Subject SA3

CMP Upgrade 2024/25

CMP Upgrade

This CMP Upgrade lists the changes to the Syllabus, Core Reading and the ActEd material since last year that might realistically affect your chance of success in the exam. It is produced so that you can manually amend your 2024 CMP to make it suitable for study for the 2025 exams. It includes replacement pages and additional pages where appropriate.

Alternatively, you can buy a full set of up-to-date Course Notes / CMP at a significantly reduced price if you have previously bought the full-price Course Notes / CMP in this subject. Please see our 2025 *Student Brochure* for more details.

We only accept the current version of assignments for marking, *ie* those published for the sessions leading to the 2025 exams. If you wish to submit your scripts for marking but only have an old version, then you can order the current assignments free of charge if you have purchased the same assignments in the same subject in a previous year, and have purchased marking for the 2025 session.

This CMP Upgrade contains:

- all significant changes to the Syllabus and Core Reading
- additional changes to the ActEd Course Notes and Assignments that will make them suitable for study for the 2025 exams.

0 Changes to the Syllabus

There have been no changes to the syllabus objectives.

1 Changes to the Core Reading and ActEd text

This section contains all the ***non-trivial*** changes to the Core Reading and ActEd text.

Chapter 2

Page 7

The following sentence has been appended to the bottom of the page:

However, 2023 showed a large improvement to 25% return on capital due to increased investment return and favourable catastrophe experience.

Page 31

The following sentence has been appended to the bottom of the page:

Changes in the Ogden rate have been a source of considerable uncertainty in the past. The UK government has said it intends to review the Ogden rate every five years, with the next review due in 2024.

Chapter 4

Page 11

The ActEd text immediately before Section 3.1 has been expanded. It now reads:

The PRA has devised a regulatory regime specific to the UK, with the aim of reducing some of the the complexities of Solvency II. These changes are commonly referred to as 'Solvency UK', or SUK, and they are due to come into force on 31 December 2024, (although some changes have been implemented before this date). We discuss SUK further where relevant throughout this section.

Page 12

The following text has been inserted immediately after the first sentence of Section 3.2:

Note that following Brexit the PRA has made some changes to the Solvency II regime as it relates to UK companies, which means that there is now less harmonisation. The notes below relate to the EU Solvency II regime.

The PRA changes mentioned here refer to the SUK regime, which we discussed above.

Page 13

The following text has been inserted after the second paragraph of Section 3.3:

Under Solvency UK, capital add-ons are calculated using different methods to Solvency II. They are also allowed to vary dynamically (rather than being imposed as a constant absolute amount), according to how the company's risk profile (and its deviation from what the PRA deems to be appropriate) changes over time.

Additionally, UK reporting requirements for capital add-ons are more streamlined than for Solvency II.

The PRA is expected to produce regular reports at an aggregate industry level, regarding its use of capital add-ons.

Page 17

The reference to further reading at the bottom of this page now reads:

The interested reader might want to find out more by looking at the following document:

https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2019/ss215update-september-2019.pdf

Page 19

The following text has been inserted after the second bullet point:

– in the UK, a rate of 4% is used.

The last paragraph on this page now reads:

Note that discounting must be performed back to $t = 0$. Firms need to include the SCR at $t = 0$, multiplied by 6%. (In the UK, the cost of capital to use is now 4% rather than 6%.)

Page 20

The first sentence on this page has been updated to:

This change to 4% is one of the agreed changes as part of the Solvency UK reforms.

The following section has been inserted before the section on premium provisions:

Claims provision

Best estimate *claims provisions* are equal to the discounted best estimate of all future cashflows (claim payments, expenses and future premiums) relating to claim events before the valuation date.

As with the risk margin, the discount rate is derived from the term structure of risk-free interest rates and is specified by EIOPA.

The Core Reading on premium provisions now says that the best estimate premium provisions are equal to the ***discounted*** best estimate of future cashflows (*ie* the word 'discounted' has been inserted).

Page 22

The following ActEd text has been appended to the bottom of this page:

The MCR is also subject to a minimum 'absolute floor'. Under Solvency II, this is normally €2.7*m* for general insurers. Under Solvency UK, the absolute floor is £1*m*.

Page 27

The last sentence of the paragraph on the symmetric adjustment now reads:

(For example, the symmetric adjustment as at 31 December 2023 was +1.46%, increasing the Global equity and Other Equity stresses from 39% and 49% to 40.46% and 50.46% respectively.)

Page 28

The following ActEd text has been appended to the bottom of this page:

The requirements for internal model approval are simpler and more flexible under Solvency UK than they are for Solvency II. For example, the profit and loss attribution is not required. Instead, an Analysis of Change (AoC) exercise is required, which the PRA believes is less onerous and more in keeping with what insurers regularly do in practice.

Page 31

The following ActEd text has been inserted at the end of the section on documentation standards:

Documentation requirements under Solvency UK are less burdensome than under Solvency II, particularly as regards the documentation of the data used in the internal model.

Page 38

The following ActEd text has been inserted into Section 3.7:

Reporting requirements under the Solvency UK regime diverge quite significantly from the Solvency II requirements. Many templates have been removed or amended, and some new reporting requirements introduced.

For example, Solvency UK:

- removes the requirement on firms to submit an RSR
- introduces a reporting template for cyber underwriting risk.

Page 40

The following ActEd text has been inserted into Section 3.8:

Compared to Solvency II, the Solvency UK regime allows more flexibility in the calculation of the consolidated SCR for insurance groups. For example, the group is allowed to add the results of two or more calculation methods (*ie* a standard formula SCR plus an internal model SCR), at least on a temporary basis. This is intended to reduce the regulatory burden for companies looking to grow through mergers and acquisitions.

Solvency UK also removes the requirement for third country branches, *ie* UK subsidiaries of overseas insurers, to hold a branch SCR (subject to some restrictions). The PRA believes that policyholder protection is not significantly reduced by this, since a branch cannot fail independently of the parent company.

Page 48

The link to the Actuarial Association of Europe has been deleted and the following link inserted:

EIOPA

https://www.eiopa.europa.eu/browse/regulation-and-policy/solvency-ii_en

Page 49

At the bottom of the page, the Competition Commission has been replaced by the Competition and Markets Authority.

Chapter 5

Page 3

The reference to ISAP 4 now reads:

ISAP 4 relates to IFRS 17.

IFRS 17 is the set of accounting standards relevant to general insurers in the UK (and elsewhere). We discuss this further in Chapter 9, Valuation bases.

Page 4

The discussion of TAS now reads:

The current TASs came into effect from 1 July 2017. They consist of one generic TAS, TAS 100: General Actuarial Standards which applies to all technical actuarial work, and Specific TASs which apply to specified areas of technical actuarial work where there is a high degree of risk to the public interest. (A new version of TAS 100 came into force on 1 July 2023 although the principles are very similar to the previous version.)

The FRC is also proposing changes to TAS 200, with an exposure draft published in February 2024.

A separate document (the Framework for FRC technical actuarial standards) describes the general scope and authority of the TASs, with each Specific TAS defining its scope.

The current TASs of relevance to SA3 are:

- **TAS 100 General actuarial standards**

TAS 100 was previously called 'Principles for Technical Actuarial Work'.

- **TAS 200 Insurance**

Page 5

Section 3.1 (the discussion of TAS 100) has been updated. It now reads:

TAS 100, or General Actuarial Standards, promotes high quality technical actuarial work and supports the reliability objective. This should allow the intended user to place a high degree of reliance on actuarial information, by requiring practitioners to ensure that the actuarial information, including the communication of any inherent uncertainty, is relevant, based on transparent and appropriate assumptions, and that it is complete and comprehensible.

TAS 100 is applicable to all technical actuarial work done in relation to the UK operations of entities, as well as to any overseas operations which report into the UK, within the context of UK law or regulation.

Technical actuarial work is work performed for a user:

1) where the use of principles and/or techniques of actuarial science is central to the work and which involves the exercise of judgement; or

2) which the user may reasonably regard as technical actuarial work by virtue of the manner of its presentation.

Technical actuarial work is not limited to work undertaken by an actuary.

Some divergence away from the requirements of TAS 100 are acceptable, but material deviations must be justified. The justification must demonstrate how compliance with mandatory requirements has been achieved despite not meeting regulatory expectations.

The principle of proportionality also applies.

Actuarial information that is material must include a statement by the practitioner confirming compliance with TAS 100.

There is also detailed guidance around the 'Principles' of Risk identification, Judgement, Data, Assumptions, Models, Documentation and Communications.

The principle of risk identification was introduced into TAS 100 in July 2023. This requires practitioners to consider all relevant material factors and relevant material risks that may affect or have the potential to influence their technical actuarial work and which the practitioner might reasonably be expected to know about at the time of carrying out the work. This includes internal risks such as changes in management, or external risks such as climate change, technological risks, economic risks, and political / legislative changes.

You should now read TAS 100.

Page 8

The first sentence of Section 4 now reads:

The Actuaries' Code originally came into force on 1 October 2009, and was last updated in August 2023.

Page 17

The first bullet point of the solution to Question 5.1 part (i) now reads:

- TAS 100 General Actuarial Standards

Chapter 7

Page 7

The following text has been inserted after the first bullet point:

Roof anchors and soft storeys are examples of 'secondary modifiers'.

Roof anchors are a construction feature which helps secure a roof to the main structure of a building. This helps prevent the roof from being lifted clean off the building in a strong wind.

A soft storey building is a multi-storey building which is constructed with large openings, wide doors or a significant area of largely unsupported spaces, *eg* shop fronts, multi-storey carparks. They are particularly vulnerable to earthquake damage, a quick search with your favourite internet search engine will show you some striking photos.

Another example of a secondary modifier is roof sheathing. This is the wooden boarding that forms the basis of a roof. Roof sheathing technology has improved in recent years, to help strengthen roofs against high winds and to help prevent sagging under heavy loads of snow.

Secondary modifiers such as these contribute to secondary uncertainty, which we discuss below.

Page 9

The first sentence of ActEd text in Section 1.3 has been expanded to read:

Secondary uncertainty relates to how the intensity of an event (*eg* an earthquake of given magnitude and location) propagates to a specific individual site.

This therefore relates to the uncertainty about the exact amount of insured loss that a given event will cause, as opposed to uncertainty about which events will happen.

In part, this can be related to the precise location of a risk, *eg* windstorms are complex phenomena and the local intensity can vary to a surprising degree, depending on the specific characteristics of an area.

However secondary uncertainty can also relate to specific construction and occupancy features. These are often also called 'secondary modifiers'; we discussed these above.

Chapter 9

Page 3

The third paragraph now reads:

The Core Reading in this section outlines the principles and practice behind the Companies Act. Prior to 2023, insurance companies using International Financial Reporting Standards (IFRS) would have valued their liabilities in accordance with IFRS 4. However, we will see later in this chapter that IFRS 4 has been replaced by IFRS 17.

Chapter 11

Page 19

The following ActEd text has been inserted into Section 7:

In 2023, *The Actuary* magazine labelled cyber crime as 'the greatest global threat' to the sector in the next two to three years.

In addition, instances of physical disruption due to cyber attacks have increased significantly in recent years, from less than 10 in 2013 to more than 400 in 2020.

The paragraph that begins 'These issues …' now reads:

These issues will continue as the world becomes increasingly reliant on complex, interconnected technology. Global systems are increasingly susceptible to malware attacks, ransomware attacks and even attacks sponsored by hostile governments.

Chapter 17

Page 3

The ASTIN link (at the bottom of this page) is now:

https://www.actuaries.org/iaa/IAA/Sections/ASTIN_NEW/IAA/Sections/ASTIN_NEW/ASTIN_HOME.aspx

Page 7

Section 1.2 has been deleted.

Page 8

The following summary of 2023 papers has been inserted:

2023 papers

This year's major topics will not be a surprise to students keeping up to speed with topical issues. Exam questions on the following topics would be perfectly feasible:

- artificial intelligence
- climate change
- emerging risks
- Ogden and discount rates
- catastrophe models.

The 2023 spring conference also presented discussions on:

- IRFS 17
- big data
- climate change
- inflation assumptions in reserve models.

2 Changes to the X Assignments

The X Assignments have been changed significantly to reflect the current issues in the general insurance environment. We have not detailed the changes in this upgrade.

If you would like the new assignments *without* marking, then retakers can purchase an updated CMP or standalone X Assignments at a significantly reduced price. Further information on retaker discounts can be found at:

acted.co.uk/paper_reduced_prices.html

If you wish to submit your scripts for marking but only have an old version, then you can order the current assignments free of charge if you have purchased the same assignments in the same subject in a previous year, and have purchased marking for the 2025 session. We only accept the current version of assignments for marking, *ie* those published for the sessions leading to the 2025 exams.

3 Changes to the Mock Exam

The have been no significant changes to the Mock Exam.

4 Other tuition services

In addition to the CMP, you might find the following services helpful with your study.

4.1 Study material

For further details on ActEd's study materials, please refer to the *Products* pages on the ActEd website at **ActEd.co.uk**.

4.2 Tutorials

We offer the following (face-to-face and/or online) tutorials in Subject SA3:

- a set of Regular Tutorials (lasting a total of three days)
- a Block (or Split Block) Tutorial (lasting three full days).

For further details on ActEd's tutorials, please refer to our latest *Tuition Bulletin*, which is available from the ActEd website at **ActEd.co.uk**.

4.3 Marking

You can have your attempts at any of our assignments or mock exams marked by ActEd. When marking your scripts, we aim to provide specific advice to improve your chances of success in the exam and to return your scripts as quickly as possible.

For further details on ActEd's marking services, please refer to the 2025 *Student Brochure*, which is available from the ActEd website at **ActEd.co.uk**.

4.4 Feedback on the study material

ActEd is always pleased to receive feedback from students about any aspect of our study programmes. Please let us know if you have any specific comments (*eg* about certain sections of the notes or particular questions) or general suggestions about how we can improve the study material. We will incorporate as many of your suggestions as we can when we update the course material each year.

If you have any comments on this course, please send them by email to **SA3@bpp.com**.

