

## Chapter 10

### Instructions regarding reporting templates

#### IR.12.04 – best estimate assumptions for life insurance risks

##### General comments

This template is applicable to life insurers. Assumptions are not required for reinsurance. This template is not required if the only long-term business, other than reinsurance, is annuities stemming from non-life contracts.

The purpose of this template is to give an indication of changes in the valuation basis, how the basis compares with experience and the variability of the firm's recent experience.

For the lines relating to mortality / morbidity tables firms should calculate an approximate equivalent constant percentage if the percentage of the table varies by age or where there are adjustments to age.

The previous year basis and previous year experience in columns C0030-C0070 should be converted to a percentage of the table in C0010 using approximations as necessary to enable them to be compared with C0010. It is important that any data shown is presented on a consistent basis.

Firms are not required to show experience where this is of low credibility.

A guideline for low credibility is less than 200 claims per annum for an individual line of the template.

Where the assumptions vary by source of business within the products included in this template the firm should show the assumptions and experience for the largest 3 categories by number of policies, subject to individual lines meeting the credibility test above.

Data is not required for subcategories 2 and 3 where the previous line(s) already cover at least 50% of the business for that product. Subcategories should be shown in descending order of size, i.e. subcategory 1 is the largest.

Firms are not required to undertake any additional analysis of past claims in order to complete this template. Firms are only required to provide experience data for years where this is available and where it has been calculated on a consistent set of underlying policies for previous years.

Items R0010-R1320 should be entered as percentages to 2 decimal places.

Items R1330-R2100 should be entered to 2 decimal places.

Items should be left blank if not applicable to the firm.

|       | ITEM                                     | INSTRUCTIONS  |
|-------|--|---|
| R0010 | Assurance mortality<br>(male non-smoker) | Assurance mortality for male non-smokers where pricing is based on smoker status. |

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|       | ITEM  | INSTRUCTIONS   |
|-------|---|--|
| R0050 | Assurance mortality<br>(male aggregate)               | Assurance mortality for males where pricing is not based on smoker status.   |
| R0090 | Assurance mortality<br>(male smoker)                  | Assurance mortality for male smokers where pricing is based on smoker status.  |
| R0130 | Assurance mortality<br>(female non-smoker)            | Assurance mortality for female non-smokers where pricing is based on smoker status.  |
| R0170 | Assurance mortality<br>(female aggregate)             | Assurance mortality for females where pricing is not based on smoker status.   |
| R0210 | Assurance mortality<br>(female smoker)                | Assurance mortality for female smokers where pricing is based on smoker status.  |
| R0250 | Assurance mortality<br>change per annum               | Increase (decrease) in mortality rates per annum applied each year after the valuation date. Where the rate varies by year firms should calculate the equivalent annual rate over ten years. This field should be left blank where there is no allowance for change. |
| R0290 | Individual pension<br>annuitant mortality<br>(male)   | Annuitant mortality for male individual pensions in payment for standard lives (i.e. not enhanced / impaired annuities).   |
| R0330 | Individual pension<br>annuitant mortality<br>(female) | Annuitant mortality for female individual pensions in payment for standard lives (i.e. not enhanced / impaired annuities).   |
| R0370 | Bulk pension<br>annuitant mortality<br>(male)         | Annuitant mortality for male pensions in payment for bulk buyouts of occupational pension schemes.   |
| R0410 | Bulk pension<br>annuitant mortality<br>(female)       | Annuitant mortality for female pensions in payment for bulk buyouts of occupational pension schemes.   |
| R0450 | Critical illness<br>(male non-smoker)                 | Claim rates for male non-smokers where pricing is based on smoker status. Where accelerated critical illness is the main product the basis should be the percentage of combined mortality and critical illness claims.   |
| R0490 | Critical illness<br>(female non-smoker)               | Claim rates for female non-smokers where pricing is based on smoker status.  |
| R0530 | Critical illness<br>change per annum                  | Increase (decrease) in critical illness rates per annum applied each year after the valuation date. Where the rate varies by year firms should calculate the equivalent annual rate over ten   |

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|       | ITEM  | INSTRUCTIONS  |
|-------|---|---|
|       |   | years. This field should be left blank where there is no allowance for change.  |
| R0570 | Income protection inception (male)                      | Income protection inception rates for males.  |
| R0610 | Income protection inception (female)                    | Income protection inception rates for females.  |
| R0650 | Income protection termination (male)                    | Income protection termination rates for males.  |
| R0690 | Income protection termination (female)                  | Income protection termination rates for females.  |
| R0730 | Lapse rate per annum, years 11+, with-profits endowment | Average of the annual lapse rates for policy years 11+ for with-profits endowments. For cells [C0010:C0020] [R0740-R1240] we expect firms to calculate the arithmetic average, but removing years which are not applicable or immaterial to their business. For experience in cells [C0030:C0070] [R0740-R1240] firms can choose between an arithmetic average of the annual rates or a weighted average provided this is applied consistently. |
| R0770 | Lapse rate per annum, years 11+, unit-linked endowment  | Average of the annual lapse rates for policy years 11+ for unit-linked endowments.  |
| R0810 | Lapse rate per annum, years 1-5, level term             | Average of the annual lapse rates for policy years 1-5 for level term assurances.   |
| R0850 | Lapse rate per annum, years 6-10, level term            | Average of the annual lapse rates for policy years 6-10 for level term assurances.  |
| R0890 | Lapse rate per annum, years 11+, level term             | Average of the annual lapse rates for policy years 11+ for level term assurances.   |
| R0930 | Lapse rate per annum, years 1-5, decreasing term        | Average of the annual lapse rates for policy years 1-5 for decreasing term assurances.  |
| R0970 | Lapse rate per annum, years 6-10, decreasing term       | Average of the annual lapse rates for policy years 6-10 for decreasing term assurances.   |
| R1010 | Lapse rate per  | Average of the annual lapse rates for policy years  |

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|       | <b>ITEM</b>   | <b>INSTRUCTIONS</b>   |
|-------|---|---|
|       | annum, years 11+, decreasing term                           | 11+ for decreasing term assurances.   |
| R1050 | Lapse rate per annum, years 1-5, investment bond            | Average of the annual surrender rates for policy years 1-5 for investment bonds, including both part surrenders and full surrenders.  |
| R1090 | Lapse rate per annum, years 6-10, investment bond           | Average of the annual surrender rates for policy years 6-10 for investment bonds, including both part surrenders and full surrenders.   |
| R1130 | Lapse rate per annum, years 11+, investment bond            | Average of the annual surrender rates for policy years 11+ for investment bonds, including both part surrenders and full surrenders.  |
| R1170 | Transfer rate per annum pre-retirement, individual pensions | Average of the annual transfer rate pre-retirement (e.g. below age 55) for individual defined contribution pensions.  |
| R1210 | Transfer rate per annum pre-retirement, group pensions      | Average of the annual transfer rate pre-retirement (e.g. below age 55) for group defined contribution pensions (e.g. group personal pensions).  |
| R1250 | Guaranteed annuity rate take-up                             | Proportion of policyholders taking the guaranteed annuity rate which is in the money and where they are entitled the policy value either partly or fully in cash.   |
| R1330 | Expectation of life, male 50, no future improvements        | Expectation of life for a male age 50 at the valuation date for deferred annuities. No allowance is to be made for improvements in mortality rates after the valuation date. For R1340-R1800 expectation of life is the 'complete' expectation of life, i.e. allowing for the exact period from the valuation date to the date of death. For items R1380-R1800 firms should use whichever of individual or bulk business is more significant. |
| R1370 | Expectation of life, male 50, with future improvements      | Expectation of life for a male age 50 at the valuation date for deferred annuities including allowance for improvements in mortality rates after the valuation date as in the calculation of best estimate liabilities.   |
| R1410 | Expectation of life, male 65, no future improvements        | Expectation of life for a male age 65 at the valuation date for pension annuities. No allowance is to be made for improvements in   |

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|       | ITEM   | INSTRUCTIONS  |
|-------|--|---|
|       |  | mortality rates after the valuation date.   |
| R1450 | Expectation of life, male 65, with future improvements   | Expectation of life for a male age 65 at the valuation date for pension annuities including allowance for improvements in mortality rates after the valuation date as in the calculation of best estimate liabilities.    |
| R1490 | Expectation of life, male 80, no future improvements     | Expectation of life for a male age 80 at the valuation date for pension annuities. No allowance is to be made for improvements in mortality rates after the valuation date.   |
| R1530 | Expectation of life, male 80, with future improvements   | Expectation of life for a male age 80 at the valuation date for pension annuities including allowance for improvements in mortality rates after the valuation date as in the calculation of best estimate liabilities.    |
| R1570 | Expectation of life, female 50, no future improvements   | Expectation of life for a female age 50 at the valuation date for deferred annuities. No allowance is to be made for improvements in mortality rates after the valuation date.  |
| R1610 | Expectation of life, female 50, with future improvements | Expectation of life for a female age 50 at the valuation date for deferred annuities including allowance for improvements in mortality rates after the valuation date as in the calculation of best estimate liabilities. |
| R1650 | Expectation of life, female 65, no future improvements   | Expectation of life for a female age 65 at the valuation date for pension annuities. No allowance is to be made for improvements in mortality rates after the valuation date.   |
| R1690 | Expectation of life, female 65, with future improvements | Expectation of life for a female age 65 at the valuation date for pension annuities including allowance for improvements in mortality rates after the valuation date as in the calculation of best estimate liabilities.  |
| R1730 | Expectation of life, female 80, no future improvements   | Expectation of life for a female age 80 at the valuation date for pension annuities. No allowance is to be made for improvements in mortality rates after the valuation date.   |
| R1770 | Expectation of life, female 80, with future improvements | Expectation of life for a female age 80 at the valuation date for pension annuities including allowance for improvements in mortality rates after the valuation date as in the calculation of                             |

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|       | ITEM   | INSTRUCTIONS   |
|-------|--|--|
|       |  | best estimate liabilities.   |
| R1810 | Renewal management unit cost – with-profits endowment          | Per policy renewal management expense unit cost in the year following the valuation date for with-profits endowments.  |
| R1850 | Renewal management unit cost – unit-linked endowment           | Per policy renewal management expense unit cost in the year following the valuation date for unit-linked endowments.   |
| R1890 | Renewal management unit cost – term assurance                  | Per policy renewal management expense unit cost in the year following the valuation date for term assurances.  |
| R1930 | Renewal management unit cost – investment bond                 | Per policy renewal management expense unit cost in the year following the valuation date for investment bonds.   |
| R1970 | Renewal management unit cost – with-profits individual pension | Per policy renewal management expense unit cost in the year following the valuation date for with-profits individual pensions.   |
| R2010 | Renewal management unit cost – unit-linked individual pension  | Per policy renewal management expense unit cost in the year following the valuation date for unit-linked individual pensions.  |
| R2050 | Renewal management unit cost – annuity                         | Per policy renewal management expense unit cost in the year following the valuation date for pension annuities in payment.   |
| R1290 | Expense inflation after valuation date per annum               | Annual rate of inflation applied to the expenses in R1820-R2080. Where the rate varies by year firms should calculate the equivalent annual rate over ten years.   |
| R2090 | Aggregate renewal unit costs for year following valuation      | The total amount of renewal management expenses implied for the year following the valuation date arising from the renewal management unit costs. Includes claims management expenses but excludes investment management expenses. This line is only required for subcategory 1 and comprises the entire business. |
|       | Assumption sub   | Assumption sub categories are used to ensure   |

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|       | ITEM                         | INSTRUCTIONS  |
|-------|------------------------------|---|
|       | categories                   | multiple lines for the same assumption can be identified. Three rows are provided for each assumption type.   |
| C0010 | Valuation year Y basis       | Basis for calculating the best estimate liabilities as at the current valuation date (reference date).  |
| C0020 | Valuation year Y-1 basis     | Basis for calculating the best estimate liabilities as at the previous valuation date.  |
| C0030 | Previous year Y-1 experience | Firm experience in year Y-1 where year Y is the valuation year.   |
| C0040 | Previous year Y-2 experience | Firm experience in year Y-2 where year Y is the valuation year.   |
| C0050 | Previous year Y-3 experience | Firm experience in year Y-3 where year Y is the valuation year.   |
| C0060 | Previous year Y-4 experience | Firm experience in year Y-4 where year Y is the valuation year.   |
| C0070 | Previous year Y-5 experience | Firm experience in year Y-5 where year Y is the valuation year.   |
| C0080 | Underlying table             | Mortality / morbidity table, e.g. AM92. Where firms use a percentage of the table which varies by age firms should append 'adjusted' to the table name, e.g. AM92 adjusted. Firms should show 'reinsurer' where the basis uses the reinsurer's rates.<br>For annuitant mortality tables (R0300-R0440) firms should include the basis for future improvements. Where the CMI Mortality Projection Model is used for mortality improvements, provide a description consistent with latest guidance from the CMI, e.g. CMI_2018_G [L%; S=S <sub>k</sub> ; A=A%]. Where an array of parameters is used in place of a single parameter, provide a single equivalent value where possible. Note changes to other Advanced parameters at a high level (without specifying equivalent values or full detail). |
| C0090 | Subcategory description      | Description of subcategory, e.g. IFA, ex ABC Insurance, Brand X. Only required where there is more than one subcategory reported for the same assumption. Descriptions should be succinct and should not repeat the name of the current insurer.  |