

GNPP – General Insurance Principles and Practice (G.PP1)

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

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, similar risk exposures and related financial risks. This includes business classified as general insurance in the EU within the First Non-life Directive (73/239/EEC). However, this Guidance Note has natural relevance to actuarial modelling of risk beyond traditional insurance applications.

Author

General Insurance Board

Status

Draft to be approved under Due Process

Version

Pre-exposure v0.12

Preamble

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 General Insurance Guidance Notes that are identified as such in their preamble. They articulate what a compliant piece of work should normally contain.

Practice Notes

Practice Notes are General Insurance Guidance Notes that are identified as such in their preamble. 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.

1 General Matters

1.1 Scope

1.1.1 This guidance note sets out the standards to which the profession expects actuaries to conform in work on General Insurance and related matters.

1.2 Compliance with spirit of terms

1.2.1 Members must conform to both the spirit and letter of relevant General Insurance Guidance Notes issued.

1.2.2 An actuary must be able to justify any non-compliance with a Guidance Note that would appear to have natural relevance.

1.2.3 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 An actuary must consider whether the circumstances justify recording compliance with each principle set out in part 2, particularly when providing Reserved Advice. There is no obligation on an actuary to record this compliance in all circumstances, but where appropriate such recording of compliance could appear either in a report or in the actuary's working files.

2 Principles

2.1 Data and other information

2.1.1 Paragraph 3.4 of PCS sets out considerations an actuary 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 actuary from using the data concerned. The actuary must consider and communicate the implications of imperfections in the data.

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

2.1.4 The actuary 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, be unfamiliar to the audience or have particular meanings assumed by the audience that differ from those assumed by the actuary. The actuary 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 actuary must consider how their advice or analysis will be used. This may lead to the actuary 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 actuary must make explicit the scope and purpose of advice given.

2.4 Audience

2.4.1 The actuary must be mindful of the intended audience of the work carried out. In doing so, the actuary must ensure that the scope and purpose of work undertaken and the presentation of the findings are appropriate given the intended audience.

2.4.2 Unless otherwise clear from the context, the actuary must make explicit the intended audience for their advice.

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 actuary 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 actuary must ensure that, collectively, the methodology and key assumptions selected are appropriate for the purpose.

2.5.3 The actuary 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 actuary 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 actuary must indicate those assumptions for which they are taking responsibility. For reserved advice, the responsibility of the actuary with regard to methodology and assumptions is set out in the relevant Practice Note.

2.6 Point estimates

2.6.1 When providing quantitative advice, the actuary 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 actuary 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 actuary 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 actuary must consider whether elaboration of the sources of uncertainty is appropriate and act accordingly.

2.8 Documentation

2.8.1 The actuary 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 actuary must consider whether and to what degree a review of the work, to be performed by another suitably-qualified actuary, 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 actuary must ensure that the presentation of their work enables the reviewing actuary to identify the methodology and key assumptions and the reasons supporting their selection. 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 actuary 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 actuary and other interested parties, the respective responsibilities must be made clear.

2.10.2 When providing reserved advice, the actuary 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 actuary will need to rely upon the work of the auditor. The actuary 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.

Pre Exposure Draft