

**Subject SA2
Life Insurance
Specialist Applications**

Syllabus

for the 2009 Examinations

1 June 2008

**The Faculty of Actuaries and
Institute of Actuaries**

Subject SA2 — Life Insurance Specialist Applications Syllabus

Aim

The aim of the Life Insurance Specialist Applications subject is to instil in newly-qualified actuaries the ability to apply knowledge of the United Kingdom life insurance environment and the principles of the actuarial practice of life insurance to a United Kingdom life insurance company.

Links to other subjects

Subject ST2 — Life Insurance Specialist Technical: provides the underlying principles upon which this subject is based. It is assumed that students have a good understanding of the principles covered in that.

Candidates can expect to be examined in aspects of general principles developed in Subject ST2 — Life Insurance Specialist Technical as well as in the UK specific aspects developed in this subject.

Subject P2 — Life Insurance UK Practice Module Specialist: the knowledge required to pass Subject P2 is contained in this subject.

Subjects ST1 and SA1 — these Health and Care Specialist Technical and Applications subjects cover health and care products such as income protection and critical illness, and related matters. These two products are covered to a limited extent in Subject SA2 because they are relevant products to a life insurance actuary. Questions may get asked in the examination paper for Subject SA2 about matters relating to these products that are not covered specifically in the core reading for SA2, in particular applying the concepts covered in SA2 to income protection and critical illness products.

Objectives

On completion of this subject the candidate will be able to:

- (a) Define the principal terms used in life insurance in the United Kingdom.
- (b) Describe the major products of UK life insurance companies, additional to the generic coverage in Subject ST2, and whether currently sold or not, in terms of:
 - the main types of products issued
 - the benefits, guarantees, and options that may be provided
 - the purpose and risks of the products to the policyholder and the insurer

The products under this syllabus objective are:

- term assurance
- income protection
- critical illness
- conventional with profits

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- accumulating with profits
 - property-linked
 - index-linked
 - mortgage endowment
 - single premium bonds
 - personal pension, including self-invested personal pension
 - group personal pension
 - stakeholder products
 - annuities
 - deposit administration
 - life insurance products related to occupational pension schemes
 - wraps
 - variable annuities
 - equity release products
- (c) Describe the general business environment for life insurance companies in the UK, including the risks involved, in terms of:
- new business
 - distribution of products
 - the wider competitive environment
 - the FSA’s principle of Treating Customers Fairly (“TCF”)
 - operational risk
 - corporate finance
 - outsourcing
 - securitisation
 - mergers and acquisitions
 - demutualisations
 - closed funds
- (d) Describe the principles of UK contract and trust law as they affect life insurance, including reference to Unfair Contract Terms legislation, the Financial Ombudsman Service, and the impact of Disability Discrimination regulations.
- (e) Describe, in terms of the following, the regulatory environment for UK life insurance companies, and how this environment affects the way these companies carry out their business in practice, including the related analyses and investigations:
1. The taxation of the UK business of life insurance companies and the effect of taxation on the benefits and premiums paid under UK life insurance contracts.

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2. The supervision of the UK business of life insurance companies under the relevant Prudential sourcebooks with regard to:
 - A the valuation of the assets
 - B the valuation of the liabilities, including appropriate methods and bases taking account of the nature of the assets
 - C realistic balance sheets
 - D individual capital assessments
 - E the Returns to be submitted
 - F transfers of surplus, including the requirements of surplus distribution systems
3. The capital requirements of a life insurance company, including:
 - the reasons for projecting solvency
 - determining methods and appropriate bases for assessing the current and future solvency of a UK life insurance company, bearing in mind
 - the risks the company is taking, and the use of risk based capital approaches to assess the impact of these risks
 - the company's ongoing business strategy, including the impact of writing new business
 - the impact of the regulatory capital requirements
 - why a company holds capital
 - sources of capital
 - the principles of asset-liability management, including the use of derivatives
4. The transfer of liabilities from one life insurance company to another.
5. An analysis of surplus on a supervisory basis — reasons for carrying out the analysis, how to do it, and using the results.

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6. Profit and value reporting under the Companies Act legislation and EU approved IFRS, including determining appropriate methods and bases for the purpose of assessing the profitability of existing business, European embedded values, and market-consistent embedded values.
 7. An analysis of the change in the embedded value of a proprietary UK life insurance company, using the results to reassess the design of the company's contracts or actuarial bases.
 8. The Conduct of Business rules imposed by the FSA Handbook of Rules and Guidance with regard to Treating Customers Fairly, disclosure and, for with profits business, the Principles and Practices of Financial Management ("PPFM"), including the Consumer Friendly PPFM.
 9. The management and controls to be exercised by a life insurance company in order to conduct its affairs responsibly and effectively with adequate risk management systems including coverage of the following specific categories of risk:
 - Credit risk
 - Market risk
 - Liquidity risk
 - Operational risk
 - Insurance risk
 - Group risk
 10. The principles underlying the requirements of the professional and regulatory guidance relevant to actuaries practising in or advising UK life insurance companies.
 11. The roles of the Actuarial Function Holder, the With-Profits Actuary, the Reviewing Actuary and the Appropriate Actuary.
- (f) Describe the requirements for the design of life insurance contracts to be marketed in the UK and determine appropriate methods and bases for pricing them.
- (g) Describe the management of UK with profits business, including:
- the calculation and use of asset shares
 - appropriate ways of determining surplus distribution policy
 - the determination of discontinuance and alteration terms

End of Syllabus