

## The New General Insurance Guidance Notes

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

Eamonn McMurrough

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## 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

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## Old Position

### Four Guidance Notes:

<u>GN</u>		<u>Last Amended</u>
12	Actuarial Reports	01.09.99
18	UK Companies Writing US Business	01.12.02
20	Lloyd's Reporting	01.12.04
33	Lloyd's Syndicates Writing US Business	01.01.03

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## Old Position

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

Paper	Date	Incorporated in advisory note for GN	
		18	20 33
Unallocated loss adjustment expense provisions	09/99	✓	✓
Reinsurance bad debt provisions	10/05	✓	✓
World Trade Centre Working Party Paper and covering note	12/02	✓	✓
Data Reasonableness	11/02	✓	✓

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## New Position

### Five Guidance Notes:

GN		Effective
12	Actuarial Reports	01.06.06
18	UK Companies Writing US Business	under review
20	Lloyd's Reporting	01.04.06
33	Lloyd's Syndicates Writing US Business	01.04.06
50	Principles and Practice	01.04.06

**No further changes planned to advisory notes**

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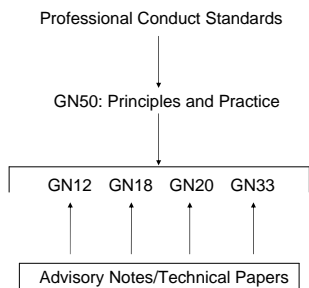
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## Hierarchy



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## 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 1<sup>st</sup> April
- GN12 approved by FIMC, live 1<sup>st</sup> June

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## 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

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## Why Review GN12?

- Uneven interpretation
- Reserving bias
- Classification as "Recommended Practice"
- Recognise wider professional involvement
- Housekeeping

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## 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

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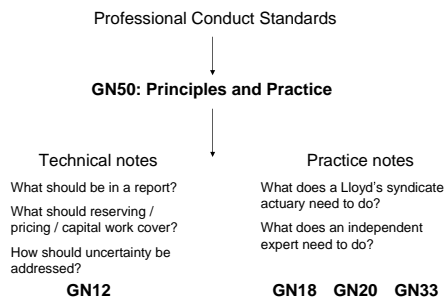
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## GN50: Principles and Practice Context



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## GN50: Principles and Practice 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"

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## 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

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### 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 of these sections to other formal reports



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### 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



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### GN12: Actuarial Reports General Points

- Multidisciplinary teams
- Updates
- Reliance on others
- GN12 is a reporting standard
- Joint signatures



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### 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

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### 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

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### 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

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## 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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