

## **GN50: General Insurance Principles and Practice**

### ***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**

### ***Purpose***

The purpose of GN 50 is to give guidance on the professional behaviour expected of members in the field of general insurance, as defined under Application.

### ***Application***

This statement of principles and practice applies to *members* working in the field of general insurance. It applies equally whether the *member* is acting as an employee, director, owner or third-party contractor to an organisation.

In this document, general insurance includes property and casualty insurance (including reinsurance), similar risk exposures and related financial risks. This includes the business within the classes of insurance to which the EU's First Non-life Directive (73/239/EEC) applies. However, this guidance note has natural relevance to actuarial modelling of risk beyond traditional insurance applications.

### ***Author***

General Insurance Board

### ***Status***

Approved under Due Process

***Version***            ***Effective from***

1.0                    01.04.06

**Adopted by BAS on 19.05.06**

**Ceased to apply from 01.10.11**

### ***Definitions***

The following definitions apply to this guidance note:

#### ***General insurance guidance note***

A guidance note authored or co-authored by the general insurance board

#### ***Technical notes***

Technical notes are a type of *general insurance guidance note* that are identified as such in their introduction. They articulate what a compliant piece of work should normally contain.

### *Practice notes*

Practice notes are a type of *general insurance guidance note* that are identified as such in their introduction. They articulate the professional responsibilities of a *member* in performing a specific role.

### *Reserved advice*

Reserved advice takes the meaning assigned to it in PCS.

### *Member*

Member takes the meaning assigned to it in PCS.

### *Should normally*

‘Should normally’ takes the meaning assigned in PCS.

## **1 General Matters**

### **1.1 Scope**

1.1.1 This guidance note sets out the standards to which the profession expects *members* to conform in work on general insurance and related matters.

### **1.2 Compliance**

1.2.1 *Members* must conform to both the spirit and letter of relevant *general insurance guidance notes* issued.

1.2.2 An action should be proportionate to the problem or task in hand and need not go beyond what is necessary to achieve its objective.

1.2.3 An action can only be required if practicable.

1.2.4 A *member* must be able to justify any non-compliance with a *general insurance guidance note* that would appear to have natural relevance.

1.2.5 While there is no obligation for *members* operating for differing parties to a transaction to ensure another’s compliance with the principles and practices set out in this guidance note, *members* must not intentionally mislead, nor be complicit in the intentional misleading of, others. *Members* must consider whether there is a risk that their actions could undermine the quality of professional advice prepared by others.

### **1.3 Recording compliance**

1.3.1 A *member* must consider whether the circumstances justify recording compliance with each principle set out in part 2 of this guidance note, particularly when providing *reserved advice*. There is no obligation on a *member* to record this compliance in all circumstances, but where

appropriate such recording of compliance could appear either in a report or in the *member's* working files.

## **2 Principles**

### **2.1 Data and other information**

2.1.1 Paragraph 3.4 of PCS sets out considerations a *member* must make with regard to data.

2.1.2 Much of the information available for use in general insurance is imperfect to some degree. This does not prevent the *member* from using the data concerned. The *member* must consider and communicate the implications of imperfections in the data.

2.1.3 The *member* must consider what allowance to make for imperfections in the available information. Depending upon the purpose, the *member* should normally modify advice to allow explicitly for these imperfections, or provide advice with a modified scope.

2.1.4 The *member* must exercise care in providing advice in circumstances where the underlying information upon which the advice is provided is not sufficiently up to date.

### **2.2 Terminology**

2.2.1 Some words and expressions commonly used in general insurance can be unclear, ambiguous, unfamiliar to the audience, or have particular meanings assumed by the audience that differ from those assumed by the *member*. The *member* must consider whether some of the words and expressions used may be open to misinterpretation and, if so, should normally define them.

### **2.3 Scope and Purpose**

2.3.1 The *member* must consider how their advice or analysis will be used. This may lead to the *member* requiring amendment to the scope of their work, modifying their approach to or communication of the work, or declining to act.

2.3.2 Unless otherwise clear from the context, the *member* must make explicit the scope and purpose of advice given.

### **2.4 Audience**

2.4.1 Unless otherwise clear from the context, the *member* must make explicit the intended audience for their advice.

2.4.2 The *member* must be mindful of the intended audience of the work carried out. In doing so, the *member* must ensure that the scope and

purpose of work undertaken and the presentation of the findings are appropriate.

## **2.5 Methodology and Assumptions**

- 2.5.1 Actuarial work in the field of general insurance will often require a large number of assumptions to be made in parallel with judgements regarding the appropriate methodology to be used. The *member* must consider the audience, and the purpose and scope of advice, in determining the extent to which the methodology and assumptions are explained and act accordingly.
- 2.5.2 The *member* must ensure that, when considered together, the methodology and key assumptions selected are appropriate for the purpose.
- 2.5.3 The *member* must consider the extent to which justification is needed for the choice of methodology and key assumptions and what steps could be taken to test them and act accordingly. The *member* must consider how to monitor the methodology and assumptions against emerging experience and the degree of divergence that will prompt either methodology or assumptions to be reviewed.
- 2.5.4 The *member* must indicate those assumptions for which they are taking responsibility. For *reserved advice*, where there is a relevant *practice note*, the responsibility of the *member* with regard to methodology and assumptions is set out in that *practice note*.

## **2.6 Point estimates**

- 2.6.1 When providing quantitative advice, the *member* should normally include a specific point estimate in the context of the purpose of the advice. Provision of a range of outcomes is often desirable (see 2.7.1) but the provision of a range of outcomes without a specific point estimate could be open to misinterpretation.

## **2.7 Communicating Uncertainty**

- 2.7.1 The *member* must consider the uncertainty surrounding advice or opinions formed and communicate this appropriately. The need to communicate uncertainty will depend upon the audience and the degree and importance of the uncertainty in the context of the purpose of the work. The less likely the audience is to appreciate the importance or extent of this uncertainty, the greater the need is for the *member* to communicate it. If uncertainty is important in the context of the purpose of the work (for example if alternative advice could give rise to different decisions or conclusions) then it should be communicated.

2.7.2 In discussing uncertainty, the *member* must consider whether elaboration of the sources of uncertainty is appropriate and act accordingly.

## **2.8 Documentation**

2.8.1 The *member* must consider the degree to which opinions or advice should be documented, either for future reference by themselves or others or to support communication to the audience of their work and act accordingly.

## **2.9 Peer review**

2.9.1 The *member* must consider whether and to what degree a review of the work, to be performed by another suitably-qualified *member*, is necessary. The relevant *practice note* will specify any minimum standards of peer review required.

2.9.2 Where such a review is to take place, the *member* must ensure that the presentation of their work enables the reviewing *member* to identify the methodology and key assumptions, the reasons supporting their selection and to assess the reasonableness of the results. The extent of the peer review will depend upon the specific circumstances, but where it does take place, it should normally include a review of the methodology and assumptions for key elements of the work, and should normally be completed before the results are finalised.

## **2.10 Reliance on others**

2.10.1 Where instructed to do so, or having been satisfied that it is appropriate to do so, the *member* may rely on or use the work of other suitably qualified professionals. If there is a risk of confusion as to the division of responsibilities between the *member* and other interested parties, the respective responsibilities must be made clear when communicating the results.

2.10.2 When providing *reserved advice*, the *member* must carry out sufficient work to be satisfied that it is reasonable to rely on the work of others.

2.10.3 In many assignments, the *member* will need to rely upon the work of the auditor. The *member* must not rely on the auditor beyond the extent to which a normal user of the accounts might reasonably expect to be able to rely, unless there is an explicit agreement for such reliance.