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## New Guidance Notes

Andrew Chamberlain

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## Agenda

**The task:**

- One “expired” fast track guidance note – GN37
- Nine new fast track guidance notes GN39-47
- GN2, GN1, GN8



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## Agenda continued

- GN37 GN39 GN44 – Phase 1
- GN40 GN45 GN47 – Phase 2
- GN41 GN42 GN43 GN46 – Phase 3
- GN2 – Probably Phase 3
- GN1 and GN8 – to await further developments

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## Timings

- Phase 1 consultation in early summer
- Phase 2 consultation early autumn

The above for implementation this year

- Phase 3 consultation early 2006

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## Morris

- The world doesn't stop
- Nobody knows when or how the new regime will kick off
- We have guidance which will expire without some action

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## GN37

- FIMC have granted an extension, but this guidance needs to go through due process
- Supervision Committee want to “promote” some parts to Practice Standard
- Duality of status will need to be made clear

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## GN37 – some key issues

- With Profits Actuary – issues not related to with profits business
- Materiality
- FSA “guidance” to be removed
- Some “commencement” provisions are deleted

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## GN39

- Few changes considered necessary
- Mostly it is a “tidy-up”
- All parts are, of course, open for consultation

Non-controversial?

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## GN44

- GN44 will not DEFINE “generally accepted actuarial practice”
- GN44 describes some practices which are generally accepted by the profession
- Reduce repetition of FSA rules and guidance?
- Look instead to add GAActP?

## GN44 - Issues

- Materiality – relative to surplus and liabilities
- Approximations to stochastic methods
- Negative sterling reserves
- Prudent PUP assumptions
- Guaranteed minimum values on otherwise variable benefits to be treated in the same way as options

## GN44 – Issues continued

- Minimum stochastic standard of “mean of a risk neutral valuation”
- Limited permission to be more lenient where a WPICC is going to apply
- More guidance on persistency – timing
- “Emergence as surplus of margins” – deficits elimination
- Can lapse risk come within “insurance risks that are reinsured”?

## GN44 – Issues continued

- No arbitrary changes in the context of the RCR
  - Clarifying a zillmer may be introduced to net premium calculations provided the net premiums change can be justified
- Clarification re RCR – the “matching test” in PRU 7.2.34 need not be applied to the post-resilience position (effectively the assets could be adjusted thereafter to meet this requirement)

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## GN40

- David Lechmere is looking for volunteers now!
- Comments invited from post holders
- Is the current version incomplete, or too proscriptive?
- Should more “recommended practice” requirements be added – in GN40 or new GN2?
- Do we need to give more guidance on monitoring/capital?

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## GN45

- New area – many practices are evolving
- I expect significant “experience” input
- We are looking for volunteers!
- How can we help the 2005 year end process?
- Feedback NOW is vital

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GN47 - 2004



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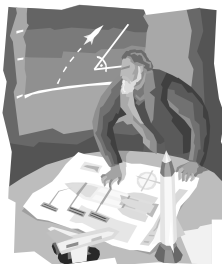
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GN47 2005



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GN47 2006



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## GN47

- Technical modelling issues
- Understandable!
- Legitimate aspirations versus theoretical alchemy
- Needs to be practical, theoretically justifiable, and to stretch towards attainable best practices

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## GN47 – Working Party intentions

- Testing the suitability of models will continue to be a feature – maybe the tests will change
- For RBS work testing calibration requirements: reliable prices versus duration considerations
- For ICA the “table” – is there a better way?
- Much more for uses to calculate mathematical reserves
- Remove insurance risk section?

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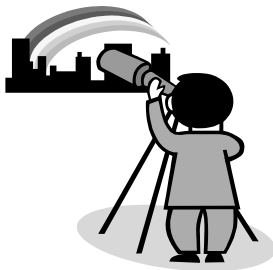
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## Looking further ahead ...



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## GN41 GN42 GN43

- So far, these are not seen as controversial notes
- Or does anyone know otherwise?
- Does anyone feel the reviewing actuary needs more guidance on different but acceptable views?

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## GN46

- Even less well developed technology than GN45 and GN47
- The AFH's role was added relatively late
- Much to be learned, by firms, FSA, actuaries, other risk managers
- Volunteers will be sought to help make this guidance more useful

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## GN2

- Still alive
- **Application**  
Appointed Actuaries. Actuaries responsible for long-term insurance business written outside the UK are expected to follow the same principles. The Guidance Note is also written to help actuaries advising UK-supervised long-term insurers and friendly societies (directive and incorporated societies only) on their world-wide business.

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## GN2

- Needs to be updated to reflect
  - New roles
  - PRU instead of IPRU
  - The purpose of the ICA
  - The difficulties of managing under two peaks
  - Modern methods
- Too important to scrap, too difficult to rush?

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## GN1 and GN8

- GN1 applies to Lloyds only
- GN8 applies to non-directive friendly societies and Lloyds only
- FSA will change non-directive rules eventually
- Lloyds is also developing

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# CURRENT ISSUES IN LIFE ASSURANCE (CILA)

19 April 2005  
Copthorne Tara Hotel  
London

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