B5: Everything you wanted to know about Regulation.. and more...

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Colour palette for PowerPoint presentations

- Dark blue: R177 G52 B88
- Gold: R217 G171 B22
- Mid blue: R64 G150 B184
- Secondary colour palette
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- Dark grey: R63 G69 B72
The Actuaries' Code
Agenda

- Proposed changes to the Actuaries' Code
- APS X1 – the new international standard
- The new TAS framework
- Case studies
In the beginning…

- First substantive review since 2009 when the Code first came into force
- Substantial changes to the IFoA and actuarial profession since then:
  - More members working internationally
  - More members working in wider fields
The review

- What did we look at?
  - whether the Code remains fit for purpose in light of experience since 2009;
  - whether the Code appropriately reflects the international nature of the IFoA’s membership; and
  - how the Code interacts and fits with the FRC’s revised framework of technical standards.
How did we do it?

- Information gathering
- Benchmarking exercises
- Informal consultation
What is being proposed?

- A clearer structure
- Simplification of language
- Supporting Guidance
The Principles

- 6 high level principles
- Supported by amplifications
- New supporting Guide
Next steps

- Consultation open for responses until 17 January 2018
- Responses will be summarised in a feedback paper
- Once agreed, period of transition before proposals come into force.
APS X1 - The International Standard

- Came into force on 1 July 2017
- Detailed guide (with case studies)
- Sets out:
  - how IFoA standards, international standards and the FRC’s TASs apply to IFoA members
  - how members carrying out non-UK work should determine which standards to apply

Ensures all members are meeting broadly an equivalent set of professional standards while recognising that it may be appropriate for ‘local’ standards to be applied

Ensures there aren’t ‘gaps’ where Members are not required to apply any professional standards at all
The requirements – starting point

All members must comply with:

• the Actuaries’ Code; and

• relevant APSs
The requirements

All members must ensure their work is carried out in a way that is substantially consistent with ISAP 1, either:

by

Direct application of ISAP 1

(Many of the requirements in ISAP 1 already covered by the Actuaries’ Code plus APS X2 – so will be largely about technical requirements (reporting, assumptions etc.)

or

Applying the FRC’s TAS framework

• Applying the standards of a ‘Relevant Authority’ included in an IFoA published list
• Applying a set of standards reasonably judged to achieve substantial consistency
Definitions

❖ ISAP 1
  • Model standard of general actuarial practice issued by the IAA

❖ ‘substantial consistency’
  • Not defined
  • Should be given its natural meaning
  • IAA definition used in some ISAPs: “no material gaps in the standard(s) in respect of the principles set out in [the] ISAP; and the standard or set of standards does not contradict [the] ISAP”

❖ ‘Relevant Authority’
  • An IAA Full Member Association
UK work only

- If the work is within ‘UK Geographic Scope', members must also apply the TAS framework
- “UK Geographic Scope”
  Work done in relation to the UK operations of entities, as well as to any overseas operations which report into the UK, within the context of UK law or regulation (regardless of the location or domicile of the person carrying out the work)
- Important - need to think about reporting lines – can be complicated!
Non UK work only

- If required (by law or by membership of another IAA Member Association) to apply a ‘Recognised Standard’, there is a presumption that a Member will do so.

- Where there is a local standard applicable in the relevant geographic area - should apply it to the extent ‘appropriate and proportionate’.

- May apply all or part of a ‘substantively similar’ recognised standard as an alternative to an IFoA APS.

- Should exercise reasonable judgement to consider whether there are other relevant standards that they ought to apply.
What does this mean in practice?

- **Practical steps to take**
  - Have a look at ISAP 1
  - Check for local standards and consider whether they are ‘Recognised Standards’ (i.e. issued by an IAA body or a local standards setter)
  - Check whether the body is on the IFoA list or has made a public declaration about ‘substantial consistency’ with ISAP 1
The new TAS Framework
If it's not right, don’t do it; if it’s not true, don’t say it
What I will cover

What is the role of the FRC?
Overview of the framework, TAS 100 and TAS 200
What is technical actuarial work?
Case studies
Financial Reporting Council

What?
Promote high quality actuarial practice and integrity, competence and transparency of the actuarial profession

Why?
For the benefit of all those who rely on actuarial advice

How?
Set technical actuarial standards
Investigation and disciplinary hearings in public interest cases
Oversight of the IFoA
Framework for Technical Actuarial Standards

Framework for FRC Technical Actuarial Standards

TAS 100

TASs 200, 300, 400 (Insurance, Pensions, Funeral Plan Trusts)

Glossary

SORPs

Guidance

Applies to all technical actuarial work

Apply to specific, higher risk areas of work
Users

Users: Those people whose decisions a communication is intended (at the time it is provided) to assist
Reliability Objective

Users: Those people whose decisions a communication is intended (at the time it is provided) to assist

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.
Geographic Scope

……...work done in relation to the UK operations of entities, as well as to any overseas operations which report into the UK, within the context of UK law or regulation

APS X1 sets out approach for work outside geographic scope
Technical Actuarial Work

1) user

2a) actuarial science is central

+ judgement

2b) or

Actuarial Consulting Lines Europe Report

Jodie Bloggs FIA

18 October 2017
TAS100

Six high-level, outcome focused principles

Assumptions  Modelling

Judgement  Data

Communications  Documentation

All Technical Actuarial Work
Application

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Only from the Communications provisions Permitted if they are unlikely to have a material effect on the decisions of users.

This Photo by Unknown Author is licensed under CC BY-NC-ND
Nothing in TAS 100 should be interpreted as requiring work to be performed that is not proportionate to the nature, scale and complexity of the decision or assignment to which the work relates and the benefit that users would be expected to obtain from the work.
Application

Communications for
- reserved work;
- work in the scope of a Specific TAS; and
- technical actuarial work which is central to a significant decision by the user.

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TAS200 Core Provisions

- Judgement
- Data
- Assumptions
- Modelling
- Communications
TAS200 – Provisions for Specified work

Valuation exercises
- Regulatory balance sheets and financial statements, Lloyds syndicates and GI tax

Pricing Frameworks

Audit and Assurance

Prudential regulatory capital and ORSA

Insurance Transformations

With Profits Discretion

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Case Study – Technical Actuarial Work

You are presenting at a conference on the implications of long term low and negative interest rates. The audience includes a wide range of participants from the insurance industry. Your presentation includes some simple modelled valuation examples under different interest rates.

You also mention the conference to your team at work and share the conference materials with them as they weren’t all able to attend the conference.

A few weeks later a member of the Risk Team says they are interested in considering the impact of different interest rate scenarios as part of the stress and scenario analysis and asks you to present your previous modelling work to the Risk Team.

When would TAS 100 apply?
Case Study – Proportionate Response

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 the 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?
Standards: Help users make informed decisions

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