The New General Insurance Guidance Notes

Current Issues in General Insurance
Tuesday 16 May
The Barbican, London
Eamonn McMurrough

Focus for this session

One new and three revised GI guidance notes

- GN50 - General Insurance Principles and Practice
- GN12 - General Insurance Business: Actuarial Reports
- GN20 - Actuarial Reporting under the Lloyd’s Valuation of Liabilities Rules
- GN33 – Actuarial Reporting for Lloyd’s Syndicates writing US Business

Old Position

Four Guidance Notes:

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<tr>
<td>12</td>
<td>Actuarial Reports</td>
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Old Position

Three Advisory Notes to supplement GN18/20/33, incorporating Technical Papers:

<table>
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<tr>
<th>Paper</th>
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<tr>
<td>Unallocated loss adjustment expense provisions</td>
<td>09/99</td>
<td>✔</td>
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<td>Reinsurance bad debt provisions</td>
<td>10/05</td>
<td>✔</td>
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<td>World Trade Centre Working Party Paper and covering note</td>
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<td>Data Reasonableness</td>
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New Position

Five Guidance Notes:

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<tr>
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No further changes planned to advisory notes

Hierarchy

Professional Conduct Standards

GN50: Principles and Practice

GN12  GN18  GN20  GN33

Advisory Notes/Technical Papers
Evolution

- Working Party reconstituted after GIRO 2004
- Agreed terms of reference
- Need for GN50 emerged from early discussions
- Pre-exposure drafts presented to GIRO 2005
- Formal exposure Dec 2005 to Feb 2006
- Consultation meeting at Staple Inn 28 January
- Feedback almost exclusively on GN12
- GN 20, 33, 50 approved by FIMC, live 1st April
- GN12 approved by FIMC, live 1st June

Why Review GN20 and GN33?

- Changes at Lloyd’s
- Introduction of annual accounting
- Consistency with Valuation of Liability Rules
- Housekeeping
- Changes to GN33 follow naturally from changes to GN20

Why Review GN12?

- Uneven interpretation
- Reserving bias
- Classification as “Recommended Practice”
- Recognise wider professional involvement
- Housekeeping
Why GN50?

- Formal reports are only a part of what we do
- Recognise involvement in wider fields
- Facilitates a cleaner structure for guidance
- Should require infrequent revision

GN50: Principles and Practice

Context
Professional Conduct Standards

Purpose and Application

- Gives guidance on the professional behaviour expected of members in the field of general insurance
- General Insurance is defined to include business covered by the first non-life directive
- Definition also includes “similar risk exposures and related financial risks” and includes reinsurance
- Requires professional judgement to identify the relevance of the guidance “beyond traditional insurance applications”
### GN50: Principles and Practice

**Content**
- Principle of Proportionality
- Principle of Practicability
- "Spirit and letter"
- Detail:
  - Data and Information
  - Terminology
  - Scope and Purpose
  - Audience
  - Methodology and Assumptions
  - Point Estimates
  - Communicating Uncertainty
  - Documentation
  - Peer Review
  - Reliance on others

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### “Should Normally”

- Used liberally throughout GN12 and GN50
- Takes the meaning assigned in PCS para 1.2
- Weaker than “must” but non-compliance must be justifiable
- Definition is repeated in GN12

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### GN12: Actuarial Reports

**Purpose and Application**

- Purpose is twofold:
  - Guidance on the circumstances in which a member should normally prepare a formal report
  - Description of the basic elements that should normally be included in such a report
  - The guidance applies to any member preparing a formal report in the field of general insurance
GN12: Actuarial Reports
“Quantitative formal report”
- A “Quantitative formal report” is “a formal report on an assignment with significant scope for quantitative actuarial analysis”
- Some sections of the guidance note are more obviously applicable to quantitative formal reports
- Member must exercise professional judgement when determining the applicability of these sections to other formal reports

GN12: Actuarial Reports
Proportionality and Practicability
- Principle of proportionality
- Principle of practicability
- Professional judgement tempered by application of these principles
- Apply when deciding if work requires a formal report
- May be relevant in determining if a “should normally” is believed to be inappropriate

GN12: Actuarial Reports
General Points
- Multidisciplinary teams
- Updates
- Reliance on others
- GN12 is a reporting standard
- Joint signatures
GN12: Actuarial Reports
“Self contained” issue
- No requirement to include a full audit trail
- Should normally contain detail sufficient for another suitably experienced member to form an opinion on the original member’s key judgements and assess the reasonableness of the results
- GN50: the member must consider the degree to which opinions or advice should be documented … and act accordingly

GN12: Actuarial Reports
Point estimates and uncertainty
- GN12 does not require a point estimate to be given, but only that if one is given it is explained
- GN50 says that when providing quantitative advice the member should normally include a point estimate
- GN12 says that the report should normally indicate the nature, degree and sources of uncertainty and uncertainty should normally be quantified where practicable

GN12: Actuarial Reports
Material adverse deviation
- If there is a substantial probability of material adverse deviation from the modelled results, the member should normally draw attention to this in the report.
- No definitions of:
  - Substantial probability
  - Material adverse deviation
- Need to exercise professional judgement
Final Comments
A defining characteristic of a profession is the existence of a set of ethical and technical standards which members of the profession uphold.

- PCS 11 pages
- GN50 5 pages
- GN12 5 pages
- GN18 6 pages
- GN20 7 pages
- GN33 7 pages

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