Institute
and Faculty
of Actuaries

CHANGES TO THE SYLLABUS AND CORE READING FOR SUBJECT SA1 FOR THE 2018 EXAMINATIONS

Changes to the Syllabus and their impact on Core Reading

There have been no changes to the Syllabus.

Changes to Core Reading

Unit 1

The following term in the glossary has been amended to:

Insurance premium tax (IPT) (UK)

Insurance premiums are exempt from VAT in the UK, but most general insurance premiums are subject to an insurance premium tax (IPT), currently (May 2017) at the rate of 10.0%. Note IPT is increasing to 12% from June 2017.

Unit 2 appendix

Employment and Support Allowance (ESA)

The last paragraph in section has been amended to:

A new Universal Credit system started to be rolled out during 2013, with full implementation expected in late 2017. It combines and replaces a number of existing benefits, including income-related Employment and Support Allowance. Existing claimants will be transferred to this new system under a phased process.

Unit 3

Section 6.4 – UK Moratorium on Genetics and Insurance

The second paragraph of this section has been amended to:

The Moratorium has since been extended to 2019, with a review planned for 2016. (As at April 2017 our understanding is this review is ongoing, and no conclusion has been reached yet). Under the Moratorium, customers are not required to disclose the results of predictive genetic tests for policies with sums insured up to £300,000 for critical illness insurance, or paying annual benefits of £30,000 for income protection insurance. When the cumulative value of insurance exceeds these limits insurers may seek information about, and customers must disclose, tests approved with the government for use for a particular insurance product. As at May 2017, the only approved predictive test has been for Huntington's disease, for use in determining premiums for high benefit life insurance (not health and care insurance). Thus UK insurers have no right at the moment (May 2017) to use information from genetic tests in processing applications for IP insurance, CI insurance and LTCI insurances.

Unit 4

Section 1.1

The first paragraph in this section has been amended to:

The regulation, supervision and taxation of UK insurers are rapidly evolving areas. This unit reflects the position at April 2017. The student is advised, however, to keep abreast of developments by reading the financial and insurance press.

The last paragraph in this section has been amended to:

Note the following sections do not cover all UK taxes to which an insurer may be subject (for example, they do not cover stamp duty, or employment related taxes and duties). Nor do they consider anti-avoidance measures, such as the new UK Diverted Profits Tax which was introduced with effect from 1 April 2015 and the anti-hybrid legislation which took effect from 1 January 2017.

Section 1.2.1

The following paragraph has been added to this section:

It should be noted that Finance Bill 2017 contains draft legislation containing restrictions on the utilisation of corporate tax losses from 1 April 2017. These restrictions remain subject to discussion as applicable to health and care insurance companies and therefore are not covered in detail. Broadly, the restrictions are likely to limit the use of trading losses carried forward against 50% of profits, but to increase greater flexibility in the use of trading losses arising on or after 1 April 2017 against profits of the UK group (subject to the 50% cap). The 50% rule is not expected to apply to I minus E reliefs.

Section 1.3.1

The first paragraph in this section has been amended to:

Non-BLAGAB is liable to corporation tax (at the full corporation tax rate: 19% at April 2017) on its trading profits, which is intended to be a reasonably intuitive measure of "profit" made by the shareholder on this part of the business. A mutual company would not normally have a taxable non-BLAGAB profit.

Section 1.3.3

The second paragraph in this section has been amended to:

The rate of tax is at the policyholder rate (20% as at April 2017) unless any part is deemed to be shareholder profit. In a mutual, it would not be expected that any part would be shareholder profit. In a proprietary company, the shareholder profit would be expected to be material and further calculation is required because HM Revenue & Customs (HMRC) requires part of the profit to be taxed at the more usual rate of corporation tax (19% as at April 2017). If the corporation tax rate and policyholder rate are the same, the split between policyholder and shareholder profit does not have a direct impact.

Section 2.5

This section has been amended to:

If the critical illness policy is deemed to be general insurance business (i.e. it does not meet the conditions in Section 1.2.1), premiums are subject to insurance premium tax (IPT), currently at the rate of 10.0% (April 2017). The standard rate will increase to 12% from 1 June 2017 under legislation in Finance (No. 2) Bill 2017, which at the time of writing has not been enacted.

Section 5.6

The following section has been added to this section:

(The Government intends to bring forward the instalment payment dates by four months for these companies or groups with annual taxable profit over £20 million with effect from 1 April 2019, but this has not been legislated).

Section 6.1

The first paragraph in this section has been amended to:

Insurance premiums are exempt from VAT in the UK, but most are subject to an insurance premium tax (IPT) currently at the rate of 10.0% (April 2017). The standard rate will increase to 12% from 1 June 2017 under legislation in Finance (No. 2) Bill 2017, which at the time of writing has not been enacted.

Section 7.2.2

This section has been amended to:

These contain all the rules and guidance issued by the PRA and FCA respectively. For For reference purposes these can be found at:

> *http://handbook.fca.org.uk/*,
> *http://www.prarulebook.co.uk/*

although detail of the contents beyond what is included in the Core Reading is non-examinable.

The FCA Handbook includes the Principles mentioned above and also:

SYSC_(" Senior Management arrangements, systems and controls") — This outlines requirements re running the company including compliance, risk management and outsourcing.

***Business Standards** — sets out the requirements that will affect companies in their day to day business, particularly market conduct. Of particular interest are COBS and ICOBS ("Insurance Conduct of Business Sourcebook")*

COBS ("Conduct of Business Sourcebook") — contains the conduct of business rules that apply to insurance companies, including the specific rules for the conduct of with profits business.

Regulatory Processes** — describes the operation of the regulators' supervisory and disciplinary functions**. This also includes details on the roles and duties of actuaries and their appointment.

***Redress** — covers the rules for dealing with complaints from, and paying compensation to, customers.*

Regulatory Guides — In particular the RPPD ("The Responsibilities of Providers and Distributors for the Fair Treatment of customers") which outlines the FCA expectations in terms of providers in meeting the requirements of Principle 6 treating customers fairly and other Principles.

The Insurance Rules sections of the PRA Rulebook includes parts such as Fundamental Rules, General Provisions and Policyholder Protection. Separate versions of the Rulebook are available for Solvency II and Non-Solvency II firms.

Parts of the FCA Handbook and PRA Rulebook includes parts such that are of particular relevance to health and care insurance companies are covered in the following section.

Section 7.3.2

The following sentence has been added to this section:

In addition there are a number of reports that firms have to provide to the FCA such as the Product Sales data returns as well as a number of ad hoc information requests.

Section 13.1

This section has been amended to:

For the subsidiaries of listed companies, unlisted groups and their subsidiaries, and for the parent company's own accounts, the use of IFRS is optional. Many subsidiaries and parent companies report on a UK GAAP basis.

Section 13.2.5

The first paragraph of this section has been amended to:

Phase II of the IASB's insurance accounting project has been progressing slowly. The final standard is currently expected to be issued in 2017, with the effective date being in 2021.

Section 13.3.3.2

This paragraph has been removed from this section:

The liabilities of with profits contracts issued by "realistic basis life companies" (see Unit 7) were based on the supervisory realistic balance sheet in Pillar 1 Peak 2 (Solvency I), but subject to the exclusion of any liabilities in respect of future shareholder transfers, which were included in the FFA.

Section 13.4.2.2

The second bullet point under FAS 97 has been amended to:

Investment — Similar to the above, except that there is no (or very little) insurance protection (e.g. unit-linked pension contract with no mortality or morbidity rider long-term care contract with no guaranteed)

The following sentences have been removed from this section:

FAS 120: With profits contracts which meet certain contribution principles

Specific rules exist for with profits business which allow for a similar treatment of the estate as the FFA under “Old UK GAAP” rules.

FAS 120 valuation rules are more complicated, including features from FAS 60 and FAS 97.

Unit 5

A large number of changes have been made to this unit.

Unit 13

Section 2.3

The last paragraph of this section has been amended to:

In 2014, the ABI signed a “Social Care Funding: Statement of Intent” with the Department of Health, setting out an intention to work together to help individuals plan and prepare for the costs of their long term care. This includes ensuring that individuals receive appropriate information and advice, and creating the right conditions for a larger market in relevant financial products. The 2014 Budget subsequently introduced a new framework for people’s retirement income choices. The Care Act, which passed into law in May 2014, is intended to provide the legislative framework for the implementation of the “capped cost” reforms to long-term care funding (originally expected to come into force in April 2016, but delayed until 2020), and support the growth of a privately funded care market.

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