When pricing, capital and reporting sit in separate teams

For CFOs and heads of actuarial functions at life insurers: what goes wrong when pricing, capital and financial reporting each run their own assumptions and models, and how to bring them together without losing challenge.

IN BRIEF

The problem

The board sees three different numbers for the same business, profit emerges differently from what pricing expected, and actuaries spend their time reconciling.

Why it happens

Teams were built around separate regimes and acquisitions, so each owns its own assumptions, models and data, and often nobody owns the bridge between them.

What to do

Give each key assumption one owner, show every new product on all three bases at once, and reconcile once rather than three times.

01 The symptoms

A new annuity tranche is priced to a target return. Six months later, IFRS 17 reporting shows a different contractual service margin from the one pricing expected, and the Solvency UK capital strain is higher than the pricing paper said. Each team can explain its own number. Nobody can explain the differences quickly, and the board receives three figures for the same business with no bridge between them.

Underneath, the same pattern tends to repeat. Each team has its own version of the key assumptions, its own model and its own data extract. Reconciliation takes a growing share of actuarial time. And the questions a board most wants answered, such as whether new business is as profitable as priced, take weeks.

02 Why firms end up here

Insurers rarely designed it this way. Separate teams grew up around separate regimes: statutory reporting, embedded value, Solvency II and now Solvency UK, IFRS and then IFRS 17 from 2023. Acquisitions brought their own models. Each change was handled by adding a team or a process rather than redesigning the whole.

Some separation is healthy. Pricing, capital and reporting answer different questions, and an independent view of the same business is a useful challenge. The problem is when separation means separate assumptions and nobody owns the differences.

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One set of assumptions, three uses

The aim is one owner and one best estimate for each key assumption, with each use applying its own documented adjustments on top. The differences that remain are then explainable, not accidental.

CONSISTENCY CHECK

One annuity assumption set, three uses

Assumption	Pricing	IFRS 17	Solvency UK
Base mortality	Best estimate with rating factors	Same best estimate	Same best estimate
Mortality improvements	Best estimate plus a pricing margin	Best estimate; margin in risk adjustment	Best estimate; risk in risk margin and capital
Expenses	Expected costs per policy	Attributable costs only	All expected costs
Discount rate	Expected asset yield after defaults	Risk-free plus an illiquidity premium, set by the firm	Risk-free plus matching adjustment

An outline of how one best estimate can serve all three uses. The entries for a given firm depend on its methods; the point is that every difference is chosen, documented and owned.

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Bringing the teams together

One owner per assumption. Mortality, improvements, expenses and persistency each need an owner whose best estimate every team starts from.

Every new product on three bases. The pricing committee sees expected profit, the IFRS 17 profile and the Solvency UK capital strain together, before sign-off.

Reconcile once. Shared data and, where possible, shared models mean the reconciliation happens at the source rather than at each reporting date.

Combine roles where size allows. In a smaller insurer, one team or one role covering pricing and capital can remove a whole layer of reconciliation, provided independent review stays elsewhere.

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Keeping challenge when teams come together

Bringing pricing, capital and reporting closer shouldn't remove independent review. Keep three checks in place: the actuarial function's review of assumptions and methods, validation of models by people who didn't build them, and an annual sign-off of the main differences between the three bases by someone outside the teams. The aim is less duplication with the same level of challenge.

FROM EXPERIENCE

At Partnership I combined the equity release, retirement and capital pricing roles, with no loss of headcount, working directly with the CFO. Earlier, at Aviva, I merged IFRS reporting for Aviva Linked Life and Aviva Life & Pensions. At Prudential I reported on Financial Services Authority (FSA), IFRS, embedded value and realistic bases, and migrated conventional savings and valuation models to MoSes.

Seeing the same business through several reporting bases taught me that the differences between them are only useful when someone can explain each one in a sentence.

Questions for the board

01 Do pricing, IFRS 17 and Solvency UK start from the same best estimate assumptions, and is every difference documented and owned?

02 When we price a new product, does the board see its expected profit, IFRS 17 profile and capital strain at the same time?

03 How much of our actuarial teams' time goes on reconciling numbers rather than analysing them?

04 Who owns each key assumption across the business?

05 When reported profit differs from what pricing expected, how quickly do we know why?

06 Would combining roles or teams reduce reconciliation without weakening independent challenge?

Separate teams can give a board useful challenge, as long as they start from the same assumptions. One owner per assumption and one bridge per new product turn three numbers into a single view the board can follow.

If this is on your table, a 30-minute conversation is usually enough to tell whether I can help.

Talk to Mark

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ABOUT THE AUTHOR

Mark Woodruff is a Chartered Actuary (FIA) and Chartered Financial Planner (FPFS). He spent 15 years pricing and building products at Aviva, Prudential, Partnership and St. James's Place, then more than seven years founding and running advice firms through to a substantial sale. Through Mark Woodruff Consultancy he works with financial services firms on product, pricing, distribution and governance.

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