



Government
Actuary's
Department

FRC – Post Implementation Review: Technical Actuarial Standards

GAD's response

Version - Final, 6 May 2021



FRC Post Implementation Review - Technical Actuarial Standards (TAS)
February 2021: Call for Feedback

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

[REDACTED]

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

Organisation – Government Actuary's Department

3. Please provide your email address so we can validate your response is legitimate. (The responses to this survey are being collected and processed by the FRC in order to inform certain aspects of the Actuarial Policy Team's work. The FRC will process any personal data provided by you in accordance with the General Data Protection Regulation and the Data Protection Act 2018. More information about how we handle the personal data of stakeholders is contained in the privacy notice on the FRC website).

[REDACTED]

4. Do you request confidentiality of your response?

Yes

No

5. To what extent have the TASs been effective in supporting high quality technical actuarial work.

- Overall, the TASs are working well and are effective in supporting high quality work. They also give a level of assurance to users of actuarial advice that an appropriate quality framework exists.
- The provision of the Reliability Objective is helpful in providing a clear guiding principle with which to interpret the underlying standards.
- The broad definition of technical actuarial work supports widespread adoption of the TASs, including non-traditional areas of work.
- Similarly, having principles-based standards allows actuaries to apply the standards to whatever they are working on. This is important as the breadth of the profession's work expands.
- The TASs are a concise statement of good practice – their relative brevity is important in breaking cultural and practical barriers to compliance.
- The ability to apply the standards proportionately has helped to make them effective in supporting high quality work. Compliance supports the work rather than driving it.
- The TASs support high quality work rather than causing it. We feel it is important to recognise that TAS compliance is just one element of doing a good job. The standards do not replace the need for broader consideration of what your 'user' or other stakeholders need to know to make robust, well-informed decisions.

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

- **Definitions:** Whilst the definitions in the TASs do broadly work as they stand, certain terminology is somewhat cumbersome to work with. Initially we found actuaries can become caught up in discussions around whether their work falls within scope of the definition. We have overcome this by fostering a more pragmatic culture, considering what difference falling in or out of scope makes and what helps us to produce the best quality advice for our clients. In general, we would be in favour of the scope for actuarial work covered by the TASs to be broadened rather than narrowed.

In particular:

- the definition of technical actuarial work – the multi-strand definition is complicated. In practice we assume nearly all of our actuarial work is in scope of TAS 100.
 - the description of when a compliance statement is required – we have a standardised compliance statement which is probably included more often than is strictly necessary (see Q20)
 - user – in practice our work often affects, and is read by, stakeholders other than the ‘user’ (as defined in the TASs). This can cause some difficulties as we may wish to communicate differently to a wider audience than we would if only addressing the user. The TASs cover all communications on a project, so we can usually resolve any issues arising by looking across the whole set of ‘communications’ rather than solely what’s said in any final (public domain) report. We also remember that we can go beyond the requirements of the TASs, to address other stakeholders’ needs and interests if required.
- **Boundaries of tasks:** It can be difficult to pinpoint where one job finishes and another begins. This has implications for what constitutes ‘communications’ (as opposed to a ‘component communication’) and therefore which disclosures are needed in a given document.

This difficulty results from the nature of actuarial work rather than from the TAS standards themselves. Whilst the output from some actuarial work may be a single standalone report, other areas are more akin to an ongoing conversation with evolving scope and output as the project progresses - potentially moving at pace. Resolution is reached by considering the Reliability Objective and principles behind the TASs, to ensure the user receives clear reliable advice.

- **Competing with non-actuaries** – we have noticed an increase in the extent to which we are competing with non-actuaries – for example data scientists or reinsurers. We are conscious of the stronger regulatory framework for actuaries, and this can add value to our clients and other users of actuarial advice by giving a level of assurance that actuarial work is subject to a robust quality assurance regime. However, this must remain proportionate and care must be taken about introducing any more stringent regulation which could lead to a loss of competitiveness and risk actuaries losing out on work relative to other professionals.
- **UK Geographic scope:** As providers of advice internationally, the fit between the FRC and IFoA’s geographic has, at times, caused difficulties. For example both organisations have introduced a standard for social security work with minor differences between the two. It is confusing for users and practitioners alike to have different standards in operation. In practice, we typically apply the TAS principles to all our actuarial work, whether or not it is formally within the FRC’s scope (complying with additional local regulatory regimes where necessary).

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

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.

- The requirement to include information about ‘methods’ and ‘measures’ in communications (4.3 and 4.4 of TAS 100) doesn’t always help to ensure the quality of actuarial information. The TAS terminology isn’t natural language that our users would understand, and these provisions risk introducing jargon in client communications purely for compliance purposes. In practice we would typically avoid using these terms, whilst still seeking to provide the necessary explanation to our users.

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, TAS 100 is of sufficient detail to understand what’s required.
- The IFoA’s supporting guidance was useful when we first considered implementation. We rarely find we need to use this now, but some aspects of this guidance were very helpful initially. For example, the section on responsibilities when working in multi-disciplinary teams and the examples of what falls in/out of scope of technical actuarial work.

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

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

- Based on our current views, no, but the FRC is running additional risk by adopting this approach.
- TAS 200 and TAS 300 reviews may raise issues which are seen to be common across practice areas and that the FRC wishes to elevate to TAS 100. If the TAS 100 review is already complete by that stage, the FRC will miss an opportunity to improve its guidance. However, this seems unlikely given the high-level principles based approach taken in TAS 100.

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

- There are many different factors which should be taken into account when exercising professional judgement. Whilst some generalisations can be made, we would argue that these considerations are particular to the circumstances of the actuaries’ work.

- For example, factors which apply to GAD’s work in the public sector include public interest considerations, a holistic approach to government finances and inter-generational equity. Such issues may not be relevant for others.

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

- Yes. We are happy with the level of direction currently provided.
- Whilst TAS 100’s principles on judgement are high-level, implementing these principles has not given us any cause for concern. The high-level approach in TAS 100 encourages independent thinking about specifics of the case in hand, which should improve the quality of actuarial work.
- Judgement is about making considered decisions. Having the freedom to determine what is and is not an important consideration is central to the value added by actuarial professionals. We are concerned by the implication that further guidance may be necessary in this area.
- Fettering a professional’s judgement by additional standards – no matter how well-intentioned – risks focusing actuaries’ considerations onto the areas covered by guidance, at the expense of broader thinking. It would be difficult to efficiently develop standards which works for all practice areas. A more codified approach also seems to run contrary to the concept of principles-based guidance. FRC or IFoA guidance (and it is not clear who would lead on this topic) will be seen to have some regulatory standing, even if it is non-mandatory.
- If there is widespread demand for additional support on how to exercise professional judgement (perhaps to help avoid group-think), we would support a non-regulatory approach. For example, with CPD/PST opportunities or signposting to relevant existing resources produced by other organisations. There are benefits to learning from others – interpreting their guidance within your own context.

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

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

- The principles set out in TAS 100 provide a useful framework for the consideration of a model but are ultimately of fairly limited practical support when determining if a model is fit for purpose. This is not a criticism of the standard but reflects the need for a deeper understanding of the task at hand.
- However, the requirement to document how a model is fit for purpose is helpful – particularly for reviewers or when revisiting work in future years. The need for clear documentation of models is established practice and pre-dates TAS 100, but the requirement in TAS 100 for ensuring that users of models understand the methods and assumptions used and any significant limitations, as well as ensuring that communications are clear and comprehensive, are important for giving users of actuarial models sufficient levels of assurance.

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?

- The modelling techniques used in our technical actuarial work have become more sophisticated, with stochastic modelling, economic scenario generators and data science techniques used where appropriate, and Artificial Intelligence and Machine Learning become increasingly commonplace.
- The principles in TAS 100 have not necessarily become outdated by developments in modelling techniques. However, we would suggest that the FRC should consider whether the guidance can be strengthened and modernised to ensure that users of more sophisticated actuarial models can have confidence in understanding the output produced. In particular, there can be a degree of scepticism around the output from models in many contexts, and it is important that users of actuarial models can have confidence in a robust framework of standards which ensure that output from models is appropriate for purpose and clearly understood by users. Any changes to TAS 100 should seek to future-proof the standard, providing high-level guidance.
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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?

- Similar to our answer to question 15, whilst TAS 100 has not explicitly supported or changed how we judge that sufficient controls and testing are in place, the framework of requirements set out in the standard are helpful to ensure users of the advice can have confidence in the output.

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?

- Although modelling techniques have advanced a lot in recent years, the general principles set out in TAS 100 remain broadly appropriate at a high level with regard to model governance and validation. What is important is that the actuary is able to gain sufficient assurance that the models used are fit for purpose and that the resulting answers are correct. Gaining this level of comfort has, perhaps, become harder if more sophisticated models are also more opaque.
- As noted in Q16, we would suggest that the FRC should consider whether the TAS 100 guidance can be strengthened and modernised to ensure that users of more sophisticated actuarial models can have confidence in understanding the output produced.

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?

N/A

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 have provided GAD's actuaries with standard wording for compliance statements. This helps to make adding a compliance statement straightforward.

- A simple, standard approach improves quality by familiarising users with the wording they should expect to see. This allows both actuaries and users to focus on those parts of the report which contribute more materially to decision-making.
- That said, we are not convinced standardisation needs to be mandated by the FRC. It can be helpful to have the freedom to add more (or exceptionally say something different) if that's felt to be appropriate.
- What's been more difficult is deciding when a compliance statement is needed. Actuaries can get caught up in determining whether or not a compliance statement is needed under the FRC's requirements. In practice we take a pragmatic approach which probably means we add a compliance statement more often than is strictly needed. We see no harm in this approach (especially when the statement itself is short).
- For information, our standard wording is: *This work has been carried out in accordance with the applicable Technical Actuarial Standard[s]: TAS 100 [and TAS 200/300] issued by the Financial Reporting Council (FRC). The FRC sets technical standards for actuarial work in the UK.*

21. As an actuary completing a work review as defined in APSX2, 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?

- The approach taken to evidencing TAS compliance will be proportionate to the work undertaken. If TAS compliance is not clear, we expect reviewers to ask for more evidence to be provided. In general we have found evidence to be clear and accessible.
- Larger or more high profile projects will have explicit TAS documentation setting out how each provision has been complied with (almost akin to a checklist approach). For other tasks, evidence may be more implicit, but the principles of the TASs underpin how all actuarial work is carried out. This style suits the wide variety of work undertaken, rather than enforcing a more prescriptive checklist-driven approach.

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.

- We are not aware of any such examples.

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

- We are not in a position to say what the consequences are of implementing IFRS 17 without formally adopting ISAP 4. We hope that this call for feedback, and other stakeholder engagement, provides the FRC with sufficient information to understand the associated risks and to reach an informed decision.
- Whilst the IAA's work is a helpful framework, the FRC must regulate with a view to the UK position. Is ISAP 4 (or the FRC's version thereof) a necessary addition to the UK regulatory framework? Does it need to be mandatory?
- We are neither for nor against adoption but look to challenge a default position which assumes adoption without good reason.

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?

- To date, GAD's involvement with IFRS 17 has been to support the UK Government's implementation of the standard (for example, in relation to government accounts).
- Initial consideration of ISAP 4 does not suggest any obvious reason not to adopt it and, at this stage, we would not suggest any particular additions or deletions to reflect UK conditions.