ACTUARIAL SOCIETY OF SOUTH AFRICA

COVID-19 CONSIDERATIONS FOR LIFE ASSURANCE ACTUARIES

1 Background and Introduction

This note has been produced from input received from the ASSA Head of Actuarial Function Covid-19 calls and survey. This document may be used as a guide to support actuaries in fulfilling their responsibilities. However, it is not a complete list of all possible considerations and is not intended to prescribe requirements or provide formal actuarial guidance. Actuaries should ensure continued compliance with all formal guidance.

2 Overarching considerations

The Covid-19 pandemic is an event which is unprecedented, rapidly evolving and has highly uncertain outcomes. In these circumstances, actuaries could consider:

- Emphasising the range of possible outcomes rather than focusing on point estimates in order to help users of actuarial results to understand the uncertainty within the results;
- Providing additional disclosure around the assumptions underlying results, including projections and sensitivities; and
- Reassessing decisions and actions as experience emerges.

Actuaries are encouraged to pay special attention to the existing professional and technical guidance given the complexity and unfamiliar nature of the situation. The potential reputational impact of any decisions on the specific insurer and on the wider industry may also be considered.

The following sections cover specific considerations that may be relevant to actuaries performing specific roles within life assurance.

3 Financial and regulatory reporting

Life assurance actuaries working in financial reporting roles could consider:

- Both the demographic and economic impacts of the pandemic;
- Short- and longer-term impacts separately, in particular consider whether any short-term provisions are required and whether any revisions to long term assumptions are necessary;
- The extent to which information that emerges between the valuation date and the date of publication should be considered;
- The extent to which different rules may apply for IFRS or regulatory reporting;
- Whether the pandemic is causing any noise in the data used to set assumptions or calculate liabilities;
- The direct and second-order impact on mortality, longevity, morbidity, disability, retrenchment, lapse and surrender rates;
- Whether expense assumptions may need to be reviewed due to costs associated with the pandemic; and due to new business and persistency impacts;

- The extent to which marked-to-market and marked-to-model asset values, yield curves and volatilities have been impacted by short term volatility and the implications of this for the appropriateness of assumptions and modelling approaches;
- The extent to which changes in credit spreads, default experience and external credit ratings have fully reflected economic impacts and how this could affect assumptions including credit quality steps; and
- Reassessing whether assumed management actions remain appropriate.

4 Capital and risk management

Actuaries may want to consider the implications of the pandemic for the following risk types:

- Market, asset-liability matching and reinvestment risk including risks posed by embedded derivatives;
- Counterparty default risk (of reinsurers and other counterparties);
- Mortality, longevity, morbidity, catastrophe and related risks;
- Retrenchment risk;
- Liquidity risk;
- Operational risks, for example risks associated with paying claims, underwriting etc potentially without access to the usual data;
- Business continuity risk;
- Cyber risk;
- Market conduct risk;
- Regulatory risk including the impact of any regulatory, fiscal or government policy changes in response to the pandemic; and
- Emerging risks.

Actuaries could consider:

- The need for increased frequency of monitoring of solvency positions in a practical yet materially accurate way;
- Assessing the insurer's (and its subsidiaries) ability to withstand the potential impact of Covid-19 from a solvency and liquidity perspective;
- The appropriateness of continued dividend payments and the solvency and liquidity implications of any dividends;
- Whether an adjustment to bonus rates or removal of non-vested bonuses is required, how customers are treated fairly through this process, and under what circumstances these changes may be restored;
- The need to do an out-of-cycle ORSA, adjust current ORSA reporting and/or review the ORSA policy;
- Reassessing risk appetite in the short term, for example in respect of new business;
- The appropriateness of the shocks applied in economic capital calculations given the actual shock already experienced;
- How to fulfil their reporting requirements to the Board, other governance structures and regulators in a rapidly changing environment;
- The effectiveness of risk mitigation strategies, for example consistency between the policy terms and conditions and reinsurance treaty terms; and
- The appropriateness of the SAM standard SCR model in the circumstances and whether any additional modifications are needed to meet company’s Economic Capital Requirements.

5 Product and customer fairness considerations

Companies may be taking a variety of actions during this time, either to support clients, manage risk or take advantage of opportunities. These include:

- Premium holidays (to moderate affordability impacts in either or both of the customer or insurer's interests);
- Tightening or relaxation of underwriting and claims criteria and changes to claims processes;
- Temporary reductions in premiums due to low utilisation (e.g. reductions in accidents as a result of the lockdown);
- Premium and/or benefit changes in response to changes in factors such as risk experience, longevity or persistency;
- Actions related to discretionary participation business such as the application of Market Value Adjustments and the removal of non-vested bonuses; and
- Making concessions which are beyond the scope of policy terms and conditions.

Actuaries who are involved in the implementation of such actions may want to:

- Consider prior practice and company policies. The following related considerations may apply:
    - It may be useful to evaluate whether company policies remain appropriate given the evolving environment;
    - Departures from prior practice or company policy that are to the detriment of policyholders could be subjected to increased scrutiny; and
    - Departures from prior practice or company policy may create policyholder reasonable expectations or precedent that could apply in future under Covid-19, future pandemics, or even normal conditions;
- Consult the relevant actuarial guidance;
- Consider any direction provided by the regulators, in particular, the Prudential Authority and Financial Sector Conduct Authority as well as any relevant regulatory changes in response to the pandemic;
- Consider legislative requirements such as the policyholder protection rules, in particular:
    - The PPRs restrict the ability to change premiums, benefits or other policyholder terms and conditions even when contractually this is possible;
    - The PPRs also require notification of policyholders in advance of interventions and practically can delay any changes by several months;
- Consider the principles of Treating Customers Fairly. For example:
    - Ensuring that new customers are fully aware of all policy conditions and restrictions that might impact their decision (e.g. waiting periods for customers who require immediate cover).
    - Providing appropriate advice to existing clients on the different options available to them to obtain financial relief;
    - Determining whether products currently being sold are still appropriate and adequately meet customer needs;
    - Ensuring that there are no unreasonable barriers when making a claim or changing products;
- Consider whether changes can be actuarially or otherwise justified and result in consistent treatment between groups of policyholders.

6 Conclusion

We understand that in these difficult times members may be required to make decisions and give advice based on incomplete or absent data, and sometimes under extreme time constraints. Where possible, members should refer to any available professional guidance, legislation and communications from regulators, consult with other members within their organisations for technical support, and consult with senior members of profession should any professionalism concerns arise.