



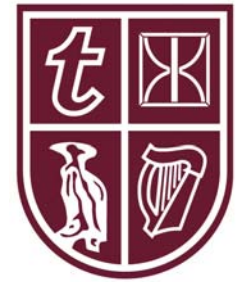
Life Forum

Society of Actuaries in Ireland – Life Committee
17 May 2007

Agenda



- Update on Committees
- PRE
- Unit pricing & PRE
- Update from Governance and Regulation Sub-Committee
- Implementation of the “Gender Differentiation Directive” in Ireland
- Consultation on ASP LA-11 and ASP LA-12



Update on Committees

Richard O'Sullivan



Update on Committees

- Life Committee has 11 members and 8 sub-committees
 - Richard O’Sullivan – Chairman
 - Anthony Brennan – Insurance Risks
 - Michael Culligan – International
 - Bill Hannan – Governance and Regulation
 - Tony Jeffery – Accounting Issues
 - Mike Frazer
 - Brona Magee – Communications
 - Dermot Corry – Cross Border
 - Colin Murray – Market Conduct
 - Robert Wolfe – PRSA
 - John Feely

Update on Committees – Insurance Risks



- Results of CI investigation circulated to offices
- Evening meeting scheduled for 29th May
- Committee undertaking study into annuitant mortality



Update on Committees – International

- Principally focused on Solvency II
 - Will meet shortly to discuss QIS3
- Likely future areas
 - Issues emerging from QIS3 results
 - E.g. operational risk
 - Text of Solvency II Directive (expected in July)
 - Pillar 2 (e.g. “Own risk and solvency assessment”)
 - IASB discussion paper on IFRS Phase 2
 - Comparison with Solvency II approach
 - Role of actuary in Solvency II world
- Seeking a volunteer to chair a working party to examine recent changes to UK valuation regulations and consider if it would be appropriate to change Irish regulations

Update on Committees – Cross Border



-
- Changes to German Conduct of Business rules from 2008
 - Survey of reserving methodologies used for Italian Substitute Tax

Update on Committees – Market Conduct

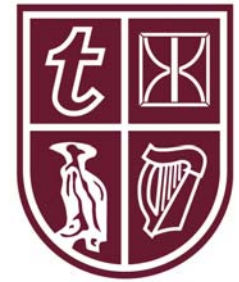


- Disclosure for CPPI products
- Aspects of unit pricing disclosure - issues from SSIAAs
- Disclosure for variable annuity products
- Policyholder information regimes around the world
- Issues on the Consumer Protection Code

Update on Committees – PRSA



- Practising Certificate system to come into force on 1 November
- Removal of specified 6% projection rate for PRSAs investing in Default Investment Strategy
- Changes to projection standard ASP PRSA-2 (GN31A) consistent with changes in ASP LA-8 (GN22)
- Social Welfare and Pensions Act 2007 allows more freedom to PRSA providers to reduce product charges
- PRSA Forum held in December



PRE - Where are we now & what is the profession's role

Tony Jeffery



Is PRE a matter for the profession ?

Is PRE a matter for the profession ?



Specifically

- Should we communicate to the informed public?
- To the wider public?
- Assist/advise members of the profession?
- Regulate?



- What has happened recently?
- Summary of current practice
- Discussion of issues
- My answer



What has happened recently?

- ASP LA 1 says AA must reserve for PRE
- Otherwise PRE is essentially confined to ASP LA 4 which defines scope to be
 - With Profit
 - Unit Investment Objectives/Guidelines
 - Unit Pricing
 - Deductions to unit for tax
 - Reviewable charges
- In all this we are only talking about reserving for these



Summary of current practice

- Quick phone survey of domestic life companies
- They have or are about to brief boards
- Responsibility delegated back to AA (though with company employee hat on) in 5 companies
- Delegated to compliance in one company



Discussion of issues - What is PRE?

- With Profit (bonuses, asset strategies etc)
- Unit Pricing
- Discretionary Charges (especially demographic risk charges)
- Sales Practices
- Policy administration (doing what it says on the tin)

With Profit (bonuses, asset strategies etc)



-
- Specialist knowledge
 - Often the AA required to be involved
 - No real change from previous situation
 - This clearly remains the preserve of the actuarial function

Unit Pricing



- Specialist knowledge
- Profession commitment (e.g. papers exist)
- Others also have the knowledge
- **Probably actuarial but others could do it**



Discretionary Charges (especially demographic risk charges)

- Specialist knowledge
- Profession commitment (e.g. papers exist)
- We are probably the only ones with such knowledge so if we don't do it who else will?

Sales Practices



- No professional advantage save in disclosure
- Even that is only arithmetic
- CPC has imposed conduct
- **Apart from disclosure no role**

Policy administration



- No specialist knowledge
- Law or Compliance might be a better background

So....?



So....?



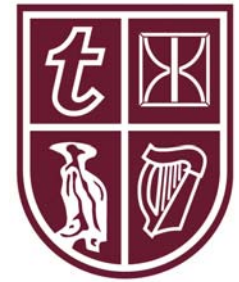
-
- PRE remains a reserving issue
 - It remains a preserve of Appointed Actuaries by virtue of delegation in most companies
 - It is a matter for Professional expertise in some areas
 - With Profit
 - Unit Pricing
 - Risk Charges

Is PRE a matter for the profession ?



Specifically

- Should we communicate to the informed publics **YES**
- To the wider public? **YES**
- Assist/advise members of the profession? **YES**
- Regulate? **Already is**



Unit pricing & PRE

Colin Murray

Previously....



- GN1
 - AA must be satisfied all discretionary aspects of unit pricing and fund charges are applied consistently with PRE
 - Focused equitability of procedures on
 - Allocated or de-allocated
 - Created or cancelled
 - Compensation

Now...



-
- ASP LA-1...
 - Still must advise the Board on PRE of unit pricing. Board responsible for actions
 - Reserving aspects only
 - ASP LA-4
 - Where relevant in interpreting the impact of the exercise of discretion by the Board on PRE have regard to...
 - Reserving for any adverse consequences of the actions of the Board

Where does this leave the profession?



- “Default” responsibility from external view?
- Do we have a monopoly on unit fund pricing? What about mutual funds?
- Public interest on unit pricing issues?
- Should disclosure be clearer?



Governance and Regulation Sub-Committee Update

Bill Hannan, Fergal O'Shea

Terms of Reference



- 1. To be responsible to the Life Committee in assisting members adopt best professional practice by the preparation of guidance notes.**
- 2. To assist the Financial Regulator with the development of regulations for life assurance business.**

Membership



Bill Hannan

Yvonne Lynch

Dermot Corry

John Gibson

Jonathan Goold

Brian Morrissey

Fergal O'Shea

Graham Cherry

Recent activities



- **Amendments to ASP LA-1, ASP LA-3, ASP LA-4, ASP LA-5, ASP LA-8 and ASP PRSA-2**

Current activities



- **Amendments to ASP LA-3**

Overall status of ASPs



- A major overhaul is now near completion

ASP LA-3



- **10 years since last review!**
- **Amendments to reflect the Report of the Valuation Regulations Working Party**
- **Amendments to reflect the Report of the Expenses WP**
- **Amendments to give guidance on some other areas where relevant**
- **Tidy-up & consistency with other ASP's esp. ASP LA-1**
- **Effective date**
 - 1 July 2007
- **Changes**
- **Consultation issues**



ASP LA-3

Changes - Valuation Regulations Working Party

- **Valuation of with profits [2.3-2.5]**
- **Policy options [2.6, 3.6.1-3.6.6]**
- **Regular withdrawals [3.6.7]**
- **PUPs [3.6.8]**
- **PHI [2.8]**
- **Expense assumptions & reviewable charges [2.9]**
- **Altered policies [2.10]**
- **Resilience testing [3.2]**



ASP LA-3

Changes - Expenses Working Party

- **Expense assumptions & reviewable charges [2.9]**
- **Future expenses [3.5.2]**
- **Net and gross premium allowance prudent [3.5.4]**
- **Closed fund expenses [3.5.5-6]**
- **Lapses [3.7]**



ASP LA-3

Changes - Other

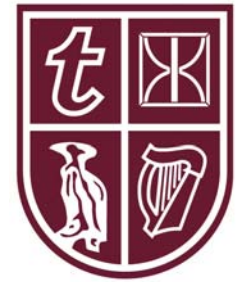
- **Credit risk [3.3.4]**
- **ASP LA-1 [2.10]**
- **Solvency margin 25% expense calc**

ASP LA-3

Consultation Issues



- **Allowance for non-interest spreads 3.2.4**
- **Lapses 3.7**
- **New regulation**
- **Guidance to determine margins for adverse deviation**
- **Stochastic approach to policyholder options**



Implementation of the “Gender Differentiation Directive” in Ireland

Mike Frazer

Implementation of the “Gender Differentiation Directive”



- Key Points of the Directive
 - Gender Non-Employment Directive (2004/113/EC)
- Key Dates
- Working Group
- Report of the Working Group
- Implementation

Key Points of the Directive



- From 22 December 2007, unisex premium rates must be offered on insurance contracts and related financial services unless ...

“the use of sex is a determining factor in the assessment of risk based on relevant and accurate actuarial and statistical data”
- Member States must inform the Commission of any derogations and ensure that ...

“accurate data relevant to ... are compiled, published and regularly updated”
- Differences in male/female experience arising from pregnancy/maternity related conditions must be excluded.
- Member States must review their decisions after 5 years taking into account a report to be produced, within 3 years, by the European Commission.

Key Dates



- December 2004
 - Directive was approved
- December 2007
 - Member States must transpose the Directive by 21 December 2007*
- December 2010
 - Commission will review practices and prepare a report to Parliament and Council by 21 December 2010 and ...
“where appropriate, the Commission shall accompany its report with proposals to modify the Directive”
- December 2012
 - Member states must review their decision five years after the 21 December 2007 transposition date

** although Directive does allow for later transposition, subject to informing the Commission*



Working Group on Insurance-related issues

- Established by Dept of Justice, Equality and Law Reform in April 2006
- Representatives from Govt Depts (JELR, Social and Family Affairs, Finance, Health, Transport), IIF, CSO, MIAB, Financial Regulator, as well as SAI (Jim Murphy / Aisling Kennedy)
- Terms of Reference:
 - Review current practices in Irish insurance markets;
 - Review data relevant to use of sex as a determining actuarial factor and evaluation of data to ensure accuracy of compilation, publication and updating;
 - Prepare a report on its findings and make recommendations in relation to
 - a) use of gender as a factor in insurance pricing; and
 - b) by whom and how any supporting data should be compiled, published and regularly updated.

Report of the Working Group

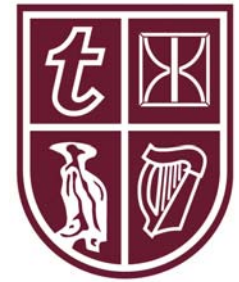


- Finalised and submitted to Tanaiste in December 2006
- Recommendations:
 - Ireland should avail of the exemption
 - Gender-sensitive calculation permitted in relation to mortality risk, morbidity risk and risk of road traffic accidents
 - Specific product areas cited: life, critical illness & PHI cover, annuities, pension and motor insurance
 - Generalised for life business as Class I, III & IV
 - Implementation of article regarding pregnancy and maternity deferred until 2009 pending further study
 - Statistical and actuarial data in support of recommendations to be in place by December 2007
 - Financial Regulator to be responsible for compiling, publishing and updating supporting data
 - Review of decision by Dept of JELR after 5 years



Implementation

- Government approved recommendations of the Working Group
- Report Published 23rd April 2007 (available at <http://www.justice.ie/en/JELR/GenderInsRpt.pdf/Files/GenderInsRpt.pdf>)
- Implementation by way of amendments to Civil Law (Miscellaneous Provisions) Bill 2006
- Awaiting committee stage in the Dail – therefore no progress until after the election
- Issue requiring clarification – based on member state of insurer or insured?
 - “Directive shall apply to all persons who provide goods and services”
- Implementation in other countries still pending
 - Believe UK also intends to exercise the exemption
 - Even pre-directive, some countries already use unisex pricing



Consultation on ASP LA-11 and ASP LA-12

Stephen Devine



Life Reinsurance Consultation

Contributors:
Stephen Devine, Niall Dillon, Aisling Kennedy
James Maher, Brona Magee, Brian Morrissey
Ann Muldoon, Colin Murray, Ciara Regan

Background



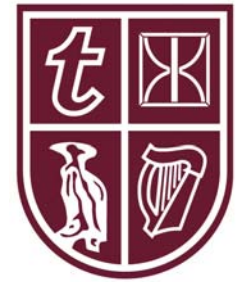
- Reinsurance Directive 2005/68/EC, December 2005
- EC (Reinsurance) Regulations, (SI 380 2006), June 2006
- CP20 draft, January 2007 (Final version expected June)
 - contains regulatory guidelines to which the ASP refers
 - Scope
 - Assets
 - Reserves
 - Solvency Margin
 - SAO – only relates to reserves and SM
 - May seek clarification from FR on interpretation of guidelines
- ASP LA-11 (SAO) and LA-12 (Life Re Reports)

SAO Certifies that



- Reserves
 - Comply with Irish Legislation and other relevant regulatory requirements (CP20)
 - “Having due regard to the provisions of Article 20 of Directive 2002/83/EC”
....deliberate error???

- SMSM
 - Based on the data in returns
 - In accordance with Irish Legislation and other relevant regulatory requirements (CP20)



ASP LA-11

Statements of Actuarial Opinion on Life Re Business



1 - General

- Practising Cert'
- PCS
 - Sufficient knowledge & experience
 - Conflicts of interest
 - Override responsibilities as employee or consultant
- Report within 2 months of SAO



2 & 3 - Nature of:

- SAO
 - Scope
 - Qualification thereof
 - Modification thereof (to suit particular circumstances)
 - Allowance for retrocession bad debts not required
 - Volatility/Shape concerns may require specific comment
- Relationships with
 - Auditor (no reliance without specific agreement)
 - Own firm (PCS override)
 - Company's management, staff and work products (access)
 - Board (no formal communication required)
 - Reliance on others work (division of responsibilities must be clear or disclosed)
 - If Composite, Non-life Signing Actuary (appropriate liaison)



4.1 Data & Information: two sets

1. Data used for
 - the determination by the Signing Actuary of the Company's technical reserves and
 - the confirmation by the Signing Actuary of the calculation of the SMSM calculation

2. Summary financial information extracted from the statutory returns or published financial statements
 - must be verified



4.2 to 4.13 - Data: Considerations

- **Musts:**
 - Understand definition, accuracy, completeness & consistency
 - Consider nature of data risks and alternative sources
 - Obtain up-to-date Data Accuracy Statement (DAS)
 - Discuss material discrepancies and anomalies with the company
 - Understand effect on data of actual/anticipated recovery failures
 - Consider making allowances for inadequate data
 - **Decline to provide SAO** if appropriate allowances cannot be made
 - Consider amending / re-issuing SAO if “draft” statutory returns changed
 - Ensure that reserves make appropriate allowance for delays in reporting by ceding companies (S. 5.5.1)
 - **Ascertain material events i.r.o. reserves up to SAO signing date (S. 5.5.3)**
- **Other**
 - DAS does not remove need to consider if further investigation appropriate
 - Acknowledges imperfections in reinsurance data
 - May carry out some work as at a date prior to SAO date (S. 5.5.2)

4.9 to 4.12 - Data qualifications in SAO



SAO **must** be amended to comment on:

- Material concerns regarding Data
- Material allowances made for inadequate data
- SAO in relation to draft returns

SAO **may** need to be amended, if necessary, to comment on:

- The use of imperfect **but** appropriate Data

5.1.1 to 5.1.3 - Valuation Principles



-
- key principles for all subsequent paragraphs in this section
 - “**must** be satisfied that the reserves held by the company represent a margin over best estimate” (expected value of the liabilities) that is “adequate having regard to his or her own assessment of the [inherent risks]”
 - If relying on Company’s reserving processes, then **must** :
 - review reserving processes.
 - be familiar with systems and controls.
 - be satisfied with application of processes and adequacy of documentation.

Sections 5.2 to 5.6 - Reserving



- Methodology
 - Mind the language: “use or rely on” ; “in deriving or reviewing”
 - **Must** be relevant to the contract being valued and any non-standard methods to be justified with reference to actuarial principles
 - Negative reserves and DAC are allowed but are subject to recoverability testing. Recognises possibility of total reserves being negative.
- Documentation
 - **Must** consider reviewing contract/treaty documentation, particularly as reinsurance contracts may have unusual features that require interpretation.
 - applies also to outwards reinsurance to ensure that appropriate allowance is taken for benefits arising
 - **Should normally** rely on professional advice relating to contracts that are subject to dispute or in arbitration

5.7 to 5.10 - Assumptions



- Interest rate assumption
 - The Company has responsibility for placing the value on the assets, the Signing Actuary **must** have regard to that value.
 - **must** take account of future reinvestment rates and, in determining an appropriate margin, **should** have regard to the possibility of asset default.
 - The direction of the margin adjustment **must** be considered where the reserves are negative.
- Claims assumptions
 - consider both the trend development, and
 - the extent to which claims arising from known diseases have been reflected within the current experience.
- Expense assumptions
 - must allow for any contractual obligations imposed on the company and the consequence of those arrangements ceasing, including TPA arrangements and service agreements within the company structure.
 - Particular attention should be paid to market information in determining future expenses in respect of collateral arrangements.
- Lapse assumptions
 - should consider both historic and likely future experience.
 - should consider the direction of the margin to satisfy the prudential requirements.

Types of Options and guarantees



- Financial
 - Investment performance
 - Interest rate guarantee
 - Extreme events
- Demographic
 - Mortality, morbidity guarantee
 - Extreme events
- Policyholder
 - Lapse/not lapse
 - Renewability
 - Exercise a “Ratchet”
- Cedant
 - Cancel treaty
 - Exercise renewal option of treaty on unfavourable terms
- Combinations of above (correlations)

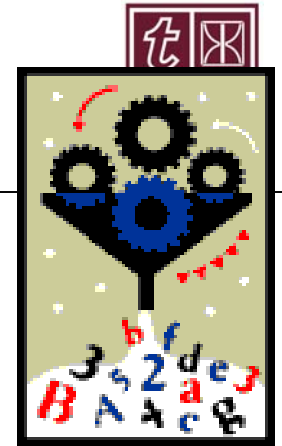




5.11 Options & Guarantees

- “Must make appropriate allowance in reserves” (mind the language)
- Treat past experience with care particularly for
 - Policyholder options
 - “Out of money” options
- Consider cedant actions as well as policyholder actions
 - Cedant is likely to be more financially aware
 - May encourage policyholders to take up options
- **Should normally** use stochastic techniques or justify non stochastic techniques

Stochastic Model Checklist (5.11.5 to 5.11.10)



- ✓ **Must** calibrate to market prices or nearest alternative
- ✓ Historical data used with care, in particular when considering correlations in stressed conditions
- ✓ If “Out of the money” then **must** ensure sufficient adverse scenarios, stress test
- ✓ **Must** allow for likely policyholder/cedant choices in each scenario
- ✓ **Must** ensure degree of prudence appropriate to data

6 - DAC



- 5 Principles in CP20
 - recoverability from future margins in the portfolio.
 - must take into account the nature and timing of the margins.
 - basis and methodology consistent with that used to calculate related reserves.
 - must be regularly reviewed.
 - when using DAC asset for purposes other than to cover liabilities on the portfolio to which it relates must ensure that the DAC asset is recoverable in all reasonably foreseeable circumstances, emphasis on discontinuance risk.
- Further guidance in ASP LA-11
 - Avoid double-counting of margins
 - Grouping of Contracts: sufficient homogeneity? Currency, territory and contract terms
 - Potential effects of recapture provisions

7 - SMSM



- Board responsible for classifying business in accordance with regulatory requirements
- **Must** be familiar with classifications
- The Actuary **must** ensure that the SMSM for each class of business is calculated in accordance with
 - Article 28 of Life Directive or
 - Schedule 1 of the Reinsurance Regulations (non-life rules for protection business) or
 - Augmented Solvency Model for Finite Reinsurance (yet to be introduced)
- If the SMSM is reduced for Retrocession, the Actuary must review retrocession programme and consider that credit is appropriate.
- Esoteric point related to separation of premiums, claims and technical provisions for the purpose of determining SMSM.

8 - Reports



- Comply with ASP LA-12 Actuarial Reports
 - Consistent with approach for General Insurance and Non-Life Reinsurance
 - Not such requirement for Life and Pension
- Report should be appropriate so readers able to understand basic assumptions, conclusions and recommendations
- Relevant data summaries and references should be included
 - Up to the Signing Actuary to decide in each circumstance
- Set out broad reasons for movement in net and gross of retrocession reserves (including DAC)
- Highlight areas where judgments made not supported by historic experience

ASP - LA 12 Actuarial Reports



- Applies to life reinsurers only (not life insurers writing some reinsurance)
- Must consider whether work requires a formal report (proportionality etc.)
- Consistent style and content for actuarial reports
- Purpose/ scope defined clearly
- Specific areas that the report should make reference to:
 - Comment on data and in particular shortcomings (typically key aspect for life reinsurers)
 - Analysis required - variation/ change to key elements in the period
 - Comment on key methodology and assumptions
 - Results
 - Include interpretation of point estimates
 - Compliance with legislation etc
 - Comment on uncertainty



Conclusion

- Please submit comments in the next 2 weeks
- CPD Event
 - To follow publication of CP20
 - Details TBA
- Stephen Devine, Niall Dillon, Aisling Kennedy, James Maher, Brona Magee, Brian Morrissey, Ann Muldoon, Colin Murray, Ciara Regan