



Institute  
and Faculty  
of Actuaries

# **Subject SA2 Life Insurance Specialist Advanced**

## **Syllabus**

for the 2019 exams

1 June 2018





## SA2 – Life Insurance Specialist Advanced

### Aim

The aim of the Life Insurance Advanced subject is to instil in successful candidates the ability to apply knowledge of the life insurance environment (in the United Kingdom and other jurisdictions) and the principles of actuarial practice to the management of life insurance business in complex situations.

### Competences

On successful completion of this subject, a student will be able to:

- 1 understand the more complex aspects of actuarial practice within life insurance companies.
- 2 apply the principles of actuarial practice to the management of life insurance under complex scenarios.
- 3 compare the approaches by which the principles are applied in practice across different jurisdictions.
- 4 recommend coherent solutions and courses of action in relation to the overall financial management of life insurance companies.

### Links to other subjects

SP2 – Life Insurance Principles  
P2 – Life Insurance UK Practice Module  
SP1 – Health and Care Principles  
SA1 – Health and Care Advanced

## Syllabus topics

- 1 Life insurance products and general business environment (30%)
- 2 Regulatory, legislative and taxation environment (15%)
- 3 Reporting and management of capital and profit (25%)
- 4 General business management (30%)

These weightings are indicative of the approximate balance of the assessment of this subject between the main syllabus topics, averaged over a number of examination sessions.

The weightings also have a correspondence with the amount of learning material underlying each syllabus topic. However, this will also reflect aspects such as:

- the relative complexity of each topic, and hence the amount of explanation and support required for it.
- the need to provide thorough foundation understanding on which to build the other objectives.
- the extent of prior knowledge which is expected.
- the degree to which each topic area is more knowledge or application based.

## Skill levels

The use of a specific command verb within a syllabus objective does not indicate that this is the only form of question which can be asked on the topic covered by that objective. The Examiners may ask a question on any syllabus topic using any of the agreed command verbs, as are defined in the document "Command verbs used in the Associate and Fellowship written examinations".

Questions may be set at any skill level: Knowledge (demonstration of a detailed knowledge and understanding of the topic), Application (demonstration of an ability to apply the principles underlying the topic within a given context) and Higher Order (demonstration of an ability to perform deeper analysis and assessment of situations, including forming judgements, taking into account different points of view, comparing and contrasting situations, suggesting possible solutions and actions and making recommendations).

In the SA subjects, the approximate split of assessment across these three skill types is 20% Knowledge, 50% Application and 30% Higher Order Skills.

## Detailed syllabus objectives

### 0 Introduction

0.1 Define the principal terms used in life insurance in various jurisdictions.

### 1 Life insurance products and general business environment (30%)

1.1 Describe the major life insurance products that are offered, beyond the general descriptions provided in Subject SP2.

1.1.1 Describe the benefits and other main features of the following products:

- term assurance, including group life assurance
- income protection insurance
- critical illness insurance
- endowment assurance
- universal life
- investment bond
- individual and group pension products
- annuities and income drawdown
- wraps
- variable annuities
- equity release products
- Takaful insurance
- microinsurance

1.1.2 Describe the main features of the following life insurance product bases:

- conventional with profits
- accumulating with profits
- unit-linked
- index-linked

1.1.3 Assess the purpose and key risks of the above products and bases to the policyholder and the insurer.

1.2 Assess the effect of the general business environment on the management of life insurance business, in terms of:

- competition and other new business considerations.
- distribution of products.
- outsourcing.
- corporate finance, including mergers and closed funds.

## 2 Regulatory, legislative and taxation environment (15%)

- 2.1 Explain the relevance of legislation to life insurance business, in relation to:
- consumer protection.
  - equality legislation.
- 2.2 Explain the implications of the taxation of life insurance business for:
- policyholders
  - life insurance companies
  - unit pricing
- 2.3 Describe regulatory frameworks for life insurance companies, including:
- objectives of regulators
  - supervisory tools, including rulebooks and reporting requirements
  - statutory actuarial roles
  - transfer of liabilities between companies
- 2.4 Demonstrate understanding of the over-arching Solvency II regulatory framework.
- 2.4.1 Describe the Solvency II framework in terms of:
- background and scope.
  - structure.
  - Pillar 2 governance requirements.
  - Pillar 3 disclosure and reporting requirements.
  - group reporting requirements.
- 2.4.2 Assess the implications of a regulatory framework such as Solvency II for business culture and strategy.
- 2.5 Compare regulatory, legislative and taxation environments between different jurisdictions.
- 2.6 Demonstrate how the regulatory, legislative and taxation environments affect the way in which life insurance companies carry out their business in practice.
- 2.7 Outline the requirements of actuarial standards in relation to actuaries practising in or advising life insurance companies.

### 3 Reporting and management of capital and profit (25%)

- 3.1 Demonstrate solvency assessment techniques.
  - 3.1.1 Outline the valuation of assets, liabilities and solvency capital requirements under Solvency II.
  - 3.1.2 Compare solvency assessment approaches between different jurisdictions.
- 3.2 Demonstrate capital management techniques.
  - 3.2.1 Explain the different types of capital assessment.
  - 3.2.2 Describe the different sources of capital.
  - 3.2.3 Discuss the assessment of ongoing solvency, including practical modelling considerations.
  - 3.2.4 Explain the relationship between capital, risk and value.
  - 3.2.5 Propose methods of improving available capital.
  - 3.2.6 Describe the principles of asset-liability management and the use of derivatives.
- 3.3 Demonstrate profit reporting approaches.
  - 3.3.1 Outline the main requirements of different accounting standards, including International Financial Reporting Standards (IFRS) and US GAAP, in relation to life insurance business.
  - 3.3.2 Compare profit reporting approaches between different jurisdictions.
  - 3.3.3 Describe embedded value reporting approaches, including under Solvency II.
- 3.4 Analyse surplus and profit arising over a period.
  - 3.4.1 Analyse supervisory surplus arising, including under Solvency II.
  - 3.4.2 Analyse the change in embedded value.
  - 3.4.3 Propose possible actions that should be taken following an analysis of surplus or profit.

## 4 Business management (30%)

- 4.1 Suggest actions that a life insurance company could take in order to ensure that it is treating its customers fairly.
- 4.2 Demonstrate appropriate risk management strategies and controls that should be exercised by a life insurance company.
- 4.2.1 Outline an appropriate risk management framework.
- 4.2.2 Describe the following key risk types in relation to life insurance business:
- credit risk
  - market risk
  - liquidity risk
  - operational risk, including conduct risk, model risk and unit pricing as a source of risk
  - insurance risk, including longevity risk
  - group risk
- 4.2.3 Propose appropriate risk management strategies and controls for these risk types.
- 4.3 Demonstrate the management of with profits business.
- 4.3.1 Describe the components of an asset share calculation and how they could be determined.
- 4.3.2 Compare different methods of distributing bonuses under the “additions to benefits” method.
- 4.3.3 Discuss the concept of smoothing.
- 4.3.4 Describe investigations that can be performed in order to inform with profits business management.
- 4.3.5 Evaluate different bonus distribution approaches.
- 4.3.6 Describe general with profits management considerations, including:
- regulatory requirements and policyholder protection.
  - management actions.
  - managing closed with profits funds.
- 4.4 Demonstrate product design and pricing techniques.
- 4.4.1 Describe the requirements for the design of life insurance products to be marketed in a particular jurisdiction.

4.4.2 Determine appropriate methods and bases for pricing such products.

## 5 Solving problems

5.1 Recommend coherent solutions and courses of action in relation to the overall financial management of life insurance companies.

5.1.1 Analyse complex problems in terms of actuarial, economic and financial factors to a level where appropriate analytical techniques may be used.

5.1.2 Assess the implications and relevance of such factors, integrating the results into a coherent whole.

5.1.3 Evaluate the results critically in a wider context, drawing appropriate conclusions.

5.1.4 Propose solutions and actions, or a range of possible solutions and actions, based on this evaluation.

## Assessment

Three hour written examination.

**END**