1. Background

1.1.1 The second part of the FSA's final With-Profits Review issues paper, published in March 2002, addressed the role of the appointed actuary for both with-profits and non-profit business. A key question raised was whether the role of the appointed actuary should remain and to consider how, if the regime were retained, the current arrangements could be strengthened. In May 2002 the FSA's feedback paper “Future role of actuaries in the governance of life insurers” was published. This concluded that:

“A new required function (the actuarial function) should be introduced to apply to the individual responsible for the provision of actuarial advice to the Board, other than over the use of discretion. In particular, this function would be responsible for the provision of advice to the Board on the calculation of policy liabilities.”

The intent of this statement was that in future:

“the current responsibility of the appointed actuary to determine the surplus from which a distribution may be made should cease, with that responsibility becoming the firm’s.”

The feedback statement went on to say that:

“the responsibilities that our Handbook currently places on appointed actuaries ... should be substantially narrowed so that they focus on the key area of the use of discretion by the firm.”

In essence, two roles would be created, one the Head of Actuarial Function (HoAF) to advise the Board on the calculation of policyholder liabilities, and the other the With-Profits Actuary (WPA) to advise the Board on the use of discretion for with-profits business. The FSA expected that suitably qualified and experienced actuaries would fill both roles and that the profession would set best practice standards through guidance. Such guidance could require individuals fulfilling these roles to be suitably experienced and hold a practice certificate (renewable annually). In addition, the profession could, with the support of the FSA, introduce a structured peer review system.

1.1.2 The FSA’s proposals underlined that Boards and senior management must satisfy themselves on, and take responsibility for, all relevant matters. They emphasised that Boards cannot simply rely on the views of the actuary –
even in the area of the use of discretion – but must instead reach their own views.

1.1.3 The FSA’s belief is that responsibilities which the Handbook has hitherto placed on the appointed actuary may lead directors and senior managers to place too much reliance on the views of the appointed actuary, rather than reaching their own views (whilst, of course taking actuarial advice where appropriate).

Arguably, the perception that Boards do not challenge the current appointed actuary views is probably, but not universally, true for small companies but is unlikely to be the case for large companies where Board members would be expected to ask searching questions from the perspective of an informed and experienced layman.

1.2 Following publication of the feedback statement and discussions with the FSA it was agreed that it would be helpful to the FSA for the profession to:

- produce an analysis of the current role of the appointed actuary;
- recommend how the current roles can be incorporated into the proposal to give the Board ultimate responsibility; and
- define the training and competence requirements for a Board taking on its new responsibilities.

It is this latter point that this paper addresses and is the result of deliberations by the Control Processes Working Party of the Life Board. Terms of reference for the Working Party and its membership are set out in Appendix 1 of this paper.

1.3 This report was substantially completed by the end of 2002. In January 2003, the FSA published CP 167 on *With-Profits Governance, the Role of Actuaries in Life Insurers, and Certification of Insurance Returns*. This consultation paper largely carried forward the ideas set out in the FSA’s May 2002 feedback statement. In preparing its April 2003 response to CP 167 (see [www.actuaries.org.uk/files/pdf/life_insurance/fsa_cp167_finalresp.pdf](http://www.actuaries.org.uk/files/pdf/life_insurance/fsa_cp167_finalresp.pdf)), the profession took account of the work done by the Control Processes Working Party.

2. **Detailed Proposals**

2.1 The FSA are expected to set rules defining the duties of the Head of Actuarial Function (HoAF) and the With-Profits Actuary (WPA). The HoAF duties will be:

- to advise the Board on the methods and assumptions for the valuation of policyholder liabilities;
- to report to the Board on the results of the calculations.

The HoAF will have to report on policyholder liabilities at least annually. The Board will then have to accept or challenge these liabilities having sought advice from the auditors or, perhaps, other third parties. Ultimately, responsibility for the policyholder liabilities will rest with the Board. To
evidence this, the directors’ certificate in the FSA Returns will be extended to certify that:

- proper provisions have been established;
- liabilities have been established in line with FSA guidelines;
- due regard has been taken of the advice given by the actuarial function; and
- premiums for new business are sufficient to meet the commitments.

2.2.1 In addition to providing advice on policyholder liabilities, the FSA expect that the actuarial function will be asked, alongside other functions with relevant skills, to provide a contribution to the Board on a range of issues central to the sound management of firms.

2.2.2 A non-exhaustive list of areas where advice might be sought is as follows:

- Stress and scenario testing;
- Ongoing financial condition;
- Financial conditions for business planning;
- Investment management (especially modern techniques and vehicles);
- Asset/liability matching (including the broad principles of stochastic techniques or risk assessment);
- Capital management and Individual Capital Assessment requirements;
- Product design and pricing of business (including adequacy of premium rates);
- Unit pricing;
- Adequacy of reinsurance protection;
- Non profit surrender values;
- Benefit illustrations;
- Policy documentation and marketing literature;
- Corporate restructuring;
- Interpretation of what customers might reasonably expect and management of future expectations for non-profit business.

Appendix 4 provides a brief outline of how frequently a Board should review each of these areas, what information they should seek and an indication as to how they could process the information.

2.2.3 A distinction needs to be made between where the HoAF opinion is essential and where the HoAF opinion is desirable.

Best practice would suggest that it is essential the HoAF’s opinion is sought in respect of the first six bullet points as they relate closely to the ongoing solvency of the firm and the appropriateness of policyholder liabilities.

In respect of the other bullet points it would be desirable that a Board sought the HoAF’s views; but it would not have to and could take advice from other suitably qualified individuals e.g. actuaries in another part of the business. The Board would, however, need to be mindful of the consequences of not seeking advice from the HoAF as the consequences could be significant for a firm.

For example, a decision made on pricing new business could increase capital requirements, impact on investment strategy / asset liability matching and
generate constructive liabilities. Unless the HoAF’s views are sought, there could be a mismatch between his/her views and the pricing actuaries’ views which would only become apparent at the time the policyholder liabilities are assessed thereby putting the Board in a very difficult position. In such circumstances it would be sensible for a firms’ risk management processes to require that the HoAF’s views be sought.

2.3.1 Responsibility for treating with-profits customers fairly will rest with the Board and senior management of a firm. In fulfilling this role they will get support from the newly defined WPA, whose role will be to advise the firm on the application of discretion and the data and systems required to provide such information. In addition the firm will have to put systems in place to demonstrate independence. These may include a with-profits committee - whose role would be similar to an audit committee and could consist of a mix of executive and non-executive directors.

The FSA will require that the WPA produces a report for the Board on the way that the firm has exercised its discretion over the year (this would be a key input into the with-profits committee). Areas that would be covered are:

- Regular and final bonus rates;
- Investment policy in light of product descriptions and customer communication;
- Surrender/Transfer values;
- Premium rates;
- Allocation of expenses;
- Compliance with and any changes to the Principles and Practices of Financial Management.

Various requirements will be placed on firms to keep the WPA informed of the firms’ plans, request and pay due regard to the advice and provide sufficient resource and appropriate data and systems.

Appendix 5 provides a brief outline of how frequently a Board should review each of these areas, what information they should seek and an indication as to how they could process the information.

3. Principal Issue with the Proposal

3.1 The proposals narrow the current appointed actuary role to focus on the exercise of discretion in respect of With-Profit business only. Save this, the Board is responsible for all other decisions which previously fell within the responsibility of the appointed actuary (see Appendix 2) including the exercise of discretion in respect of unit linked business - which in the view of the working party should be included in the redefined WPA responsibilities.

3.2.1 The effect of the proposals is, we believe, a weakening of customer protection, as a named actuary will no longer be responsible for certifying the ongoing solvency of the firm and the adequacy of policy provisions and premium rates. In such circumstances a Board could, if they so wished, over-distribute to shareholders or, at the very least, operate with lower levels of capital than might be desirable from a prudential perspective.
3.2.2 For example, whilst Boards might be expected to take full account of their current annuitant mortality experience (since it is based on fact), allowance for future mortality improvement is more subjective. In such circumstances Boards may be tempted to make the minimal allowance for future mortality improvements (that auditors might accept) to minimise the firm’s capital requirements and enhance ROCE (return on capital employed). In contrast, the current appointed actuary systems enable the appointed actuary to insist on making a more prudent allowance thereby protecting customer interest.

3.3 FSA have sought protection against under-reserving by proposing that:

(a) the scope of the audit is extended to include a statement (in the audit certificate) to the effect that, in the auditors’ view, policyholder provisions are “not unreasonable” (rather than “prudent” as is the current test) taking into account the materiality of the liabilities assessed in relation to the balance sheet as a whole; and

(b) the HoAF and new WPA roles are controlled functions and the individuals are subject to Treasury’s “whistle-blowing” requirements (with associated protections).

In addition FSA have indicated that they would investigate a firm in some detail if a Board decided not to take the advice of the HoAF or WPA.

3.4 These protections should give consumers a degree of protection. The profession would also consider the extent to which the guidance which it issues to its members (including possibly to actuaries involved in the audit process) might offer further safeguards. But we believe that the proposals represent a weakening of protection, and that certification of policyholder liabilities by a named individual should continue. This belief stems from our long experience of the value of the public nature of the certificate in keeping firms focused on long-term customer protection rather than short-term considerations.

3.5 We believe, however, that it would be possible to achieve the objectives underlying the FSA’s proposals by building on the current appointed actuary system. This result could be achieved by requiring the demonstrations of the real responsibility and accountability of directors and senior management, by introducing Principles and Practices of Financial Management, by requiring independent peer review, by subjecting the FSA Returns to full audit and, probably, by introducing the With Profits Committee or a Policyholder Committee to pick up the exercise of discretion in non-profit business.

4. Training and Competence

4.1 A Board’s ability to present reasonable challenge to its professional staff and advisers should not be underestimated. However, the new responsibilities will require different expertise, and it is not clear that Boards have undertaken the necessary training to prepare for this. This may be a particular issue for small firms or firms which are parts of a larger group.

4.2.1 According to the Institute of Directors (IOD) the Board of Directors of a company is primarily responsible for:
• determining the company’s strategic objectives and policies;
• monitoring progress towards achieving objectives and policies;
• appointing senior managers;
• accounting for the company’s activities to relevant parties, e.g. shareholders and ensuring a company fulfils its statutory duties.

In undertaking these duties, directors are expected to display a certain amount of skill and exercise reasonable care in the performance of their work.

These responsibilities are different in nature to the ones which the FSA envisage, as they are much more directional with managers of the company being responsible for implementation of decisions and policies made by the Board. Under the new proposals, the Board should be involved in many more day-to-day decisions than was previously the case. It is doubtful that they could fulfil these obligations without some form of committee structure e.g. committees (consisting of a number of Board members and advisers - internal or external as appropriate) could be formed covering each of the areas outlined in 2.2 and 2.3 above to consider each area on a regular basis and make recommendations to the rest of the Board.

The new responsibilities for directors will need to be discharged, and be seen to be discharged, with competence. In order to fulfil the new requirement on directors to provide a certificate of adequacy, the split of the total competencies required between the directors and their advisers will need to be agreed and documented. The comments offered here highlight the implications for directors of the shift, but the way in which they discharge that shift will be their decision.

4.3.1 In light of the proposed changes Boards should sensibly undertake a review of their composition identifying any skills gaps it wishes to fill. For example, it may be necessary to include non-executive directors to demonstrate that conflicts of interest are dealt with fairly and include more qualified actuaries or individuals with similar financial expertise on Boards.

4.3.2 Currently Boards are, in the main (see appendix 3 regarding Friendly Societies), made up of individuals who have relevant expertise and are able to ask relevant questions that an informed person may ask. They are not, however, well placed to take on the responsibilities currently given to the appointed actuary. The question therefore arises as to what processes Boards need to put in place to fulfil their new responsibilities.

4.3.3 Areas where the Board should seek advice are set out in section 2 distinguishing between where it was critical for a Board to seek advice from the HoAF / WPA and where it is desirable. As indicated, it would be best practice to seek the views of the HoAF and WPA on all matters alongside any other advice received.

In all cases a Board should be clear where responsibility lies for the provision of advice in respect of these matters.

4.3.4 Boards can be expected to give the same critical reception to actuarial advice as to advice from other sources. However, in order to provide additional quality assurance, Boards could also make use of peer review of actuarial advice. The profession has recognised the case for peer review as an
effective and informed challenge to the work of Appointed Actuaries, and is
developing best practice proposals in this area. Audit Committees, whose
role is to oversee the quality advice given to Boards, could serve as the
recipients of actuarial peer reviews.

4.4.1 Without the comfort of such external validation, it could be argued that there
would be a greater onus on Boards to achieve a full and detailed
understanding of the advice received, and that the skills and competencies
that a Board would need would have to be significantly extended.

4.4.2 Boards would have to have a broad understanding of the basic principles of
actuarial practice. Areas that would need to be covered are:

• Probability and discounting.
• The modelling of death, longevity and sickness risks.
• Embedded options and techniques for their valuation, especially
  stochastic modelling.
• Investments, derivatives and the risks of, and techniques for avoiding,
  asset/liability mismatching
• Unit pricing and the exercise of discretion around pricing bases, CGT
  allowance etc.
• Persistency and expense risk and their management.
• Operation of, and exercise of discretion for, with-profits business.
• FSA reserving and capital requirements. FSA requirements to treat
  customers’ fairly.
• Life insurance taxation

Without such basic awareness it would be difficult for a Board to demonstrate
that they had reached a conclusion based on their own views as required by
the FSA change.

Companies may need to develop specific training and competence regimes
for directors and members of with-profits committees to enable them,
especially non-executives, to be capable of making an informed contribution
to decisions.

Even then, the skill set will only be sufficient for Boards and with-profits
committees to know broadly what questions to ask and as a background
against which to assess expert actuarial advice. We would be concerned if it
was felt that Boards could make decisions which differed significantly from
that advised by either the HoAF or the WPA, unless this were after taking
additional advice from another actuary and following this instead (after having
assessed and been satisfied with the reasons for the differences in the
advice).

In reality, the prospect of such a training regime would deter many from taking
up a place on the Board, and imposing this extent of specialist knowledge
would be at odds with the broader viewpoint which especially Non-Executive
Directors are expected to take up in their membership of the Board.
5. Conclusion

5.1 The proposed FSA requirements substantially expand the responsibilities of Directors. Directors would be able to gain comfort from a process of peer review of the actuarial advice tendered to them, as external validation of the quality of that advice. To the extent that Boards wished to prepare for the new position through training and development; the actuarial profession, and others, can assist with such training.

5.2 However, we believe that the FSA’s proposals risk a significant weakening of consumer protection. This can be addressed in the first instance, by requiring a named individual (who holds a practising certificate from the profession) to opine on the appropriateness of the liabilities.

5.3 As explained in paragraph 3.5, however, we believe that it would be possible to achieve the FSA’s objectives by building on the current appointed actuary system in ways which brought the responsibilities of Directors into sharper relief and which ensured effective review of the core actuarial advice provided to them.
Appendix 1

Control Processes Working Party of the Life Board
_Draft terms of reference_
(at 30 July 2002)

The remit of the group is:

- to specify and explain those control processes which the Boards of life insurance companies need to operate in order fully to meet their responsibilities for securing those companies' compliance with regulatory requirements so far as they relate to matters likely to require actuarial advice, taking account of proposals in the FSA's _Feedback Statement on the Future Role of Actuaries in the Governance of Life Insurers_ of May 2002.

The purpose is to consider what best practice may look like in qualitative terms

Questions to consider may include:

1. what information is required and at what frequency?
2. from what sources can this information be obtained?
3. how should Boards 'process' this information and what decisions need to be taken as a result?
4. what skills would the board need to carry out these tasks?

For with-profits offices, the questions should also be answered in respect of the proposed With-Profits Committee and differences highlighted.

The working party consists of John Lister, John Hylands, Andrew Chamberlain and Mike Kipling (Secretariat support: Paul Bristow).
Appendix 2

There are a number of current responsibilities given to an Appointed Actuary under the FSA Supervision Manual. The relevant rules set out in SUP 4.3.13R are as follows:

An appointed actuary must:

(1) identify and monitor the risks the firm runs so far as they may have a material impact on the firm's ability to meet liabilities to policyholders in respect of long-term insurance contracts as they fall due;

(2) inform the firm's management, at the level of seniority that is reasonably appropriate, if he has any material concerns or good reason to believe that the firm:

(a) is not meeting liabilities to policyholders under long-term insurance contracts as they fall due, or may not be doing so, or might not have done so, or might, in reasonably foreseeable circumstances, not do so;

(b) is, or may be, effecting new long-term insurance contracts on inadequate terms contrary to IPRU(INS) [3.5A] or IPRU(FSOC) [number to be inserted later] as applicable;

(c) does not, or may not, have sufficient financial resources to meet liabilities to policyholders as they fall due (including reasonable bonus expectations) or, if the firm currently has sufficient resources, might, in reasonably foreseeable circumstances, not continue to have them;

(3) perform actuarial investigations and prepare abstracts of those investigations as required by IPRU(INS) 9.4R or IPRU(FSOC) [number to be inserted later] as applicable;

(4) request from the firm such information and explanations as are reasonably considered necessary to enable him to properly perform the duties described in SUP 4.3.13R(1) to (3); and

(5) advise the firm as to the data and systems reasonably needing to be kept and maintained to provide such information and explanations.

The only one of these functions which is of long standing as a legal obligation is that in (3). A requirement similar to this has existed since the Life Assurance Companies Act of 1870, and was essentially the only statutory duty of the Appointed Actuary under the Insurance Companies Act 1982, if taken to include the determination of surplus in the Long Term Business Fund. All the other functions has developed extra-statutorily, except insofar as the various reporting regulations did require the Appointed Actuary to confirm the adequacy of data and compliance with the relevant professional guidance of the Faculty and Institute of Actuaries. Thus the only element of the FSA proposal which is totally contrary to past law is the removal of certification of the liabilities, and with it the parallel determination of surplus.
Appendix 3 – Friendly Societies

The current appointed actuary system applies to Incorporated and Directive Friendly Societies the prudential regime for which is close to that for life companies. Most are small and retain external appointed actuaries to perform the annual valuation and provide advice. Very small societies are subject to different regulation with a requirement for an Appropriate Actuary to perform a triennial valuation and opine on the state of the fund in between.

Friendly Societies are often small and confined to a particular locality or profession / trade. The skill set of Boards (or more usually the committee of management) would be limited but might be expected to include an accountant and / or lawyer. Most have a small staff and the Board / Chief Executive relies heavily on their advisers including the actuary. It would not be usual for the appointed/appropriate actuary to attend Board meetings other than when relevant items occur on the agenda. This is primarily a cost issue for the smaller societies.

Requiring societies directors to take on the responsibilities of the current appointed actuary system will present a significant challenge in terms of suitably qualified individuals (who are prepared to take on the not inconsiderable duties) and cost (where it is necessary to include actuaries on the Board). This will be a particular problem for the smaller societies.

To save cost it is likely that societies would wish to combine the HoAF and appointed actuary role. An external consultant (whose firm will have its own peer review system) who the auditor (if need be) could rely upon when signing an audit certificate would most likely, fulfil the combined role.
## Appendix 4

<table>
<thead>
<tr>
<th>Activity</th>
<th>Frequency</th>
<th>How should a Board get information?</th>
<th>How should a Board process the information?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stress and scenario testing</td>
<td>Annually, plus when circumstances change materially</td>
<td>HOAF requested to produce FCR by board, having consulted WPA and board on rules for exercise of investment and bonus discretion.</td>
<td>Board to consider risks of adverse scenarios relative to pre-set risk appetite and availability of capital. Decision to accept risk or to seek to reduce it.</td>
</tr>
<tr>
<td>Ongoing financial condition</td>
<td>Depends on closeness to regulatory or internal capital minima. Daily if critical</td>
<td>Board to require HOAF to have method of monitoring with accuracy and frequency depending on level of free assets. HOAF to on breech of pre-agreed triggers.</td>
<td>Board to approve monitoring process and to consider what actions can be taken if various trigger levels are reached. Board to initiate actions when trigger levels are reached.</td>
</tr>
<tr>
<td>Financial conditions for business planning</td>
<td>Whenever plans are being prepared or revised</td>
<td>HOAF to be one of many to be asked to input. May have role in vetting assumptions from market experts, economists, investment advisers, etc for consistency</td>
<td>Board must produce plan with consistent assumptions about market, investments, competitor actions, etc. Need to sift and rationally reconcile any inconsistencies.</td>
</tr>
<tr>
<td>Investment management (especially modern techniques and vehicles)</td>
<td>As required.</td>
<td>Board should take advice primarily from investment advisers but ask HOAF and WPA for assessment of impact of any major proposals on solvency/PRE respectively</td>
<td>Board should ensure understanding of all investment techniques proposed, especially risks involved. Board should be happy that proposals do not risk failure to meet PRE.</td>
</tr>
<tr>
<td>Asset/liability matching (including the broad principles of stochastic techniques or risk assessment)</td>
<td>Annually, unless circumstances change materially</td>
<td>ALM advice to be provided in or following FCR by HOAF. Board should ask for some assessment of the likelihood of mismatches going wrong. Most important to understand the circumstances in which a strategy will fail (and the triggers for corrective action to limit loss) than its model-dependent probability. WPA to be asked to advise on PRE of investment mix.</td>
<td>Board to decide extent to which asset mismatch is an appropriate risk, taking into account PRE and risk of insolvency. Board to change asset mix if risk inappropriate. Board to ensure adequate communication to policyholders if PRE needs changing re asset mix.</td>
</tr>
<tr>
<td>Capital management and Individual Capital Assessment requirements</td>
<td>Annually and as required</td>
<td>Board should ask HOAF and corporate financial advisers annually regarding potential to improve efficient use of capital.</td>
<td>Board to consider any proposals for capital efficiency improvements, having understood any risks involved.</td>
</tr>
<tr>
<td><strong>Product design and pricing of business (including adequacy of premium rates)</strong></td>
<td>Initially, annual review and whenever necessary</td>
<td>Directors to ask HOAF to devise a pricing basis to meet corporate objectives. Other actuaries to price within that basis. Directors to request HOAF advice before agreeing pricing outside the basis.</td>
<td>Board to be satisfied pricing basis meets corporate ROC targets in aggregate. Board to be happy that pricing assumptions, especially sales volumes, are not over-optimistic. Board to have product exit strategy if sales targets not reached.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>HOAF could be asked to advise on methods and error redress – but could be other experts.</td>
<td>Directors to be comfortable customers are being treated fairly</td>
</tr>
<tr>
<td><strong>Unit pricing</strong></td>
<td>Initially and annual review</td>
<td>HOAF should be asked to assess risk of claims fluctuation or aggregation without reinsurance and the options available to reduce this. Applies to existing business and new business. Underwriters should be consulted on non-financial benefits of relationships with reinsurers. Counterparty exposure needs to be monitored.</td>
<td>Directors to understand purposes of risk and financial reinsurance. Directors to decide on level of cover appropriate, bearing in mind need to diversify counterparty risk.</td>
</tr>
<tr>
<td><strong>Adequacy of reinsurance protection</strong></td>
<td>Initially and annual review</td>
<td>HOAF to be consulted on expense attribution issues of type contained in GN22. Also, HOAF or WPA to be consulted on whether lower growth rates than the standard need to be assumed on some products</td>
<td>Directors to approve bases which are financially non-strenuous to firm and in accordance with policy conditions and PRE</td>
</tr>
<tr>
<td><strong>Non profit surrender values</strong></td>
<td>Initially – and review when circumstances materially change</td>
<td>HOAF to be consulted (possibly alongside other experts) on calculation of financial risk capital requirements and to monitor any required changes to these items as part of ongoing financial condition monitoring. Risk Manager to be involved in assessing capital needs for operational risks.</td>
<td>Board should understand FSA ICA (and SCA) and verify that the expert inputs seem reasonable.</td>
</tr>
<tr>
<td><strong>Benefit illustrations</strong></td>
<td>Annual review plus prior to new product launch</td>
<td></td>
<td>Directors to consider recommendations and to be happy that eventual basis complies with FSA/DWP rules and fairly represents the range of values into which benefits might reasonable fall.</td>
</tr>
<tr>
<td>Area</td>
<td>Frequency</td>
<td>Actions</td>
<td>Directors' Decisions</td>
</tr>
<tr>
<td>--------------------------------------------------------</td>
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<td>------------------------------------------------------------------------</td>
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</tr>
<tr>
<td>Policy documentation and marketing literature</td>
<td>As required</td>
<td>WPA to be consulted on PRE being established on with-profits documents. HOAF to be consulted on match of documents to product design</td>
<td>Directors to be content that process exists to ensure policy documents are adequate for purpose.</td>
</tr>
<tr>
<td>Corporate restructuring</td>
<td>As required</td>
<td>HOAF to be invited to propose any advantageous internal restructures. HAOF and WPA to be invited to comment on restructure proposals from all sources.</td>
<td>Directors to decide on and implement restructure proposals (possibly subject to shareholder consent) having considered from all stakeholders’ aspects.</td>
</tr>
<tr>
<td>Interpretation of what customers might reasonably expect and management of future expectations for non-profit business</td>
<td>Annual broad review. Charges reviewed as frequently as required/permission by policy documents</td>
<td>HOAF to be consulted, along with Legal Department and Compliance on proposed changes to variable charges or to claims settlement policy. HOAF to be asked to diary and carry out any reviews of charges stated in policy documents to be variable on the advice of the actuary.</td>
<td>Directors to require relevant experts to raise any potential issues and to propose solutions.</td>
</tr>
<tr>
<td>Activity</td>
<td>Frequency</td>
<td>How should a Board get information?</td>
<td>How should a Board process the information?</td>
</tr>
<tr>
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</tr>
<tr>
<td>Final Bonus Rates</td>
<td>Annually, plus when circumstances change materially</td>
<td>WPA requested to produce bonus recommendations based upon the principles set out in the PPFM and in consultation with the HOAF regarding the solvency of the company.</td>
<td>Board to consider the equity of the proposals reflecting the PPFM. Decision to accept or reject the WPA advice.</td>
</tr>
<tr>
<td>Investment policy in light of product description and customer communication</td>
<td>At least annually but probably quarterly.</td>
<td>Board to require the WPA to monitor the investment mix, compare it with that set out in the PPFM, and alert the Board and WP committee to any move away as a result of market movement. WPA to liaise with the HOAF regarding any change needed to maintain solvency and alert the Board to any required changes.</td>
<td>Board to approve the investment mix reflecting statements made in the PPFM and the solvency of the company. Board to initiate actions to change the investment mix.</td>
</tr>
<tr>
<td>Surrender / Transfer Values</td>
<td>Annually, plus when circumstances change materially.</td>
<td>WPA asked to review surrender and transfer values against expectations set out in the PPFM and inform the Board and WP committee of any deviations from the policy. WPA to recommend appropriate changes.</td>
<td>Board must monitor the position and instruct the WPA to adjust bases to meet the principles set out in the PPFM.</td>
</tr>
<tr>
<td>Premium rates</td>
<td>Annually, plus when circumstances change materially.</td>
<td>Board should take advice from the WPA as to the equity of continuing to write new business in the same bonus series. WPA to consult the HOAF regarding the implications to solvency of continuing to write business in the current bonus series.</td>
<td>Board should understand the implications of continuing with current bonus series and premium rates and how it impacts the equity between different generations of policyholders. Board to instruct the WPA to introduce new bonus series and/or premium rates as appropriate.</td>
</tr>
<tr>
<td>Allocation of expenses</td>
<td>Annually, unless circumstances change materially</td>
<td>WPA to be asked to review the appropriateness of the expenses allocated to with-profits business based on any contractual agreements and the PPFM. WPA to advise the Board and WP committee accordingly.</td>
<td>Board to decide the appropriate allocation of expenses and instruct the finance function to allocate expenses accordingly.</td>
</tr>
<tr>
<td>Compliance with</td>
<td>Annually and as</td>
<td>Board and WP committee</td>
<td>Board to consider the</td>
</tr>
<tr>
<td>the Principles and Practices of Financial Management</td>
<td>required</td>
<td>should ask the WPA for a report detailing whether or not the practices align with the principles set out in the PPFM.</td>
<td>report and adjust allocation of surplus and application or practice accordingly.</td>
</tr>
</tbody>
</table>