

GN1: The Prudential Supervision in the UK of Long-Term Insurance Business

Classification

Practice Standard

MEMBERS ARE REMINDED THAT THEY MUST ALWAYS COMPLY WITH THE PROFESSIONAL CONDUCT STANDARDS (PCS) AND THAT GUIDANCE NOTES IMPOSE ADDITIONAL REQUIREMENTS UNDER SPECIFIC CIRCUMSTANCES

Definitions

Defined terms appear in italics when used in the standard.

| Reference | Definition |
|------------------------------|---|
| appointed actuary | A Fellow of the Faculty of Actuaries or of the Institute of Actuaries appointed by (or by the FSA for) an insurance company or friendly society in accordance with SUP4.3.1R or 4.3.3R of the FSA Handbook |
| appropriate actuary | A Fellow of the Faculty of Actuaries or of the Institute of Actuaries appointed by a friendly society in accordance with SUP4.4.1R of the FSA Handbook |
| board | The board of the insurance company or the controlling body of the friendly society or Lloyd's syndicate to which the actuary is appointed. |
| insurer | The insurance company, friendly society or Lloyd's syndicate writing long-term insurance business in respect of which the actuary is appointed |
| liabilities to policyholders | As defined in the FSA Handbook Glossary |
| PCS | Professional Conduct Standards of the Faculty of Actuaries and Institute of Actuaries |
| syndicate actuary | A Fellow of the Faculty of Actuaries or of the Institute of Actuaries appointed by a Lloyd's long term business syndicate in accordance with Lloyd's byelaws passed in compliance with LLD 10.9.4R(1) of the FSA Handbook |

In addition, the following abbreviations are used for sections of the FSA Handbook:

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| APER | Statement of principles and code of practice for approved persons |
| COB | Conduct of business |
| IPRU(INS) | Interim prudential sourcebook for insurers |
| IPRU(FSOC) | Interim prudential sourcebook for friendly societies |
| LLD | Lloyd's |
| SUP | Supervision manual |

Legislation or Authority

The Financial Services and Markets Act 2000 ("the Act").

The FSA Handbook

The Financial Services and Markets Act 2000 (Communications by Actuaries)

Regulations 2003 ("the Regulations")

Application

Appointed Actuaries and Appropriate Actuaries of UK-supervised insurance companies and friendly societies writing long-term insurance business in respect of periods prior to and not including 31 December 2004. Syndicate Actuaries of Lloyd's syndicates writing long-term insurance business.

Author

Life Board

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Approved under Due Process (technical amendment)

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1 General

- 1.1 In this standard, requirements of legislation or of FSA rules and guidance are specifically referred to as such. Any other guidance is that provided additionally by the profession.
- 1.2 The responsibilities of actuaries to whom this standard applies are central to the financial soundness of the long-term insurance business of the *insurers* in respect of which they are appointed. The FSA and Lloyd's also rely on such actuaries to confirm that the *insurers* in respect of which they are appointed are financially sound in accordance with applicable rules, byelaws and guidance.
- 1.3 Actuaries to whom this standard applies must be familiar with the requirements of the Act, all relevant parts of the FSA Handbook and, for *syndicate actuaries*, relevant Lloyd's byelaws. The profession has attempted to identify the relevant parts of the legislation and FSA rules. These are described in section two of "The Statutory Duties of the Actuary". However, this should not be relied upon as necessarily complete or up to date.
- 1.4 *Appointed Actuaries* (other than those appointed by FSA for *insurers*, unless that appointment is confirmed by the *insurer*) are Approved Persons as defined in the FSA Handbook and must be familiar with the obligations which this imposes on them. In particular, *appointed actuaries* must be aware of the extent to which the Statement of Principles contained in APER 4 goes beyond the specific requirements applying to *appointed actuaries* and must act in accordance with them. Some of the requirements of this standard may contribute towards compliance with some aspects of APER 4; however this is a matter for the individual Approved Person to determine and no guidance on this is provided.
- 1.5 It is both a regulatory and a professional requirement that an actuary must not accept an appointment as an *appointed actuary*, *appropriate actuary* or *syndicate actuary* if he or she does not have the appropriate knowledge and practical experience relevant to the *insurer* and types of business concerned. Additionally, the profession requires an *appointed actuary* to possess a Practising Certificate. Before taking up an appointment, actuaries must ensure that the relevant requirements of *PCS* have been met including, in particular, a discussion with their immediate predecessor, if any.
- 1.6 An actuary to whom this standard applies must take all reasonable steps to ensure that the *board* understands when he or she is providing advice in accordance with statute, FSA regulations and guidance or actuarial professional guidance, as opposed to providing advice or expressing opinion as an employee, director or external adviser, as the case may be.
- 1.7 Actuaries must be aware of the requirement of *PCS* relating to the inclusion in a report of an assessment of the implications for policyholders of any recommendations contained in the report.

2 Duties of Actuaries

- 2.1 Actuaries to whom this standard applies have a duty under FSA rules (directly, or indirectly under Lloyd's byelaws) to carry out the actuarial investigations specified in accordance with rules and applicable professional guidance, to report on those investigations, to prepare an abstract (or synopsis in the case of *appropriate actuaries*) for publication of the report in the form specified and to provide the certificates required, qualified if necessary.
- 2.2 Before completing the abstract or synopsis of the report of any investigation, the actuary must first report in writing to the *board* on the results and implications of that investigation. Both in the report and in the abstract or synopsis, the actuary must present the results in a way that demonstrates, subject to the constraints of the regulatory valuation basis, the correct underlying position of the *insurer*. All material valuation methods and assumptions must be stated. All material risks to the solvency of the *insurer* must be disclosed unless the actuary has reported these previously in the report required by 6.1 below, or otherwise, and this information remains valid. Where the actuary believes that the regulatory basis or format materially fails to make the real financial circumstances of the *insurer* clear to the *board*, the report must draw attention to this, explaining the differences, unless this has recently been done or will shortly be done in a separate formal report by the actuary to the *board*.
- 2.3 An *appointed actuary* should normally present the report in person to the *board*, so that he or she may identify and address any areas of misunderstanding or concern that may arise. *Appointed actuaries* have a right under SUP4.3 to make such a presentation, provided that they request to do so. If an *appropriate actuary* or a *syndicate actuary* considers that the report contains matters of concern which need to be addressed by the *board*, he or she should normally seek permission to present the report in person.
- 2.4 The actuary must also endeavour to ensure that the report, together with the other reports referred to in 2.2 above if produced separately, or at least a specifically drafted summary of it or them, is seen by the management or board, as appropriate, of any organisation in the parental hierarchy of the *insurer* which exerts significant influence on the decisions of the *board*, particularly where any material risk to the solvency of the *insurer* has been identified.
- 2.5 The actuary should bear in mind that the abstract or synopsis and the certificate will be used by third parties, including the FSA, financial advisers and actual and potential policyholders.
- 2.6 When listing in the certificate the professional guidance with which he or she has complied, the actuary (except for an *appropriate actuary* completing Form FSC4) must include GN1 and GN8. The certificate must state the effective dates of these GNs.
- 2.7 *Appointed actuaries* and *appropriate actuaries* are required by SUP 4.5 to notify the FSA when they resign or their appointment is terminated or not

renewed and of any matters concerning the cessation of their appointment which they think ought to be brought to its attention.

- 2.8 *Appointed actuaries* and *appropriate actuaries* are required by SUP 4.5 to be objective in the performance of their duties and to take reasonable steps to satisfy themselves that they are free from bias. SUP 4.5 provides guidance in both areas and *PCS* provides guidance on conflicts of interest. *Syndicate actuaries* must adopt a similar professional standard.
- 2.9 *Appointed actuaries* and *appropriate actuaries* are required by SUP 4.3 and SUP 4.4 to pay due regard to generally accepted actuarial best practice. *Syndicate actuaries* must also do so. *PCS* and professional guidance notes establish some elements of generally accepted best practice. Actuaries to whom this standard applies must also consider whether there are any other practices that may be considered as generally accepted best practice. Where a materially different practice is adopted to one which is a non-mandatory generally accepted best practice, the actuary should record the reasons for the practice actually adopted.
- 2.10 *Appointed actuaries* and *appropriate actuaries* are required by the Regulations to communicate certain matters to the FSA. Guidance is given in GN 37.
- 2.11 Sections 342(3) and 343(3) of the Act relieve the *appointed actuary* or *appropriate actuary* of any legal duty of confidentiality if he or she gives information or opinion in good faith to the FSA on matters of which he or she becomes aware in his or her capacity as *appointed actuary* or *appropriate actuary* for the *insurer*, or as actuary acting for a close link of the *insurer*, which he or she reasonably believes to be relevant to any function of the FSA. This applies whether or not the information or opinion is required to be communicated under the Regulations.

3 Additional Duties of *Appointed Actuaries*

- 3.1 The additional duties of the *appointed actuary* are set out in SUP 4, in particular 4.3.13R.
- 3.2 SUP4.3 requires the *appointed actuary* to identify and monitor the risks run by the *insurer* to the extent that they may materially impact on the firm's ability to meet *liabilities to policyholders* in respect of long-term insurance contracts as they fall due (see 3.6 below). The *appointed actuary* must ensure that he or she has sufficient information and resources to enable this task to be carried out. SUP4.3 imposes upon the *appointed actuary* the duty to request the *insurer* to provide such information and advise as to the systems reasonably needed to enable it to do so
- 3.3 SUP4.3 requires the *insurer* to provide such information and establish such systems and to provide the *appointed actuary* with sufficient resources to do his or her work.

- 3.4 The information required, and the frequency of monitoring, will depend on the nature of the business carried out by the *insurer*. The following list, which is not exhaustive, sets out the most usual items of information which are required to monitor risks, particularly those of a financial nature. The *appointed actuary* must use his or her judgement to decide which items are required and the frequency with which they should be monitored, and advise the *insurer* appropriately.
- (a) the terms on which existing business has been, and current new business is being, written, with particular reference to all options and guarantees;
 - (b) the existing investments of the long-term business assets and the continuing investment policy including the use of derivative instruments;
 - (c) the nature, extent and availability of the *insurer's* assets outside the long-term business fund;
 - (d) the marketing plans, in particular the expected volumes and costs of sales;
 - (e) the current and likely future level of expenses;
 - (f) the current and likely future levels of mortality and morbidity;
 - (g) the reinsurance, underwriting and (for health insurance) claims handling arrangements;
 - (h) the *insurer's* policy in regard to the nature and timing of allocations of profits to policyholders and/ or shareholders;
 - (i) the current and likely future taxation position of the *insurer*;
 - (j) the persistency of the business written both in the short and long term, and the terms for discontinuance;
 - (k) the extent to which assets and liabilities are matched by term, by type and by currency;
 - (l) for unit-linked policies, the pricing policy for internal linked funds; and
 - (m) the systems of control which the insurer has established, especially those relating to operational risk.

3.5 SUP4.3.13R(2) requires the *appointed actuary* to advise the *insurer* if he or she believes that it:

- (a) is not meeting *liabilities to policyholders* as they fall due, or may not be doing so, or might not have done so, or might in reasonably foreseeable circumstances not do so.
- (b) is or may be writing new business on inadequate terms contrary to IPRU(INS)3.5A or IPRU(FSOC)4.13.
- (c) does not, or may not, have sufficient financial resources to *meet liabilities to policyholders* as they fall due (including reasonable bonus expectations) or, if the *insurer* currently has sufficient resources might, in reasonably foreseeable circumstances, not continue to have them.

If the *appointed actuary* believes either that the *insurer* is not currently able to meet the minimum required solvency margin or that there is a significant chance that the *insurer* may not in the relatively near future be able to do so, then the *appointed actuary* should provide the advice under (c) above.

3.6 *Liabilities to policyholders* are defined in the FSA Handbook Glossary as including any liability arising from the requirement to treat customers fairly, including with regard to policyholders' reasonable expectations. The *appointed actuary* must ensure that the *insurer's* management are aware at all times of his or her interpretation of its policyholders' reasonable expectations (see 7.4(e) below) and of any other obligations to treat its customers fairly which need to be taken into account. In general terms this interpretation should have regard to the broad nature of the *insurer's* practices and business plans and its approach to the treatment of policyholders both individually and (where appropriate) collectively as a group vis-à-vis shareholders. When a material change is likely to take place in the *insurer's* business plans, practices or other circumstances, the *appointed actuary* must take all reasonable steps to ensure that the *insurer* appreciates the implications for fairness and the reasonable expectations of its policyholders. The *appointed actuary* must also satisfy himself or herself that adequate systems of control are in place to ensure that the *insurer's* policyholders are not misled as to their expectations. If the actuary believes that the systems of control are not adequate, he or she must draw this to the attention of the *board*.

3.7 SUP 4.3 requires that where the *insurer* also carries out general insurance business, the *appointed actuary* must consider that business to the extent to which it might impact on the long-term business. Even where the long-term and general insurance funds are legally separated, poor performance of the general insurance business can affect the apportionment of overheads between the businesses and the capital available outside the long-term fund to meet the statutory minimum margin. Where necessary, the *appointed actuary* should seek advice from an actuary with relevant experience in general insurance.

4 Premium Rates and Policy Conditions

- 4.1 The *appointed actuary* must be satisfied that the premium rates being charged for new business are consistent with the requirements of IPRU(INS)3.5A and IPRU(FSOC)4.13. In particular they should be sufficient to enable the *insurer* in due course to meet its emerging commitments under the policies, having regard to the items listed in paragraph 3.4 above and to the extent of the *insurer's* free assets available for this purpose.
- 4.2 The certification of premium rate adequacy by the *appointed actuary* in the *insurer's* annual returns to the FSA and by the *syndicate actuary* in the certificate required by LLD15.9.1R(3) refers to contracts written during the financial year and is thus purely retrospective. Since reserves will have been set up to allow for any anticipated losses the certificate does not in itself make any demands on the actuary additional to those required by applicable valuation regulations.
- 4.3 Should premium rates be such that business is expected to be written on terms which require support from the free assets, the *appointed actuary* must assess the *insurer's* ability to continue to write business on such terms and must inform the *board* of this, indicating any limits on the volume of business that may prudently be accepted.
- 4.4 For almost all types of policy, it is impossible to be certain that a premium rate will be sufficient, because sufficiency depends on the future course of factors such as mortality, persistency, the return on investments and the *insurer's* expenses. However, techniques such as profit-testing and stochastic modelling should be used to enable the circumstances and extent of potential insufficiency to be identified and quantified.
- 4.5 The *appointed actuary* must pay special attention to contracts involving policyholder options, including when circumstances could arise in which the policyholder or an intermediary could gain by surrender and re-entry.
- 4.6 The *appointed actuary* must also consider the implications for the *insurer* and for policyholders if future economic, demographic or business circumstances were to be radically different from those of today, particularly where the policy contains guarantees.
- 4.7 It may be that a practicable premium basis, whilst commercially justifiable, will involve significant new business strain. The *appointed actuary* must be satisfied that the *insurer* will be able to set up the necessary reserves and additional minimum required solvency margin.
- 4.8 Assets held outside the long-term business fund cannot automatically be assumed to be available for the purposes of paragraphs 4.3 or 4.7 above. Rather, the *appointed actuary* must inform the *board* of any different maximum amount of new business which could be written if they were available, either for transfer into the long-term fund or to assist in meeting the minimum required solvency margin.

- 4.9 Some *insurers* may include in their policy documents a statement that certain terms will be determined by the *appointed actuary* or other similar wording. For example, expense charges and mortality and morbidity charges may be treated in this way, as may market value adjustments to unitised with-profits contracts. In determining such terms, or in providing advice to the *insurer* in this area, the *appointed actuary* must have regard to policyholders' reasonable expectations, to relevant legislation (including that covering unfair contract terms) and to FSA rules and guidance.
- 4.10 For unit-linked and, where appropriate, unitised with-profits business, the *appointed actuary* must be satisfied that all discretionary elements of unit pricing and fund charges are applied consistently with policyholders' reasonable expectations. In addition, the *appointed actuary* must be satisfied that the procedures for determining:
- (a) the prices at which units are allocated to or de-allocated from policies;
 - (b) the prices at which units are created or cancelled; and
 - (c) compensation where errors of a material size in unit pricing or in the allocation or de-allocation of units to policies have occurred;

are equitable to any policyholders affected either directly or indirectly and are being properly implemented. For these purposes the *appointed actuary* must have regard, inter alia, to the tax position of the business and to the expected future growth or decline of the particular fund.

5 The Actuarial Investigation

- 5.1 The actuary must take all reasonable steps to ensure that the data is accurate. If the actuary has any doubts about the accuracy of the data, reserves must be established for the risk that the actual value of the liabilities will be greater than that derived from the available data. If the potential inaccuracy is material, the certificate required to be provided (see 2.1 above) must be appropriately qualified.
- 5.2 The actuary must ensure that adequate systems of control are in place and fully documented to enable the appropriate valuation procedures to be correctly carried out and adequately recorded. The actuary must use liability valuation methods that are appropriate to the contracts in question, taking into account not only the principal benefits but also any ancillary benefits such as surrender values and any policyholder options or guarantees. When assessing the liabilities of the *insurer*, the actuary must also have due regard to policyholders' reasonable expectations, which should be interpreted in conjunction with any relevant FSA rules and guidance and with GN8.

- 5.3 Appropriate provision must be made for future expenses of administering the business existing at the date of the investigation. This provision must not be less than that which would be required if the *insurer* were to be closed to new business one year after the valuation date. It must also have regard, amongst other factors, to the possibility that preferential service agreements or outsourcing arrangements might be altered or terminated. Prudent allowance must be made for the loss of future margin as policies are made paid-up and, if the number of policies is declining or expected to decline, for the possibility of more slowly declining overhead costs.
- 5.4 Assumptions about future mortality and morbidity must take into account recent relevant experience and trends of the industry and, if credible, of the *insurer*.
- 5.5 The value to be placed on the assets is the responsibility of the *board*. However, the actuary must take reasonable steps to verify that adequate systems of control are in place to ensure that appropriate values are placed on the assets; in particular, that any limits on exposure to individual investments, classes of investment or counterparties imposed by FSA rules are properly applied. If the actuary believes that the systems of control are not adequate, he or she must draw this to the attention of the *board* and, if necessary, establish reserves in respect of the risk of over-valuation.
- 5.6 The actuary must decide the rates of interest to be used in the valuation of the liabilities. These are affected by the actuary's estimates of the likely future proceeds of the existing assets and of the rate at which future investment will be possible. They may also be subject to constraints imposed by any applicable valuation rules. In relation to the existing assets, the actuary must assess the nature of the portfolio and consider what rate of return, capital and income, is likely to be realised over the future period relevant to the liabilities. In addition, due allowance must be made for the current and future taxation position of the *insurer*. Any such allowance must be consistent with any allowance made for tax relief on expenses.
- 5.7 The actuary will need to ensure that allowance has been made for the effect or possible effect of derivatives and other financial instruments when choosing the valuation basis. (*Appointed actuaries* should particularly bear this in mind when choosing the basis used in the changed investment conditions envisaged in IPRU(INS)5.17 and IPRU(FSOC) Appendix 5, Paragraph 16). The appropriate valuation interest rates should allow for the return on the assets held as adjusted to reflect economic exposure under futures contracts and contracts for differences. Consideration should also be given to the treatment of, and allowance for, financial options, particularly when close to an option date.
- 5.8 The actuary must take account of the *insurer's* reinsurance arrangements in the valuation, including any implicit financing provision and the possibility that reinsurance contracts may lapse or prove unenforceable in certain circumstances.

- 5.9 The actuary must have regard to the possibility of failure of or dispute with a reinsurance, investment or financial instrument counterparty to which the *insurer* has material exposure. He or she must determine a maximum exposure to each counterparty, taking into account factors such as the financial strength and regulatory environment of the counterparty. For each counterparty, reserves must not be reduced for reinsurance in aggregate in excess of this amount and, if assets are taken into account in excess of this amount, a reserve equal to the excess must be established.
- 5.10 The actuary must be satisfied that, in each of the assumptions, including the credit taken for any reinsurance, the margins in any valuation of the liabilities, including any margins required by FSA rules, are adequate having regard to the actuary's own assessment of the risks inherent in the nature and conduct of the *insurer's* business and the financial strength and regulatory environment of relevant counterparties.
- 5.11 Where there is any mismatching of assets and liabilities, the actuary must ensure that there is adequate explicit or implicit provision for reasonably foreseeable adverse movements in asset values or yields.

6 Advice to *insurers* from *Appointed Actuaries*

- 6.1 The *appointed actuary* must prepare and submit to the *board* either a financial condition report in accordance with GN2 or a report in whatever alternative format he or she considers necessary to ensure that the *board* is sufficiently well informed of the foreseeable risks which could jeopardise the *insurer's* financial position.
- 6.2 In particular, *appointed actuaries* must advise the *insurer* of the actions that could be taken if the solvency of the *insurer* were to deteriorate, as a result of factors either within or outside the control of the *insurer*. This advice must include details of the options available as the probability of failure to meet *liabilities to policyholders* progressively increases and must also refer to the desirability of having documented plans and processes for dealing quickly and effectively with the situation were it to arise.
- 6.3 If the *appointed actuary* considers that the *insurer's* reinsurance arrangements are inappropriate or inadequate the *appointed actuary* must advise the *insurer* on the modifications necessary to protect the position of the policyholders.
- 6.4 The *appointed actuary* must judge and decide whether the investment policy pursued by the directors is, or could become, inappropriate having regard to the nature and term of the *insurer's* liabilities. If this is the case, the *appointed actuary* must advise the *insurer* of the constraints on investment policy necessary to protect the position of policyholders.
- 6.5 The *appointed actuary* must advise the *insurer* of the appropriateness of the guidelines given to the *insurer's* investment managers regarding the use of derivative contracts and the procedures in place to monitor the *insurer's*

exposure to loss through their use. Loss can occur either through market movements or through failure of a counterparty.

- 6.6 The *appointed actuary* of an *insurer* which issues products subject to the requirements of COB 6.6.23R(2) (disclosure of charges and expenses for certain types of policy) or which is subject to COB6.9.3 (requirement to produce a with-profits guide) must keep the *insurer* advised of his or her opinion of the way in which relevant professional guidance, especially GN22, should be interpreted in the context of the *insurer's* business and of the extent to which the *insurer's* disclosed charges and expenses or with-profits guide is consistent with that guidance.

7 Recommendations on Allocation of Profits

- 7.1 When carrying out the required investigations under IPRU(INS)9.4, IPRU(FSOC)5.1 or IPRU(FSOC)5.2, the *appointed actuary* or *appropriate actuary* is required to determine in accordance with any applicable valuation regulations any excess of the assets maintained in respect of its long-term business (insurance business in the case of the *appropriate actuary*) over its liabilities attributable to that business. If rights of any long-term business policyholders to participate in profits relate to a part of such a fund, the *appointed actuary* or *appropriate actuary* must also identify separately any excess which relates to that part.
- 7.2 An insurance company is permitted by IPRU(INS)3.2 to make transfers of assets representing its long-term funds to the extent that they have been shown by a recent investigation to exceed the amount of the liabilities, subject to the provisions of IPRU(INS)3.3 relating to allocations to any participating policyholders. The *appointed actuary* of that company must advise the company on the extent to which it would be appropriate to distribute any excess to policyholders or transfer it to shareholders and to make recommendations for its specific allocation. The *appointed actuary* or *appropriate actuary* of a friendly society must advise the society on the extent to which it would be appropriate to distribute any excesses to policyholders and must make recommendations for its specific allocation.
- 7.3 In making recommendations in respect of any proposed allocation of profits the *appointed actuary* or *appropriate actuary* must carry out appropriate financial investigations including an appraisal of the relevant past experience.
- 7.4 In the report that includes the recommendations, the *appointed actuary* or *appropriate actuary* must include sufficient information and discussion about each factor and about the results of any financial investigations to justify, and enable the *board* to judge, the appropriateness of the recommendations and for the *board* to understand their implications for the future course of the *insurer's* business. In particular, the *appointed actuary* or *appropriate actuary* must state his or her:

- (a) conclusions from the appraisal of the relevant experience including, if asset share techniques are used, the way in which the recommendations are derived from those techniques;
- (b) understanding of the *insurer's* financial and business objectives;
- (c) assessment of the *insurer's* ability to meet its minimum required solvency margin following the recommended allocation;
- (d) interpretation of legal advice given to the *insurer* constraining or potentially constraining the *board's* discretion when allocating surplus and how this has been reflected in the recommendations;
- (e) interpretation of policyholders' reasonable expectations having regard in particular to (a), (c) and (d). Such expectations are influenced by policy literature and other publicly available information such as own-charge illustrations and with-profits guides and by past and current distribution practice;
- (f) opinion of the extent to which it is appropriate to distinguish between groups of participating policies having regard inter alia to the nature of the policies, their duration and their relevant pooled experience, and taking account of (d) and (e); and
- (g) opinion of how the recommendations maintain fairness between different categories of policy or policyholder and between policyholders and the *insurer*.

The extent of information and discussion appropriate for any factor will depend upon the extent to which, if at all, the factor has been covered in a report formally presented to the *board* in the previous eleven months. In particular, the *appointed actuary* or *appropriate actuary* may report in an appropriately abridged form when interim or terminal bonus rates are being reviewed during the year.

7.5 If the recommendations anticipate the results of a determination of surplus, the *appointed actuary* or *appropriate actuary* must include in the report the estimated results of the determination and show how the recommendations can be financed.

7.6 The *appointed actuary* or *appropriate actuary* must discuss the relationship between the recommended allocation and recent and expected future experience (economic, demographic, etc). In the case of with-profits business, the report must address bonus prospects, including terminal bonus, in different future investment scenarios. If the recommended allocation is excessive relative to the recent and expected experience (apart from any non-recurrent elements) and if the continuation of this relationship in future years could result in a material deterioration in the *insurer's* financial position, the report must indicate whether and how this could appropriately be avoided, taking policyholders' reasonable expectations into account.

7.7 Where, in the opinion of the *appointed actuary* or *appropriate actuary*, there is uncertainty regarding the extent to which the *board* can exercise its discretion when allocating surplus, he or she must state in the report the nature of the uncertainty, the assumptions made with regard to the uncertainty when making the recommendations and the consequences were the uncertainty to be resolved differently.