Implications of the TASs for insurance actuaries

Case studies

Case study 1: Pricing requirements

The life and pensions industry is awaiting the final judgment from the Test Achats case with great trepidation in respect of the gender discrimination ruling. Your Sales Director has heard rumours from the Press Office of the European Court of Justice (ECJ) that the judgement is scheduled to be handed down on 1 March 2011. One of the most important unknowns is the extent to which any required changes will apply to existing business, and how far back any such retrospective changes would apply. There is the possibility that this ruling could be effective immediately.

Your sales director has informed you that you need to consider the impact of the ECJ ruling on pricing / financial reporting (as appropriate). He is concerned as there is a great deal of unknowns such as:

- how the ruling will be applied
- what assumptions will be made by the markets e.g. re mix of business
- how the assumptions will be treated in different areas e.g. pricing vs.. financial reporting
- judgements that need to be made
- speed of implementation
- applicability to existing business

When pricing new business, in order to react quickly, pricing changes are made to price the business at the desired position in the market. It is after this the actuarial and financial calculations are performed to explain what the pricing impacts on management information, performance impacts, rates of return etc.

This legislation has the potential to lead to mis-selling claims or the focus of the Financial Ombudsman. The Actuarial Function Holder has informed your Sales Director (who is not an Actuary) that should there be an enquiry into the business, TAS compliance could come into focus and lead to possible disciplinary action. He has heard that commercial decisions are not included in the TAS requirements, but he is not sure what constitutes actuarial advice as opposed to commercial decisions. Due to this the Sales Director is keen to understand all that is needed to be TAS compliant, while at the same time being able to react quickly to the market.

Case study 2a: Longevity assumptions

In 2009 and 2010 the CMI published papers relating to the revised research on longevity and the improvement in the longevity rate. The Actuarial Profession has provided software to project longevity based on the CMI investigations. The market intelligence you have been given is that the model is complex and very sensitive to the inputs used.

You have been asked to derive assumptions relating to longevity to be used for pricing/ financial reporting.

Your Actuarial Function Holder (AFH) is very concerned that any work done around this assumption must be TAS compliant and says he will ask you to evidence compliance. You will be using the model provided by the Actuarial Profession. What needs to be done to pass the “show me” test and convince the AFH that the work is TAS compliant?

Case study 2b: Market Risk assumptions

You were talking to one of your reporting colleagues yesterday. They were asking you what you had done in your pricing assumptions to allow for the impact on the investment returns relating to the downgrade of Spain. They mentioned that as part of the reporting process they have information regarding the approach taken by your competitors to the changes and uncertainty around market risk. This has reminded you that that you have to submit a report regarding the market risk assumptions used for pricing to your Sales Director who is an actuary within the next week. You know he is an early adopter of the TASs and has asked for all reports submitted to him to be TAS compliant. Your Sales Director needs to use this report as a basis of a discussion with the Chief Financial Officer.

When you set your assumptions you try to understand the impact relating to the various reporting bases such as statutory, EV, ICA and the implications for the approach taken for Solvency II. Your product range includes a number of products that have capital guarantees.

Your Sales Director has asked for an initial discussion with you regarding the report. In preparation you want to come up with the issues and pricing concepts that must be brought out in the report. Elaborate on what needs to be in the report and what needs to be considered around the information used to construct a TAS compliant report.

Case Study 3 Groups / Multinationals

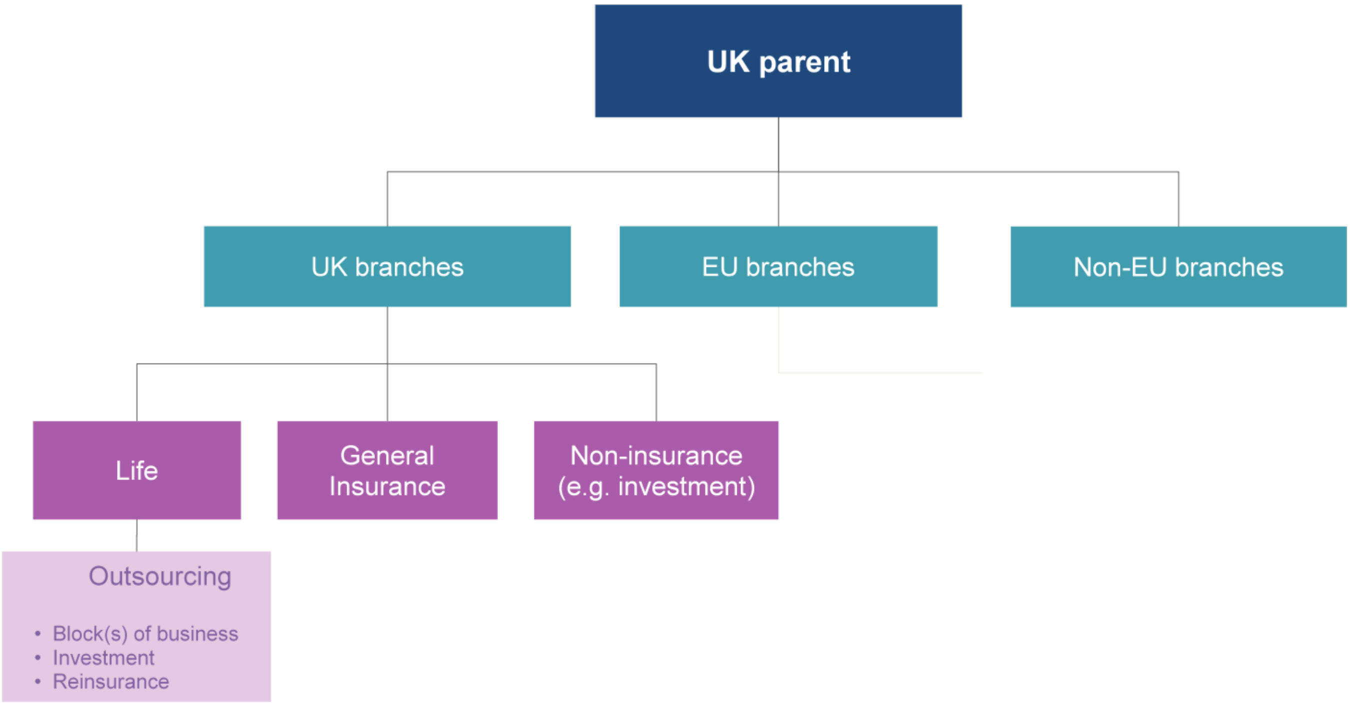
The insurance industry can have a complex structure, with a UK parent group company having a number of satellite insurance companies both in the UK and internationally, selling life insurance (with and non profit), GI or both.

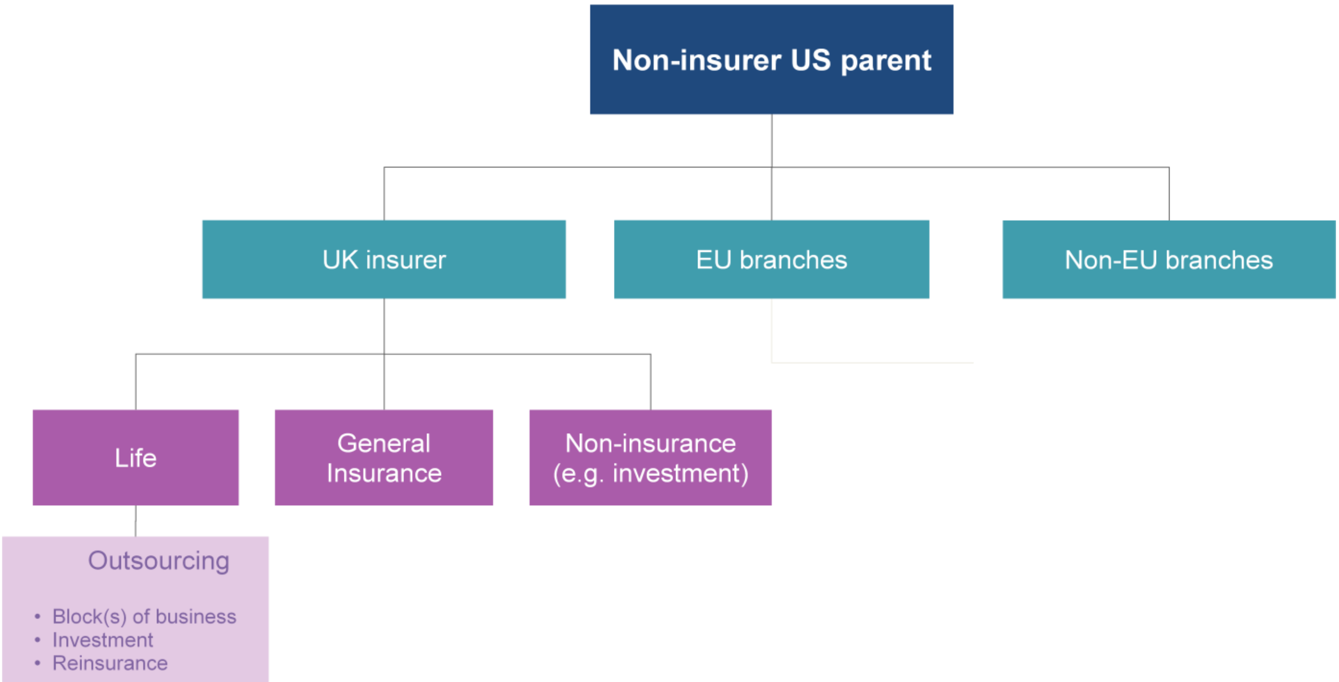
The parent company is to report its embedded value. This will involve collating results from all satellite companies, and each satellite company compiling results from all its funds. Many people, actuaries and non actuaries will be involved in this process. At each step of the ladder, the recipient will need to be confident that the information received is correct and its derivation has followed due process and any relevant standards. Similarly when they then proceed to providing further information along the ladder they will need to provide confirmation as to the derivation of their step. Every party needs to be clear what they have received and what they have forwarded, and where any material adjustments/allowances have been made and why .This goes right back to the original policyholder and asset data. From a TAS perspective how does each of TAS R, D, M and I come into play? Who is ultimately responsible? What are the individual responsibilities? Although the underlying process for all areas has similarities some will be under TAS jurisdiction and some won't. Is this clear and what are the implications for the company?

It will be virtually impossible to cover every action today but consider the overall theme.

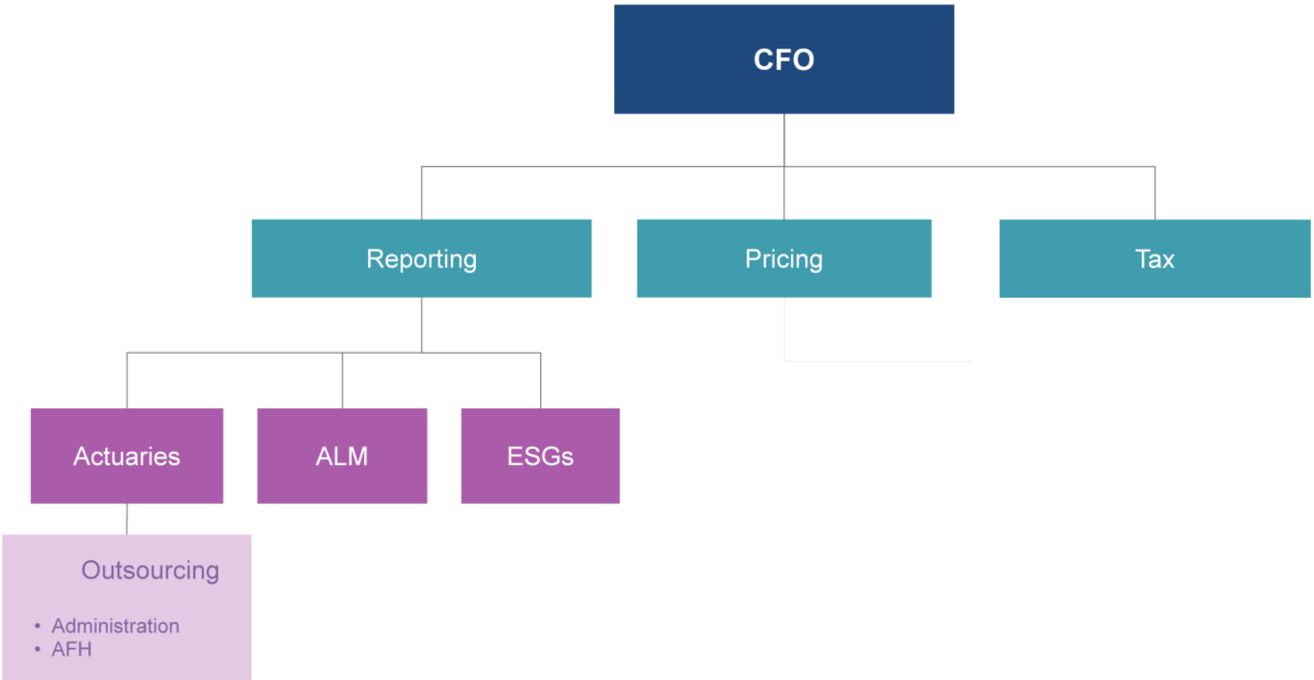
How would your response differ if the parent company is non UK based?

Case study 3 – continued





Case study 3 – continued



Case study 4: Strategy

You are the actuary responsible for preparing your companies 10 year business plan. The senior management team are concerned about the impact Auto Enrolment may have on the companies large book of Corporate Pension schemes. They have asked you to pull together a 5 page report on the impact of Auto Enrolment on your companies' future financial position. Your report must contain financial information that will enable the senior management team to determine what strategic actions they should take, if any, to manage the impact of Auto Enrolment.

Auto Enrolment will be introduced to employers gradually from 2012 in line with the introduction of the NEST scheme. Larger companies will be required to adopt this at first. Your company has a large book of Corporate Pensions schemes that may decide to make their existing schemes qualifying so that they don't need to enrol employees into the NEST scheme. The Sales Director (who is also an actuary) has sent you an e-mail outlining some assumptions at a high level about the impact of Auto Enrolment. The e-mail contains little evidence for the assumptions given. You intend to use your existing business planning models, which are based on the companies reporting models.

The Head of Finance has asked you to ensure that the report is TASs compliant given it may evolve on the run up to 2012, and hence still be under discussion after TASI has been introduced. Before you begin you want to set out what information needs to be included in your report to ensure it is TAS compliant and identify any areas where TAS compliance seems challenging – how will you handle these issues?