

The Director  
Board for Actuarial Standards  
5th Floor, Aldwych House  
71 - 91 Aldwych  
London EC2B 4HN

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Dear Sir

**Structure of new BAS Standards (and implications for adopted GNs)**

PricewaterhouseCoopers LLP (PwC) is pleased to have the opportunity to comment on BAS's plans for the future book of Technical Actuarial Standards (TASs). This is of great importance to actuaries and to how actuaries are perceived and we welcome BAS's comprehensive consultation.

We support the structure of the book of standards BAS is proposing. Two or three generic TASs and five or six TASs specific to particular areas of work, each split where necessary into more detailed chapters (as illustrated in Section 4.7), seems to be a robust and user-friendly structure. Importantly, as BAS says, it should make it easy for actuaries to be certain they have addressed all relevant points in a particular piece of work, even where the principles with which they must comply are spread amongst several TASs. We do, however, question the need for a generic TAS on data.

These standards are required urgently and it is important that the timetable - a complete new book of TASs planned for the end of 2010 and many of the more important ones (the generic TASs and specific pensions, long term insurance and general insurance TASs) earlier in 2010 - will be met or bettered. However, it is vital that challenging deadlines do not compromise the consultation process. The standards will shape actuarial work for many years and it is essential that the process is full and inclusive (we support BAS's intention to involve non-actuaries). PwC urges BAS actively to engage with practitioners at all stages of the drafting/consultation process on the specific standards and looks forward to contributing to those discussions.

The appendix provides our comments on the questions asked in Section 7 of the consultation paper. These reflect the views of PwC actuaries working in the fields of pensions, long-term insurance and general insurance.

Please contact me if you would like to discuss these points in more detail.

Yours faithfully



Peter Tompkins

**1. Do respondents have any views on the proposals for generic standards and their contents, as set out in section 2? In particular, respondents are asked to comment on whether the proposed generic standards between them cover the principal concepts that are common across the main areas of actuarial work that fall within the scope of BAS standards.**

We support the concept of generic standards but question the need for a generic data standard. We think BAS has identified the principal concepts that are common across the main areas of actuarial work and should be addressed in such standards. We also agree that generic (and specific) standards should include principles of materiality and proportionality.

**Generic Data Standard**

Whether there is a need for a separate generic standard on data is highly questionable. What matters is how the actuary takes account of the volume and quality of data in the models he designs and how he reports on the implications for the results and any advice that follows. We suggest that generic data issues might be best covered within the modelling and reporting generic standards. Further, there is a wide variety of different types and forms of data, which will be used for a wide variety of purposes. It is difficult to think of what generic standard would be both helpful and proportionate.

**Generic Modelling Standard**

*Assumptions:* It is important, as BAS has identified, that the standards cover not only situations where the Actuary selects assumptions for a model but also situations where the Actuary's primary role is providing advice in relation to the assumptions themselves. For example, in the scheme funding process for pension schemes, responsibility for assumptions rests with trustees and the Actuary has a statutory role to advise on those assumptions.

*Best Estimate/Prudence:* We agree that the generic standard should address the principles for making best estimate assumptions. These principles should be common to all areas of work. For example, there is no reason why a life insurance actuary should use different principles in arriving at a best estimate of, say, the equity risk premium from a pensions actuary. These principles will be of key importance in improving consistency between the various areas of actuarial work.

On the other hand, the principles that will determine the level of prudence to incorporate are far more specific to the circumstances and best addressed in specific standards. It is unclear how "prudence" sits with "margins" (the Conceptual Framework indicated that margins should be separately identifiable) and clarification on this point would be helpful.

*Models:* It is not entirely clear whether the Standard will address the implementation of the methodology in particular calculation engines (and so, for instance, deal with testing and documentation standards). We believe it may be helpful to address this.

In principle we would welcome any generic guidance on sources of error in models, although it is difficult to comment in more detail without more concrete examples of what is envisaged. The principle of parsimony referred to in 2.18 also seems reasonable. In practice, materiality and proportionality will be key considerations in model selection and formulation and the standard should recognise this.

*Mechanisms for reflecting risk and uncertainty:* Standards on the principles for dealing with risk and uncertainty in models (e.g. reserving uncertainty within general insurance) will be welcome, particularly principles for modelling uncertainty using scenario/sensitivity analysis where it is not possible to derive probabilities. However, any principles will have to be flexible – the appropriate analysis will be very dependent on the circumstances.

*Scenario generators:* We agree that the standard should consider the principles governing the use of such generators (calibration, validation and use of output in actuarial models) and not address how they are built.

## **Generic Reporting Standard**

We are responding to BAS separately with comments on the Exposure Draft “Reporting Actuarial Information”.

**2 Section 3 describes proposals for specific standards and their contents. In that context,**

**a) Do respondents think that issues arising from different group structures can be incorporated into the proposed specific standards or that a separate standard is needed?**

The specific standards can currently be separated into two broad categories - (a) those relating to a particular type of risk (e.g. general insurance, defined benefit pension schemes, long term insurance) and (b) those relating to a particular purpose for the work (e.g. business arrangements, accounting). Only if group structure aspects do not fit readily into one or more of these specific standards do we see a need for separate guidance.

**b) Do respondents agree that matters concerning post-retirement medical plans should be covered in the appropriate specific standards?**

This is an area in which only a small minority of actuaries are involved. There would seem no harm in a separate specific standard, if those involved see a need.

**c) Do respondents agree that Skilled Person reports should be covered in the specific standard on business rearrangements?**

We are unsure whether there is a need to cover Skilled Person reports. It seems the content of such reports will be pre-determined by the relevant Regulator, leaving only the principles of preparation and presentation to the Actuary. Further, these reports can cover a very wide variety of topics specific to each investigation. We are therefore not clear what points would need to be included in a specific standard that would not better be covered in other standards (e.g. the reporting standard). If it is felt necessary to address such reports (e.g. Section 71 or 166) separately, then we would suggest the best place to do so would be in the appropriate standards (e.g. pensions, long term insurance).

**d) What views do respondents have on whether there should be a separate specific standard covering actuarial information for financial statements?**

This would depend on the contents. In particular, it would be very helpful to address (and if possible define) “generally accepted actuarial practice”, as referred to in e.g. FSA INSPRU.

Some exposition of common (acceptable) approaches to other actuarial facets of financial reporting, i.e. guidance, might be helpful. However, we believe it would be difficult and dangerous for actuaries to impose or even suggest interpretations of accounting standards.

Where there is no regulated actuarial role there may be a conflict between any actuarial standards and what the company requires and it would be helpful to have guidance in this area.

For financial statements relating to pension schemes, it would be helpful if the current guidance (in GN36) could be extended to cover reporting under IFRS as well as UK GAAP. However, this may be better dealt with in the specific pensions standard rather than in a separate standard on actuarial information for financial statements.

**3. Section 4 describes criteria that the structure of the new book of standards should meet, and proposes a structure.**

**a) What views do respondents have on the two criteria?**

**Ease of navigation for users of actuarial information**

This criterion is desirable but by no means essential. We would not expect that users of actuarial advice would generally need to refer to actuarial standards. The Reporting Standard and those elements of the specific standards that deal with reporting should, between them, ensure users of actuarial advice have sufficient information (including about principles used in the work) that they should not need to refer directly to the book of TASs. Ease of navigation for practitioners is more important.

**Certainty for practitioners that they have addressed all relevant matters in a piece of work**

This criterion is essential.

**b) What views do respondents have on the preferred structure and its ease of use?**

The suggested structure looks robust and easy to use. We agree that it should meet both criteria.

**4. Do respondents have any comments on the proposed treatment of the adopted GNs that is described in section 5?**

**Life Insurance GNs:**

Currently, we believe that there is no need to have only one standard, that such a standard encompassing the work of reserving, capital adequacy and the With-Profits Actuary is likely to be impractical, and that two (or perhaps three) separate standards would be clearer. However, without sight of a draft, it is difficult to be certain so we may need to comment further at that stage.

We have no comment on the proposed disposition of the existing Guidance Notes other than to say that it seems appropriate.

**General Insurance GNs:** We still have concerns that there is insufficient detailed consideration of general insurance aspects within the consultation paper to ensure the appropriateness of the standards. We urge you to actively engage in direct discussion with general insurance practitioners at all stages of the drafting process and not to rely solely on the consultation process.

**Pensions GNs:** We think BAS's proposed treatment is correct.

**5. Do respondents foresee any particular problems entailed by the disapplication of the following GNs:**

**a) GN3, GN4, GN10, GN11, GN13, GN17, GN19, GN39, GN42, GN49 and GN51 in the third quarter of 2008?**

GN3, GN4, GN11, GN13, GN17, GN19, GN49 and GN51: We foresee no particular problems with disapplying these guidance notes in Q3 2008. However, it is important to realise that GN11, GN19, GN49 and GN51 address active areas of work for pensions actuaries, where there is a continuing need for actuarial standards. We think BAS's new the pensions specific standard should address these areas.

For example, consider GN11, covering transfer values. Whilst references to GN11 are to be withdrawn from legislation in October 2008 and responsibility for determining transfer values will shift from actuaries to trustees, that does not mean actuaries cease to have a role. On the contrary, there is a statutory requirement for trustees to take the advice of their Scheme Actuary about the assumptions to use. We think this advice should be covered by actuarial standards. A similar situation applies in relation to GN49 and scheme funding matters.

Turning to GN19, whilst there seems little point in retaining a guidance note that, in effect, simply asks actuaries to comply with legislation, we think there is still a need for standards to cover winding up and deficiency calculations. These are calculations which are required by law to be undertaken by an actuary. Similarly, whilst GN51 in its present form could be disappplied without any significant impact, there remains an ongoing need for standards in the area of the actuarial equivalence test.

GN10: No comment.

**b) GN39 and GN42**

We concur with the proposals on the basis that these notes add nothing that is not covered elsewhere. However, we note that the scope of GN39 is much wider than the auditing process as indicated in the table.

**c) GN22 on 1 November 2008?**

Seems appropriate.

**6. Do respondents have any comments on the overall timetable proposed in section 6, or on the order in which standards will be developed?**

It makes sense to tackle the generic standards first and of these the Reporting standard should perhaps be the first one. It also makes sense to leave the business re-arrangements, accounting and funeral plan TASs until last.

Overall, the timetable looks acceptable, given the scale of the task. The specific standards on pensions, long-term insurance and general insurance in particular are likely to be the focus of much debate within and outside the profession.