

May 2016

Consultation: Revised Specific TASs

Exposure draft: TAS 200 *Insurance*

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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 “the **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:

Regulatory balance sheets

Technical actuarial work to support the preparation of the balance sheet for regulatory purposes other than **technical actuarial work** preparing information on **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 the financial position and profit or loss (or income and expenditure) for **insurers** other than **technical actuarial work** preparing information on **pension schemes** for the purpose of complying with financial reporting standards

General Insurance Business written by Lloyd’s Syndicates

Technical actuarial work to support the provision of an opinion confirming that claims provisions are no less prudent than a best estimate

General Insurance Tax

Technical actuarial work supporting the provision of the confirmation required under the General Insurers’ Technical Provisions (Appropriate Amount) Regulations 2009

Risk modelling underlying the calculation of the regulatory capital requirements and the Own Risk and Solvency Assessment (ORSA)

Technical actuarial work to calculate regulatory capital requirements or **technical actuarial work** undertaken as part of the Own Risk and Solvency Assessment (ORSA)

Insurance Transformations

Technical actuarial work to support:

- schemes of arrangement;
- Part VII transfers;
- 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

With-profits discretion

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

Audit and assurance

*Technical actuarial work to support the provision of an audit opinion on an **insurer's** financial statements*

Technical actuarial work to support the provision of an auditor's assurance opinion for regulatory reporting

Pricing Frameworks

Technical actuarial work to support pricing frameworks

Compliance

Members of the Institute and Faculty of Actuaries (IFoA) 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 within the scope of TAS 200 is also within the scope of TAS 100. Each of the provisions in TAS 200 shall be followed where they are relevant to the work.

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

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

Disclosure: **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 the TAS 200 that 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 and reinsurance obligations, the risks faced by the entity relevant to the **technical actuarial work** and the purpose of that work.
2. **Communications** shall describe the sensitivity of results to material judgements or a combination of judgements.
3. **Communications** shall explain any reasonably foreseeable circumstances under which the **technical actuarial work** would no longer be valid.

Data

4. 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.
5. 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.
6. 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**.
7. **Communications** shall explain any **data** proxies used in the **technical actuarial work** and their rationale.

Assumptions

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

Models

9. Best estimate measures, assumptions and judgements shall be used to derive any estimates described as “best estimate”, “central estimate” or other similar terms.
10. **Implementations** and **realisations** of **models** shall be **reproducible**.
11. **Communications** shall describe the nature of any cash flows that are quantified including their timing.

Provisions for specified work

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

12. **Communications** shall state the regulations defining the **technical actuarial work** being performed and confirm compliance with them.
13. **Communications** shall provide an explanation for any 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.
14. **Communications** shall explain:
 - the relationship between the estimate assumed in the valuation and a best estimate of the liabilities or provisions;
 - the derivation of any adjustment for risk; and
 - an explanation of any **material** change in the relationship between the estimate assumed in the valuation and a best estimate, and the adjustment for risk compared with the previous exercise carried out for the same purpose (if one exists).

Risk modelling underlying the calculation of the regulatory capital requirements and the Own Risk Solvency Assessment (ORSA)

15. **Communications** for **technical actuarial work** that include stressed scenarios and use assumptions about the co-dependencies of risks shall:
 - describe how the balance sheet being stressed differs from that used for regulatory reporting and why;
 - describe any changes to the management actions assumed in the stressed scenarios compared to those assumed in regulatory reporting; and
 - describe the changes between assumptions about the co-dependencies used in the stressed scenarios and those used for regulatory reporting and, if there are no changes between assumptions about the co-dependencies used in the stressed scenarios and those used for regulatory reporting, explain why there are no changes.
16. **Communications** for **technical actuarial work** that include projections shall:
 - describe how the projection period has been determined and how material time dependent risks have been allowed for; and
 - describe any material limitations of the projection methodology and how these have been addressed.

Insurance Transformations

17. Unless set by the user, a third party or by regulation, assumptions used in **technical actuarial work**, shall place proper emphasis on how the 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**.

18. **Communications** shall include sufficient **actuarial information** to enable a decision-making entity to understand how different classes of policyholders might be affected by an **insurance transformation**. The information provided shall include:
- how the different classes of policyholders have been defined;
 - 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;
 - the initial and potential future changes in the value of the benefits of the different classes of policyholders;
 - any changes in the material risks to the benefits of the different classes of policyholders;
 - any material changes to the cash flows to policyholders resulting from the **insurance transformation**; and
 - any material advantages which might be gained by any classes of policyholders.

With-profits discretion

19. 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**.
20. **Communications** advising or reporting on the exercise of discretion shall indicate the effects of the exercise of discretion proposed or taken on policyholders' benefits and on any with-profits estate affected.
21. **Communications** for work that requires projecting cash flows under alternative scenarios shall describe how any changes in the assumption about the exercise of discretion in the alternative scenarios considered are consistent with the fair treatment of the policyholders affected.

Audit and assurance

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

Approved on dd mmm 2016

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Effective from 1 July 2017



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