

q_x - Club

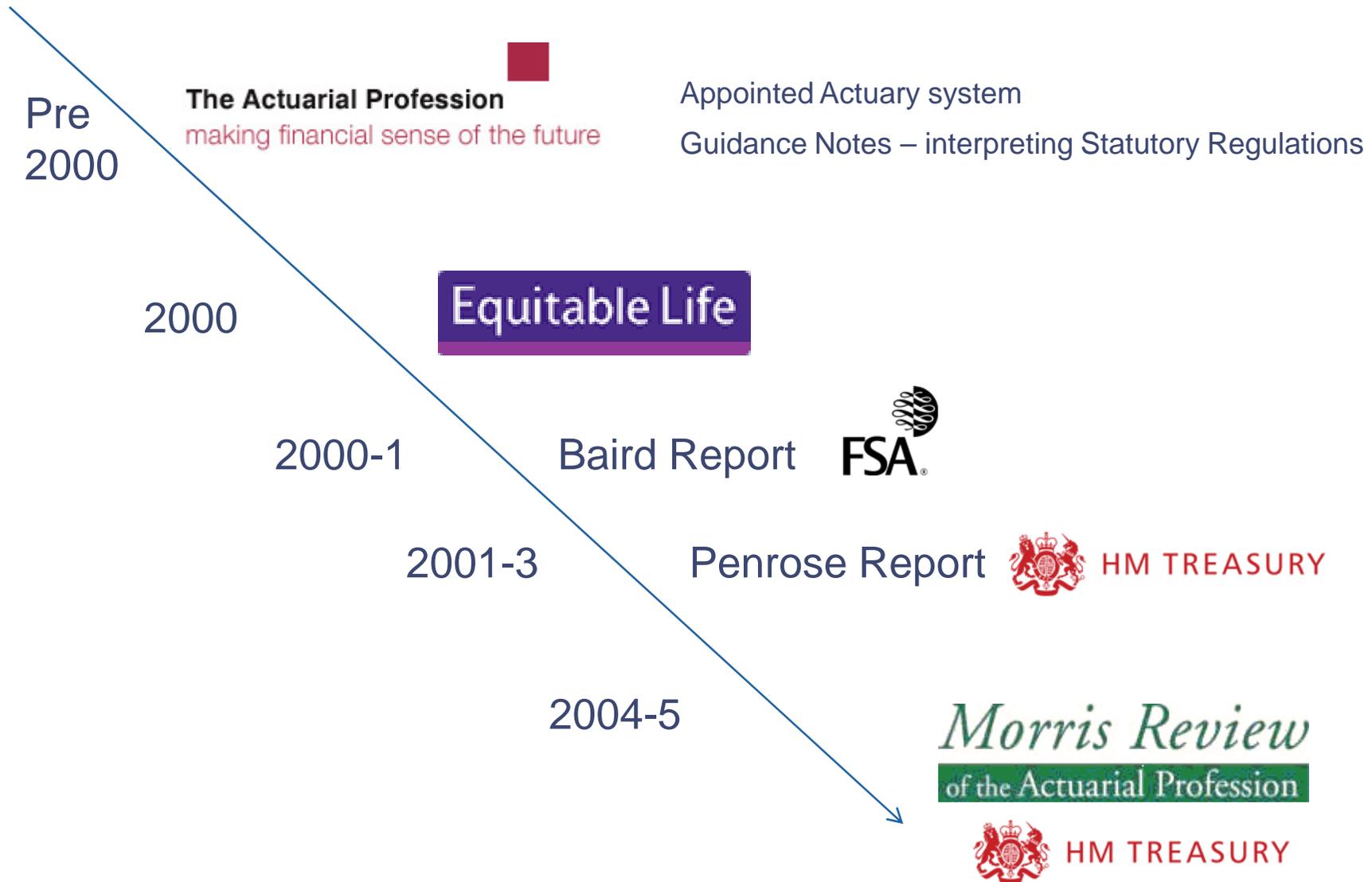
Actuarial Quality - UK Experience

June 2010

Agenda

- History lesson - Why did we need to improve quality?
- Where are we now?
- Implications for working actuaries
- Future developments

History lesson - Why did we need to improve quality?



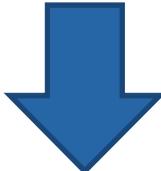
Responses



New regulatory regime



The Actuarial Profession
making financial sense of the future



New professional
governance regime

Responses



Where are we now?

- With profits governance
- Actuarial function holders - advisors to management
- Reviewing Actuaries – audit advisor
- Twin Peaks - Realistic Balance Sheets - audited
- Individual Capital Assessments (ICAs) “Pillar 2” – Not audited

Lessons learned



- With profits governance
 - Far more clarity around how the business is run
 - (ALM, guarantee costs, cross subsidies, shareholder v policyholder)
- Twin Peaks - Realistic Balance Sheets - audited
 - Models not as robust as we thought
 - Reconciliation to accounting data
 - Materiality
 - Speed => people v process v systems v controls

Lessons learned



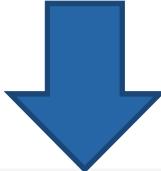
Implications for working actuaries

- Individual Capital Assessments (ICAs) “Pillar 2” – Not audited
 - A journey
 - Actuarial judgement stretched to the limit
 - Communication – management, regulators
 - Embedding in decision making
 - It’s not all about the model...
 - Add ins “Individual Capital Guidance” - 110 - 170% (round 1)
 - Now used as a regulatory stick

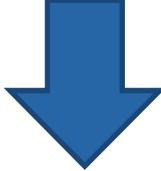
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Findings

Lord Penrose 2004

Highly specialised professional groups can become complacent, and some practitioners can appear to display arrogance in their practice and in the expression of views

Morris Review of the Actuarial Profession

Self regulation by the profession was not working

- Weak professional standards
- No proactive monitoring of members compliance with standards
- Too introspective, not forward looking and slow to modernise

Did not protect the public interest

Where are we now?

Responses – Professional standards



FRC Financial Reporting Council



The Board for
Actuarial Standards
a part of the FRC

Technical Standards



The Professional Oversight Board
a part of the FRC

Professional regulation



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Professional standards

- Ethics “The Actuaries code”
- Education (enhanced CPD)
- Discipline
- Promotion
- Compliance monitoring
- Acting in the public interest
- Practicing certificates

Where are we now?

Technical Actuarial Standards



Conceptual Framework

TAS D - Data

TAS R - Reports

TAS M - Modelling

TAS I - Insurance (exposure draft)

Reliability Objective:

- Relevance
- Transparency of assumptions
- Completeness
- Comprehensibility
- Communication of uncertainty

Technical Actuarial Standards



TAS M - Implications

- Is the model appropriate? – prove it!
- Checks – appropriate and documented
- Data & grouping of data
- Assumptions
- Limitations



Actuarial Controls

(UK) Future developments


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International
Accounting Standards
Board®

Peer review
Regulation of Firms v members

Solvency II / IFRS II

- Model approval / validation
- Improved decision making
- Pressure will increase
 - Regulatory
 - Delivery – speed & accuracy (cost)
 - Communication – explanations
- Culture

Summary

- We need to move to getting it right first time (and quickly)
- And to be able to answer “Why is it right?”
 - and show me not just tell me
 - but ... be clear about uncertainty
(1 in 200 is not an exact science)
- Actuaries need to become trusted advisors of management
... not just the number crunchers.

brian.purves@uk.pwc.com
+44 207 212 3902

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