



# Technical Actuarial Standards

## Aon's response to FRC's Post Implementation Review

Aon is pleased to submit its response to FRC on its Call for Feedback on the Technical Actuarial Standards.

Aon is a leading global professional services firm providing a broad range of risk, retirement and health solutions, with more than 50,000 colleagues in 120 countries. We work with the trustees and sponsors of around 1,000 UK pension schemes. Globally, we work with more than 2,300 clients with assets totalling \$3.8 trillion. Our UK Retirement and Investment Business is QAS-accredited, and we have over 400 qualified actuaries and students.

### Why bring you this paper?

To provide Aon's comments on the questions raised by FRC, that are relevant to our work.

### Next steps

We would be happy to discuss the content of this response with you.

Prepared for: Financial Reporting Council

Prepared by: Aon

Date: 7 May 2021

**Question 1: Please provide your name (note that anonymous responses will not be accepted).**

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**Question 2: Are you responding as an individual or on behalf of an organisation? If so, please list.**

On behalf of an organisation: Aon.

**Question 3: Please provide your email address so we can validate your response is legitimate.**

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**Question 4: Do you request confidentiality of your response? (note: if so, your response will NOT be published to the FRC website as described in paragraphs 1.23 to 1.25**

We do not want our comments to remain confidential.

## **2.1 Over-arching questions in relation to the TASs**

**Question 5: To what extent have the TASs been effective in supporting high quality technical actuarial work?**

As a whole we believe that, since their original introduction, the TASs have contributed to an improvement in the standard of technical actuarial work across the industry. The 2017 versions were an improvement relative to the previous versions (with the move to principles based standards and with the extension of scope).

**Question 6: What aspects of the TASs have caused difficulties? Please explain what those difficulties were and how you were able to overcome them.**

We believe that consideration of the scope of the standards causes difficulties. As a firm we expect to apply the standards to everything we do. So the question of whether work is in or out of scope, and so whether the compliance statement is needed, detracts from the main consideration of what needs to be covered in the advice. Similar issues have arisen when tying in compliance between members of the IFoA (mandatory compliance) and non-actuaries (where compliance is encouraged).

We understand the original rationale for making the compliance statement compulsory - in order to get people to think about the TASs and make sure they do comply. However as the TASs have now been in place for a while, we feel that this is no longer the case and in fact there is a risk that it now has the opposite effect (i.e. the focus is more on whether a TAS statement is required, rather than whether the wider TAS requirements have been met). We would also question what benefit users derive in practice from its continued inclusion, particularly as the statement (at the request of the user) is often buried in the small print at the back of a report.

So we feel that FRC needs to move away from requiring a TAS statement, so that it can focus on ensuring and maintaining the quality of the work.

**Question 7: [for users of technical actuarial work]  
Have the TASs been effective in ensuring the quality and clarity of the actuarial information you receive is reliable to any decisions that you take based on that information?**

n/a

**Question 8: Are there any aspects of the TASs that do not help to ensure the quality of actuarial information? Please explain your response with examples of where this has been an issue.**

As noted in our response to question 6, our main concern is about the requirement for a TAS compliance statement. We do not believe that the statement helps to ensure the quality of actuarial information. The fact that the requirement is not a 'provision' (so cannot be omitted) initially caused concern over the risks of omitting the statement – perhaps leading to over-use of the statement, which further detracted from the quality of the information and advice.

In the time since the TASs were initially introduced the world has changed, and in particular the delivery approaches for advice have evolved, and continue to change. Consideration needs to be given as to whether the TASs need amendment in light of the different methods of delivering advice - with advice being more interactive and building on other discussions and information. For example, increasingly valuation advice is provided in ad hoc emails over a period of months addressing the various aspects or answering specific questions – and it would not be proportionate or sensible to apply the full TAS process to each communication. At present such aspects are addressed by considering the principles of the TASs and what is proportional: different actuaries will have different views and approaches, using their professional judgement. So it is important to consider whether the TASs are fit for purpose in such an environment.

We would also point out that the needs of the user vary massively (for example some will be lay trustees and some may be professional trustees) and actuaries need to be able to reflect this fact. Actuaries should also be free to consider the appropriate method of delivering advice (and the information provided) to address the needs to their clients.

**Question 9: Is TAS 100 of sufficient detail to enable you to have a clear understanding of what is required in order to comply with this TAS? Are there areas of guidance which are vital to your understanding to the TASs?**

Yes

**Question 10: [for users of technical actuarial work] Are there any areas where you would welcome further standards; in particular, new areas where an increasing number of actuaries are performing technical actuarial work?**

n/a

**Question 11: Do you foresee any issues with the TASs being reviewed and updated in a staggered approach?**

No

### **3 Professional Judgement**

**Question 12: Are there specific considerations or factors that actuaries should take into account when making professional judgements?**

It is very important for actuaries to be able to exercise professional judgement and to understand their clients (which as noted above will be varied). Users want concise advice bringing out the important points for decision-making - but noting the limitations of that advice, and users want this to be communicated in a clear manner. If compliance with the TASs makes advice longer than would be necessary to cover the important points and any limitations, this will not help our users.

Not only do actuaries need to understand their clients but they also must understand the needs of other users, and in particular how to communicate with them.

As an example, when presenting accounting information, this has commonly been achieved by making appropriate adjustments to the basis and rolling forward figures (with suitable warnings of the uncertainty in outcome and the limitations of the advice). However recently it has become apparent that despite actuaries' best efforts some users (e.g. auditors) have had unrealistic expectations of the accuracy of the figures. This might indicate that there has not been sufficient discussion with them as users around the suitability of the earlier approaches – including improving their understanding of what is required, making clear that there is a large range of approximations and resulting outcomes, and setting out the impact - and might be seen as an indication that actuaries have not applied their judgement properly when providing information for auditors.

### Question 13: Does TAS 100 currently give sufficient direction on the nature of professional judgement and what it involves?

Yes it does - we do not think it needs any further direction.

### Question 14: [for users of technical actuarial work] In making your decisions based on the actuarial information requested, how much reliance do you place on the professional judgement made which resulted in the actuarial information, and has there been sufficient clarity of how these judgments are arrived at?

n/a

## 4 Modelling

### Question 15: How has TAS 100 supported you in determining whether a model is fit for purpose?

Probably the latest TAS 100 has not caused a great deal of change in the determination of whether a model is fit for purpose (where work was already within scope of earlier TASs). It still requires use of appropriate judgement, data and assumptions. Widening the scope has caused that thought process to be used for a wider range of work – but the rationale for deciding whether a model is fit for purpose can just be extended to that wider range of work. The main consideration here is whether there is a proper framework in place and how is it tested. And again calling out any limitations of the model.

## Question 16: How have changes in modelling techniques in recent years impacted on your models used in technical actuarial work? What changes should be made to TAS 100 to reflect these developments?

As discussed in our response to question 8, delivery of advice has changed and this is reflected in the models used, and how they are used.

- Interactive modelling

It has become more common to use interactive modelling, either web or app based, to explore modelling outputs step-by-step and to understand sensitivities. This may involve novel input combinations due to the scenarios chosen interactively.

This leads to some challenges in meeting the compliance and reporting requirements of TAS 100. TAS 100 requires that verbal advice is followed up with a permanent record. However, an interactive session may cover a wide range of scenarios in a non-linear fashion. Usually it is clear what any conclusions were from the modelling, but it can be difficult to record every consideration.

Also, because interactive models can be complex to explain, ideally the model itself has a simple presentation with minimal distractions. However, this can make it difficult to give appropriate prominence to caveats and limitations. These explanations may be presented separately in a report, which may be given little prominence during the interactive session.

Two of the features above give rise to another challenge:

Because of the potential for novel input combinations, together with the separation of limitations and assumptions from the interactive model presentation, it becomes more important for an expert to present the model interactively. For example, it is easy to use a simple interactive model to produce an answer that is feasible in the model but that invalidates one of the assumptions relating to a simplification in the model, and it takes an expert user to understand the boundaries of the model and know when to stop.

- Web-based models

In some cases, users are interpreting model outputs with minimal expert user support. This is prevalent with web-based modellers. An example would be where a model automatically updates based on data feeds, but one of those data feeds becomes unreliable. A user could have access to the model but not the expertise to spot that the model had become unreliable.

## Question 17: How has TAS 100 supported you in determining whether sufficient controls and testing is in place for the models used in technical actuarial work?

We do not believe that TAS 100 has helped in this regard. It says controls and testing should be sufficient and those controls and tests shall be documented, but unintended consequences can still arise.

ISAP 1 is referred to in the consultation document: this seems very useful for significant models where there is likely to be only one in an organisation (e.g. an internal model for Solvency II reserving, or a pensions consultancy's primary asset and liability model). The principles are also clearly relevant for any model work, but seem to rapidly become disproportionate when working on smaller models. E.g. change management processes, model risk management framework. If ISAP 1 is to be adopted (and in large part the principles seem very good) clarity needs to be given on where the principles can be deviated from due to disproportionality, otherwise it would impose significant costs and would stifle model innovation. E.g. top level principles such as 'Understanding the model' are essential, whereas some other areas are absolute best practice but would be disproportionate except on the most major modelling projects.

### Question 18: How are recent or anticipated changes in modelling techniques, or other influences, changing the nature of model governance and validation? What changes should be made to TAS 100 to reflect these?

In the context of modern software development practices, it is not totally clear that TAS 100 (or ISAP 1) fits a software development framework very well. For example, modern 'agile' development includes lots of small changes by a team of developers within a source control framework but without central direction/authorisation, whereas TAS 100/ISAP 1 seems to envisage strict change management and model risk management which seems fundamentally at odds with agile development. There may also need to be a recognition that there may be a separation (in terms of validation framework and sign-off) between an actuarial model and the software infrastructure around it. With complex, evolving models, living documentation is far more useful than a series of static documentation, but this may be at odds with traditional audit trail expectations.

Independent validation of models is clearly best practice, but is it practical for firms to have an expert in model validation who is also not involved in the production of the model? Who exactly would fit that role and what would their job be when they are not validating the model? Is there an expectation of external consultancy here, because that would not fit the market for pensions consultancies, even if it does fit insurance?

### Question 19: [for users of technical actuarial work] How are recent or anticipated changes in modelling techniques affecting the communication of a) methods and measures used in the technical actuarial work and b) significant limitations to the models?

This question is not within our remit, but we would point out that people are trying to model new and uncertain risks (eg climate change), so there will need to be a consideration of how much other disclosures need to change, and how best to disclose limitations or unmodelled risks. In relation to new areas such as data science, consideration needs to be given to the comparable standards of other professions working in those areas, with a view that actuarial standards should be no lower and arguably not too much higher, lest the public faith in professional bodies in general is eroded.

## 5 Statement and evidence of TAS compliance

**Question 20: Do you consider standardising the wording of the statement of TAS compliance would lead to better clarity on the quality of the work provided? Please provide rationale for your view.**

As noted above we feel that the compliance statement requirement should be removed (it does not aid users unless they have full understanding of how the TASs work). Therefore we do not comment on any preferred wording.

**Question 21: As an actuary completing a work review as defined in APS X2, or as a user of technical actuarial work, is the evidence supporting the statement of TAS compliance clear and accessible, and how important is it to have this evidence available to you?**

We have stated above our preference that the requirement for a TAS statement should be removed going forward. However we answer this question on the basis of the current requirement. The answer is different depending on whether this is an actuary completing a work review or a user of technical actuarial work:

- From the viewpoint of the actuary the main concern is the quality of the advice being reviewed, the communication aspects including risk disclosures, what the users will do with the advice and whether the actuary has exercised their judgement appropriately. This applies regardless of whether the work is in scope of the TASs and regardless of whether there is a TAS compliance statement. For many people a review of compliance with TAS is a combination of checking that a TAS statement is included and a review of the final report for obvious breaches based on a broad understanding of the TAS principles (e.g. is it clear what data and assumptions have been used, has uncertainty been addressed etc.). The majority of peer reviewers may not consider the documentation of the underlying work themselves, and are likely to rely on others involved in the process for ensuring compliance with these aspects.



- In relation to the users of actuarial advice, as we have noted above, most users would have insufficient knowledge and understanding of the TASs to assess whether the advice is TAS compliant – the TAS compliance statement itself would be an indication but provides no evidence that the work is indeed compliant and it is not clear what further evidence would be possible and how such evidence would be given. In fact, we would go further and say that the majority of users have no knowledge and understanding of the TASs and no desire to do so.

**Question 22: Have there been circumstances where you have experienced issues with making a statement of compliance with TAS 100? Please can you provide examples of such.**

There was initially some confusion and concern over how the geographic restrictions of the scope of the TASs affected the use of the compliance statement. For example US GAAP is not in scope of TAS 100 itself but IFoA members should ensure that their Actuarial Work is carried out in a way that is substantially consistent with ISAP 1 – which means applying all relevant TASs. It has then not been clear whether the statement of TAS compliance is needed (because the work is meeting TAS 100 through compliance with ISAP 1) or not needed because TAS 100 strictly does not apply. This concern can be addressed by stating that the work complies with TAS (but not necessary that it is in scope). This issue extends more widely to other work for overseas entities (particularly US parents), where TAS 100 itself would not apply on its own account but where TAS should be complied with to ensure ISAP 1 is met.

We have taken the view that there is less risk in ‘over use’ of the compliance statement (compared to the risk - to Aon and our actuaries - of incorrectly judging a piece of work as not needing a statement). However as noted above, the more irrelevant information is added to reports and communications the more it detracts from the relevant information.

[REDACTED]  
Associate Partner

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