

# **GN12(ROI): GENERAL INSURANCE BUSINESS: ACTUARIAL REPORTS**

## ***Classification***

Practice Standard

**MEMBERS ARE REMINDED THAT THEY MUST ALWAYS COMPLY WITH THE PROFESSIONAL CONDUCT STANDARDS (PCS) AND THAT GUIDANCE NOTES IMPOSE ADDITIONAL REQUIREMENTS UNDER SPECIFIC CIRCUMSTANCES**

## ***Purpose***

The purpose of GN12 is to give guidance on the circumstances in which a member should normally prepare a formal report in the field of general insurance, and to describe the basic elements that should normally be included in such a report.

## ***Application***

Any member preparing a formal report relating to the field of general insurance. It applies equally whether the member is acting as an employee, director, owner or third-party contractor to an organisation.

In this document, general insurance includes property and casualty insurance (including reinsurance), similar risk exposures and related financial risks. This includes any business within the classes of insurance to which the EU's First Non-life Directive (73/239/EEC) applies.

<b><i>Version</i></b>	<b><i>Effective from</i></b>
1.0	06.09.06

## ***Definitions***

### ***Should normally***

Takes the meaning assigned in PCS. PCS uses the term "should normally" to indicate that *members* must comply with a particular requirement or prohibition, unless the circumstances are such that the requirement or prohibition is inappropriate and non-compliance is consistent with the standards of behaviour, integrity, competence and professional judgement which other *members* or the public might reasonably expect of a *member*.

### ***Principle of proportionality***

An action should be proportionate to the problem or task in hand and need not go beyond what is necessary to achieve its objective.

### ***Principle of practicability***

An action can only be required if practicable.

### ***Quantitative formal report***

A formal report on an assignment with significant scope for quantitative actuarial analysis.

### *Reserved advice*

Takes the meaning assigned in PCS i.e. advice given by a *member* which, because of prescription in:

- legislation,
- regulation or the requirements of any statutory or regulatory body, or
- a contract, deed or other legal document,

usually to the effect that the advice must be given by an actuary as therein defined, could not have been given by the individual if that individual were not a *member*.

## **1 Introduction**

1.1 The member must exercise professional judgement when deciding whether work requires a formal report, paying regard to:

- (i) the *principle of practicability* and the *principle of proportionality*;
- (ii) the terms of reference; and
- (iii) the need to communicate his or her advice effectively to the recipient.

Subject to these considerations, a formal report is required:

- (iv) for *reserved advice*;
- (v) for work that is to be used in compiling statutory accounts or submission to regulators;
- (vi) if under the terms of reference, an independent third party may rely on the results; or
- (vii) if the advice given is likely to have a material financial impact on the recipient.

1.2 If work is performed as part of a multidisciplinary team, then compliance with this Guidance Note is required only if, when viewed as a discrete assignment, the actuarial work would warrant a formal report. In this case, this Guidance Note applies only to the actuarial content of the overall work.

1.3 An update to a formal report *should normally* be regarded as a formal report and comply with this Guidance Note. However, when testing compliance, it is acceptable to consider the update together with the original report and any formal updates already made to it. Under these circumstances the report must be identified as an update to earlier reports and the member:

- i. must indicate in the update which previous reports and updates are needed to reach a full understanding of the latest update;
- ii. must make clear which part of the earlier reports he or she endorses and which are being updated;
- iii. *should normally* be satisfied that all recipients of the update have access to all of these reports.

1.4 The member must have regard to any other relevant guidance issued by the Society of Actuaries in Ireland.

1.5 If a member has relied upon the knowledge of another suitably qualified professional then this must be made clear in the report.

- 1.6 If more than one member signs the report, then unless the respective responsibilities are clearly stated, responsibility for the contents of the report is joint and several.
- 1.7 Sections four and later of this Guidance Note are applicable to all *quantitative formal reports*. The member must exercise professional judgement when determining the applicability of these sections to other formal reports.

## **2 Definition of Terms**

- 2.1 The report *should normally* include definitions of technical words and expressions used in the report.

## **3 Purpose and Scope**

- 3.1 The report must state:
- (i) who has commissioned the report and, if different, the addressee(s) of the report;
  - (ii) the name and qualifications of the member taking responsibility for the report;
  - (iii) the capacity in which the member is acting;
  - (iv) the effective date of the report and the data used;
  - (v) the purpose of the report or the terms of reference given;
  - (vi) the scope of the report;
  - (vii) the extent, if any, to which the report falls short of, or goes beyond, its stated scope or purpose;
  - (viii) that the report has been prepared in accordance with this guidance note;
  - (ix) any restrictions on the work carried out by the member.
- 3.2 The report *should normally* contain or make reference to and address the issues arising out of:
- (i) the nature, accuracy and interpretation of the data;
  - (ii) comparisons of actual experience with that expected under the assumptions in the last similar report, if available;
  - (iii) the actuarial models and key assumptions;
  - (iv) any changes in the method and key assumptions since the last similar report produced by the same member;
  - (v) results;
  - (vi) uncertainty of the results;
  - (vii) the effect of any known actual or planned business developments on the conclusions of the report;
  - (viii) the fact that third parties reading the report may not have the background information necessary for a full understanding of the report.

If the report does not address each of the points above then the report *should normally* justify why the point has not been addressed.

- 3.3 The report *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.
- 3.4 An assumption must be considered key if it has a material impact on the results of the actuarial investigation.

#### **4 Information and Data used by the Member**

- 4.1 The report must indicate the sources of the data that the member has used and the extent to which he or she takes responsibility for data accuracy or completeness. The member may need to rely on or use the work of other people. If there is a risk of confusion as to the division of responsibilities between the member and other persons or organisations, the respective responsibilities must be made clear in the report.
- 4.2 The member must draw attention to any material limitations in the available data including the effect on the appropriateness of the data of changes in the way the business analysed has been conducted. Specifically, the member must make reference to limitations in the data that have materially added to the uncertainty surrounding the results of the work carried out.
- 4.3 The report must describe the criteria used for subdividing data into groups.
- 4.4 Where the member makes adjustments to the data the nature, amount, and rationale for the adjustments must be clearly stated.

#### **5 Analysis of Emerging Experience**

- 5.1 The report *should normally* include an analysis of emerging experience.
- 5.2 If the member is aware of material changes in approach or key assumptions from the previous report, then regardless of who was responsible for the previous report, the member *should normally* describe the changes and the impact on the results.
- 5.3 The member *should normally* comment on new data that has emerged in the context of previous actuarial models and assumptions.
- 5.4 The member *should normally* explain the influence of new data on the results.
- 5.5 The member *should normally* comment upon external issues that may change the credibility of the data.

#### **6 Methodology and Assumptions**

- 6.1 The report must include a section providing a summary of the methods used and explaining to which elements of the data a method has been applied.

- 6.2 Where unusual or non-standard methods have been used, or where one or more of the recipients of the report is unlikely to be familiar with the methods used, then a more detailed description of the methods *should normally* be given.
- 6.3 The report must specify and discuss the key assumptions and judgements.
- 6.4 If the report includes illustrations based on assumptions that the member does not regard as appropriate, this must be made clear in the report.
- 6.5 The member must explain the rationale for selecting the methods used in producing results and for each method provide a statement of key assumptions.
- 6.6 Where the results of different methods or assumptions presented in the report differ significantly, the member must comment on the likely reasons for the differences and explain the basis for the choice of results.
- 6.7 It is not necessary to disclose every assumption made, but there *should normally* be sufficient data and other information to understand the key assumptions made and the process by which the member has identified them.

## **7 Results**

- 7.1 The report must provide clear interpretations of any point estimates shown.
- 7.2 The member must state whether the amounts he or she recommends or opines as suitable for inclusion as technical provisions in financial statements or returns to supervisory authorities are in accordance with the governing accounting principles or legislation.

## **8 Uncertainty**

- 8.1 The report *should normally* indicate the nature, degree and sources of uncertainty surrounding the results and sensitivities to key assumptions. Uncertainty *should normally* be quantified where practicable, but otherwise *should normally* be reported using an appropriate descriptive summary.
- 8.2 If there are specific features of the business that present potential concerns or significantly increase the uncertainty of the results, beyond that which an informed reader of the report would reasonably expect, then this fact must be clearly highlighted in the corresponding reservations, or limitation of scope, included in the report.
- 8.3 If there is a substantial probability of material adverse deviation from modelled results, the member *should normally* draw attention to this in the report.