

# *LCP's response to FRC's consultation on TAS 200: Insurance*

**Issued on 8 May 2024**

This document sets out LCP's response to the FRC's consultation on TAS 200: Insurance published in February 2024.

LCP is a firm of financial, actuarial, and business consultants, specialising in insurance, pensions, investment, energy, health and business analytics. We have over 1,100 people in the UK, including 170 partners and over 200 qualified actuaries.

## **Responses to questions**

1. *Do you agree with the proposed new provision in relation to Consumer Duty? Do you consider that more specific requirements would be more appropriate?*

No.

We agree that actuaries should take into account management actions that arise as a result of Consumer Duty requirements. However, we believe that the requirements of TAS100 v2.0 P1.1 (together with amplifications A1.2 and 1.4) are sufficient to cover the expectations that the FRC has of actuaries in respect of allowing for Consumer Duty in actuarial work.

In addition, we believe that including a specific provision for Consumer Duty may result in practitioners placing more emphasis on the risks associated with particular issue than other relevant risk factors and legislative areas.

If the FRC believes that there are specific issues relating to Consumer Duty, then we would suggest that this be set out in accompanying guidance notes, rather than in the TAS itself.

2. *Do you consider that a specific requirement concerning communications to retail customers is required?*

No - we share the FRC's view that the provisions of TAS 100 are sufficient. This is also consistent with our response to Q1 above.

3. *Do you agree that the proposed new provisions in relation to Consumer Duty should be applied to 1) technical actuarial work to support the tasks of the Actuarial Function, and 2) technical actuarial work in connection with the merger, acquisition or disposal of insurance companies or portfolios or risk-transfer transactions?*

We agree in principle although we note that the member carrying out the work may not be aware of actions that have been agreed by management, and may not have enough understanding of management view to determine what "plausible actions could reasonably be expected". This is particularly the case if they are working on only a small area of the Actuarial Function, eg supporting the reinsurance opinion. It is also less likely that an external consultant will have this detail. We would therefore prefer a reduction in scope to cover only cases where the practitioner has access to such information.

4. *Do you agree that no further amendments are required to TAS 200 in light of the proposed Solvency UK reforms? If not, please provide further information.*

Yes.

5. *Do you agree with the proposed removal of TAS 200 Provisions 1 to 11? If not, please provide further information.*

Yes.

6. *Do you agree with the proposed new provisions P1.2, P1.3 and P1.4? If not, please provide further information.*

We believe that provisions P1.2 and P1.4 are cast too wide and assume that a practitioner works on all areas of operation of the insurer, which is rarely the case.

For example, as consultants we are often contracted to provide advice on reserving. We would not automatically have access to assumptions used for business planning, pricing or capital modelling, and would not expect our clients to provide this due to commercial confidentiality, and also for the practical reason that they would naturally consider much of this to be far outside our scope of work. Similar comments apply if we were asked to advise on pricing or capital modelling.

P1.3 is reasonable in principle but it is not clear whether the “previous exercises” relate to those carried out by the current practitioner or would also cover earlier work done by other practitioners. If the latter is meant, then we again believe that the scope is too wide. The implication is that on taking on any new piece of work, the practitioner would need to request reports from several years back and carry out an analysis of assumptions and experience over those years. This would increase the costs of such a task considerably, and therefore reduce the ability of a company to change its advisers, and may also be difficult practically as the former reports may not be clear enough to extract the necessary information.

7. *Do you agree with the proposed changes to provisions in relation to the valuation of insurance contract assets and liabilities? If not, please provide further information.*

P2.1 suffers from a similar issue to P1.3 in that it is not clear whether it also applies to a previous report from a different practitioner.

The requirement to “identify the causes of those differences” is too onerous. It will often be impossible to definitively identify the causes. The relevant issue in reserving is normally to ensure that trends are identified and projected as best as possible, with suitable sensitivities. Although knowing the cause is useful, it is not usually possible to do so.

P2.2 has the same issue as P2.1 in terms of identifying the causes of differences.

8. *Do you agree with the proposed changes to provisions in relation to prudential regulatory capital requirements and the ORSA? If not, please provide further information.*

The issues for prudential regulatory capital requirements and the ORSA are different and the new provisions cannot be applied to both equally.

For example, under Solvency II the capital requirement is based on a prescribed one-year time horizon. The question as to whether this “is sufficient to capture material time dependent risks” is irrelevant. Such a consideration is relevant for the ORSA. This affects P3.1 and P3.3.

We note that P3.2(c) has not changed, but it has always been difficult to implement practically. It is difficult to understand why dependencies have specifically been singled out to require explanation of why they have/have not changed.

9. *Do you agree with the proposed changes to provisions in respect of insurance transformations? If not, please provide further information.*

Yes.

We note that there are several references to “material assumptions” and to “material risks”. We assume that you mean eg “materially alternative assumptions” in P4.3 and “material changes to the risks” in P4.4.

10. *Do you agree with the proposed changes to provisions in respect of audit and assurance? If not, please provide further information.*

Yes.

However, we are unsure why the requirement to state reliance on data is only deemed to apply to this area of work.

11. Do you agree with the proposed changes to provisions in relation to with-profits discretion? If not, please provide further information.

No comment.

12. Do you agree that technical actuarial work to support pricing frameworks should remain in scope of TAS 200? If not, please provide further details.

We agree with your comments in 2.46 of the consultation document that there are considerable practical issues with implementing the requirements. However, as you note, the only additional overhead of including this in TAS 200 is compliance with P1.1-4. We agree that there is a strong connection with Consumer Duty in this area of work, but in line with our response to Q1, we believe that TAS 100 provides sufficient safeguards.

We have noted our concerns with P1.2-4 in our response to Q6 above. Subject to resolving these issues, we agree that it should remain in scope.

13. Do you agree with our impact assessment? Please give reasons for your response.

No specific comments.

### Other comments

We have a number of other comments that do not fit into the specific questions above:

- The descriptions of “must” and “should” in 1.9 and the glossary are inconsistent.
- 1.9 requires material deviations from the standard to be justified, but it is not clear where this justification should be recorded. Specifically, does it need to be communicated to the client, or just appear in internal documentation? We would recommend the latter to not overburden the user.
- The glossary would be easier to follow if the first column was much narrower so the definitions are closer to the terms defined.

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