CHANGES TO THE SYLLABUS AND CORE READING FOR SUBJECT ST7 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 2

Section 2.2.4.3

In the 2nd set of bullet point the 5th bullet point has been amended to read:

- sex of main driver (note that current European regulations ban sex as a rating factor)

Section 2.3.4

The 2nd bullet point has been amended to read:

- sex (note that current European regulations ban sex as a rating factor)

Section 2.4.4.1

In the opening paragraph the penultimate sentence has been amended to read:

Sex may be a factor: women tend to be less prone to accidents than men (note that current European regulations ban sex as a rating factor).

UNIT 4

Section 1.1.2

In the 3rd paragraph the 2nd sentence has been amended to read:

At the start of 2017 there were 105 syndicates at Lloyd's.

Section 6.1

The following text has been added to the end of the final paragraph:

Following the expiry of this agreement, the UK Government and the insurance industry have agreed to set up a fund called Flood Re, to provide flood insurance at a fixed price to high risk policyholders. The scheme was implemented in the summer of 2015. Flood Re is financed by a levy on all insurers that provide home insurance.

UNIT 5

Section 1.6

In the 2nd set of bullet points the 4th bullet point "$7m" *has been amended to* "$7 billion".

UNIT 6

Section 1

A new bullet point has been inserted between the 2nd and 3rd bullet point as follows:

- Parameter error: This covers the uncertainty arising from the estimation of parameters used in a model.

Section 2.10

In the 2nd sentence "asbestosis" *has been amended to* "asbestos-related illnesses".

UNIT 12

Section 5

The 1st sentence of the final paragraph has been amended to read:

The existence of a "reserving cycle" is widely accepted, which is highly correlated with the underwriting cycle.

The final paragraph in this section has been deleted.

UNIT 13

Section 4.3

The 3rd bullet point has been amended to read:

- Multiple large losses. We can consider the possibility of random events or possible common causes (for example, economic downturn/problems with financial institutions) causing a series of losses. These may potentially exhaust lower layers of reinsurance programmes.

Section 5

The 1st sentence has been amended to read:

It is important to be able to explain reserve estimates and ranges – clearly and effectively – to the various interested parties, such as senior managers, the board of directors and the regulator.

Section 5.2

The 1st paragraph has been amended to read:

The UK's Technical Actuarial Standards (TAS 100) require any communications to indicate the nature and extent of any material uncertainty in the information contained in the report. In this context, the uncertainty may concern the results of calculations, the assumptions on which the information in the communication is based or other aspects.

and the following text has been deleted:

TAS R suggests a number of ways to indicate the extent of the uncertainty, including:

- giving a range, measure of the value at risk or other statistical calculation
- showing the numerical consequences of changes in assumptions
- presenting the outcomes of scenarios, possibly including extreme scenarios; and
- describing the uncertainty and explaining why it has not been quantified

Section 6

The final paragraph has been deleted.

UNIT 15

Section 1.1

This has been amended to:

1.1 Future premium income

Premium income is usually projected separately for each line of business (subject to the size of each line: grouping or splitting of lines of business may be required). The figures may also be split by source of business or some other differential. Such assumptions will usually be set following consultation with sales managers / underwriters / business planners.

Written or earned premium could also be used depending on capital model structure / requirement

1.2 Future claims

For each class of business it is possible to split claims into:

- Attritional claims
- Large claims

- Catastrophe claims

and / or

- Claims from business that is written in the future
- Claims from the period of unexpired risk on existing business
- The development of notified claims (IBNER)
- IBNR

As an example of how the elements of insurance risk might be treated, potential claims arising from catastrophes are usually analysed using stress or scenario tests or by using the output from proprietary catastrophe modelling software.

Section 1.4 and 1.5

The order of these two sections has been reversed.

A new section has been added as follows:

1.8 Operating environment

The model should also take account of what is happening internally within the company and its potential influence on future cash flows, for example the potential impact of high staff turnover on ability to meet regulatory deadlines or the loss of an underwriting team on the ability to meet a business plan. There should also be some consideration of potential changes in legislation and their impact, for example the potential impact of a change in the Ogden rate on future claims payments.

Section 2

This section now reads:

A capital model may be either deterministic or stochastic. It is worth remembering that the output from a model is only as useful as the underlying data input allows. As such, we should start any model process by gaining a thorough knowledge of the underlying data.

Section 2.2

The following text has been deleted at the end of this section:

It is worth remembering that the output from a stochastic model is only as useful as the underlying data input allows. As such, we should start the model process by gaining a thorough knowledge of the underlying data.

Section 6.5

The 4th bullet point has been amended to read:

- Catastrophe claims (natural and man-made), often with assumptions around class of business splits.

In the table:

The **Component** "Ceded premiums" *has been amended to* "Ceded reinsurance premiums".

For the **Component** "Operational losses" the **Assumptions needed** *has been amended to read:*

Risks that have the potential to give rise to operational losses:

- The likelihood of each risk materialising
- Expected costs if the risks materialise
- and the variability around these costs
- Distribution of losses arising from each risk
- Extent to which multiple risks might materialise during the period covered by the capital model.

Section 7

In the 4th paragraph "apply" *has been amended to* "consider".

The bullet pointed list has been amended to read:

- Underwriting classes of business (for example, between motor and household business)
- Different types of losses, e.g. between attritional losses and large losses
- Risk types (for example, between underwriting risk and reserving risk)
- Underwriting years
- Legal entities within a group, including between entities in different territories.

UNIT 16

Section 2.1

In the 5th paragraph "but is only appropriate" *has been amended to* "The Poisson distribution is only appropriate".

Section 2.4

In the penultimate paragraph "policy years" *has been amended to* "underwriting years" *in two places.*

Section 4

This section has been rewritten and now reads:

In this section, we consider the capital impact of credit risk.

Credit risk is the risk of loss if another party fails to meet its financial obligations, or fails to perform them in a timely fashion. It can also include downgrade impacts. Credit risk is typically split into the following three categories:

- Reinsurance credit risk.
- Investment credit risk; for example, from holdings of non-government bonds.
- Other counterparty credit risk, for example, where material, premium debtors, including pipeline premiums, and other balances with intermediaries and banks.

Section 4.2

The following text has been added to the end of the 1st bullet point:

, particularly where counterparties are related (for example, subsidiaries of the same parent group or syndicates at Lloyd's).

Section 5.3

The 3rd sentence has been amended to read:

It will usually be modelled as frequency/severity but can be modelled using probability distributions either for the risks combined or for individual operational risk types. Operational risks are usually considered separately by sub risk groups and assessed by personnel with the skills to appraise such risks.

Section 5.4

The following text has been added to the end of this section:

and the mitigation actions taken by firms.

Section 6

The following text has been added to the end of the 1st paragraph:

Liquidity risk is sometimes included in either market risk or operational risk rather than as a standalone risk group in some models.

Section 7

The following text has been added to the end of the 1st paragraph:

This may be included in operational risk rather than as a standalone group in some models.

Section 8

The following text has been added to the end of the 1st paragraph:

These risks are included within operational risk in some models.

UNIT 17

Section 4

In the 1st paragraph "Actual capital" *has been amended to* "Total capital".

UNIT 18

Section 2.2

In the 4th paragraph "fungibility" *has been amended* to "interchangeability".

Section 2.4

The following text has been deleted from the final bullet point:

An example of this would be scenarios such as RDSs populated by underwriters for regulatory submissions internal risk management of exposures.

Section 2.7

In the penultimate paragraph the final sentence has been amended to read:

This can also be used to quantify the impact of change caused by changes in exposure data, parameter changes and model changes.

Section 3.1

In the 2nd paragraph "FRC" *has been amended to* "Financial Reporting Council".

The 4th paragraph has been amended to read:

However, for a company to use an internal model for the purpose of setting capital under the PRA, the model has to satisfy the "use test"; that is, the company must use the model to help manage the business, not simply to produce numbers for regulatory purposes.

The only other changes that have been made to the Core Reading are to correct typographical errors and improve the style.

E N D