



BOARD FOR ACTUARIAL STANDARDS

INSURANCE TECHNICAL ACTUARIAL STANDARD

SIGNIFICANT CONSIDERATIONS

NOVEMBER 2010

CONTENTS

<i>Section</i>	<i>Page</i>
1 Introduction	2
2 Structure and style	4
3 Purpose of the Insurance TAS	5
4 Interpretation of the Insurance TAS	6
5 Scope of the Insurance TAS	11
6 General principles	19
7 The exercise of discretion in long-term insurance business	27
8 General insurance business written by Lloyd's syndicates	29
<i>Appendix</i>	<i>Page</i>
A Members of the Board for Actuarial Standards	30

1 INTRODUCTION

PURPOSE

- 1.1 The Board for Actuarial Standards (BAS) is responsible for setting technical actuarial standards in the UK: it is an operating body of the Financial Reporting Council (the FRC)¹.
- 1.2 In November 2010, after a process of consultation, the BAS published its Specific Technical Actuarial Standard (Specific TAS) on Insurance (the Insurance TAS).
- 1.3 This document reviews the considerations and arguments that were thought significant by the BAS in developing the Insurance TAS.

BACKGROUND

- 1.4 In our consultation paper *Towards a Conceptual Framework*, which was published in November 2007², we proposed that our standards would be of two types: generic, applying to a wide range of actuarial work, and specific, limited to a defined context. Generic standards would help to provide coherence and consistency across the range of actuarial work.
- 1.5 That document also set out our proposals that standards be principles-based rather than rules-based, and that they address outputs and responsibilities, with output-based standards focusing on the users of actuarial services and their needs as decision makers.
- 1.6 In April 2008 we published a consultation paper on the *Structure of the new BAS Standards*, in which we set out our proposals to develop a suite of TASs of which three would be Generic TASs on *Data*, *Modelling* and *Reporting Actuarial Information*. There would also be a number of Specific TASs, applying to work in particular areas such as insurance and pensions.
- 1.7 Following consultations, we published our Generic TAS on *Reporting Actuarial Information* (TAS R) in September 2009, our Generic TAS on *Data* (TAS D) in December 2009, and the Generic TAS on *Modelling* (TAS M) in April 2010. We published our first Specific TAS on *Pensions* (the Pensions TAS) in October 2010.
- 1.8 In September 2009 we published a consultation paper on *Insurance* followed by an exposure draft of the Insurance TAS in April 2010.
- 1.9 We consulted on a proposed Specific TAS on *Transformations* in 2009, and issued an exposure draft in June 2010. We consulted informally on a proposed Specific TAS on *Funeral Plans* in the second quarter of 2010 and issued an exposure draft in August 2010. We also consulted on a possible Specific TAS on *Actuarial information used for accounts and other financial*

¹ The Financial Reporting Council is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment.

² All BAS publications are available from <http://www.frc.org.uk/bas/publications/>.

documents. Following that consultation we decided to cover that work in the Insurance and Pensions TASs rather than in a separate TAS.

- 1.10 We aim to ensure that our standards are consistent with the wider strategic aims established by the FRC including its *Actuarial Quality Framework*, which was issued in January 2009 and updated in June 2010.

INSURANCE TAS

- 1.11 In developing the Insurance TAS, we considered the responses to the consultations mentioned above. We also held discussions with a number of bodies including the FRC's Actuarial User Committee.
- 1.12 The Insurance TAS is the second Specific TAS to be developed by the BAS. The structure and style used for the Insurance TAS are reviewed in section 2. Sections 3 to 8 review the development of the content.

2 STRUCTURE AND STYLE

INTRODUCTION

- 2.1 The structure and style of the Insurance TAS (and our other TASs) reflect the objectives and characteristics of our standards that are set out in our *Conceptual Framework*³. In particular, our TASs are written in a way which favours principles over prescriptive rules, and each TAS has its own specific objectives.

STRUCTURE

- 2.2 Information including the status of the TAS and its relationship with other TASs and with Guidance Notes is included in a rubric that precedes the content of the TAS.
- 2.3 Part A of the TAS covers its purpose and the Part B covers how it should be interpreted. Part C sets out its scope. The remaining parts of the TAS set out principles. Part D contains general principles applicable to all work within its scope. Part E applies only to work concerning the exercise of discretion in long-term insurance business. Part F applies only to work concerning general insurance business written by Lloyd's syndicates.

STYLE

- 2.4 In drafting the Insurance TAS, we have tried to tread the fine line between being clear about the requirements of the TAS and being unnecessarily prescriptive. We consider that, for writing standards, clarity of expression and the substance of the text are more important than the tone in which the text is written. We therefore use the word "shall" to express requirements, and "will need to" to describe the implications of those requirements, in order to provide clarity about what the Insurance TAS requires. The use of these words is consistent with the Insurance TAS's mandatory nature.
- 2.5 Some of the requirements in the Insurance TAS are for indications or explanations. These terms were chosen because they can be interpreted quite broadly, and therefore the level of detail that they require is a matter for judgement.
- 2.6 The whole of the Insurance TAS is subject to the provision in the *Scope & Authority* that it is only material departures that need be disclosed. There is an explicit statement to this effect in Part B, and the word "material" is therefore used sparingly in the TAS.
- 2.7 Similarly, Part B states that the requirements should be interpreted proportionately, and the word "proportionate" is not used in the remainder of the text.

³ The *Conceptual Framework for Technical Actuarial Standards*, published in July 2008.

3 PURPOSE OF THE INSURANCE TAS

PURPOSE

- 3.1 All our standards serve the overall purpose set out in our Reliability Objective, that the users for whom a piece of actuarial information was created should be able to place a high degree of reliance on the information's relevance, transparency of assumptions, completeness and comprehensibility, including the communication of any uncertainty inherent in the information.⁴
- 3.2 Our standards are intended to ensure the quality of actuarial information that the users receive, whoever performs the work. Actuaries performing work that is not designated as being within the scope of our standards may choose to comply with them, and people doing actuarial work who are not actuaries may well be required by others to meet the same standards. The purpose of TASs is to set out requirements that must be met in order to comply with them, not to explain best practice or recommend good practice.
- 3.3 We identified four broad categories of actuarial work in insurance which we considered should be covered by the Insurance TAS. The actuarial information which results from this actuarial work is critical for the proper governance of insurers and therefore the work should be of high quality. The four categories are:
- actuarial work performed to enable the governing body of an insurer to provide financial information to its owners;
 - actuarial work performed to enable managers and the governing body of an insurer to meet their obligations to regulators and tax authorities;
 - actuarial work performed to support managers and the governing body of an insurer in exercising any discretion they might have to determine policyholders' benefits; and
 - actuarial work performed to support managers making decisions concerning the financial terms on which business is conducted.
- 3.4 The purpose of the Insurance TAS (paragraph A.1.2) has been drafted around these four categories of work.
- 3.5 As stated in paragraph B.1.7, the interpretation of the Insurance TAS is governed by its purpose. If it appears that any provision in the Insurance TAS conflicts with its purpose, then that provision is being misinterpreted. However, the purpose does not in itself impose any requirements.

⁴ *Scope & Authority*, paragraph 8.

4 INTERPRETATION OF THE INSURANCE TAS

INTRODUCTION

- 4.1 Part B of the Insurance TAS consists of two sections. The first describes how the TAS should be interpreted and the second defines a number of terms that are used in the remainder of the TAS.

INTERPRETATION

- 4.2 The text in section B.1 of the Insurance TAS is intended to assist practitioners to make judgements about how to comply with the standard. All our TASs are principles-based: they are not intended to foster a tick-box mentality. Awareness of the objectives and spirit of the standard should help practitioners make judgements about compliance.

Materiality and proportionality

- 4.3 Many of the responses to our consultations and the discussions we have had with practitioners indicate that there can be a tendency to interpret our standards as requiring more work and more detailed work than is our intention. In section B.1 we have therefore emphasised:
- the provision in the *Scope & Authority* for immaterial departures;
 - that the standard should not be interpreted disproportionately; and
 - the scope for interpretation in the details of the principles.
- 4.4 We do not consider that it would improve the clarity of the Insurance TAS to repeat the word “material” in every principle. We have therefore explicitly reminded its readers that the standard should be read in the context of paragraph 23 of the *Scope & Authority*, which permits immaterial departures (paragraph B.1.2).
- 4.5 For example, when considering the application of paragraph D.3.4 to a model used in long-term business to project life assurance claims, claim frequency is likely to be material but claim severity might be irrelevant. In this circumstance, it would not be a material departure if documentation did not explain how the model allowed for claim severity.
- 4.6 We consider that actuaries (and others complying with our standards) should not act disproportionately, and in particular they should not use BAS standards as an excuse for doing so. We have taken care to ensure that it is not necessary to perform work that is disproportionate to the needs of the users in order to comply with the Insurance TAS, and have explicitly reminded readers of the standard that it should not be interpreted disproportionately (paragraph B.1.3). Proportionality applies to documentation, including work carried out to document compliance with our standards, as well as to information in reports and the work on which the information is based.

- 4.7 There is an important distinction to be made between materiality and proportionality. If a piece of actuarial information is not material, there is no requirement to follow the principles set out in the standard. In this context a piece of actuarial information might be either the result of substantive work performed or information required to be in an aggregate report by our standards. If actuarial information is material, the principles concerning that information must be complied with proportionately. For example, in some cases a required explanation might be comparatively brief, or an indication might consist of a short description, while in other cases a detailed explanation or full quantitative analysis might be appropriate

Actuarial work

- 4.8 The term “actuarial work” is used throughout Part C. There is no universally accepted definition of “actuarial work” and we consider that it is not possible to provide a precise definition, especially as the actuarial profession evolves and the range of work that it performs changes. We also consider that what constitutes actuarial work is a matter of perception and common sense, based on the nature of the work, the way it is presented and the expectations of users. The key test is whether it is reasonable for any of the intended users to expect the work to involve the application of actuarial techniques (paragraph B.1.4).
- 4.9 We consider that the following criteria might be useful in judging whether work is actuarial:
- If users are relying on the fact that the work requires actuarial skills – for example modelling work which involves mortality or discounting, or aspects of a role which is reserved to actuaries – and the work is therefore commonly performed by actuaries (see paragraph 11 of the *Scope & Authority*), it is actuarial work.
 - If the work is presented (for example in a report) as actuarial, or as involving the use of actuarial techniques, other than through an incidental reference, it is actuarial work whether or not is performed by an actuary.
 - If users understand that work has been done by an actuary acting in a professional actuarial capacity, it is actuarial work. However, in other cases, it may be clear that the actuary’s qualification is only incidental to the work.
- 4.10 Inevitably there will be some pieces of work which do not precisely fit these criteria and about which judgement or additional clarification will be required. Although a disclaimer may be used to resolve borderline cases, it will not be effective for work which is clearly actuarial, or if it has not been adequately communicated to all users. In many such cases, little additional work is required to comply with the TASs in any event, and the benefits of compliance to users are significant.
- 4.11 Often actuarial work forms part of a wider exercise such as the preparation of the financial statements of an insurer. In such cases it is only the actuarial work that is within the scope of the Insurance TAS. For example, work to determine the estimate of technical provisions of an insurer is actuarial work and is within the scope of the TAS, whereas work to determine other liability estimates such as deferred tax and other non-insurance liabilities is not.

- 4.12 Not all work that includes actuarial matters is necessarily actuarial work. For example, we do not consider that the project management of an exercise including actuarial work, such as the development of new systems to estimate liabilities and calculate capital requirements under Solvency II, is actuarial work.

Explanations, descriptions and indications

- 4.13 Throughout the Insurance TAS we have used words such as “indicate” and “explain” in order to avoid being prescriptive about the type of analysis or level of detail that is required. In paragraph B.1.5 we have emphasised that the level of detail is a matter for judgement. Where possible, we have illustrated the principles in the Insurance TAS with examples, in order to better convey the intention behind the principle.

DEFINITIONS

- 4.14 Section B.2 defines a number of terms used within the text of the standard. Many of the definitions appear in the Generic TASs and the Pensions TAS and will also appear in other Specific TASs.

Component report

- 4.15 We consider that it is important that users should have a permanent record of any material information relating to work within the scope of our standards so that they can refer back to relevant information over the whole of the decision making process. The definition gives a list of examples of component reports. This is not an exhaustive list.
- 4.16 For example, minutes of a meeting, such as those of a Board or Audit Committee, might also be a component report. The definition does not specify who has to give the document to the user, or any particular format for the document. Meeting minutes may be an effective way of recording information that has been provided orally, and may address important facets of the issue on which a decision will ultimately be made. The practitioner will of course want to ensure that the minute accurately represents the material information provided in the discussion which it records, and may judge that supplementary information is required to ensure it contributes fully to compliance with our standards. However, if the minute adequately covers the information which will contribute to compliance of the aggregate report, there might be no need to repeat it in a separate report.
- 4.17 An aggregate report may consist of one or more component reports (TAS R paragraph C.2.2), so that, if the minute adequately covers all the information needed by users, it might be usable as an aggregate report.

Data

- 4.18 The definition of data is the same as in the other TASs and includes examples. Other items of data in insurance work might include actuarial information received from overseas subsidiaries and actuarial information in earlier reports which have been prepared for the user.

Insurance business

- 4.19 We considered whether we should extend the definition of insurance business to include the business of effecting professional indemnity contracts for members of the medical professions where the providers of such contracts have the absolute discretion to determine whether any benefit should be paid. Such indemnity contracts are not contracts of insurance.⁵ We did not extend the definition as we found that it was difficult to draft it tightly enough to include that business while excluding, for example, various contracts of indemnity provided by banks. However, we consider that users in medical defence organisations and entities issuing similar indemnity contracts would be well served if any actuarial work assessing their liabilities under such contracts complied with our standards. We therefore encourage practitioners to apply the standards to the actuarial work they perform for such users and these users to request that they do.
- 4.20 The definition of insurer is consistent with the definition of insurance business.

Insurance transformation

- 4.21 An insurance transformation includes Part VII transfers and schemes of arrangement concerning insurance business. The definition of insurance transformation also includes reattributions of inherited estates and demutualisations as we consider that they entail at least a change to the with-profits principles contained in the Principles and Practices of Financial Management (PPFM) according to which an insurer's with-profits business is conducted. A reattribution of an inherited estate or a demutualisation might also be effected by another transformation such as a Part VII transfer.

Materiality

- 4.22 We have adopted the same definition of materiality in all our TASs and in our *Scope & Authority*.
- 4.23 Our definition makes it clear that the judgement of materiality must take place within the context in which the work is performed and reported. The context includes the time at which the activities take place, so that there is no element of hindsight, but does not limit it to either the time at which the work is performed or the time at which it is reported (which are not always the same). The definition also introduces an element of reasonableness into the judgement.

Measures and methods

- 4.24 The terms "measures" and "methods" are used throughout our standards. The distinction between a measure and a method was discussed in Appendix A of our *Conceptual Framework*. In actuarial literature relating to the assessment of liabilities, the term "valuation method" is often used to refer to a measure of the liabilities rather than to the method of quantifying them. When the language is used in this way, given the same data and the same assumptions, two different valuation "methods" will (deliberately) arrive at

⁵ Medical Defence Union v DTI (1979).

different outcomes. For example, in the context of a realistic basis life insurer, the realistic value of liabilities in respect of its with-profits policies and the mathematical reserves for those policies are different measures of the liabilities.

- 4.25 This use of the word “method” is quite different from normal business parlance, in which two different “methods” of valuation would normally be intended to produce similar results. For example, a deferred annuity could be valued either by discounting all future cash flows or by multiplying the pension amount by an annuity factor and then discounting the result. Both approaches would produce the same result but are different methods.
- 4.26 We consider that the use of the term “method” to refer to a measure confuses users and reduces clarity. We encourage practitioners to be consistent with normal business usage and to draw a distinction between “measures” and “methods” as we do in the TASs.

Users

- 4.27 In many cases the use of and reliance on actuarial information are not confined to those paying for its preparation. We consider that all the intended users, regardless of their commercial relationship with those responsible for preparing the report, should be able to rely on the information.
- 4.28 In most cases, the insurer is responsible for communicating the results of calculations such as technical provisions to shareholders and regulators, or benefits projections or surrender values to policyholders. In these cases it is the reporting of results by actuaries to the insurer that falls within scope of TASs, not the communication to the end user.
- 4.29 The definition of “users” deliberately refers to those who are intended to be assisted by the actuarial information. Those who may have access to the information are not necessarily users. It is only those for whom the report is specifically intended who are users of the information it contains.

5 SCOPE OF THE INSURANCE TAS

INTRODUCTION

- 5.1 Part C sets out the scope of the Insurance TAS. The scope includes actuarial work that supports the purpose set out in paragraph A.1.2.

GENERAL COMMENTS

- 5.2 We have defined much of the work in broad terms. For example, any actuarial work carried out for a potential acquirer of an insurer other than actuarial work related to the insurer's employee pension scheme(s) is within the scope of the TAS (paragraph C.1.18). Such work includes assessing the adequacy of technical provisions, reporting on the profitability of new business and assessing any capital synergies that might be obtained.
- 5.3 Some work might be within the scope of the Insurance TAS by virtue of more than one paragraph. For example, the determination of the long-term liabilities of a long-term insurer is both Reserved Work (paragraph C.1.2) and actuarial work enabling an insurer to fulfil its obligations to its regulator (paragraph C.1.7).
- 5.4 The scope of the Generic TASs is set out in the Schedule to our *Scope & Authority*. The Generic TASs apply to all work that is within the scope of any Specific TAS, and so they apply to the work that is within the scope of the Insurance TAS (paragraph C.1.1).

Actuarial work

- 5.5 The TAS includes some examples of actuarial work that is within its scope, and some that is not. The examples are not exhaustive.

WORK WITHIN THE SCOPE OF THE INSURANCE TAS

Reserved Work

- 5.6 Our *Scope & Authority* defines Required Work as work carried out in order that the entity commissioning the work complies with regulations, or with some other legal obligation, that require the entity to have the work carried out (or make certain outcomes conditional on the work having been carried out).
- 5.7 Reserved Work is defined as Required Work for which the regulations or other legal obligation require the entity in question to commission the work from an individual who holds a prescribed actuarial qualification (usually Fellowship) from the Institute and Faculty of Actuaries.
- 5.8 Appendix A of our consultation paper on *Insurance* described some of the Reserved Work in insurance created by legislation. It includes:
- the work performed by the syndicate actuary of a Lloyd's syndicate writing general insurance business in providing an opinion on the syndicate's technical provisions;

- the work performed by the actuarial function holder of a long-term insurer to make recommendations on the methods and assumptions to be used by the insurer in its annual investigation into its financial condition in respect of its long-term insurance business;
 - the work performed by a with-profits actuary in advising management concerning the exercise of discretion concerning its with-profits long-term business; and
 - the triennial investigation of the financial condition of a Friendly Society carried out by its Appropriate Actuary.
- 5.9 Reserved Work may also arise as a result of terms in contractual arrangements. For example, a multi-year reinsurance contract might require an actuary to determine renewal premiums if the insurer and reinsurer cannot agree terms.
- 5.10 By its very nature Reserved Work is important to an insurer's governing body, policyholders and regulators and so should be reliable. Reserved Work concerning insurance business is therefore within the scope of the Insurance TAS (paragraph C.1.2). This work is already within the scope of the Generic TASs⁶.

Actuarial work for true and fair accounts

- 5.11 An insurer's technical provisions are likely to be one of the most significant estimates in its financial statements and the change in technical provisions is likely to have a material impact on its reported profits. Actuarial work is always used to support the directors' estimates of the technical provisions of a long-term insurer and is often used to support the technical provisions of a general insurer. If the insurer is part of a group, these provisions are consolidated into the group financial statements.
- 5.12 For general insurers inadequate technical provisions might lead to underpricing of insurance contracts. Subsequent losses might have a significant impact on the value of the insurer to its investors.
- 5.13 There might be other significant estimates in financial statements that are supported by actuarial work, such as the value of in-force business, value of business acquired and reinsurance recoveries.
- 5.14 Work concerning an insurer's and its parent undertakings' pension schemes that is reported in true and fair financial statements is within the scope of the Pensions TAS⁷. An insurer is no different from any other business entity reporting on its pension scheme. We therefore consider that the scope of the Insurance TAS does not need to include work within the scope of the Pensions TAS.
- 5.15 Given the significance of the estimates in an insurer's financial statements that are supported by actuarial work and the importance to investors that the financial statements are reliable we consider that this work should be of high

⁶ See the Schedule to the *Scope & Authority*.

⁷ Pensions TAS paragraph C.1.24.

quality. Actuarial work enabling an insurer and its parent undertakings to prepare financial statements intended to give a true and fair view of their financial position, other than work within the scope of the Pensions TAS, is therefore within the scope of the Insurance TAS (paragraph C.1.5).

Actuarial work for regulatory and tax returns

- 5.16 Insurers are regulated in the public interest to ensure that there is a high probability that they are able to meet their obligations to their policyholders. Traditionally, this regulation took the form of a focus on holding prudent technical provisions. With Solvency II due to be implemented on 1 January 2013, the focus has shifted towards risk management and, where appropriate, holding capital in excess of technical provisions aligned to the risk profile of the business at above a prescribed minimum level.
- 5.17 Regulation enshrines actuarial work at the heart of the regulatory process demonstrated by the current requirement for long-term insurers to have an actuarial function holder to advise the insurer on its technical provisions. This requirement is being revised and extended under Solvency II which requires all insurers to have an actuarial function to perform certain tasks. These tasks include:
- coordinating the calculation of technical provisions; and
 - contributing to the risk management of the insurer particularly with regard to the risk modelling underlying the calculation of capital requirements.
- 5.18 Actuarial work also plays a key part in the determination of the capital required to support an insurer's business. This work includes work to model the distribution of asset returns and claims through to the specification and implementation of complex stochastic models to project capital requirements.
- 5.19 Insurers are also obliged by regulation to treat customers fairly. This is of particular concern where the insurer has discretion over benefits or charges which can be exercised post sale. Regulation recognises that actuarial work has an important part to play in the governance of this discretion for with-profits long-term business. It requires management to consider actuarial information when making decisions about the exercise of discretion. It also requires the governing body of the insurer to consider actuarial information when preparing their report to with-profits policyholders on how discretion has been exercised.
- 5.20 It is also in the public interest that insurers pay their appropriate taxes. Regulation requires that general insurer's technical provisions are not set excessively in order to defer taxes. Actuarial work is required to confirm this.
- 5.21 Given the public interest in the ability of insurers to meet their obligations to policyholders and to pay appropriate taxes we consider that actuarial work enabling an insurer and its parent undertakings to fulfil their obligations to their regulators and tax authorities should be of high quality. Actuarial work enabling an insurer and its parent undertakings to fulfil their obligations to their regulators and tax authorities is therefore within the scope of the Insurance TAS (paragraph C.1.7).

Embedded values

- 5.22 Long-term insurers frequently prepare supplementary information on embedded values for their shareholders or members. An embedded value is a measure of the shareholders' interests in the insurance business. The change in embedded value over successive periods might be a measure of management effectiveness.
- 5.23 Actuarial work underpins the calculation of the in force value component of the embedded value as it includes⁸:
- the present value of cash flows emerging due to shareholders over the life of the business;
 - the time value of financial options and guarantees inherent in the business;
 - an allowance for the frictional cost of capital; and
 - the costs of non-hedgeable risks.
- 5.24 Actuarial work might also be important in determining the required capital component of the embedded value.
- 5.25 Given the importance of embedded values to investors in assessing the value of their investment and monitoring management effectiveness, we consider that actuarial work on embedded values should be reliable and of high quality. Actuarial work to enable an insurer and its parent undertakings to report an embedded value to its shareholders or members is therefore within the scope of the Insurance TAS (paragraph C.1.9).

Actuarial work performed by an auditor's expert

- 5.26 Regulation requires that the auditor considers actuarial information when performing the audit of a long-term insurer. International Standard on Auditing 540, *Auditing accounting estimates, including fair value accounting estimates and related disclosures*, recognises that an auditor might require actuarial information to assess management's estimates of technical provisions. Practice Note 20, *The Audit of Insurers in the United Kingdom*, issued by the Audit Practices Board, recognises that audit teams normally involve actuaries in assessing technical provisions.
- 5.27 In order to assess the technical provisions we consider that the auditor's expert will at a minimum have to satisfy themselves about the appropriateness of any actuarial judgements made in determining the technical provisions. In some cases, the auditor's expert might feel it is appropriate to develop an independent estimate or range of estimates. We therefore consider that this assessment is actuarial work.
- 5.28 Investors and regulators rely on the auditor's opinion that financial statements and regulatory returns have been prepared properly and, in the case of financial statements, are true and fair. In order to provide this opinion it is likely that the auditor will rely on actuarial information. We consider that

⁸ CFO Forum *Market Consistent Embedded Value Principles*.

the actuarial work on which this information is based should be reliable and of high quality. Actuarial work performed by an auditor's expert to support the auditor's opinions on an insurer's and its parent undertakings' true and fair financial statements and regulatory returns other than work within the scope of the Pensions TAS is therefore within the scope of the Insurance TAS (paragraph C.1.11).

Pricing

- 5.29 We consider that actuarial information on the premium rates sufficient to cover the risk cost plus a margin to cover expenses, profit and a return on capital is relevant to users' decisions on the actual premium rates to be charged for insurance products. Similarly, for savings products provided by long-term insurers, actuarial information concerning the minimum level of charges to cover the cost of any guarantees provided plus a margin to cover expenses and profit and a return on capital is relevant to users' decisions on the actual charges to be levied.
- 5.30 We would normally expect the governing body of an insurer to decide standards for product pricing which had regard to measures such as achieving a minimum rate of return on capital, receiving a minimum amount of profit or writing to a particular combined ratio. Such standards might vary by business unit or product type. In setting them the governing body might take account of actuarial information.
- 5.31 We would also expect that management would decide how these standards should be applied. Management might rely on actuarial information in deciding on the measures, methods and assumptions to be used when determining the technical premiums or charges in line with the standards. Management might also rely on the results of models used to determine premium rates or product charges.
- 5.32 The package of product pricing standards, and the measures, methods, assumptions and models through which the standards are implemented represent the pricing framework supporting an insurer's premium rates or product charges.
- 5.33 Given the importance of pricing to the profitability of an insurer, we consider that the actuarial information supporting the development and implementation of a pricing framework described in paragraphs 5.30 to 5.32 should be relevant, comprehensible and sufficient to support pricing decisions and so subject to our standards. Actuarial work that supports the development and implementation of pricing frameworks for products provided by an insurer is therefore within the scope of the Insurance TAS (paragraphs C.1.12 and C.1.13).
- 5.34 We recognise that some actuaries work within insurers' underwriting and new business teams. Their role is to provide input to underwriters and others responsible for new business concerning the price to be charged for particular risks or on the charges to be levied on particular schemes submitted by brokers and other intermediaries in the normal course of business. We consider that our standards need not apply to this day to day work as the pricing decisions which the actuarial information supports should not have a significant financial impact on the insurer provided the work is consistent with the pricing frameworks agreed with management.

- 5.35 While we do not want to impose an unnecessary burden on routine pricing decisions, from time to time actuarial information is used to support pricing decisions for risks that are significant in relation to the insurer's risk appetite. Given the importance of these decisions to the insurer we expect actuarial information supporting the pricing of such risks to be relevant, comprehensible and sufficient. This work is therefore within the scope of the TAS (paragraph C.1.14).
- 5.36 We recognise that our standards should not restrict insurers' commercial decision making, which will take account of more than purely actuarial information. For this reason commercial decisions concerning the actual premiums charged or product charges levied are not within the scope of the TAS (paragraph C.1.15).

Insurance transformations

- 5.37 Insurance transformations include Part VII transfers, schemes of arrangement concerning insurance business and changes to the with-profits principles in the PPFM of a long-term insurer writing with-profits business including reattributions of inherited estates and demutualisations. They all have the potential to affect policyholders' benefits even if that is limited to changing the level of those benefits' security.
- 5.38 The courts making decisions on Part VII transfers and schemes of arrangement rely on expert advice on the impact on policyholders and on other issues. This advice is likely to include actuarial information. In many cases the expert is an actuary. In developing proposals for a transformation, the insurer or insurers involved are likely to consider actuarial information. Those affected by a transformation might also consider actuarial information in developing their response. For example the policyholder advocate in an inherited estate reattribution will rely on actuarial information in developing their response to the insurer's proposals. Classes of policyholders affected by a proposed scheme of arrangement might rely on actuarial information in developing their response.
- 5.39 We consider that, given the importance of actuarial information to all the parties involved in a transformation and the potential impact on policyholders' benefits, it is important that any actuarial work concerning them is of a high quality. Actuarial work performed in an insurance transformation is therefore within the scope of the Insurance TAS (paragraph C.1.16).

M&A and other capital raising exercises

- 5.40 M&A and capital raising exercises concerning insurance business are likely to require strategic decisions to be made which can have a significant impact on the development of the entities which are party to the transaction. Actuarial information is likely to be important to these decisions. For example, the adequacy of technical provisions might be an important consideration when considering the acquisition of a block of general insurance business or the embedded value might be important when considering the price to be paid for a long-term insurer. Actuarial information might also be included in a prospectus for potential investors.

- 5.41 For some actuarial work concerning M&A, perhaps due to the nature of the process or the time available, data will be limited or incomplete and models used to make calculations will be less than ideal. However, we consider that approximations can be used to enable a proportionate response. In such circumstances, we consider that it is important that users are aware of the limitations in the actuarial work and the risks and uncertainty that result.
- 5.42 Given the significance of actuarial information to these important decisions we consider that it should be of high quality. This work is therefore within the scope of the Insurance TAS (paragraph C.1.18).

Reinsurance to close

- 5.43 The premium for reinsurance to close for a Lloyd's syndicate is important to both parties to the transaction. For the closing syndicate, it will finalise the underwriting profit or loss made on the business it wrote. The open syndicate taking on the reinsurance is accepting the risk of adverse claims development.
- 5.44 The determination of the premium will take account of the technical provisions. Actuarial work supporting the determination of technical provisions is already within the scope. The opinion on the provisions given by the syndicate actuary is Reserved Work and actuarial work supporting a syndicate's regulatory obligations which includes making proper provisions for insurance liabilities is within the scope.
- 5.45 The syndicate taking on the risk might also require actuarial information on the adequacy of the technical provisions. We consider it is analogous to M&A work.
- 5.46 Given the importance of the premium for reinsurance to close for both parties, we consider that actuarial information supporting its determination should be reliable. Actuarial work supporting the determination of this premium is therefore within the scope of the Insurance TAS (paragraph C.1.20).
- 5.47 However, we recognise that the actual premium will be a matter for commercial negotiation between the parties. The decision on the premium is therefore not within the scope of the TAS (paragraph C.1.21).

The exercise of discretion

- 5.48 Some long-term insurance business such as with-profits business and some unit-linked business allow the insurer to exercise discretion over the management of the business including how benefits accrue to policyholders or on the level of charges levied against their contracts. This discretion will be constrained by the requirement to treat customers fairly and, in the case of with-profits business, by the insurer's PPFM.
- 5.49 In exercising their discretion, insurers are likely to consider actuarial information. In the case of with-profits business the insurer is required to consider information from the with-profits actuary.
- 5.50 It is important to policyholders that any discretion is exercised properly as it can have an impact on the benefits they receive. For this reason, we consider that any actuarial information used by insurers in exercising discretion

should be of high quality. Work concerning the post-sale exercise of discretion which affects policyholders' premiums or benefits is therefore within the scope of the Insurance TAS (paragraph C.1.22).

WORK NOT IN SCOPE OF THE INSURANCE TAS

- 5.51 The scope of the Insurance TAS is limited to certain tasks which often rely on actuarial information. There are several areas of work for insurers which are carried out by actuaries and which are not within the scope of the Insurance TAS. For some work, including investment advice, it is not always clear where the boundary is between work which is actuarial and work which is not.
- 5.52 We will review the scope of the Insurance and other TASs regularly.

6 GENERAL PRINCIPLES

INTRODUCTION

- 6.1 Part D of the Insurance TAS contains general principles that apply to all work within its scope.

APPLICATION

Judgement

- 6.2 Because the Insurance TAS is principles-based and has been written to cover a wide range of work, judgement will be required in order to apply it. We consider that such judgement should be reasoned and justifiable (paragraph D.1.2).
- 6.3 Judgement might be needed on many matters when complying with the Insurance TAS, including whether the work in question is within the scope of the TAS (paragraph D.1.3), whether matters are material, and what constitutes proportionate work. When making such judgements it is important to be guided by the spirit and reasoning behind the principles in the TAS, as well as by how they are drafted (see paragraph 20 of the *Scope & Authority*).
- 6.4 We consider that requiring a justification of all judgements would be unduly onerous, and so require only that it is possible to justify them, rather than requiring justifications to be documented (paragraph D.1.4). We consider that proportionality should apply to the work done in order to demonstrate compliance with our standards as well as to work done in order to comply. We therefore consider that documentation of compliance should be proportionate to the scope of the work (see paragraph B.1.3).

ASSUMPTIONS

- 6.5 Section D.2 sets out principles concerning the selection of assumptions.
- 6.6 Actuarial work in insurance involves assumptions about many matters, including:
- discount rates;
 - claim rates and claim severity;
 - asset returns, including their distributions and correlations;
 - future levels of inflation;
 - renewal, lapse and surrender rates;
 - the numbers of policyholders exercising options such as penalty free surrender values or benefit options at retirement; and
 - running costs.

- 6.7 We consider that there are some general principles that should be applied when selecting any assumptions in insurance, and these are covered in paragraphs D.2.1 to D.2.8. There are some assumptions, those concerning discount rates, claim rates, running costs and co-dependencies of risks, for which we consider more specific principles will ensure more reliable information, and principles concerning them are in paragraphs D.2.9 to D.2.18.
- 6.8 The principles in paragraphs D.2.1 to D.2.8 are the same as those in the Pensions TAS. It is likely that similar principles will be present in other Specific TASs we are developing. It is possible that some of them might at some time be consolidated into a Generic TAS.
- 6.9 However, it is not necessarily the case that a principle that is capable of being applied to other areas of actuarial work should be so applied. It is possible that a principle that is proportionate in one field of work would be disproportionate in another. The Generic TASs apply to a broad range of actuarial work, and even principles that are both applicable and proportionate to work in insurance and pensions might be inapplicable or disproportionate for work in other areas. The appearance of a principle in more than one Specific TAS does not therefore imply that it should be in a Generic TAS.

General considerations

Overall approach

- 6.10 The Insurance TAS is principles-based, and does not prescribe particular assumptions to be used in specific circumstances, or ranges within which assumptions should lie. Although it has been suggested that more prescription would provide greater consistency, we consider that the most important outcome is that assumptions should be appropriate for the context in which they are used.
- 6.11 In many cases, actuaries are responsible only for providing information on the basis of which others choose assumptions, rather than choosing the assumptions themselves. Actuarial standards cannot therefore limit the assumptions that are chosen; they can only influence the choice. We consider the best way of ensuring that appropriate assumptions are used is to ensure that those making the decisions are well informed, understand the rationale underlying any recommendations, and understand the implications of their decisions.
- 6.12 We consider that any prescriptive rules or ranges could apply only in limited circumstances, and should be based on appropriate research. As our TASs come into operation we will monitor their effect, and keep under review our approach to assumptions.

Selection of assumptions

- 6.13 For some exercises the assumptions are set by the practitioner who performs the work. In other cases assumptions are set by the user, or are prescribed by regulations. In the latter cases the practitioner performing the work may not be in a position to ensure that the assumptions meet all the requirements of the Insurance TAS (paragraph D.2.1).

- 6.14 Different assumptions are appropriate in different circumstances and for different purposes. The reliability and relevance of actuarial information depend on whether the assumptions on which the information is based are appropriate (paragraph D.2.2).
- 6.15 TAS R requires an aggregate report to include sufficient information to enable its users to judge its relevance to the decisions for which they use it. We consider that the assumptions on which information is based affect the relevance of that information: if the assumptions are inappropriate, then the information is less relevant. If the assumptions used are considered to be materially inappropriate by a person responsible for a report, TAS R requires the report to include a statement to that effect, or other explanations (paragraph C.4.9 of TAS R).
- 6.16 An important factor in judging whether assumptions are appropriate is the evidence on which they are based. We consider that basing assumptions on sufficient relevant information will help to ensure that they are appropriate, but recognise that sufficient information is not always available (paragraphs D.2.3 to D.2.6).
- 6.17 In insurance, it is unusual for there to be a significant period between the effective date of the calculations and the date when the work is performed. In most cases, assumptions should therefore reflect the state of the world at the effective date of the calculations in which they will be used. For some work within the scope of the TAS, accounting or other standards might determine how material events after the effective date should be treated. If there is a significant period between the effective date of the calculations and the date the work is performed it might be appropriate to adjust some assumptions to reflect more recent information if it is material (paragraph D.2.7).
- 6.18 TAS R requires a report to indicate any material changes or events that are known by a person responsible for the report to have occurred since the effective date of the data and other information on which it is based (paragraph C.3.13 of TAS R).
- 6.19 There have been instances where one assumption is adjusted in order to compensate for a shortcoming in another unrelated assumption. For example, the discount rate used to value liabilities might be decreased as a proxy for reducing future mortality rates instead of incorporating an explicit assumption for future mortality improvements. We consider that adjusting one assumption in order to compensate for a shortcoming in another unrelated assumption makes information less transparent to users, and is inconsistent with the achievement of our Reliability Objective. Paragraph D.2.8 forbids this practice.
- 6.20 We recognise that there are circumstances in which there may be practical difficulties in determining a material assumption or modelling its impact. For example, there may be insufficient information from which to determine an assumption or a model might not include proper allowance for a particular assumption. Examples of the latter include a model not allowing for the term structure of interest rates, or not being able to reflect accurately benefits payable for some decrements, such as early retirements. In such circumstances it might be disproportionate to find more information on which to base the assumption or to develop a new model for the exercise being performed. Rather than attempt to compensate for the shortcoming in

information or the model by adjusting an unrelated assumption, we consider it would be more transparent to allow for the assumption as best one can and make an adjustment to the output from the model to reflect either the increased uncertainty or the limitation in the model.

- 6.21 For example, if it is not proportionate to reflect the term structure of interest rates then an average interest rate might be used or if early retirement benefits cannot be calculated accurately then early retirements might be ignored. An adjustment might need to be made to the output from the model to compensate. TAS R requires that a report shall indicate the nature and extent of any material uncertainty in the information it contains (paragraph C.5.2 of TAS R). TAS M also requires that a report which includes information derived from models shall include explanations of any material limitations of the models that have been used and the implications of those limitations (paragraph C.5.8 of TAS M). In the circumstances described, if the shortcoming is material, it should be explained together with its implications and any adjustments made.
- 6.22 We do not intend that paragraph D.2.8 should prevent margins for prudence in a set of actuarial assumptions being contained in just one assumption such as the discount rate.

Discount rates

- 6.23 Discount rates are often among the assumptions that have the most significant effect on the results of the work that is being performed. We therefore consider it especially important that users understand how they are derived, the implications of adopting them and the cash flows to which they are applied (paragraphs D.2.9 to D.2.11).
- 6.24 A component of the discount rate is the allowance assumed for the illiquidity of the liabilities being discounted. Different insurance liabilities have different illiquidity characteristics. There is uncertainty over the determination of illiquidity premiums implicit within various market instruments. We therefore consider transparency requires that users understand what assumptions have been made concerning the illiquidity of liabilities and how any consequent illiquidity premium has been determined.

Claim rates

- 6.25 Where actuarial work requires the projection of claim rates over a number of years, future claim rates depend on both current claim rates and the way in which those rates are expected to change in the future. As we explained in our discussion paper on *Mortality*, we consider that these two factors are very different in nature: in principle it is often possible to obtain reliable information about current claim rates, whereas it is impossible to know what the future holds in terms of changes to these rates. We therefore consider that, for transparency, separate assumptions should be used for base claim rates and subsequent changes, as the uncertainties in the two are so different (paragraph D.2.12).
- 6.26 We recognise that there will be circumstances in which there is no reason to consider that claim rates will change or in which the assumption about subsequent changes is not material (paragraph D.2.13).

- 6.27 Assumptions about claim rates are often based on data observed over a relatively short period of time. The data might not include events which although significant in their financial impact and reasonably foreseeable either do not occur or are not observed within the period over which the claims data was collected. Such events might include natural catastrophes or pandemics. When considering incurred but not reported claims such events might include latent claims. We therefore consider that assumptions about claim rates should allow explicitly for low probability but reasonably foreseeable events which would have a significant financial impact (paragraph D.2.14).
- 6.28 We recognise that there will be circumstances where making such an explicit allowance is not material (paragraph D.2.15).

Running Costs

- 6.29 Running costs can have a material impact on long term profitability of an insurer. They might reduce as changes in systems and processes to improve productivity are implemented, but there is always uncertainty about the effectiveness of planned improvements in productivity and there may be uncertainty in the split of running costs between fixed and variable elements. For these reasons we consider it is important for transparency that a rationale is provided to users for changes in assumptions about running costs (paragraph D.2.16).
- 6.30 Running costs might change as a result of inflation or, where there is a fixed element within the running costs, as volumes of business change. We consider that in normal circumstances such changes are unlikely to be material and therefore no rationale for a change in running costs solely due to these reasons would be required (paragraph D.2.17)

Co-dependencies of risks

- 6.31 The many different types of risks underwritten by insurers are correlated with each other to various extents. The way in which they are correlated (or not) in normal conditions is reasonably well understood, which means that in normal conditions insurers can diversify their risks to manage the profitability of their business. However, in extreme conditions the usual correlations might break down with unexpected consequences for financial results. For example, insurance risk and market risk might be assumed to be uncorrelated in normal conditions. However, in the event of a catastrophe such as a pandemic or a major terrorist strike this assumption might no longer be valid.
- 6.32 There is usually at best very limited data available on which to base assumptions about co-dependencies in these extreme conditions and so there is increased uncertainty in any results for work which includes stressed scenarios. As well as changes in assumptions about co-dependencies and increased uncertainty, other relationships within models might change in stressed scenarios. This contributes additional uncertainty to the results from these models in stressed scenarios.

- 6.33 We consider that it is important for users' understanding of risk and uncertainty that actuarial information that includes the results of work including stressed scenarios should either describe the changes that have been made to the assumptions about co-dependencies in stressed scenarios from those used in normal conditions or explain why no changes have been made (paragraph D.2.18).

MODELS AND CALCULATIONS

- 6.34 Section D.3 contains principles concerning models and the results of calculations.
- 6.35 We recognise that some actuarial information is derived from old models. Documentation of these old models might be incomplete or lost as might be details of the checks that were carried out when they were first developed. The objective of documenting and testing models is to ensure that the model is fit for purpose (see paragraphs C.3.5 to C.3.9 of TAS M). The amount of detail required is a matter of judgement, which should be exercised in a reasoned and justifiable manner, having regard to the context.
- 6.36 TAS M does not require all possible checks to be performed every time a model is used. A model that has been used many times over a long period is likely to require less checking than one that has not been used before. Similarly, TAS M does not require all checks that have ever been performed on a model to be documented. It requires only those checks that are performed in compliance with TAS M to be documented (paragraph 5.20 of *TAS M: Significant Considerations*).
- 6.37 One way of demonstrating fitness for purpose of old models is through comparison of actual results with those projected by the model over a period of time. We consider that the requirements in TAS M for constructing, performing and documenting checks in order to determine an existing model's fitness for purpose might be met in large part by such a comparison.

Changes in measures, methods and assumptions

- 6.38 Work in insurance often includes work that is repeated at regular intervals, for example calculation of technical provisions and embedded values. It also includes work that while not repeated regularly is related to work performed at an earlier date such as the repricing of a product.
- 6.39 Paragraph C.5.17 of TAS R requires the results of two similar exercises to be compared. The comparison covers assumptions, results and other material matters. The comparison of results should include a reconciliation of the results.
- 6.40 We consider that, as well as being provided with a comparison, users should be provided with a rationale for any changes. We also consider it important that they understand the impact of the changes on the results. We have included a principle in the Insurance TAS which requires an explanation of any changes and a quantification of the overall effect of all the changes (paragraph D.3.1)
- 6.41 The TAS does not require a quantification of the effect of each change if more than one change is made.

- 6.42 If the previous exercise was carried out by another practitioner it may not always be possible to determine the rationale for the selection of the assumptions. If so, an explanation of the position will need to be given.
- 6.43 We have added the constraint that the exercises should be related because we recognise that there are occasions when work is performed for a similar purpose but the work is not related. We give two examples of similar but not related work in paragraph D.3.2. This list is not exhaustive.
- 6.44 We do not consider that the change in the nominal value of a parameter is always a change in assumptions requiring an explanation and quantification of its impact. In some models, assumptions might be linked directly to an externally observed variable. For example the discount rate used in setting annuity prices might be directly linked to an interest rate index. We consider that the assumption is the link to the variable rather than the nominal value of the assumption. Therefore if the externally observed variable changes from one exercise to the next which drives a change in the nominal value of one of the assumptions used by the model we do not consider this to be a change in assumptions. In other models, such as the link ratio models used to determine claims provisions in general insurance, parameters might be updated automatically as new data is received. In such models we do not consider the change in the nominal value of the parameters driven solely by new data is a change in assumptions (paragraph D.3.3).

Claims

- 6.45 TAS M requires the explanation of how a model is a satisfactory representation to be documented⁹.
- 6.46 Some models in general insurance use assumptions about loss ratios to project claim payments. Loss ratios combine the effect of frequency and severity into a single measure. Loss ratios might therefore change because either frequency or severity changes. Observed loss ratios are also affected by the incidence and severity of large claims. Claim payments in sickness insurance are a function of rates of incidence of morbidity (claim frequency) and rates of recovery (which determines severity). These factors might vary independently.
- 6.47 We consider that it is important to the relevance of actuarial information that practitioners should consider how models used to project claims costs allow for possible changes in claim frequency and severity and so we require the model documentation to reflect this (paragraphs D.3.4 and D.3.5).

PRUDENT ESTIMATES

- 6.48 Section D.4 contains a principle concerning the reporting of prudent estimates of technical provisions.
- 6.49 Insurers are responsible for estimating their technical provisions. In making these estimates, long-term insurers must, and general insurers might, use actuarial information. Current regulation requires long-term insurers to use prudent assumptions in calculating the mathematical reserve element of their

⁹ TAS M paragraph C.3.1.

technical provisions. General insurance claims provisions should be set so that no adverse run-off deviation is expected. If there is uncertainty a degree of caution is required in the exercise of judgement required in setting claims provisions.

- 6.50 We consider it is important for transparency that those responsible for setting insurers' technical provisions should understand the degree of prudence or caution that has been included in any actuarial information on which they rely. We also consider it is important that any change in the prudence or caution should be explained to them. The TAS therefore requires an explanation of the relationship between any prudent estimate and a neutral estimate of liabilities and an explanation of any change in this relationship (paragraphs D.4.1 and D.4.2).

REPORTING

- 6.51 It is important that actuaries communicate the results of their work clearly so that directors of insurers can make good estimates of technical provisions and decisions about capital requirements given their chosen risk appetite. Actuarial work should not be seen as a "black box". TAS R requires that the style, structure and content of reports are suited to the skills, understanding and levels of relevant technical knowledge of users¹⁰.
- 6.52 TAS R also requires reports to indicate the nature of any future cash flows being quantified, including their timing¹¹. This is relevant to the estimation of technical provisions and the component of the embedded value of a long-term insurer that values the insurer's business in force.

¹⁰ TAS R paragraphs C.6.1 to C.6.3.

¹¹ TAS R paragraphs C.5.10 to C.5.12.

7 THE EXERCISE OF DISCRETION IN LONG-TERM INSURANCE BUSINESS

INTRODUCTION

- 7.1 Part E of the Insurance TAS contains principles that apply to work concerning long-term insurance business in which the exercise of discretion is permitted by contract.
- 7.2 Paragraph E.1.2 provides examples of situations in which discretion might be exercised. The exercise of discretion is inherent in with-profits business. Many unit-linked policies also provide that charges may be varied after the policy is bought by the policyholder at the discretion of the insurer to reflect changes in the operating experience. For example risk charges might be varied if the claims experience differs from that assumed when the product was originally priced, premiums might be varied or benefits reduced if actual investment performance differs from that originally assumed or fund management charges varied if running costs differ from those expected. Insurers are required to treat customers fairly in exercising this discretion to vary unit-linked charges and might rely on actuarial information to justify the decisions taken.

The exercise of discretion

- 7.3 Long-term insurers are constrained by regulation to treat customers fairly when considering the exercise of discretion. In setting the assumptions to be used concerning the exercise of discretion for with-profits business, an insurer's management should consider actuarial information provided by the with-profits actuary. A primary source for making any judgement about fair treatment of with-profits policyholders is the PPFM.
- 7.4 Work supporting the estimation of capital requirements of long-term insurers might require the consideration of alternative scenarios. Potential sources of loss absorption in adverse scenarios are the discretionary benefits of with-profits policyholders and the ability to increase charges on unit-linked policies. The use of such discretion has the potential to reduce the amount of capital that is required from other sources such as retained earnings or shareholders' funds and to protect the interests of continuing policyholders.
- 7.5 TAS R requires aggregate reports to describe the rationale for any material assumptions used or recommended¹². It also requires that if assumptions are considered to be materially inappropriate then reports need to disclose this¹³. We consider that changes to assumptions about how discretion is exercised are significant as they affect policyholders' benefits. Paragraph E.2.1 requires the rationale for such assumptions to include a description of how any proposed change to them is consistent with the fair treatment of the affected policyholders.

¹² TAS R paragraph C.4.6.

¹³ TAS R paragraph C.4.9.

- 7.6 TAS R requires aggregate reports to include all material matters relating to the work being reported on¹⁴. We consider that, for work advising or reporting on the exercise of discretion, the effects on policyholders and any with-profits estate are significant matters, because policyholders' benefits might be affected. We have therefore included a principle that requires reports to indicate these effects (paragraphs E.2.3 to E.2.5).
- 7.7 Regulation requires the with-profits actuary to provide an opinion to with-profits policyholders on the insurer's annual report to them. We consider that it is important that the annual report is comprehensible and that, in giving the required opinion, the with-profits actuary should consider whether the report covers with-profits policyholders' information needs properly. We have included a principle requiring the documentation of any work undertaken to confirm that these needs have been considered (paragraphs E.2.6 and E.2.7).

¹⁴ TAS R paragraph C.5.1.

8 GENERAL INSURANCE BUSINESS WRITTEN BY LLOYD'S SYNDICATES

INTRODUCTION

- 8.1 Part F contains a principle that applies to work performed for Lloyd's syndicates writing general insurance business.

Reporting

- 8.2 A Lloyd's syndicate writing general insurance business is required to appoint a syndicate actuary who provides it each year with an opinion confirming that its technical provisions are no less prudent than his or her best estimate of the amounts required. The Lloyd's Actuary uses the work done by the syndicate actuaries to meet his obligation to ensure that syndicates' technical provisions have been reviewed and appropriate opinions on them have been provided.
- 8.3 Following discussions with the Lloyd's Actuary on his requirements, the Insurance TAS requires that the work done by syndicate actuaries is described in a single document containing all the information that is required by the TASs to be included in an aggregate report on the work performed (paragraphs F.2.1 to F.2.3). This principle enables the Lloyd's Actuary to meet his obligations efficiently.

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