standard description and document by exception

Insurance TAS: timetable

• ED consultation closes 16 July 2010
• Final TAS expected 4Q 2010
• Proposed commencement date 1 April 2011

• Please respond to the consultation!
  – Give reasons for your views
  – Suggest alternative ways of achieving goal