

Subject P2

Life Insurance UK Practice Module

Syllabus

for the 2009 Examinations

1 June 2008

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

Subject P2 — Life Insurance UK Practice Module Syllabus

Aim

The aim of this module is to provide a knowledge of UK business practice, regulation, legislation and professional guidance notes relevant to the work of an actuary practising in Life Insurance in the UK.

The Core Reading for the Life Insurance Specialist part of this module is contained within the Core Reading for Subject SA2 — Life Insurance Specialist Applications. There is separate Core Reading for the generic part of this module.

Part A: Generic

This part is generic module P0 and may be taken on its own with a 45 minute test.

1. Know and understand the purpose and structure of UK financial services industry and regulations.
2. Know and understand the FSA's regulatory powers and their impact upon firms and individuals, including how the FSA's rules affect the control structures of firms and their relationship with the FSA and its approach to ethical conduct by firms and individuals.
3. Identify key organisations, institutions and people in the industry and the roles they play in the provision of financial services products.
4. Know and understand the role of the main consumer protection bodies in UK financial services.
5. Explain what is meant by advice, including monitoring and review arrangements, and state the rules that apply to the different types of advice.
6. Know and apply the basic principles of business ethics and integrity.
7. Know and understand the requirements of the major codes of practice relevant to retail financial services.
8. Know and understand the nature of business fees and commission.
9. Know and understand the rules, regulations and procedures relating to the handling of client money.
10. Apply the main requirements of the Data Protection Act 1998, anti money laundering regulations, Conduct of Business Rules, Proceeds of Crime Act 2002 and the laws of agency and contract in dealing with customers.

11. Know and understand the FSA's complaints handling requirements.
12. Know and understand the main features of the FSA's policy regarding financial promotions.
13. Understand the concepts and principles underpinning insurance contracts.
14. Know and understand the FSA's requirements relating to market abuse.
15. Know and apply the principles of asset ownership to retail financial services.
16. Know and understand the importance of financial planning and describe the factors that affect financial needs throughout life.
17. Understand and apply the principles and concepts of risk associated with financial planning.
18. Be aware of the purpose of the professional guidance for actuaries contained in the Professional Conduct Standards and the Guidance Notes.

Part B: Life Insurance Specialist

- (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
- 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

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- 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.
 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.
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.

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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