

**DELETED FOR GDPR PURPOSES**

Financial Reporting Council  
APT@frc.org.uk

Tower Place West  
London EC3R 5BU  
**DELETED FOR GDPR PURPOSES**  
**DELETED FOR GDPR PURPOSES**  
www.mercer.com

7 May 2021

Subject: Post implementation review of Technical Actuarial Standards

Dear Madam or Sir

We are writing to provide feedback to the FRC's review of its Technical Actuarial Standards (TASs). Mercer is one of the largest employers of actuaries in the UK and its sister companies in the Marsh McLennan group also employ actuaries. Together, we cover all of the actuarial profession's traditional practice areas, and also some emerging areas, such as climate change and data science.

Our answers to the FRC's feedback questions are in the appendix to the letter, but we would like to begin with some general points that we believe are relevant to the review.

In its introduction to the review, the FRC observes how the environment in which actuarial advice and services are provided have evolved, and continue to evolve, since this suite of TASs were first published. The review explicitly mentions IFRS 17, pensions dashboards and data science, and we would also include climate change, standards of governance, and investment solutions in this list. These are all areas where Marsh McLennan companies practice, as actuaries or by providing other areas of advice and services. In 2016, we welcomed the current suite of TASs as a major improvement to the original versions (TAS R, TAS M, TAS D, and the specific TASs). One of the benefits we identified was that the principles, and the provisions also to a great extent, were fundamental: although they had been cast to apply directly to actuarial work, they were also applicable to other exercises and because of their broad relevance, we expected them to survive the passage of time.

Our view is that the changes the review has identified do not introduce new actuarial principles: although they are major changes for our clients, the existing TASs seem to us to continue to be applicable and to remain complete in the sense of providing the principles that need to be considered when setting out to produce high quality work.

Although we agree that the TASs should be regularly reviewed, and it is possible that there are areas where they could be improved, we believe their current format remains fit for purpose and that any material disruption (such as adopting ISAP 4) would be a retrograde step that would undermine their efficacy.

We would be happy to discuss our views with you.

Yours sincerely

**DELETED FOR GDPR PURPOSES**

g:\working\ret\rgl\external bodies\frc\consultation responses\tas review 2021\ots\_frc\_001\_-\_review-of-tass-2001.docx

## Appendix

### 1 Introduction

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

**DELETED FOR GDPR PURPOSES**, Partner, Mercer Ltd.

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

As part of an organisation. I am responding directly on the part of my employer Mercer Ltd. However, Mercer is part of a larger group (Marsh McLennan) and other companies in the group also employ actuaries. The response reflects their views as well. These companies are:

Guy Carpenter

Marsh

Marsh Mercer Benefits

Oliver Wyman

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

**DELETED FOR GDPR PURPOSES**

**Question 4:** Do you request confidentiality of your response?

No.

### 2 Over-arching questions

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

We find the TASs have been a great enabler for supporting high quality actuarial work:

- They are clear and succinct, which encourages actuaries to read them directly and become familiar with their content.
- They require actuaries to exercise their judgement to determine where the principles are relevant to work being produced and delivered. This in turn encourages actuaries to be more considered about what they include in, and how they present, their work.
- Similarly, the principles allow actuaries to react proportionately to the circumstances in which work has to be delivered. For example, if a user demands that work is delivered to a tight time scale, it is possible just to point out the limitations that this could impose on what is delivered, rather than having to struggle to provide the piece of work that might have been possible given a more open time frame.
- In addition, our experience is that users of actuarial work have different expectations, depending on their backgrounds, their areas of work, and their level expertise. The proportionality principle also enables this to be

taken into account in determining the material delivered, subject, of course, to ensuring that any assumptions made on behalf of the user have been made clear.

- Because the principles underlying TAS 100 in particular are relatively generic, we have been able to encourage colleagues who are not members of the Institute and Faculty of Actuaries, but are involved in related work, or work of a technical nature, to apply them to the work they do. That is, the TASs in their current format can enable higher quality work in wider areas, as well as in actuarial work.

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

Initially, because the application of the 2016 suite of TASs was quite different from what had been in force previously, there was some uncertainty about how the principles should be applied. We provided training, guidance, and one-to-one support for colleagues that were nervous about how to apply their judgement to how the principles should be implemented, in relation to different clients, for example. However, once the initial behavioural changes had settled, we are not aware of any difficulties.

**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.

We are not aware of any issues.

**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?

Our view is that TAS 100 is sufficiently detailed. Our experience of working with more detailed standards, or with standards that rely on more detailed guidance, is that clarity of purpose can be lost, and there is a tendency for those responsible for implementing the standards to rely too heavily on guidance rather than exercising their judgement.

**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?

The answer is likely to depend on how the TASs are reviewed and updated. For example, if TAS 100 were to be replaced by a series of separate documents, then doing this in a staggered manner is likely to be unhelpful.

### 3 Professional Judgement

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

In exercising their professional judgement, members of the IFoA are constrained by the Actuaries' Code and by those of the IFoA's ethical standards (the Actuarial Professional Standards, or APSs) that are relevant to their work. They will also, of course, take the TAS principles and their underlying provisions, into account, since these indicate the intended outcomes. Our view is that, together, this should be sufficient, since it requires members of the IFoA to act with competence and care, taking into account the interests of the "user" and their own position (e.g. in relation to conflicts of interest), and to communicate the outcome clearly.

We should be clear that we found the article by the AAE interesting to read. There is a place for informed consideration of the application of actuarial principles, both technical and ethical, and it should be part of an actuary's development as a professional to be aware that these discussions take place. However, in our view, these discussions should not form part of the formal principles themselves. In particular, although it is rarely the case that regulators intend their lists to create a tick box mentality, nonetheless some users will inevitably treat them as such, to the potential detriment of the work being delivered.

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

Yes.

We understand that the direction given in TAS 100 might be viewed as limited but the TASs are not applied in isolation. In addition, members of the IFoA must take the Actuaries' Code and any other technical or ethical standards that apply into account when producing their work. Together, these give sufficient context and guidance as to what it means to exercise professional judgement.

**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?

TAS 100 requires members of the IFoA to consider the appropriateness of all the elements used to create a model: the data the model requires, the assumptions required to construct and use the model, the reasons for the model's development and how it is used, and the outputs the model creates. At each step, we are required to determine whether we have taken action, or what actions we could reasonably take, to ensure we have, sufficiently complete and robust information to enable us to proceed. Ultimately, also, we are required to record any material decisions made and ensure that the model is appropriately documented, to ensure its uses and limitations are understood so that we and our clients can have confidence in its subsequent use and application.

In addition, when applying models to client work, TAS 100 requires us to explain any limitations to the model used. As a result we are more likely to identify at the outset whether a model might not be appropriate in a particular situation.

The introduction of TAS M, and then TAS 100, created a much stronger discipline around how we use and record the use and development of our models.

**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?

We agree that increased computer power and new sources of data have led, in some cases, to more complex models being applied to actuarial work. However, we are not clear this means changes are needed to TAS 100; instead, our view is that the principles underlying TAS 100 are sufficiently strong that they stand up to the changes that have occurred. The processes we summarised in our answer to question 15 are applicable to all scales of model and the requirement for proportionality in applying the TASs means that, where a model is relatively more complex or requires more information, then more consideration needs to be given to its construction, implementation, use and ongoing governance.

We have identified that increased automation of processes requires us to introduce stages into projects where we actively consider whether a model remains appropriate, since its repeated use no longer relies on an active choice. Similarly, the use of artificial intelligence (AI), and certain aspects of data science, can result in automated decision making, which could mean that there is less opportunity to exercise professional judgement. These are areas where an ethical standard or perhaps a TAS principle or provision might be helpful.

The consultation document refers to ISAP 1A as a standard that could replace, or be “adopted within the TASs”. Generally, the ISAPs are written in a different style to the TASs and with an eye to adoption by actuaries working in countries where there is not a sufficiently mature or resourced profession to develop local standards. In particular, ISAP 1A will have introduced standards applicable to model development and use to actuaries who, previously, might not have been aware for the need to apply controls to modelling, and will not have been subject to professional standards in that area. Where that is the case, we expect referring to ISAP 1A will have been a helpful framework. However, our view is that current actuarial regulation in the UK is already consistent with ISAP1 including ISAP 1A. Consequently, it does not seem to us to be necessary or appropriate for ISAP 1A to be incorporated explicitly into the standards that apply to members of the IFoA, particularly those working in the UK and subject to the TASs.

**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 apply TAS 100 alongside our other professional responsibilities to ensure that appropriate checks and review are applied to our models, while they are being developed, before they are signed off, and when they are being used. For example, the Actuaries’ Code requires us to carry out work with appropriate competence and care, and APS X2 requires work to be reviewed by someone with the appropriate level of knowledge and skill, and in some cases for independent peer review to be applied. TAS 100 (and sometimes the subject specific TASs) support this by indicating the areas where additional care might be needed with regard to the model’s coding, structure, outputs or application (for example, when there is uncertainty relating to some of the model’s assumptions).

**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?

One major change that has been experienced relating to our use of models is that, because of the increased complexity, individual actuaries are less likely to have direct control over the models and tools they use to provide work to their “users” and are likely to rely more on a third party to validate the model’s suitability. In addition, increasingly, the third party is becoming more removed – when, previously, actuaries might have had to use models provided by their employer, now, frequently, the model will have been licenced from a third party by the actuary’s employer.

This is largely a business decision, but it clearly behoves actuaries to take care that proper due diligence has been carried out to ensure it is fit for purpose, and to expect there to be adequate documentation and testing done so that they can validate this. The guidance [note](#) on modelling published by the IFoA for employers and pension scheme trustees is helpful in this regard, and could be re-purposed to apply more widely. However, we do not believe any changes are needed to TAS 100 to address the point since it is not a technical matter.

Another development relates to the use of AI type algorithms, which can mean models evolve each time they are used, making it necessary for testing and comparative analysis to be more regular than would otherwise be required. For example, in some cases we have used the degree of divergence over time to be built in to the algorithm, so it can be used to monitor and trigger the need for additional testing. Again, it seems to us this would be required under TAS 100 as it stands, but it is possible it was not envisaged when the standard was originally published.

**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?

We are not users of technical actuarial work in the sense of receiving advice, but we do use third party models to support our actuarial work that sometimes directly, or indirectly, would be considered “technical actuarial work”. In all these cases our due diligence in relation to the models has involved reviewing documentation and we have found it either complete for our purposes, or have been able, through discussion with the supplier, to understand a model’s limitations and to satisfy ourselves of the model’s robustness for our purposes. We expect the TASs have contributed to making this process easier than it would have been previously. We also expect that the suppliers are encouraged by the TASs, but perhaps more so by commercial imperatives, to ensure their methods and measures remain up to date.

## **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.

We expect some clients would find it clearer if there was a consistent compliance statement and, as a firm, Mercer has standard wording it adds to the template documents colleagues use to present some of their work. However, we do not mandate this must be used as there are likely to be situations where it might not be appropriate. So the answer to your question will depend on what the standardised wording says.

The call for feedback observes in paragraph 5.4 that communications “do not always make it clear which provisions of each TAS apply to the work in question and which sections of the work come within the provisions of the TASs.” We do not recognise these problems:

- All of TAS 100, and all of the relevant sections of a subject specific TAS, apply to actuarial work. Actuaries then have to apply judgement as to the level of detail needed in relation to each principle and provision. If an actuary decides that it would not be proportionate to include information relevant to a principle or provision in a communication then it would not be compliant with the TASs to do so. However, this requires judgement, and some actuaries, and some users, might reasonably reach different conclusions. This places an onus on the actuary responsible for the work to be able to justify their decision, to themselves, to a peer reviewer and also, if necessary, to any third party. However, unless the judgement related to a matter that is material to the user, the actuary should not be required to explain it in their communications.
- The Actuaries' Code says (paragraph 6.2) "Members must show clearly that they take responsibility for their work when communicating with users". Consequently, where an actuary is taking responsibility for a whole report, the TASs apply to all of that report; where an actuary only takes responsibility for part of a report, it should be simple to make it clear where the TAS's apply.

**Question 21:** As an actuary completing a work review as defined in APS X210, 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 do not believe the compliance statement is there to help with completing a work review (or independent peer review) as defined in APS X2. Rather, our expectation is that colleagues reviewing work are required to form their own view as to whether the work is compliant with the TASs and any other standards that might apply. If it is not clear from the work done, or if the person responsible for the work has not provided them with sufficient evidence, they would be expected to challenge that person to ask for further information or evidence, or for the work to be clarified.

**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.

Initially colleagues, particularly those whose work was newly in scope of the TASs, had difficulty understanding when it was necessary to make the statement. We are also aware that some colleagues use the statement where it is not strictly necessary. Apart from that, we have not experienced any issues.

Not necessarily related to the statement of compliance, but we have circumstances where colleagues have struggled to determine how to comply with TAS100 paragraph 3.3, which requires that material assumptions should be stated and their rationale described. We have circumstances where assumptions are derived from a small pool of client data and, due to client confidentiality, our ability to describe the assumption in anything other than broad terms is restricted. Although we can explain the limitations associated with the assumption, it can be difficult to give a clear rationale, leaving colleagues uncertain whether the approach they take would be considered compliant by an external party.

## 6 IFRS 17

**Question 23:** Should ISAP 4 be adopted by the FRC? Please provide your rationale supporting your view.

We understand why the IAA felt it necessary to produce ISAP4: the IFRS is likely to have been concerned that it could be hard to ensure consistency when actuaries in countries without established actuarial bodies able to produce their own standards would not be held to consistent standards apart from in a generic sense via ISAP 1. However, our view is that the quality of work done by actuaries working in the UK should be assured via TASs,

without the need to adopt standards produced by other actuarial bodies. Also, although IFRS 17 represents a potentially major change to the way insurance companies recognise their assets and liabilities, it does not seem to us to introduce any new actuarial principles.

As a consequence, we do not believe it is necessary for ISAP 4 to be adopted by the FRC. Our preferred alternative would be for the FRC to review TAS 200 to ensure that, together with TAS 100, and in the context of IFRS 17 it remains consistent with the IAA's standards. For the avoidance of doubt, our view is that the current version of TAS 200 is at least sufficient to ensure that work will be done to a quality that would meet the requirements of ISAP 4. However, we see that the FRC plans to carry out separate reviews into TAS 200 (and TAS 300) and will be interested to see what is proposed.

**Question 24:** If ISAP 4 is adopted as a UK standard, are there either additions or deletions that we should consider to ensure that it best reflects UK conditions?

If the FRC were to adopt an amended version of ISAP 4, this would seem a worst case outcome – the choices should be that ISAP 1 and ISAP 4 together should be sufficient to produce work of an adequate quality, or the relevant TASs, in this case TAS 100 and TAS 200 should be adequate. Introducing an amended version of ISAP 4 to sit alongside the TASs seems an inefficient and potentially onerous way of regulating that could result in less good outcomes.