

If you have trouble viewing this email, [view in a browser](#).



Institute
and Faculty
of Actuaries



**Risk
alert**

www.actuaries.org.uk | [Members log in](#) | [Contact us](#)

13 May 2019

Risk alert: Disclosure of information relating to models.

Key message:

Members must disclose to their own client and, in some circumstances, fellow actuaries, an appropriate level of information in relation to the model they are relying on.

What are Risk Alerts?

A series of email alerts drawing Members' attention to specific issues where the IFoA asks Members to think carefully about the consequences of actions they are taking or not taking.

This Risk Alert raises awareness of issues that may have a public interest relevance.

This Risk Alert is relevant to the following Members: -

Members working in any discipline where models are used as part of the methodology.

Background

In response to specific concerns arising from a disagreement on the appropriate level of disclosure of a model used in pension scheme funding investigations, the Regulation Board asked the Mortality Assumptions in Pensions Working Party to identify and investigate public interest issues relating to mortality assumption-setting methodologies in defined benefit pension schemes.

The Working Party identified a risk around the level of disclosure required for two actuaries to reach a consensus or mutual understanding of each other's position. Though the Working Party concluded that the risk is not just confined to models used in mortality assumption setting, nor indeed to models used in pensions, they did not see evidence that it was widespread in practice. The Regulation Board accepted the Working Party's recommendation to issue a Risk Alert regarding this identified risk.

Subject matter

Actuaries have an obligation to disclose an appropriate level of information regarding the model upon which they are relying. This disclosure obligation is not just confined to the actuary's client and can extend to another actuary. For example: -

- In circumstances where Actuary A is advising the corporate sponsor of a pension scheme, they may also have a duty of reasonable disclosure to Actuary B who is advising the scheme's trustees. This might arise, in particular, where the corporate sponsor is seeking the support of the trustees for a funding approach based upon a particular model or set of assumptions.
- In a situation where Actuary A provides advice in connection with an insurance valuation, which is then scrutinised by Actuary B, who is employed by a regulator or auditor, Actuary B may then give advice on the validity of the valuation.

It is important, in circumstances such as these, that Actuary A, on request, discloses an appropriate level of information about the model. Actuary B needs to be in a position to understand the basis of the model to advise their own client or employer on the appropriateness of Actuary A's analysis and assumptions. Actuaries should note that these circumstances do not pertain to all uses of models; only when the principals of the two actuaries intend to reach a mutual understanding of the subject being modelled.

Section 5 of the Actuaries' Code is relevant to all communications regarding disclosure. In particular under 5.3, Actuary A has a professional responsibility to ensure communication with Actuary B is "accurate and not misleading and contains sufficient information to enable its subject matter to be put in proper context". The new Actuaries' Code comes into effect on 18 May 2019 and paragraph 6.3 places a similar obligation on all Members to ensure that all communication is "accurate, not misleading and contains an appropriate level of information".

Considerations for actuaries

The IFoA's expectation is that an actuary using a model to support actuarial advice in these circumstances should be prepared, on request, to disclose to the second actuary the following: -

- The general principles of the model's construction.
- The purpose for which the model is created.
- The limitations of the model and how these impact on the purposes to which the model may be usefully put.
- The methodologies, key assumptions and simplifications (including areas not analysed), without however requiring to reveal commercially confidential parameters or methodological details.
- Types, sources, volume and treatment of data, without necessarily revealing confidential details of exactly which datasets were used.
- The skill sets of model creators and experts providing parameter inputs.
- The efforts taken to validate the output of the model, for example the distribution of results against standardised populations, without necessarily requiring specific validations to be carried out or published.
- The degree of confidence or uncertainty around model results, as far as those may be estimated.

There is a clear, professional responsibility for an actuary to have sufficient understanding of the models she or he is using, and that they are reliable for the purpose to which they are being put. The IFoA recognises that modern models are often created by specialists and then used by others in multiple transactions. In this circumstance, the IFoA's expectation of disclosure can be at least partially fulfilled 'ahead of time' by model creators at a generic level to give advisers who might encounter such a model, a general confidence as to the model's construction. However, this does not remove the responsibility on the actuary to make sure that an appropriate level of information is disclosed in relation to the model.

Professional Obligations

Members are reminded of their obligations under the Actuaries' Code, Actuarial Profession Standards (APSS) and, for actuaries carrying out UK technical actuarial work, the Technical Actuarial Standards (TASs) produced by the Financial Reporting Council. TAS 100 contains specific provisions in relation to the use of models which must be observed by members carrying out UK technical actuarial work. APS X2: Review of Actuarial Work will apply, and is potentially relevant to all members when using models.

Further information and professional support

Members may find some of the information in the ["Actuarial Software and Calculations - Professional Responsibilities" Guidance](#) produced by the IFoA in relation to the use of software by Pension Actuaries and the [Risk Alert: Model Manipulation](#) to be of relevance.

Actuaries who have specific professional questions or concerns should contact regulation@actuaries.org.uk

www.actuaries.org.uk | [Members log in](#) | [Contact us](#)

Follow us on:



[@actuarynews](#)



[@Actuarial](#)



[Join our LinkedIn](#)

[Unsubscribe](#)