

December 2016

Technical Actuarial Standard 200: Insurance

The FRC is responsible for promoting high quality corporate governance and reporting to foster investment. We set the UK Corporate Governance and Stewardship Codes as well as UK standards for accounting, auditing and actuarial work. We represent UK interests in international standard-setting. We also monitor and take action to promote the quality of corporate reporting and auditing. We operate independent disciplinary arrangements for accountants and actuaries, and oversee the regulatory activities of the accountancy and actuarial professional bodies.

The FRC does not accept any liability to any party for any loss, damage or costs howsoever arising, whether directly or indirectly, whether in contract, tort or otherwise from any action or decision taken (or not taken) as a result of any person relying on or otherwise using this document or arising from any omission from it.

© The Financial Reporting Council Limited 2016

The Financial Reporting Council Limited is a company limited by guarantee.

Registered in England number 2486368. Registered Office:

8th Floor, 125 London Wall, London EC2Y 5AS

Technical Actuarial Standard 200: *Insurance*

This standard should be read in conjunction with Technical Actuarial Standard 100: *Principles for technical actuarial work* (TAS 100) and the *Framework for FRC technical actuarial standards*. Terms in **bold** are defined in the *Glossary of defined terms used in FRC technical actuarial standards*.

Purpose

Technical Actuarial Standard 200: *Insurance* (TAS 200) promotes high quality **technical actuarial work** in insurance on matters where there is a high degree of risk to the public interest. TAS 200 supports the Reliability Objective that “**users** for whom **actuarial information** is created should be able to place a high degree of reliance on that information’s relevance, transparency of assumptions, completeness and comprehensibility, including the communication of any uncertainty inherent in the information”.

Scope of application

TAS 200 is applicable to the following **technical actuarial work** in the geographic scope of FRC technical actuarial standards¹:

Prudential regulatory balance sheets

Technical actuarial work to support the preparation of an ***insurer’s*** balance sheet for prudential regulatory purposes other than ***technical actuarial work*** preparing information on its own ***pension schemes*** for the purpose of complying with financial reporting standards

Financial statements

Technical actuarial work to support the preparation of financial statements that are intended to give a true and fair view of an ***insurer’s*** financial position and profit or loss (or income and expenditure) and the reporting of that financial position and profit and loss in a parent company’s financial statements other than ***technical actuarial work*** preparing information on the ***insurer’s*** own ***pension schemes*** for the purpose of complying with financial reporting standards

General Insurance Business written by Lloyd’s Syndicates

Technical actuarial work to support an opinion on provisions as required by Lloyd’s

General Insurance Tax

Technical actuarial work to support the confirmation required under the General Insurers’ Technical Provisions (Appropriate Amount) Regulations 2009

¹ The geographic scope of the FRC’s technical actuarial standards is limited to **technical actuarial work** done in relation to the UK operations of entities, as well as to any overseas operations which report into the UK, within the context of UK law or regulation (paragraph 5.5 of the *Framework for FRC technical actuarial standards*).

Prudential regulatory capital requirements and the Own Risk and Solvency Assessment

Technical actuarial work to support the calculation of an **insurer's** prudential regulatory capital requirements and **technical actuarial work** undertaken as part of its Own Risk and Solvency Assessment

Insurance transformations

Technical actuarial work concerning:

- *schemes of arrangement;*
- *Part VII transfers;*
- *supporting the role of policyholder advocate in an inherited estate reattribution;*
- *changes to the principles in the Principles and Practices of Financial Management; and*
- *reporting on policyholder benefit reductions under section 376 of the Financial Services and Markets Act 2000*

Audit and assurance

Technical actuarial work to support the provision of an audit opinion on an **insurer's** financial statements and the reporting of a parent company's interest in the **insurer** in its financial statements

Technical actuarial work to support the provision of an auditor's assurance opinion on an **insurer's** prudential regulatory reporting

Pricing frameworks

Technical actuarial work to support pricing frameworks

With-profits discretion

Technical actuarial work to support the exercise of discretion concerning with-profits life insurance policies

Compliance

Members of the Institute and Faculty of Actuaries are required to comply with TAS 200 for work in its scope. Wider adoption is encouraged.

Judgements concerning the application of this standard shall be exercised in a reasoned and justifiable manner.

Work in the scope of TAS 200 is also in the scope of TAS 100. Each of the provisions in TAS 200 shall be followed where they are relevant to the work.

Departures from the provisions in TAS 200 concerning **communications** to **users** are permitted if they are unlikely to have a **material** effect on the decisions of **users**.

Nothing in TAS 200 should be interpreted as requiring work to be performed that is not proportionate to the nature, scale and complexity of the decision or assignment to which the work relates and the benefit that **users** would be expected to obtain from the work.

Communications shall include a statement confirming compliance with TAS 100 and TAS 200.

Commencement date

This standard applies to **technical actuarial work** in the scope of TAS 200 which is completed on or after 1 July 2017.

Core provisions

The following provisions support the principles in TAS 100 and apply to all **technical actuarial work** within the scope of TAS 200.

Judgements

1. Judgements shall reflect the nature of the insurance obligations, the **material** risks faced by the **insurer** relevant to the **technical actuarial work** and the purpose of that work.
2. **Communications** shall describe the sensitivity of results to judgements that are **material** either individually or in combination.

Data

3. The **documentation** of the **data** used in the **technical actuarial work** shall include **data** definitions, **data** sources, **data** checks and controls, and the source and justification of any **data** proxies.
4. The **documentation** of the **data** used in the **technical actuarial work** shall include the rationale for grouping **data**, the criteria used to determine the groups and the resultant groupings; and the **data** points removed and the rationale for their removal.
5. A set of checks shall be constructed and performed in order to determine the extent to which, taken overall, the **data** is sufficiently accurate, complete and appropriate for **users** to rely on the resulting **actuarial information**.
6. **Communications** shall explain any **data** proxies used in the **technical actuarial work** and their rationale.

Assumptions

7. **Communications** shall include the derivations of **material** assumptions used in the **technical actuarial work**.

Models

8. **Measures**, assumptions and judgements used to derive any estimates described as “best estimate”, “central estimate” or other similar terms shall be neither optimistic nor pessimistic and shall not contain adjustments to reflect a desired outcome.
9. **Implementations** and **realisations** of **models** shall be reproducible.
10. **Communications** shall describe the nature of any cash flows that are quantified including their timing.

Communications

11. If **technical actuarial work** is performed in order that the **insurer** or any other party commissioning the work complies with regulations, **communications** shall state the regulations applying to the work and confirm compliance with them.

Provisions for specified work

The following provisions support the principles in TAS 100 and apply to the relevant **technical actuarial work** as specified.

Prudential regulatory balance sheets, Financial statements, General Insurance Business written by Lloyd's Syndicates and General Insurance Tax

12. **Communications** shall explain any **material** difference between the actual experience emerging over the period since the previous exercise carried out for the same purpose (if one exists) with that assumed in that previous exercise.
13. **Communications** shall explain:
 - (a) the relationship between any estimate of the value of an asset or liability resulting from the **technical actuarial work** and a best estimate of the value of that asset or liability;
 - (b) the derivation of any adjustment for risk included in the estimate; and
 - (c) any **material** change in the relationship between the estimate and a best estimate, and the adjustment for risk compared with the previous exercise carried out for the same purpose (if one exists).

Prudential regulatory capital requirements and the Own Risk and Solvency Assessment

14. **Communications** for **technical actuarial work** that include stressed scenarios and use assumptions about the dependencies of risks shall:
 - (a) explain any differences between the balance sheet being stressed and that prepared for prudential regulatory purposes;
 - (b) describe any changes to the management actions assumed in the stressed scenarios from those assumed in preparing the balance sheet for prudential regulatory purposes; and
 - (c) describe any changes between assumptions about the dependencies used in the stressed scenarios and those used for prudential regulatory purposes and if there are no changes explain why.
15. **Communications** for **technical actuarial work** that include projections shall:
 - (a) describe how the projection period has been determined and how **material** time dependent risks have been allowed for; and
 - (b) describe any material limitations of the projection methodology and how these have been addressed.

Insurance transformations

16. Unless set by the **user**, a third party or by regulation, assumptions used in **technical actuarial work**, shall place proper emphasis on how the **insurance transformation** affects the interests of all relevant parties. The extent to which account has been taken of the interests of different parties shall be **documented**.

17. **Communications** shall include sufficient **actuarial information** to enable **users** to understand how different classes of policyholders might be affected by an **insurance transformation**. The information provided shall include:
- (a) how the different classes of policyholders have been defined;
 - (b) the impact on different classes of policyholders' benefits of adopting the **insurance transformation** using the assumptions supporting the proposed basis and applying alternative **material** assumptions;
 - (c) the initial and potential future changes in the value of the benefits of the different classes of policyholders;
 - (d) any changes in the **material** risks to the benefits of the different classes of policyholders;
 - (e) any **material** changes to the cash flows to policyholders resulting from the **insurance transformation**; and
 - (f) any **material** advantages which might be gained by any classes of policyholders.

Audit and assurance

18. The initial scope of the **technical actuarial work** and the reasons for any variances from the initial scope shall be **documented**.
19. **Technical actuarial work** undertaken shall be planned and performed with **professional scepticism** recognising that circumstances may exist that cause the financial statements or prudential regulatory information to be materially misstated.
20. **Communications** shall state the nature and extent of any reliance on **data** prepared by another party and the conclusions of the **technical actuarial work** including any concerns on **material** deficiencies or limitations.

With-profits discretion

The following provisions support the principles of TAS 100 and apply to all **technical actuarial work** within the scope of TAS 200 concerning with-profits life insurance policies.

21. The work performed to confirm that the information needs of policyholders have been taken into account when reporting to them on the exercise of discretion shall be **documented**.
22. **Communications** advising or reporting on the exercise of discretion shall indicate the effects of the exercise of discretion proposed or taken on policyholders' benefits, on amounts allocated to shareholders, if any, and on any with-profits estate affected.
23. **Communications** for work that requires projecting cash flows under alternative scenarios shall describe how any changes in the assumptions about the exercise of discretion in the alternative scenarios considered are consistent with the fair treatment of the policyholders affected.

Approved on 7 December 2016

Version 1.0

Effective from 1 July 2017



Financial Reporting Council

8th Floor
125 London Wall
London
EC2Y 5AS

+44 (0)20 7492 2300

www.frc.org.uk