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## Professionalism: Peer Review and TAS for Pricing Actuaries

Neil Hilary and Richard Winter

2 May 2017

### A walk on the wild side - Video

- Clive - Narrator
- Jolyon - Narrator
- Tam - Young female actuary
- Rich - Young male actuary
- Carrie - From the Marketing Department
- Freya - Rich's boss

Clive and Jolyon take a light hearted look (“David Attenborough style”) at the application of APS X2 Review of Actuarial Work - but have a serious message. Make sure you understand what is required and be prepared to challenge if others are intent on cutting corners.

For purposes of today, assume that Carrie is an actuary embedded in an underwriting team that includes other statisticians and data analysts



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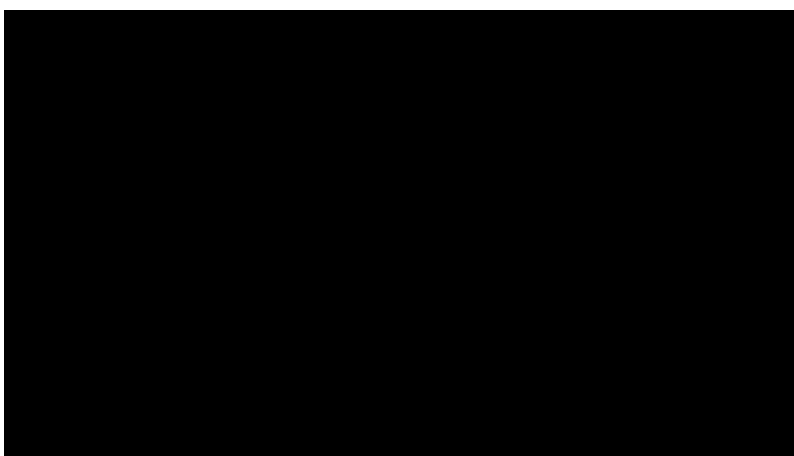
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2

## A walk on the wild side

- You will be allocated an actuary and we will ask you to defend their actions and demonstrate that they are acting with complete integrity
- At the same time we would ask you to think of challenging questions to ask of the other actuaries who are clearly deficient in their understanding of their professional obligations

## A walk on the wild side



## A walk on the wild side : Discussion



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5

## Revisions to Professional Standards

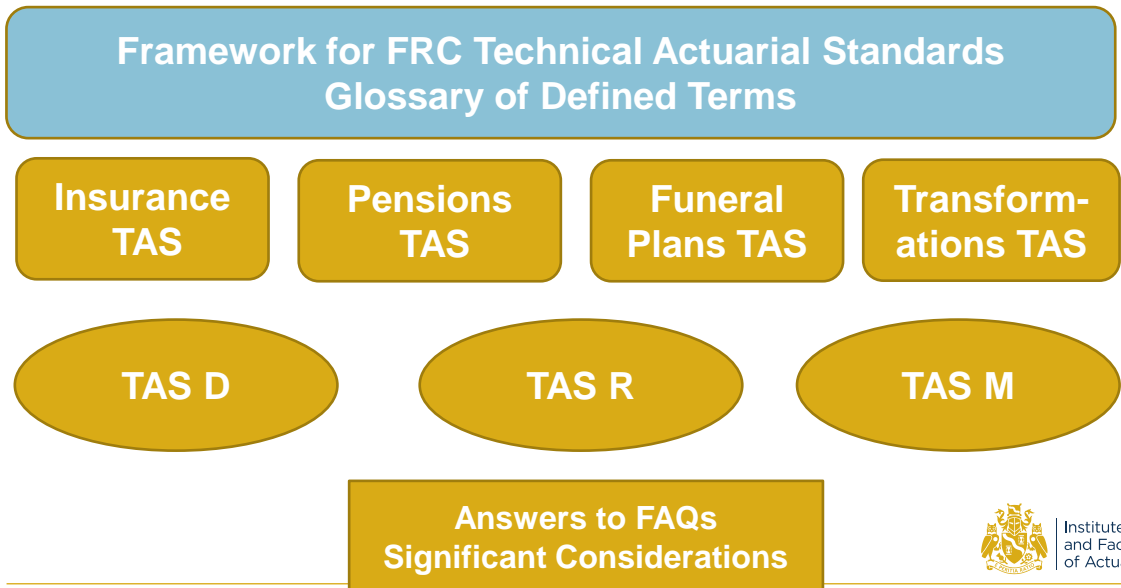
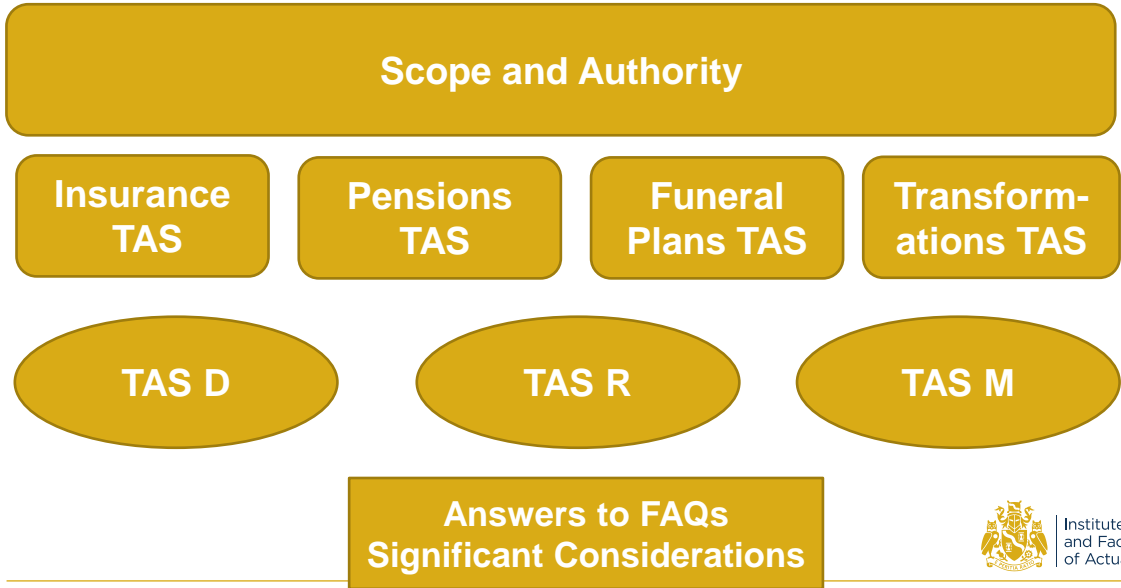
- APS X1 and the revised TAS structure come into force on 1 July 2017
- Applies to work that completes on or after that date



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6



## Framework – 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
- communication of inherent uncertainty

Users are defined as “those people whose decisions a communication is intended (at the time it is provided) to assist”



### Framework for FRC Technical Actuarial Standards Glossary of Defined Terms

Insurance  
TAS

Pensions  
TAS

Funeral  
Plans TAS

Transformat  
ions TAS

TAS D

TAS R

TAS M

Answers to FAQs  
Significant Considerations



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## Framework for FRC Technical Actuarial Standards Glossary of Defined Terms

TAS 200  
Insurance

TAS 300  
Pensions

TAS 400  
Funeral  
Plans Trust

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**Framework for FRC Technical Actuarial Standards  
Glossary of Defined Terms**

**TAS 200  
Insurance**

**TAS 300  
Pensions**

**TAS 400  
Funeral  
Plans Trust**

**TAS 100  
Principles for Technical Actuarial Work**

**Answers to FAQs  
Significant Considerations**



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13

**Framework for FRC Technical Actuarial Standards  
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**TAS 200  
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**TAS 100  
Principles for Technical Actuarial Work**

**Guidance  
SORPS (IFOA)**



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14

## Framework for FRC Technical Actuarial Standards Glossary of Defined Terms

### TAS 100 Principles for Technical Actuarial Work

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15

## TAS 100 – Principles for Actuarial Work

Applies to ALL technical actuarial work, defined as 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



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16



## 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



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## 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



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## 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



## Specific TAS (200, 300, 400...)

Have additional requirements to TAS 100.

Include extra provisions in relation to specified work, for example

- Prudential Regulatory Balance Sheets
- Financial Statements
- Lloyd's opinions, Tax opinions
- Prudential regulatory capital requirements and ORSA
- Insurance Transformations
- Audit and assurance
- Pricing frameworks



## Question

- What work that you do day to day is now covered by TAS 100?



## Case Study

A senior underwriter has asked you to price a large commercial property contract by the end of the next working day.

The contract has been written for a number of years, so associated issues related to it, in particular observed increases in incurred claims and reducing rates, are widely known and understood in the underwriting team.

***How would you apply the TASs throughout your work?***



## The Professional Actuary –This Means You!



### What does professionalism mean to us?

- You review proposed Personal Accident product using fitbits => unprofitable!
- APS X2 by another senior actuary => disagrees => tells CEO profitable!
- CEO signs up to the business He is desperate to get into new world
- CEO asks you to change your report in line with peer review
- .... so that “audit trail” for decision is complete.
- What do you do?



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23

## The Professional Actuary –This Means You!

### What does professionalism mean to us?



**Your friend:** actuary within Regulator, works in team that performs investigations in insurance along particular themes

**You:** actuary, work for insurer that is worried about possible investigation into the fairness of pricing structures, including inertia pricing

**At work:** you have been privy to some scenario planning on the impact that such an investigation could have on your firm and a potential reduction in the share price – your firm relies heavily on “price optimisation”.

**At social event:** unprompted your friend starts to talk about a potential investigation which makes you think that there is likely to be a formal announcement in this area soon.

**What might you do?**



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24

## The Professional Actuary –This Means You!

- **Is your friend breaching confidentiality?**
- **Has your friend been unprofessional – and what should you do about that?**
- **Do you have a duty to pass on the insight you have gained to your firm? Can you use the information that you have just heard?**
- **Do you have conflicts of interest – professional and personal?**

Suppose you have a share option scheme at work:

- **If you had been thinking about selling your shares, should that now cease?**
- **If you had been considering buying shares, are you obliged now to buy?**



Other suggestions:

- **Do you ask her about the source of the info – is it in the public domain?**
- **If you choose to do nothing, are you being unprofessional?**



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25

## The Professional Actuary –This Means You!

### Typical Employment policy

- A personal relationship at work can result in problems, and many employers choose to have a policy on relationships at work.
- Policies should strike a balance between employees' right to a private life and the employer's right to protect its business interests. For example:
- **“Employees must not allow a personal relationship with a colleague to influence their conduct at work”**
- **“Employees must disclose any work relationship that may give rise to a conflict of interest.”**
- **“Managers given guidelines on managing personal relationships at work.”**
- **“Employees must behave professionally while at work.”**
- **“Employees in a personal relationship with a colleague must not engage in affectionate behaviour during work time.”**



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26



**Questions**



**Comments**

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.



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