

The Director
Board for Actuarial Standards
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Dear Louise

Consultation Paper: Generic Data Standard

PwC supports the introduction of a generic Technical Actuarial Standard (TAS) on data. We hope our comments on the proposals in the consultation paper will be helpful.

We agree with the scope and principles BAS is suggesting. In particular, we think it is essential that there is flexibility to follow the Standard in a proportionate way, taking into account the materiality of the advice in the hands of its recipient. We agree that individual actuaries should exercise their judgment in a reasoned and justified manner when deciding upon proportionality and materiality, although we question whether it will be possible to demonstrate compliance or non-compliance with a principle worded in this way.

We also encourage BAS to consider to whether actuaries should be required to include in their reports a summary of the data they have used and how detailed such a summary should be. In the interest of transparency, it is useful for other actuaries to have available a data summary of sufficient detail to enable them to draw their own conclusions about the advice and decisions that flow from it. Requirements for data summaries could be covered either in the generic data TAS or in the reporting or modelling TASs or the practice-specific TASs.

The appendix contains our answers to the more detailed questions BAS asks in the consultation paper. Please contact me if you would like to discuss our comments in more detail.

Yours sincerely



Peter Tompkins
Partner

Questions raised in consultation paper

1. Do respondents agree with the proposed purpose and scope of the generic data standard as set out in section 2?

We are supportive of the purpose and scope of the generic data standard – to address selecting data, testing adequacy and accuracy and dealing with insufficiency. We also agree that:

- issues over security and confidentiality should be excluded from a technical actuarial standard;
- data maintenance is an administrative function, not an actuarial one, thus can be excluded from this standard. However, we do not feel that actuaries performing this administrative function should be exempt from applying high level professional and technical standards to that work. Also, it is important that actuaries are consulted in respect of new systems design and collation of new data. This will help to ensure that data-sets are fit for purpose in an evolving and increasingly sophisticated market. This point is particularly pertinent in relation to paragraphs 4.3 and 4.6; and
- issues surrounding the grouping of data need not be addressed in the data standard, and can instead be covered in the modelling standard.

2. The BAS sets out a number of overriding principles in section 3.

a) Do respondents agree that it is appropriate for the TAS to include the proposed overriding principles, the associated definitions and the principle that they should be applied with reasoned and justifiable judgement?

It is critical for actuaries to have the freedom to apply the standard in a proportionate way and we agree, in theory, with the definition BAS proposes for what is and is not proportionate. However, in a significant number of cases it is not possible to quantify objectively the benefits to beneficiaries and so the definition of proportionality is not at all clear-cut in these instances.

We feel that time constraints should be explicitly recognised in the TAS when proportionality is considered. It is reasonable that the amount of time available to clients and advisers will often limit the extent to which the data is subject to rigorous checking, and also limits the usefulness of caveats about the potential impacts of a multitude of unproven potential data errors – which clients have no use for in the time available in their decision making processes.

The proportionality definition in paragraph 3.17 should be linked to the explicit scope which is being considered. We suggest the wording could be changed as follows: “An improvement in the quality of data is proportionate if the additional certainty it provides, results in a net benefit to the user. A net benefit would be defined as one where the effort to achieve that improvement is outweighed by the consequent benefits to the user of the actuarial information and by the potential benefits to beneficiaries”.

We feel section 3.20 is superfluous. The wording is confusing and it should be removed entirely. In section 3.22, we feel it is important to distinguish between a clean data set and one where it is felt there are no material issues that will affect delivery of the proposed scope. In the latter situation, we would suggest wording of the type: “Whilst we have

identified some inadequacies in the data, we do not believe them to be material to our analysis” *

This change in wording would reflect the fact that we are aware that the issue of whether an item will be material or not is ultimately a judgement call. This revised wording alerts the reader to possible inadequacies in the data and would allow them the option to probe further if they would like more details on the reasoning behind the judgement, without requiring too much additional disclosure.

Also, as we suggested in a previous consultation response, our view is that wording about professional application and judgement is unsuited to a TAS.

- b) Do respondents have any views on whether any issues specific to processing data arise in respect of the interests of beneficiaries, or of public interest, and on how such issues might affect the proposed overriding consideration for users’ needs.**

We feel that this is a legal / political issue and not a matter for a TAS. This will also be looked at as part of the PCS / Actuaries Code.

- c) Do respondents believe that it would be desirable for BAS standards to require documentation for the reasoning supporting judgements on how to apply the principles?**

This question is difficult to answer and is potentially easy to misinterpret. The standards should require what is in the interests of clients. Clients use actuaries because of their ability to use judgement in applying their technical knowledge and techniques. They are unlikely to be interested in all the reasons behind the statistical or technical judgements that have been made, and the requirement in this TAS should be restricted to documenting the data issues identified and the actions that were taken to mitigate these data issues. Again, the compromise wording (*) we suggest above could be useful.

3. Principles relating to the data process are set out in section 4.

- a) Do respondents have any views on the proposed principles relating to the data process?**

We agree with all six of the principles BAS proposes in section 4, subject to their being applied in accordance with the principles of proportionality and materiality.

- b) Do respondents agree that overall data quality measures are unsuitable for inclusion in BAS standards, at least for the foreseeable future?**

Yes.

4. Section 5 discusses matters concerned with estimates and uncertainty.

- a) Do respondents have any views on the proposed principle relating to margins in respect of data inadequacy?**

We agree that margins should not be incorporated in cases of inadequate data. We support BAS’s approach that actuaries should provide guidance that is transparently separate from the information supplied instead of building in margins for uncertainties. We

support the wording of paragraph 5.9 asking that if any margins are incorporated they should be separately identified.

We support the implied change in culture that this proposed principle will effect. BAS may wish to consider what lee-way to apply during a suitable transition period, and work with the profession to ensure any new procedures adopted are in the interests of clients.

b) Do respondents have any views on suitable methods of expressing any uncertainties about the accuracy or completeness of the data and, in particular, on whether they should be expressed in a similar way to which other sources of risk are expressed?

Our view is that the actuary should express the uncertainty about the impact of data issues, although there are instances when it isn't necessary or practicable to do this for each data issue and an overall expression is best instead.

All the possible ways BAS identifies for expressing uncertainty may at times be useful depending on the circumstances. We do not think the generic TAS should cover this in any greater detail. It is an issue that BAS should consider in the specific practice area TASs or a matter for the Profession's Information and Assistance Notes.

5. Do respondents have any views on the proposed principle relating to reporting set out in section 6?

We agree with the proposed principle of reporting any material adjustments or modifications made to the data, but question whether requiring a rationale for such adjustments or modifications is asking for too much.

We are otherwise supportive of the proposed principles in relation to reporting. Good data should mean a report can be produced without comments about data issues. However, a data summary, setting out the key features of the overall dataset, should be required in a report ie the Reporting TAS.