Institute and Faculty of Actuaries

CHANGES TO THE SYLLABUS AND CORE READING FOR SUBJECT SA2 FOR THE 2018 EXAMINATIONS

Changes to the Syllabus and their impact on Core Reading

Syllabus objective (e)

Sub-objective 7 has been amended to the following:

The Conduct of Business rules with regard to Treating Customers Fairly, disclosure and, for with profits business, the Principles and Practices of Financial Management ("PPFM").

Changes to Core Reading

UNIT 1

The following term has been deleted from the glossary:

Consumer Friendly Principles and Practices of Financial Management ("CFPPFM")*

UNIT 2

Section 2.1

The following paragraph of this section has been added to this section:

However income protection policies written on a long- term basis can be quite expensive. Hence shorter term income protection that covers between 2 and 5 years can be an alternative which could allow the policyholder to get cover at a more affordable price and still provide some cover during recuperation or adjustment to their lifestyle.

Section 3.1

The first paragraph of this section has been amended to the following:

This insurance product is known by many different names, for example dread disease insurance, serious illness insurance, crisis cash, living assurance and critical illness insurance or critical illness cover. There are also simplified critical illness products that covers certain conditions only (for example heart attack, stroke and cancer) which are cheaper and still cover the most likely critical illness conditions. It is these last terms, often abbreviated to CI, which will be used in this Core Reading.

Section 10.2

The second paragraph of this section has been amended to the following:

As a result of close links to political issues such as taxation and the cost of State benefit provision, there has tended to be greater government involvement in (and hence legislation imposed around) personal pension provision than for other life insurance products. Indeed, there has been much change in this area in recent years (as exemplified by the increased pension benefit flexibility introduced in 2015 and the imposition of a cap on pensions exit charges in 2017) and there remains uncertainty as to the extent of possible future changes.

Section 14.1

The forth last paragraph of this section has been amended to the following:

In March 2015 the government announced an intention to permit existing annuities in payment to be sold to a third party for a (taxable) cash sum. However, this intention was withdrawn in 2016 due to concerns about the viability of this secondary market.

UNIT 3

Section 2.1

The second paragraph has been amended to:

Policyholders have had to be compensated and substantial operational costs have been incurred by insurers in dealing with the issues. For example, mis-selling of personal pensions involved many policyholders having been advised to switch out of more valuable occupational pension schemes. Sales of mortgage endowment policies and of certain types of single premium bonds have also caused problems. As a result, the direct salesforces of a number of insurers have ceased to exist, reducing sales volumes through that distribution channel.

Section 2.3

The second last paragraph has been removed:

Increased market volatility since 2008 has increased demand for products with investment guarantees. It has, however, also increased the cost for insurance companies of providing these guarantees.

Section 2.6

The last bullet point in this section has been amended to:

auto-enrolment – from 2012 new regulations have applied to employers requiring that employees are automatically enrolled into a company pension scheme. This requirement initially only applied to employers with over 120,000 employees, but by 2018 all employers must provide a workplace pension

The last paragraph has been amended to:

This legislation gave insurers the scope to design products to meet these various needs, but they needed to do this with the customer in mind, ensuring the products are easy to understand and are only sold in situations that clearly meet the customer's requirements. For competitive reasons they also need to provide good value for money, which means acceptable amounts being taken out as charges to cover an insurer's costs including those relating to distribution.

Section 3.7

The last bullet point in this section has been amended to:

internet, which is used mainly for provision of information and product comparisons. However, many companies use the internet to sell protection policies direct to consumers, and to provide information and facilities such as fund switching to existing savings product customers.

Section 7

The first paragraph in this section has been amended to:

The large number of life insurers that historically existed in the UK market has been reduced in recent years and this consolidation has been driven by increases in the fixed costs of regulation, a need to invest in IT systems, and more focus on efficiency and economies of scale.

Section 9

The last paragraph in this section has been amended to:

There has been an emergence of a small number of new insurance companies whose business model is based on taking over and running closed funds, rather than writing new business. The profitability of these so-called "consolidators" is based on being able to buy the closed funds at a discount from existing insurance companies, including bancassurers, who no longer consider them to be "core" to their business. They make profit primarily by improving efficiency of administration systems, generating economies of scale through accumulating a number of closed books and by improving investment performance.

UNIT 4

Section 1.2

The second last paragraph in this section has been amended to:

The Access to Medical Reports Act 1988 established a right of access by individuals to reports relating to themselves provided by medical practitioners for employment or insurance purposes. A medical report on an individual cannot be requested unless the person has given consent and has been notified that the report is being requested. If consent is given, the person must be offered access to the final report.

The last paragraph has been amended to:

A requirement for implied terms in every insurance contract requiring insurers to pay claims within a reasonable time and, if they do not pay within that time, to pay damages to the insured, is included in the Enterprise Act 2015.

Section 7.2

The following paragraph has been added at the end of section 7.2

[Note at the time of writing, the UK is still a member of the European Union. Even when this is no longer the case, EU legislation that has already been enacted into UK legislation will remain unchanged, at least in the short term.]

UNIT 5

Section 2.1.3

The following paragraph has been added to this section:

The government has announced that they will legislate in Finance Bill 2017 to change the current tax rules for part surrenders and part assignments of life assurance policies to allow policyholders who have generated a wholly disproportionate gain to apply to HMRC to have the gain recalculated on a just and reasonable basis.

Section 2.3.2

The first paragraph of this section has been amended to:

There are two basic rules for pension contributions. The first is an annual limit which allows an individual to obtain tax relief on contributions up to £3,600 per annum or their full taxable UK earnings if higher. Normally these will receive basic rate tax relief within the fund (i.e. currently 20%) so a policyholder wishing to contribute £3,600 would pay £2,880 (80% of £3,600) and the insurance company would reclaim the 20% tax relief from HMRC.

The third paragraph of this section has been amended to:

The second rule imposes a further limit on how much can be contributed with the benefit of tax relief by an individual and his or her employer, measured over the tax year. This limit is the "annual allowance", which is £40,000 for the tax year commencing April 2017. There is a facility to carry forward any unused annual allowance from the preceding three tax years. Contributions in excess of the annual allowance, including any unused amount carried forward, are not eligible for tax relief. The limit applies to all savings in pension schemes in which an individual builds up benefits.

The forth paragraph of this section has been amended to:

If an individual has accessed a flexible (unlimited) drawdown arrangement, the annual contribution limit reduces to £4,000 (but it remains at £40,000 for those who stay in a limited drawdown product, provided income is not taken in excess of the limit). The annual allowance is also tapered from £40,000 to £10,000 where the taxpayer's income exceeds £150,000.

Section 2.3.4

The first paragraph of this section has been amended to:

Investment in residential property in the UK or overseas, and in tangible moveable property such as wine and antiques, does not qualify for exemption from tax on income or gains and may incur a tax charge for the scheme member and scheme administrator. The details of the additional tax charge are not examinable.

The second paragraph of this section has been amended to:

Pension schemes are permitted to transact with family members, connected companies, fellow directors and/or partners, provided such transactions are carried out at market value and meet certain conditions. This can be particularly useful for small companies that already own their business premises in that the property could be sold to the pension scheme.

Section 3.1

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 life assurance companies and therefore are not covered in detail in this unit. 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 3.2.3

The second paragraph of 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 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.

UNIT 6

Section 1.1

The first bullet point in this section has been amended to:

The Prudential Regulation Authority (the PRA) is a part of the Bank of England and is responsible for the prudential regulation of all deposit-taking institutions, insurance providers and large investment firms.

Section 2.2

The second paragraph of this section has been amended to:

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 regulator's 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 third paragraph of this section has been amended to:

The Insurance Rules section of the PRA Rulebook includes the Fundamental Rules (as set out in Section 2.1.1) and a range of other requirements including in relation to supervisory reporting, the determination of technical provisions (or mathematical reserves) and capital requirements, fitness and propriety of key individuals and authorisation. Separate versions of the Rulebook are available for Solvency II and Non-Solvency II firms.

Section 2.3

The following paragraph has been added to this section:

FCA also issue guidance notes on specific topics often on the back of thematic work on a specific topic such as the guidance on the fair treatment of long-standing customers in the life insurance sector (FG16/8) which outlines the FCA expectations in terms of how firms should be dealing with their existing customers.

Section 3.2

The following paragraph 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 4.2

The following bullet point has been removed from this section:

Additionally, a consumer friendly version of the PPFM (the "CFPPFM") has to be made available, spelling out the key points of the PPFM in plain English.

Section 7

The second paragraph of this section has been amended to:

There are restrictions which apply to transfers arising from with profits business. The precise rules are non-examinable.

UNIT 7

Section 2.1

The last paragraph of this section has been amended to:

Transitional arrangements are available for some aspects (e.g. technical provisions, risk-free interest rates), for a defined period (up to 16 years). The intention is to avoid unnecessary disruption of markets and availability of insurance products. However, UK firms have had to make formal applications to the PRA to be permitted to use the transitional arrangements

UNIT 9

Section 2.6

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 in mid 2017. The expected effective date of the standard is January 2021.

The last paragraph of this section has been amended to:

Initially it seemed unlikely that listed insurers would make a change to their accounting policies to make them more consistent with Solvency II. However the delay in implementation of IFRS 4 Phase II to 2021 means that it is conceivable that some life insurers might consider making changes to their existing accounting policies so that the measurement approach is more closely aligned with Solvency II.

Section 5.4

The last paragraph of this section has been amended to:

Many life insurance companies no longer report an embedded value, following the implementation of Solvency II.

UNIT 11

This section has been extensively re-written for 2018.

UNIT 12

Section 2

The first paragraph of this section has been amended to:

Guidance given by the Financial Reporting Council in TAS 200 states that communications for work that requires projection of cashflows under alternative scenarios "shall describe how any changes in the assumption about exercise of discretion in the alternative scenarios considered are consistent with the fair treatment of the policyholders affected".

UNIT 13

Section 7.3.1

The title of this section has been amended to "Regulations".

The following paragraph has been removed from this section:

The Insurance TAS does not refer to mortality improvements explicitly, but under a more general heading "Claim rates" it states: "If assumptions about claim rates are used in, or proposed for use in, an exercise requiring the projection of claims over a number of years there shall be separate assumptions for base claim rates and for subsequent changes to those rates."

UNIT 16

The references to specific papers for SA2 has been replaced by the following wording and a link to the IFoA website:

Relevant papers for SA2 which were first presented to IFoA sessional research meetings or to Staple Inn Actuarial Society (SIAS) can be found via the following link.

https://www.actuaries.org.uk/studying/plan-my-study-route/fellowshipassociateship/specialist-applications-subjects/sa2-life-insurance/resources-subject-sa2-life-insurance

These article and paper references are listed by year for each unit within SA2 to which they are most applicable. However, some reading material may be relevant to more than one Unit while one paper listed at the end under "Wider reading" is not obviously applicable to any specific Unit.

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