

# GN WORKING PARTY

## GENERAL INSURANCE BUSINESS: ACTUARIAL REPORTS

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Date: 02/10/2005

## **SUMMARY OF CONTENTS**

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| 7 - 19       | Audit trail, identifying each paragraph of the proposed new GN12 with its source and brief discussion points from the GN Working party. |
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## **GN12: GENERAL INSURANCE BUSINESS: ACTUARIAL REPORTS**

### **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

### **Application**

Any actuary preparing a formal report relating to 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.

### **Author**

General Insurance Board.

### **Status**

To be approved under due process.

### **Version**

Pre exposure v0.12

## **1 Introduction**

- 1.1 The purpose of this general insurance guidance note is to set out the elements an actuary should normally include in a formal report.
- 1.2 For the purpose of this guidance note, a report should normally be regarded as formal if it is:
  - (i) commissioned as such;
  - (ii) required in fulfilment of a reserved role;
  - (iii) to be used in compiling statutory accounts or regulatory returns;
  - (iv) part of a submission to regulators;
  - (v) likely that an independent third party might reasonably rely on the results of the report; or
  - (vi) necessary to ensure communication is in accordance with GNPP.
- 1.3 The actuary should have regard to any relevant guidance issued by the General Insurance Board.
- 1.4 Where the report relates to business written in another country the actuary should be familiar with the relevant legislation and local conditions.
- 1.5 Where the report has been commissioned by a body in another country or is expected by the actuary to form part of a submission to a body in another country, the actuary should be familiar with the relevant legislation, local conditions and professional codes of conduct.
- 1.6 If more than one actuary signs the report, then responsibility for the contents of the report is joint and several.

## **2 Definition of Terms**

- 2.1 The report should include definitions of technical words and expressions used in the report.

## **3 Purpose and Scope**

- 3.1 The report should state:
- (i) who has commissioned the report and, if different, the addressee(s) of the report;
  - (ii) the name and qualifications of the actuary taking responsibility for the report;
  - (iii) the capacity in which the actuary is acting;
  - (iv) the purpose of the report or the terms of reference given;
  - (v) the scope of the report;
  - (vi) the extent, if any, to which the report falls short of, or goes beyond, its stated scope or purpose;
  - (vii) that the report has been prepared in accordance with this guidance note;
  - (viii) any restrictions on the actuary.
- 3.2 The report should normally address:
- (i) the nature, accuracy and interpretation of the data;
  - (ii) comparisons of actual experience with that expected under the assumptions in the last similar report, if any;
  - (iii) the actuarial models and key assumptions;
  - (iv) any changes in the method and key assumptions since the last similar report produced by the same actuary;
  - (v) model results;
  - (vi) uncertainty of the model results;
  - (vi) the effect of any actual or planned business developments on the conclusions of the report.
- If the report does not address each of the points above then the report should justify why the point has not been addressed.
- 3.3 An assumption should be considered key if it has a material impact on the results of the actuarial investigation.

## **4 Information and Data used by the Actuary**

- 4.1 The report should indicate the sources of the data that the actuary has used and the extent to which he or she takes responsibility for data accuracy or completeness. The actuary may need to rely on or use the work of other people. If there is a risk of confusion as to the division of responsibilities between the actuary and other persons or organisations, the respective responsibilities should be made clear in the report.
- 4.2 The actuary should draw attention to any material shortcomings in the available data including the effect on the appropriateness of the data of changes in the way the business analysed has been conducted. Specifically, the actuary should make reference to shortcomings in the data that have materially added to the uncertainty surrounding the estimates that he or she has made.
- 4.3 The actuarial report should indicate the basis for subdividing data into groups exhibiting similar characteristics. In the determination of appropriate subdivisions a balance should be found between homogeneity and statistical reliability.

- 4.4 The actuary may make adjustments to the data to allow for aspects of the business that may give rise to bias, for example large losses or changes in underwriting policy. Where such changes are made the nature, amount and rationale for the adjustments should be clearly stated.

## **5 Analysis of Emerging Experience**

- 5.1 The actuary would not normally be expected to comment on the choice of methods or assumptions made by another actuary in an earlier report.
- 5.2 If there is a change in approach or assumptions from the previous actuarial report, then regardless of who was responsible for the previous report, the actuary should explain the impact on the actuarial models or assumptions adopted.
- 5.3 The actuary should normally comment on new data that has emerged in the context of previous actuarial models/assumptions. This could be by reference, for example, to an analysis of expected versus actual outcomes.
- 5.4 New data should be given weight appropriate to its credibility. The actuary should explain the basis of deciding on the level of credibility and describe the effect on results.
- 5.5 The actuary should also consider external issues that may change the credibility such as:
- (i) changes in the mix of business of the insurer;
  - (ii) changes to policy conditions;
  - (iii) changes in processing claims or premiums (for example, administrative delays, changes to case estimation procedures);
  - (iv) identified systems issues (new systems or changes to systems).

## **6 Documentation of Methodology and Assumptions**

- 6.1 The report should include a section providing a summary of methods used and explaining to which elements of the data a method has been applied.
- 6.2 Where unusual or non-standard methods have been used, or where one or more of the recipients of the report is unlikely to be familiar with the methods used, then a more detailed description of the methods should normally be given.
- 6.3 The report should specify and discuss the key assumptions and judgements.
- 6.4 If the report includes illustrations based on assumptions that the actuary does not regard as appropriate, this should be made clear in the report.
- 6.5 In view of inherent uncertainty, the actuary should normally show the results of more than one method or set of assumptions. The key assumptions implicit in any method used and the rationale for selection of one method or set of assumptions over another, or for selection of results based on combinations of methods, should be stated in the report.
- 6.6 Where the results of different methods or assumptions differ significantly, the actuary should comment on the likely reasons for the differences and explain the basis for the choice of results.

- 6.7 The report should be self-contained to the extent that any other suitably experienced actuary, without recourse to working papers or access to the original actuary, should be able to form an opinion on the original actuary's key judgements and evaluate the reasonableness of the results.
- 6.8 It is not necessary to disclose every assumption made, but there should be sufficient data and other information to understand the key assumptions made and the process by which the actuary has identified them.

## **7 Results**

- 7.1 The report should normally include best estimates, representing estimated means of distributions of possible results.
- 7.2 The actuary should ensure that amounts he or she recommends or certifies for inclusion as technical provisions in financial statements or returns to supervisory authorities are in accordance with the governing accounting principles or legislation.

## **8 Uncertainty**

- 8.1 The report should normally indicate the degree and sources of uncertainty surrounding the point estimates that the actuary has made and sensitivities to key assumptions. Uncertainty for a particular point estimate would normally be quantified by providing a range of values around the point estimate together with an indication of the likelihood that the true value lies above, below or simply outside the range. This can be achieved by specifying quantiles or by using any other appropriate descriptive summary.
- 8.2 If there are specific features of the business that present potential concerns or significantly increase the uncertainty of the results, beyond that which an informed reader of the report would reasonably expect, then this fact should be clearly highlighted in the corresponding reservations, or limitation of scope, included in the report.
- 8.3 If there is a substantial probability of a material impact on the reported profit and loss or balance sheet strength resulting from adverse deviation from modelled results, the actuary should draw attention to this in the report.

## **Audit Trail: Proposed new GN12**

### **Summary**

The following table lists each section of the proposed new version of GN12. For each section the source is identified under the heading 'Audit trail', the gist of any discussion is documented under 'Discussion points'. The following abbreviations are used in the audit trail.

### **Abbreviations**

[U.GN12] = United Kingdom, Institute of Actuaries, GN12

[A.PS300] = Australia, Institute of Actuaries of Australia, Professional Conduct Standard 300, Actuarial Reports and guidance on General Insurance Technical Liabilities

[A.GN353] = Australia, Institute of Actuaries of Australia, Guidance Note 353, Evaluation of General Insurance Technical Liabilities

[S.GN01] = Singapore, Singapore Actuarial Society, GN G01, Guidance Note for Actuaries Investigating Policy Liabilities relating to General Insurance Business.

### **G.TN1: General Insurance Business: Actuarial Reports**

| <b>PROPOSED GN12 POINT</b>   |  | <b>AUDIT TRAIL AND DISCUSSION POINTS</b>  |  |
|--|--|---|--|
| <b><i>Classification</i></b><br>Practice Standard<br><br>MEMBERS ARE REMINDED THAT THEY MUST ALWAYS COMPLY WITH THE PROFESSIONAL CONDUCT STANDARDS (PCS) AND THAT GUIDANCE NOTES IMPOSE ADDITIONAL REQUIREMENTS UNDER SPECIFIC CIRCUMSTANCES     |  | <u><i>Audit Trail :</i></u><br><br><u><i>Discussion points</i></u>  |  |
| <b><i>Application</i></b><br><br>Any actuary preparing a formal report relating to 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. |  | <u><i>Audit Trail : GN12 Application</i></u><br><br>Any actuary preparing a formal report covering actuarial aspects of a general insurance undertaking which is not restricted to the investments of the undertaking, whether as an employee of that undertaking or as a consultant.<br><br><u><i>Discussion points</i></u><br><br><i>Reference to "actuarial aspects of a general Insurance undertaking" has been removed. This deliberately widens the application to include, for example, companies with general insurance type risks that may not be general insurance companies.</i> |  |
| <b><i>Author</i></b><br>General Insurance Board.   |  |   |  |
| <b><i>Status</i></b><br>To be approved under due process.  |  |   |  |

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| <b>Version</b><br>Pre exposure v0.12 |  |
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| PROPOSED G.TN1 POINT |   | AUDIT TRAIL AND DISCUSSION POINTS   |
|----------------------|---|---|
| 1                    | Introduction  |   |
| 1.1                  | The purpose of this general insurance guidance note is to set out the elements an actuary should normally include in a formal report.   | <p><u>Audit Trail</u> : U.GN12.1.1; amended significantly.</p> <p>The purpose of this Guidance Note is to assist an actuary who makes a formal report covering actuarial aspects of a general insurance undertaking (not restricted to the investments of the undertaking) and does so in a professional capacity, whether as an employee of that undertaking or as a consultant.</p> <p><u>Discussion points</u></p> <p>Elements of GN12.1.1 that are covered in the 'Application' section have not been repeated.</p>   |
| 1.2                  | For the purpose of this guidance note, a report should normally be regarded as formal if it is:<br>(i) commissioned as such;<br>(ii) required in fulfilment of a reserved role;<br>(iii) to be used in compiling statutory accounts or regulatory returns;<br>(iv) part of a submission to regulators;<br>(v) likely that an independent third party might reasonably rely on the results of the report; or<br>(vi) necessary to ensure communication is in accordance with GNPP. | <p><u>Audit Trail</u> : U.GN12.1.2; amended significantly.</p> <p>In considering whether a report is formal, and therefore within the scope of this Guidance Note, the actuary should consider the uses to which the report may be put.</p> <p>In particular, if significant decisions are likely to be taken based on the content of the report without the further involvement of the actuary, or the report is likely to be used by people other than those who directly commissioned it, there is a greater need for the report to be self-contained and complete, and therefore subject to this Guidance Note .</p> <p>However work which is incomplete, of an interim nature or intended only as a basis for further discussion, would not normally be considered formal for this purpose.</p> <p><u>Discussion points</u></p> <p>This section seeks to identify the circumstances when a formal report is required. Any one or more conditions need to apply to normally require a G.TN1 compliant report. GNPP is a proposed new guidance note detailing principles and practices to be followed when undertaking general insurance work.</p> |
| 1.3                  | The actuary should have regard to any relevant guidance issued by the   | <p><u>Audit Trail</u> : U.GN12.1.4; amended slightly.</p> <p>In preparing a formal report, the actuary should have regard to any relevant</p>   |



| PROPOSED G.TN1 POINT |   | AUDIT TRAIL AND DISCUSSION POINTS   |
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|                      | General Insurance Board.  | <p>technical guidance issued by the General Insurance Board in the form of an Advisory Note.</p> <p><u>Discussion points</u></p> <p><i>'any relevant guidance' considered sufficient to replace the existing 'any relevant technical guidance... in the form of an Advisory Note.'</i></p>  |
| 1.4                  | Where the report relates to business written in another country the actuary should be familiar with the relevant legislation and local conditions.  | <p><u>Audit Trail</u> : A.PCS300.57</p> <p>Where the legislation, accounting standards or other rulings require the actuary to use specific assumptions, particularly if they are materially different from those the actuary would otherwise use under this standard, the actuary must clearly state the circumstances, discuss whether or not the assumptions are reasonable and consistent with this standard, and discuss the implications of divergence from this standard.</p> <p><u>Discussion points</u></p>  |
| 1.5                  | Where the report has been commissioned by a body in another country or is intended to form part of a submission to a body in another country, the actuary should be familiar with the relevant legislation, local conditions and professional codes of conduct. | <p><u>Audit Trail</u> : A.PCS300.57</p> <p>Where the legislation, accounting standards or other rulings require the actuary to use specific assumptions, particularly if they are materially different from those the actuary would otherwise use under this standard, the actuary must clearly state the circumstances, discuss whether or not the assumptions are reasonable and consistent with this standard, and discuss the implications of divergence from this standard.</p> <p><u>Discussion points</u></p> <p><i>Expansion of point 1.4. Where a body in another country requires a formal report the actuary should also consider the local professional codes of conduct.</i></p> |
| 1.6                  | If more than one actuary signs the report, then responsibility for the contents of the report is joint and several.   | <p><u>Audit Trail</u> : New Point</p> <p><u>Discussion points</u></p> <p><i>This is a new point added to clarify responsibilities when a joint report is produced. It adds further clarification to point 4.1;</i></p> <p><i>"The actuary may need to rely on or utilise the work of other professionals. If there is a risk of confusion as to the division of responsibilities between the actuary and other persons or organisations, the respective responsibilities should be made clear in the report."</i></p> <p><i>If joint and several responsibility could not be taken then separate reports would be</i></p>   |

| PROPOSED G.TN1 POINT |  | AUDIT TRAIL AND DISCUSSION POINTS  |
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|                      |  | <i>required.</i>   |
| <b>2</b>             | <b>Definition of Terms</b>   |  |
| 2.1                  | The report should include definitions of technical words and expressions used in the report.   | <p><u>Audit Trail</u> : U.GN12.2.1; amended slightly.</p> <p>Some words and expressions commonly used in general insurance can be unclear, ambiguous or have different meanings in different jurisdictions .</p> <p>The actuary should consider whether some of the words and expressions used in the report may be open to misinterpretation and therefore need to be defined.</p> <p><u>Discussion points</u><br/> First paragraph considered unnecessary. Second paragraph amended to require technical terms to be defined, thereby strengthening the current GN12 wording.</p>  |
| <b>3</b>             | <b>Purpose and Scope</b>   |  |
| 3.1                  | <p>The report should state:</p> <ul style="list-style-type: none"> <li>(i) who has commissioned the report and, if different, the addressee(s) of the report;</li> <li>(ii) the name and qualifications of the actuary taking responsibility for the report;</li> <li>(iii) the capacity in which the actuary is acting;</li> <li>(iv) the purpose of the report or the terms of reference given;</li> <li>(v) the scope of the report;</li> <li>(vi) the extent, if any, to which the report falls short of, or goes beyond, its stated scope or purpose;</li> <li>(vii) that the report has been prepared in accordance with this guidance note;</li> <li>(viii) any restrictions on the actuary.</li> </ul> | <p><u>Audit Trail</u> : U.GN12.3.1; part of.</p> <p>The report should:</p> <ul style="list-style-type: none"> <li>• Include a statement of its purpose and scope;</li> <li>• make plain whom the actuary is advising;</li> <li>• indicate the intended recipients;</li> <li>• point out that third parties reading the report may not have the background information necessary for a full understanding of the report;</li> <li>• address the key issues;</li> <li>• give sufficient information to allow another experienced actuary to form an opinion on the appropriateness of the actuary's key judgements and, together with the files, be sufficient to allow any other suitably experienced actuary to reproduce the results without access to the actuary.</li> </ul> <p><i>A.PCS300.53; part of.</i></p> <p>The actuary should prepare, date and sign a written report. The report should state:</p> <ul style="list-style-type: none"> <li>- who has commissioned the report and, if different, the addressee(s) of the report;</li> <li>- the name of the actuary and the capacity in which the actuary is acting;</li> <li>- the purpose of the report or the terms of reference given;</li> <li>- the extent, if any, to which the report falls short of, or goes beyond, its stated purpose;</li> <li>- the extent of compliance with this standard and the reasons for not complying fully</li> </ul> |

|     | PROPOSED G.TN1 POINT  | AUDIT TRAIL AND DISCUSSION POINTS  |
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|     |   | <p>with this standard; and</p> <ul style="list-style-type: none"> <li>- any restrictions on the actuary.</li> </ul> <p><u>Discussion points</u></p> <p><i>Working party discussed point (vili) specifically what was envisaged under 'restrictions'. Examples of restrictions may include; limitations on the data available for analysis, inability to question key personnel, limited time for analysis.</i></p>   |
| 3.2 | <p>The report should normally address:</p> <ul style="list-style-type: none"> <li>(i) the nature, accuracy and interpretation of the data;</li> <li>(ii) comparisons of actual experience with that expected under the assumptions in the last similar report, if any;</li> <li>(iii) the actuarial models and key assumptions;</li> <li>(iv) any changes in the method and key assumptions since the last similar report produced by the same actuary;</li> <li>(v) model results;</li> <li>(vi) uncertainty of the model results;</li> <li>(vii) the effect of any actual or planned business developments on the conclusions of the report.</li> </ul> <p>If the report does not address each of the points above then the report should justify why the point has not been addressed.</p> | <p><u>Audit Trail</u> : U.GN12.7.3 amended slightly</p> <p>The actuary should indicate in the report, where appropriate, how the following issues have been dealt with:</p> <ul style="list-style-type: none"> <li>• the grouping of the data by class of business, category of risk and currency;</li> <li>• the nature and spread of the reinsurance arrangements, with particular reference to any significant changes therein and the treatment of any financial reinsurance;</li> <li>• potential exhaustion of the reinsurance coverage and the possibility of non-performance of reinsurance;</li> <li>• future claims handling expenses, both direct and indirect;</li> <li>• the treatment of any abnormal types of claim;</li> <li>• the treatment of future premiums in and out (including reinstatement premiums), profit commission and portfolio transfers</li> <li>• the basis used for discounting.</li> </ul> <p>A.PCS300.54</p> <p>The report should deal with:</p> <ul style="list-style-type: none"> <li>- the nature, accuracy and interpretation of the data;</li> <li>- the analysis of experience;</li> <li>- the valuation model and key assumptions;</li> <li>- any changes in the method and key assumptions since the last similar report;</li> <li>- comparisons of actual experience with that expected under the assumptions in the last similar report;</li> <li>- the results of the valuation;</li> <li>- uncertainty of the valuation result.</li> </ul> <p><u>Discussion points</u></p> <p><i>Believe 'should normally' is appropriate here, as it is a lesser requirement than 'should' in 3.1.</i></p> <p><i>The requirement in GN12.7.3 to comment on specific assumptions such as reinsurance and expenses has been replaced with a generic requirement to comment on key assumptions.</i></p> |

| PROPOSED G.TN1 POINT |   | AUDIT TRAIL AND DISCUSSION POINTS  |
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|                      |   | <p><i>Point (ii) is deliberately different from point (iv). It seems reasonable to expect a commentary of Actual versus Expected regardless of who wrote the previous report but commenting on the methods/assumptions of another actuary would not be expected.</i></p> <p><i>In point (v) model is used in the broad sense and does not pre-suppose that the report is solely conveying the results of a modelling exercise.</i></p> <p><i>Point (vii) is included to remind the actuary that the report should demonstrate awareness of the commercial context of any results or recommendations. The phrase “the dynamics of the business” has been clarified by changing to “any actual or planned business developments”</i></p>   |
| 3.3                  | An assumption is to be considered key if it has a material impact on the results of the actuarial investigation.  | <p><u>Audit Trail : New Point</u></p> <p><u>Discussion points</u><br/> <i>The requirement to comment upon specific assumptions has been replaced with a requirement to report on key assumptions. This point has been added to clarify key assumptions.</i></p> <p><i>Key assumptions may include, but not be limited to:</i></p> <ul style="list-style-type: none"> <li><i>(i) changes in the reinsurance programme and potential exhaustion or non-performance of the current or any proposed future programme;</i></li> <li><i>(ii) future expenses, both direct and indirect;</i></li> <li><i>(iii) the treatment of future premiums in and out (including reinstatement premiums), profit commission and portfolio transfers;</i></li> <li><i>(iv) the basis used for discounting.</i></li> </ul> |
| 4                    | <b>Information and Data used by the Actuary</b>   |  |
| 4.1                  | <p>The report should indicate the sources of the data that the actuary has used and the extent to which he or she takes responsibility for data accuracy or completeness.</p> <p>The actuary may need to rely on or use the work of other people. If there is a</p> | <p><u>Audit Trail : U.GN12.6.2 cut down significantly</u></p> <p>The report should indicate the sources of the data that the actuary has used and make clear what he or she is taking responsibility for. Many of the sources available for use in general insurance, and consequently the data also, have some degree of imperfection. This does not prevent the use of data from such sources (with appropriate caveats in the report, if necessary), provided the actuary is satisfied that the results appear reasonable.</p> <p><u>Audit Trail : U.GN12.6.1 no changes</u></p> <p>The actuary may need to rely on or utilise the work of other professionals. If there is a risk of confusion as to the division of responsibilities between the actuary and</p>                                  |

| PROPOSED G.TN1 POINT   | AUDIT TRAIL AND DISCUSSION POINTS  |
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| <p>risk of confusion as to the division of responsibilities between the actuary and other persons or organisations, the respective responsibilities should be made clear in the report.</p>  | <p>other persons or organisations, the respective responsibilities should be made clear in the report.</p> <p><u>Discussion points</u></p> <p><i>In the first paragraph the actuary would be expected to consider both the accuracy and completeness of data and indicate the extent to which they are taking responsibility for either.</i></p>   |
| <p>4.2 The actuary should draw attention to any material shortcomings in the available data including the effect on the appropriateness of the data of changes in the way the business analysed has been conducted. Specifically, the actuary should make reference to shortcomings in the data that have materially added to the uncertainty surrounding the estimates that he or she has made.</p> | <p><u>Audit Trail</u> : U.GN12.6.3 with minor changes</p> <p>The actuary should draw attention to any material shortcomings in the available data including the effect on the appropriateness of the data of changes in underwriting, claim processing or reinsurance arrangements, changes in policy coverage and legal decisions affecting claims settlement.</p> <p>The actuary should make particular reference to circumstances in which the shortcomings have materially added to the uncertainty surrounding the estimates that he or she has made.</p> <p><u>Discussion points</u></p> <p><i>Reserving specific bias has been removed to create a more generic wording.</i></p>  |
| <p>4.3 The actuarial report should indicate the basis for subdividing data into groups exhibiting similar characteristics. In the determination of appropriate subdivisions a balance should be found between homogeneity and statistical reliability.</p>   | <p><u>Audit Trail</u> : : U.GN12.7.3 amended slightly</p> <p>The actuary should indicate in the report, where appropriate, how the following issues have been dealt with:</p> <ul style="list-style-type: none"> <li>• the grouping of the data by class of business, category of risk and currency;</li> <li>• the nature and spread of the reinsurance arrangements, with particular reference to any significant changes therein and the treatment of any financial reinsurance;</li> <li>• potential exhaustion of the reinsurance coverage and the possibility of non-performance of reinsurance;</li> <li>• future claims handling expenses, both direct and indirect;</li> <li>• the treatment of any abnormal types of claim;</li> <li>• the treatment of future premiums in and out (including reinstatement premiums), profit commission and portfolio transfers</li> <li>• the basis used for discounting.</li> </ul> <p>A.PCS300.25</p> <p>The estimation of liabilities may require the subdivision of the data into groups of claims exhibiting similar characteristics. In the determination of appropriate subdivisions, a balance must be found between homogeneity and statistical</p> |

| PROPOSED G.TN1 POINT |  | AUDIT TRAIL AND DISCUSSION POINTS  |
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|                      |  | <p>reliability.</p> <p><u>Discussion points</u></p>  |
| 4.4                  | The actuary may make adjustments to the data to allow for aspects of the business that may give rise to bias, for example large losses or changes in underwriting policy. Where such changes are made the nature, amount and rationale for the adjustments should be clearly stated. | <p><u>Audit Trail</u> : S.GN01.2.4.1</p> <p>The actuary may make adjustments to the data collated to account for abnormal items such as large losses. Where such adjustments are made, the nature, amount and rationale for the adjustments should be clearly stated.</p> <p><u>Discussion points</u></p>  |
| <b>5</b>             | <b>Analysis of Emerging Experience</b>   |  |
| 5.1                  | The actuary would not normally be expected to comment on the choice of methods or assumptions made by another actuary in an earlier report.  | <p><u>Audit Trail</u> : U.GN12.5.7 part thereof</p> <p>The report should include commentary on any material difference in the assumptions or conclusions in the present work from those in earlier reports of a similar kind on the same issue by the same actuary.</p> <p>In view of the subjective nature of much of the work, the actuary would not normally be expected to comment on the choice of methods or assumptions made by another actuary in an earlier report.</p> <p><u>Discussion points</u></p> |
| 5.2                  | If there is a change in approach or assumptions from the previous actuarial report, then regardless of who was responsible for the previous report, the actuary should explain the impact on the actuarial models or assumptions adopted.  | <p><u>Audit Trail</u> : A.GN353.63</p> <p>Where the new data available at the current valuation date suggests a change in approach and/or assumptions from the previous valuation, the actuary needs to discuss the impact on the valuation model/assumptions adopted.</p> <p><u>Discussion points</u></p> <p><i>Wording changed from “needs to” to “should” in order to achieve consistency with other proposed GN12 points.</i></p>  |
| 5.3                  | The actuary should normally comment on new data that has emerged in the context of previous actuarial models/assumptions. This could be by reference, for example, to an analysis of expected versus actual outcomes.  | <p><u>Audit Trail</u> : A.GN353.64</p> <p>Where the actuary has a prior valuation as a starting point, the actuary needs to comment on the new data that has emerged between the valuations in the context of the previous valuation model/assumptions. This could be by reference, for example, to an analysis of expected versus actual outcomes.</p>  |

| PROPOSED G.TN1 POINT |  | AUDIT TRAIL AND DISCUSSION POINTS  |
|----------------------|--|--|
|                      |  | <u>Discussion points</u>   |
| 5.4                  | New data should be given weight appropriate to its credibility. The actuary should explain the basis of deciding on the level of credibility and describe the effect on results.   | <p><u>Audit Trail</u> : A.GN353.64</p> <p>New data should be given weight appropriate to the credibility of that new data. The actuary should explain the basis of arriving at the level of credibility and the impact on valuation outcomes. The actuary should take into account the statistical significance of the new data compared to the existing data when determining the level of credibility to give to new data.</p> <p><u>Discussion points</u></p> <p><i>Wording amended from original Australian Guidance. Last sentence removed as it is not a reporting requirement therefore not in the scope of this Guidance Note.</i></p> |
| 5.5                  | <p>The actuary should also consider external issues that may change the credibility such as:</p> <p>(i) changes in the mix of business of the insurer;</p> <p>(ii) changes to policy conditions;</p> <p>(iii) changes in processing claims or premiums (for example, administrative delays, changes to case estimation procedures);</p> <p>(iv) identified systems issues (new systems or changes to systems).</p> | <p><u>Audit Trail</u> : A.GN353.65</p> <p>The actuary should also consider external issues that may change the credibility such as:</p> <p>a) changes to the mix of business of the insurer;</p> <p>b) changes in processing claims or premiums (for example, administrative delays, changes to case estimation procedures);</p> <p>c) identified systems issues (new systems or changes to systems).</p> <p><u>Discussion points</u></p>  |
| 6                    | <b>Documentation of Methodology and Assumptions</b>  |  |
| 6.1                  | The report should include a section providing a summary of methods used and explaining to which elements of the data a method has been applied.  | <p><u>Audit Trail</u> : U.GN12.5.3; amended slightly.</p> <p>Where the actuary has used a method that is standard and well understood by the recipient (such as the chain-ladder or link-ratio approach to claims provisioning or the generalised linear modelling approach to pricing), it is not necessary to do more than make a brief reference to the method and explain to which elements of the data the method has been applied.</p> <p><u>Discussion points</u></p> <p><i>Wording changed and requirement strengthened to require an explanation of all methods used.</i></p>   |

| PROPOSED G.TN1 POINT |  | AUDIT TRAIL AND DISCUSSION POINTS   |
|----------------------|--|---|
| 6.2                  | Where unusual or non-standard methods have been used, or where one or more of the recipients of the report is unlikely to be familiar with the methods used, then a more detailed description of the methods should normally be given.   | <p><u>Audit Trail</u> : U.GN12.5.4; amended slightly.</p> <p>Where an unusual or non-standard method has been used, a more detailed description of the method should be given. Subject to satisfying paragraph 3.1 above, this would not apply if the recipient might be presumed to have an understanding of the method.</p> <p><u>Discussion points</u></p>   |
| 6.3                  | The report should specify and discuss the key assumptions and judgements.  | <p><u>Audit Trail</u> : U.GN12.5.1; amended slightly.</p> <p>The report should outline and discuss the key assumptions made including those as to the legal and claims environment.</p> <p><u>Discussion points</u></p>   |
| 6.4                  | If the report includes illustrations based on assumptions that the actuary does not regard as appropriate, this should be made clear in the report.  | <p><u>Audit Trail</u> : U.GN12.5.2</p> <p>If the report includes illustrations based on assumptions that the actuary does not regard as appropriate, this should be made clear in the report.</p> <p><u>Discussion points</u></p>   |
| 6.5                  | In view of inherent uncertainty, the actuary should normally show the results of more than one method or set of assumptions. The key assumptions implicit in any method used and the rationale for selection of one method or set of assumptions over another, or for selection of results based on combinations of methods, should be stated in the report. | <p><u>Audit Trail</u> : U.GN12.5.5; amended slightly.</p> <p>In view of inherent uncertainty, it will often be appropriate for the actuary to use more than one method. The key assumptions implicit in each method should be stated in the report.</p> <p><u>Discussion points</u></p> <p><i>The requirement in this section has been strengthened to require an explanation of the reason for selecting a method.</i></p> <p><i>Several reviewers have commented that this has a reserving bias and may not be appropriate to the review of an Internal Capital Assessment. Wording has therefore been changed to show results of more than one method OR set of assumptions.</i></p> |
| 6.6                  | Where the results of different methods or assumptions differ significantly, the actuary should comment on the likely reasons for the differences and explain the basis for the choice of results.  | <p><u>Audit Trail</u> : U.GN12.5.6; amended slightly.</p> <p>Where the results of different methods differ significantly, the actuary should comment on the likely reasons for the differences and explain the basis for the choice of results.</p>   |



|     | PROPOSED G.TN1 POINT   | AUDIT TRAIL AND DISCUSSION POINTS  |
|-----|--|--|
|     |  | <u>Discussion points</u>   |
| 6.7 | <p>The report should be self-contained to the extent that any other suitably experienced actuary, without recourse to working papers or access to the original actuary, should be able to form an opinion on the original actuary's key judgements and evaluate the reasonableness of the results.</p> | <p><u>Audit Trail</u> : U.GN12.3.1; part of.</p> <p>The report should:</p> <ul style="list-style-type: none"> <li>• Include a statement of its purpose and scope;</li> <li>• make plain whom the actuary is advising;</li> <li>• indicate the intended recipients;</li> <li>• point out that third parties reading the report may not have the background information necessary for a full understanding of the report;</li> <li>• address the key issues;</li> <li>• give sufficient information to allow another experienced actuary to form an opinion on the appropriateness of the actuary's key judgements and, together with the files, be sufficient to allow any other suitably experienced actuary to reproduce the results without access to the actuary.</li> </ul> <p><u>Discussion points</u></p> <p><i>Note that requirement is only to evaluate reasonableness not to reproduce results.</i></p>   |
| 6.8 | <p>It is not necessary to disclose every assumption made, but there should be sufficient data and other information to understand the key assumptions made and the process by which the actuary has identified them.</p>   | <p><u>Audit Trail</u> : U.GN12.3.1; part of.</p> <p>The report should:</p> <ul style="list-style-type: none"> <li>• Include a statement of its purpose and scope;</li> <li>• make plain whom the actuary is advising;</li> <li>• indicate the intended recipients;</li> <li>• point out that third parties reading the report may not have the background information necessary for a full understanding of the report;</li> <li>• address the key issues;</li> <li>• give sufficient information to allow another experienced actuary to form an opinion on the appropriateness of the actuary's key judgements and, together with the files, be sufficient to allow any other suitably experienced actuary to reproduce the results without access to the actuary.</li> </ul> <p><i>U.GN12.5.5; part of.</i></p> <p>In view of inherent uncertainty, it will often be appropriate for the actuary to use more than one method. The key assumptions implicit in each method should be stated in the report.</p> <p><u>Discussion points</u></p> |

| PROPOSED G.TN1 POINT |  | AUDIT TRAIL AND DISCUSSION POINTS  |
|----------------------|--|--|
| <b>7 Results</b>     |  |  |
| 7.1                  | The report should normally include best estimates, representing estimated means of distributions of possible results.  | <p><u>Audit Trail</u> : U.GN12.7.2</p> <p>The actuary should state the basis on which he or she has assessed the provisions or claims estimates (i.e., best estimate or some other basis). Where the actuary states that his or her estimate of outstanding claims is on a “best estimate” basis, this should mean that it represents the expected value of the distribution of possible outcomes of the unpaid liabilities.</p> <p>This definition is intended to clarify the concept.</p> <p>It will generally be impossible to apply it directly in practice.</p> <p><u>Discussion points</u><br/> <i>Note that the use of “should normally” allows a report not to present ‘best estimates’ yet still comply with GN12, for example where the scope of the report specifically requests figures that are not best estimates.</i></p> |
| 7.2                  | The actuary should ensure that amounts he or she recommends or certifies for inclusion as technical provisions in financial statements or returns to supervisory authorities are in accordance with the governing accounting principles and legislation.   | <p><u>Audit Trail</u> : U.GN12.7.1 amended slightly</p> <p>The actuary should ensure that amounts he or she recommends for inclusion as technical provisions in financial statements or returns to supervisory authorities are in accordance with the governing accounting principles.</p> <p>It may be advisable to outline in the report the main features of those principles.</p> <p><u>Discussion points</u></p>  |
| <b>8 Uncertainty</b> |  |  |
| 8.1                  | The report should normally indicate the degree and sources of uncertainty surrounding the point estimates that the actuary has made and sensitivities to key assumptions. Uncertainty for a particular point estimate would normally be quantified by providing a range of values around the point estimate together with an indication of the likelihood that the true value lies | <p><u>Audit Trail</u> : U.GN12.4.1</p> <p>To the extent that it is feasible to do so, the actuary should indicate in the report the degree of uncertainty surrounding the estimates that he or she has made and sensitivities to changes in key assumptions .</p> <p>There is, however, no obligation to quantify the uncertainty or sensitivity if, in the</p>  |

|     | PROPOSED G.TN1 POINT   | AUDIT TRAIL AND DISCUSSION POINTS   |
|-----|--|---|
|     | above, below or simply outside the range. This can be achieved by specifying quantiles or by using any other appropriate descriptive summary.  | <p>actuary's judgement, this would not assist the recipient.</p> <p>Furthermore, notwithstanding such uncertainty it is acceptable for the actuary to give, or comment upon, point estimates.</p> <p><u>Discussion points</u><br/>Should normally does not require ranges to be shown if it is inappropriate to do so.</p>  |
| 8.2 | If there are specific features of the business that present potential concerns or significantly increase the uncertainty of the results, beyond that which an informed reader of the report would reasonably expect, then this fact should be clearly highlighted in the corresponding reservations, or limitation of scope, included in the report. | <p><u>Audit Trail : U.GN12.7.4</u></p> <p>The actuary should take care to distinguish between a range of amounts that might be reasonable for the provisions and the typically much larger range of amounts that might in due course be paid.</p> <p>If there is a substantial possibility that the future outgo will differ so much from the recommended provisions that the reported profit or balance sheet strength could, as a result of this fact alone, turn out to be materially incorrect, the actuary should draw attention to this in the report.</p> <p><u>Discussion points</u><br/>Generic wording has been used to remove reserving bias from the original GN12 point.</p> |
| 8.3 | If there is a substantial probability of a material impact on the reported profit and loss or balance sheet strength resulting from adverse deviation from modelled results, the actuary should draw attention to this in the report.  | <p><u>Audit Trail : U.GN12.7.4</u></p> <p>The actuary should take care to distinguish between a range of amounts that might be reasonable for the provisions and the typically much larger range of amounts that might in due course be paid.</p> <p>If there is a substantial possibility that the future outgo will differ so much from the recommended provisions that the reported profit or balance sheet strength could, as a result of this fact alone, turn out to be materially incorrect, the actuary should draw attention to this in the report.</p> <p><u>Discussion points</u></p>  |

## **Audit Trail: Existing GN12**

### **Summary**

This section aims to identify which sections of GN12 have been included in the proposed new GN12 guidance note.

The following table lists each section of the existing version of GN12. For each section the equivalent section in the proposed new GN12 is identified.

| <b>Guidance Note Text</b>   |  | <b>Working party comment</b> |
|---|--|------------------------------|
| <b>GN12: GENERAL INSURANCE BUSINESS: ACTUARIAL REPORTS</b>  |  |                              |
| <b>Classification</b>   |  |                              |
| Recommended Practice  |  |                              |
| <b>Legislation or Authority</b>   |  |                              |
| There is little United Kingdom legislation specifically relating to actuarial reporting on general insurance business, although such legislation exists in some other countries.  |  |                              |
| There are separate Guidance Notes for actuaries appointed in terms of Lloyd's Byelaws and for Appropriate Actuaries reporting on the technical provisions of a friendly society and those Guidance Notes make reference in turn to the need to produce reports in accordance with this Guidance Note. |  |                              |
| In addition the UK Supervisory Authority may request a formal report on the adequacy of an insurance company's technical provisions and this Guidance Note would apply to such a report.  |  |                              |
| <b>Application</b>  |  |                              |
| Any actuary preparing a formal report covering actuarial aspects of a general insurance undertaking which is not restricted to the investments of the undertaking, whether as an employee of that undertaking or as a consultant.   |  |                              |
| <b>Author</b>   |  |                              |
| General Insurance Board.  |  |                              |
| <b>Status</b>   |  |                              |
| Approved under Due Process.   |  |                              |
| <b>Version Effective From</b>   |  |                              |
| 1.0 01.08.87  |  |                              |
| 1.1 01.09.90  |  |                              |
| 2.0 01.07.91  |  |                              |
| 3.0 01.09.99  |  |                              |

|     | Guidance note Text   |     | GTN1 text   |
|-----|--|-----|---|
| 1   | <b>1 Introduction</b>  |     |   |
| 1.1 | The purpose of this Guidance Note is to assist an actuary who makes a formal report covering actuarial aspects of a general insurance undertaking (not restricted to the investments of the undertaking) and does so in a professional capacity, whether as an employee of that undertaking or as a consultant.  | 1.1 | The purpose of this general insurance guidance note is to set out the elements an actuary should normally include in a formal report.   |
| 1.2 | <p>In considering whether a report is formal, and therefore within the scope of this Guidance Note, the actuary should consider the uses to which the report may be put.</p> <p>In particular, if significant decisions are likely to be taken based on the content of the report without the further involvement of the actuary, or the report is likely to be used by people other than those who directly commissioned it, there is a greater need for the report to be self-contained and complete, and therefore subject to this Guidance Note.</p> <p>However work which is incomplete, of an interim nature or intended only as a basis for further discussion, would not normally be considered formal for this purpose.</p> | 1.2 | <p>For the purpose of this guidance note, a report should normally be regarded as formal if it is:</p> <ul style="list-style-type: none"> <li>(i) commissioned as such;</li> <li>(ii) required in fulfilment of a reserved role;</li> <li>(iii) to be used in compiling statutory accounts or regulatory returns;</li> <li>(iv) part of a submission to regulators;</li> <li>(v) likely that an independent third party might reasonably rely on the results of the report; or</li> <li>(vi) necessary to ensure communication is in accordance with GNPP.</li> </ul> |
| 1.3 | <p>The actuary should state that the report has been prepared in accordance with this Guidance Note, if in fact this is the case.</p> <p>Where a formal report has been prepared which does not conform with this Guidance Note, the actuary should state the fact and indicate key areas where the report fails to conform.</p>   | 3.1 | <p>The report should state:</p> <ul style="list-style-type: none"> <li>(vi) the extent, if any, to which the report falls short of, or goes beyond, its stated scope or purpose;</li> <li>(vii) that the report has been prepared in accordance with this guidance note;</li> <li>(viii) any restrictions on the actuary.</li> </ul>  |
| 1.4 | In preparing a formal report, the actuary should have regard to any relevant technical guidance issued by the General Insurance Board in the form of an Advisory Note.   | 1.3 | The actuary should have regard to any relevant guidance issued by the General Insurance Board.  |
| 2   | <b>2 Definition of Terms</b>   |     |   |
| 2.1 | <p>Some words and expressions commonly used in general insurance can be unclear, ambiguous or have different meanings in different jurisdictions.</p> <p>The actuary should consider whether some of the words and expressions used in the report may be open to misinterpretation and therefore need to be defined.</p>   | 2.1 | The report should include definitions of technical words and expressions used in the report.  |

|     | Guidance note Text   |  | GTN1 text |
|-----|--|--|-----------|
| 3   | <b>3 Purpose and Scope</b>   |  |           |
| 3.1 | The report should: <ul style="list-style-type: none"><li>• Include a statement of its purpose and scope;</li><li>• make plain whom the actuary is advising;</li><li>• indicate the intended recipients;</li><li>• point out that third parties reading the report may not have the background information necessary for a full understanding of the report;</li><li>• address the key issues;</li><li>• give sufficient information to allow another experienced actuary to form an opinion on the appropriateness of the actuary's key judgements and, together with the files, be sufficient to allow any other suitably experienced actuary to reproduce the results without access to the actuary.</li></ul> | 3.1<br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><br><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|     | Guidance note Text  |     | GTN1 text  |
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| 5.2 | If the report includes illustrations based on assumptions that the actuary does not regard as appropriate, this should be made clear in the report.   | 6.4 | If the report includes illustrations based on assumptions that the actuary does not regard as appropriate, this should be made clear in the report.  |
| 5.3 | Where the actuary has used a method that is standard and well understood by the recipient (such as the chain-ladder or link-ratio approach to claims provisioning or the generalised linear modelling approach to pricing), it is not necessary to do more than make a brief reference to the method and explain to which elements of the data the method has been applied.   | 6.1 | The report should include a section providing a summary of methods used and explaining to which elements of the data a method has been applied.  |
| 5.4 | Where an unusual or non-standard method has been used, a more detailed description of the method should be given. Subject to satisfying paragraph 3.1 above, this would not apply if the recipient might be presumed to have an understanding of the method.  | 6.2 | Where unusual or non-standard methods have been used, or where one or more of the recipients of the report is unlikely to be familiar with the methods used, then a more detailed description of the methods should normally be given.   |
| 5.5 | In view of inherent uncertainty, it will often be appropriate for the actuary to use more than one method.<br><br>The key assumptions implicit in each method should be stated in the report.   | 6.5 | In view of inherent uncertainty, the actuary should normally show the results of more than one method or set of assumptions. The key assumptions implicit in any method used and the rationale for selection of one method or set of assumptions over another, or for selection of results based on combinations of methods, should be stated in the report. |
|     |   | 6.8 | It is not necessary to disclose every assumption made, but there should be sufficient data and other information to understand the key assumptions made and the process by which the actuary has identified them.  |
| 5.6 | Where the results of different methods differ significantly, the actuary should comment on the likely reasons for the differences and explain the basis for the choice of results.  | 6.6 | Where the results of different methods or assumptions differ significantly, the actuary should comment on the likely reasons for the differences and explain the basis for the choice of results.  |
| 5.7 | The report should include commentary on any material difference in the assumptions or conclusions in the present work from those in earlier reports of a similar kind on the same issue by the same actuary.<br><br>In view of the subjective nature of much of the work, the actuary would not normally be expected to comment on the choice of methods or assumptions made by another actuary in an earlier report. | 5.2 | If there is a change in approach or assumptions from the previous actuarial report, then regardless of who was responsible for the previous report, the actuary should explain the impact on the actuarial models or assumptions adopted.  |
|     |   | 5.1 | The actuary would not normally be expected to comment on the choice of methods or assumptions made by another actuary in an earlier report.  |

|     | Guidance note Text   |                       | GTN1 text   |
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| 6   | <b>Information and Data used by the Actuary</b>  |                       |   |
| 6.1 | <p>The actuary may need to rely on or utilise the work of other professionals.</p> <p>If there is a risk of confusion as to the division of responsibilities between the actuary and other persons or organisations, the respective responsibilities should be made clear in the report.</p>   | 4.1                   | The actuary may need to rely on or use the work of other people. If there is a risk of confusion as to the division of responsibilities between the actuary and other persons or organisations, the respective responsibilities should be made clear in the report.   |
| 6.2 | <p>The report should indicate the sources of the data that the actuary has used and make clear what he or she is taking responsibility for.</p> <p>Many of the sources available for use in general insurance, and consequently the data also, have some degree of imperfection. This does not prevent the use of data from such sources (with appropriate caveats in the report, if necessary), provided the actuary is satisfied that the results appear reasonable.</p>                           | <p>4.1</p> <p>4.4</p> | <p>The report should indicate the sources of the data that the actuary has used and the extent to which he or she takes responsibility for data accuracy or completeness.</p> <p>The actuary may make adjustments to the data to allow for aspects of the business that may give rise to bias, for example large losses or changes in underwriting policy. Where such changes are made the nature, amount and rationale for the adjustments should be clearly stated.</p> |
| 6.3 | <p>The actuary should draw attention to any material shortcomings in the available data including the effect on the appropriateness of the data of changes in underwriting, claim processing or reinsurance arrangements, changes in policy coverage and legal decisions affecting claims settlement.</p> <p>The actuary should make particular reference to circumstances in which the shortcomings have materially added to the uncertainty surrounding the estimates that he or she has made.</p> | 4.2                   | The actuary should draw attention to any material shortcomings in the available data including the effect on the appropriateness of the data of changes in the way the business analysed has been conducted. Specifically, the actuary should make reference to shortcomings in the data that have materially added to the uncertainty surrounding the estimates that he or she has made.   |
| 7   | <b>Additional Considerations Relating to Reports on Reserving</b>  |                       |   |
| 7.1 | <p>The actuary should ensure that amounts he or she recommends for inclusion as technical provisions in financial statements or returns to supervisory authorities are in accordance with the governing accounting principles.</p> <p>It may be advisable to outline in the report the main features of those principles.</p>  | 7.2                   | The actuary should ensure that amounts he or she recommends or certifies for inclusion as technical provisions in financial statements or returns to supervisory authorities are in accordance with the governing accounting principles or legislation.   |
| 7.2 | The actuary should state the basis on which he or she has assessed the provisions or claims estimates (i.e., best estimate or some other basis). Where the actuary states that his or her estimate of outstanding claims is on a "best estimate" basis, this should mean that it represents the expected value of the distribution of possible outcomes of the   | 7.1                   | The report should normally include best estimates, representing estimated means of distributions of possible results.   |



| Guidance note Text |  | GTN1 text                        |  |
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|                    | <p>unpaid liabilities.</p> <p>This definition is intended to clarify the concept.</p> <p>It will generally be impossible to apply it directly in practice.</p>   |                                  |  |
| 7.3                | <p>The actuary should indicate in the report, where appropriate, how the following issues have been dealt with:</p> <ul style="list-style-type: none"> <li>• the grouping of the data by class of business, category of risk and currency;</li> <li>• the nature and spread of the reinsurance arrangements, with particular reference to any significant changes therein and the treatment of any financial reinsurance;</li> <li>• potential exhaustion of the reinsurance coverage and the possibility of non-performance of reinsurance;</li> <li>• future claims handling expenses, both direct and indirect;</li> <li>• the treatment of any abnormal types of claim;</li> <li>• the treatment of future premiums in and out (including reinstatement premiums), profit commission and portfolio transfers</li> <li>• the basis used for discounting.</li> </ul> | <p>4.3</p> <p>3.2</p> <p>3.3</p> | <p>The actuarial report should indicate the basis for subdividing data into groups exhibiting similar characteristics. In the determination of appropriate subdivisions a balance should be found between homogeneity and statistical reliability.</p> <p>The report should normally address:</p> <ul style="list-style-type: none"> <li>(i) the nature, accuracy and interpretation of the data;</li> <li>(ii) comparisons of actual experience with that expected under the assumptions in the last similar report, if any;</li> <li>(iii) the actuarial models and key assumptions;</li> <li>(iv) any changes in the method and key assumptions since the last similar report produced by the same actuary;</li> </ul> <p>If the report does not address each of the points above then the report should justify why the point has not been addressed.</p> <p>An assumption should be considered key if it has a material impact on the results of the actuarial investigation.</p> |
| 7.4                | <p>The actuary should take care to distinguish between a range of amounts that might be reasonable for the provisions and the typically much larger range of amounts that might in due course be paid. If there is a substantial possibility that the future outgo will differ so much from the recommended provisions that the reported profit or balance sheet strength could, as a result of this fact alone, turn out to be materially incorrect, the actuary should draw attention to this in the report.</p>   | <p>8.2</p> <p>8.3</p>            | <p>If there are specific features of the business that present potential concerns or significantly increase the uncertainty of the results, beyond that which an informed reader of the report would reasonably expect, then this fact should be clearly highlighted in the corresponding reservations, or limitation of scope, included in the report.</p> <p>If there is a substantial probability of a material impact on the reported profit and loss or balance sheet strength resulting from adverse deviation from modelled results, the actuary should draw attention to this in the report.</p>   |