Actuarial reporting a board can use

For board members, CFOs and the actuaries who write for them at life insurers: six things a usable actuarial paper does, and how to tell within a page whether a paper will support a decision.

IN BRIEF

The problem

Actuarial papers often reach the board long, technical and accurate, and the board approves them without being sure what changed or what it was deciding.

Why it happens

Papers tend to be written to show the work was done properly, so the decision, the main judgements and the range of outcomes end up in the appendices.

What to do

Ask for the decision first, one walk from last time, the main judgements named, the range shown in money, and the options available.

01

What boards tend to receive

A typical actuarial paper to a board is thorough. It sets out the method, the data, the assumptions, the results on several bases and a long table of movements. Somewhere in it are the two or three judgements that drive the answer, and a sensitivity table that shows how far the answer could move. The recommendation is often in the last section.

The board reads the summary, asks a question or two and approves. The paper did its technical job. It didn't help the board decide.

That gap matters because board members are personally accountable. Under the Senior Managers and Certification Regime, senior managers carry personal responsibility for their areas, and non-executive directors are subject to the conduct rules. The Financial Reporting Council's Technical Actuarial Standards also expect actuarial communications to be clear about material judgements and uncertainty.

02

Six things a usable paper does

1. Puts the decision first. The first paragraph says what the board is being asked to decide or note, and what the author recommends.

2. Shows one walk from last time. A single table from the last reported position to this one, cause by cause, so the board can see what moved and why.

3. Names the judgements. The two or three assumptions or methods that drive the answer, the alternatives considered and why the author chose as they did.

4. Shows the range in money. Sensitivities to the main judgements, in pounds and in solvency cover, on the same page as the result.

5. Offers options. What management could do if the result moves the wrong way, how quickly, and at what cost.

6. Keeps the method in the appendix. Method and data matter, and belong where the reviewers can find them, not in the board's first five pages.

ILLUSTRATIVE EXAMPLE

A solvency cover walk for the year

Movement	Solvency cover	Change
Start of year	175%	–
New business written	171%	-4 points
Market movements	177%	+6 points
Longevity assumption change	174%	-3 points
Model changes	173%	-1 point
Management actions	175%	+2 points
End of year	**175%**	**No change**

Illustrative. The cover ratio ends the year where it started, but five movements adding up to 16 points in either direction sit underneath it. A board that sees only the start and end figures misses all of them.

FROM EXPERIENCE

At Prudential I produced with-profits reporting for the board, the With-Profits Actuary and senior management, alongside setting bonuses, surrender and transfer values. At Aviva I delivered a new risk-reporting framework for the Individual Capital Assessment. Later, at Partnership, I wrote the board paper for the UK life industry's first annuity with a surrender option, and built an equity release dashboard for the CEO and CFO.

The papers that served a board best were the ones a member could summarise to a colleague in two sentences after reading the first page.

03

Three weaknesses to look for

Large movements netted off. A flat result can hide big movements in opposite directions, as the walk above shows. Ask for the gross movements as well as the net.

False precision. A result quoted to the nearest £0.1m, on assumptions that could move it by £20m, invites the wrong debate. Ask for the range first and the central figure second.

One assumption at a time. Sensitivities that move one assumption at a time can understate what happens when two adverse changes arrive together, such as lower interest rates and longer lives, which compound each other. Ask for at least one combined scenario.

04

Testing a paper on its first page

Before the meeting, read only the first page and ask three things: do I know what I am being asked to decide, do I know what changed since last time, and do I know which judgement matters most? If any answer is no, ask the author for a revised first page before the meeting rather than an explanation during it. After a few meetings, authors start writing the first page that way.

Questions for the board

01 Can we tell from the first page what the paper asks us to decide, and what the author recommends?

02 What changed since the last paper, and which change mattered most?

03 Which judgements drive the result, and what were the alternatives?

04 How far could the result move if those judgements are wrong, in pounds and in solvency cover?

05 What could management do if the result moves the wrong way, and how quickly?

06 Is anything in the appendix that we should have seen on the first page?

Asking for the decision, the walk, the judgements, the range and the options on the first pages costs the author little extra work. It gives the board what it needs to challenge a paper rather than simply receive it.

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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