



Association of British Insurers

**External Reviews of Internal
Actuarial Advice**

Best Practice for Life Insurers

ABI Guidance

December 2009

External reviews of internal actuarial advice: Best practice for life insurers

ABI Guidance

1. Actuarial calculations and advice sourced internally are often key inputs to the decisions made in the running of life insurers. Where such actuarial input is critical, governing bodies of life insurers will need to satisfy themselves that appropriate controls and challenge have been applied in carrying out the calculations or preparing the advice and that all the key issues that they need to be aware of have been covered. Often such assurance can be obtained using the life insurer's internal controls and governance arrangements. A further source of challenge is provided through the audit process and particularly through the involvement of the 'Reviewing Actuary' whose input to the audit of the work of the Actuarial Function is required by FSA rules.

2. A life insurer's internal controls and governance arrangements may often be relied upon by its governing body without any need for external review of internal actuarial advice. However, the Association of British Insurers (ABI) considers there are circumstances in which it may be appropriate for a life insurer to seek the additional assurance to be gained from the external review of internal actuarial advice. It issues this guidance to assist governing bodies of life insurers as from December 2009.

3. The ABI is the voice of the insurance and investment industry. Its members constitute over 90 per cent of the insurance market in the UK and 20 per cent across the EU. They control assets equivalent to a quarter of the UK's capital. They are the risk managers of the UK's economy and society. Through the ABI their voice is heard in Government and in public debate on insurance, savings, and investment matters.

4. The ABI recommends that governing bodies of life insurers should consider obtaining external actuarial advice when internal actuarial advice is critical to a decision of the governing body that has significant implications for the operations of the company. Examples of where they may consider obtaining an external review of internally-sourced actuarial advice are where that advice:

- a) influences decisions that can result in significant changes in the running of life insurance policies and therefore policyholder benefits – for example, a major change in PPFM, or the distribution of a material excess surplus;
- b) affects the decision to enter into and/or the price paid in large transactions – for example, reinsuring in or out a significant block of business;

- c) is critical to the implementation of material new regulatory or equivalent requirements – for example, the first determination of Solvency II liability or capital requirements; or
- d) is provided in an area where the governing body is aware that industry or actuarial practice may have developed significantly since the last such review was obtained – for example, where there have been major changes in methodology for Individual Capital Assessment and projections of economic capital requirements.

5. This is not a recommendation that life insurers should automatically seek an external review in any of the situations listed above; in many cases, following due consideration, such a review may be deemed unnecessary - e.g. for cost/benefit reasons. In many cases, life insurers will naturally also wish to consider other expert advice, particularly legal advice. But the decision remains the responsibility of life insurer's governing body, and this guidance aims solely to assist it in making the decision.

6. In deciding on whether to commission an additional external review, governing bodies may wish to discuss with their auditors the extent to which they may take account of the actuarial review work performed for the purpose of the audit required by FSA rules.

7. Governing bodies will also need to consider the extent of existing external review. For example, some life insurers have chosen to appoint external actuaries to the role of Actuarial Function and/or With-Profits Actuary, while an in-house actuarial team prepares much of the actuarial work. While an external actuary cannot generally be as intimately familiar with the life insurer's financial affairs as a permanent employee, such an arrangement brings an external perspective that may limit the advantages of further external actuarial review. Further, some of the work of a With-Profits Actuary may be scrutinised by a With-Profits Committee that has independent members who can provide external challenge.

8. The potential advantages in seeking external review of internal actuarial advice include:

- reduced risk of unusual non-standard approach developing that has unforeseen consequences;
- independent verification that all relevant actuarial standards and regulatory requirements have been adhered to and the assessment of practice relative to that adopted in other life insurers;
- complementary support to internal resources, for example in situations where critical actuarial judgments are left to one individual;

- demonstrable involvement of a third party in decisions affecting policyholder benefits; and
- increased assurance that the scope and content of reports is reasonable.

9. The advantages need to be weighed against the disadvantages, for example additional cost and lengthened process.

10. These factors will be influenced by the scope and timing of the external review. The scope may, for example, be restricted to a review of the actuarial methodology or of the reasonableness of the assumptions, or it may be extended to include a detailed review of the calculations. In some cases, external actuarial advice may be required at an early stage in the process, for example, where a choice is to be made between different approaches.

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