

EXAMINER'S REPORT

15 October 2024

**Subject F202 — Life Insurance
Specialist Applications**

QUESTION 1

A South African life insurance company sells a range of disability income risk products that are reinsured on a surplus basis. Due to the implementation of IFRS 17 the company decided to implement a new claims and administration system.

i. Outline the reasons why the company would change systems.

A couple of students confused this for an IFRS 04 vs IFRS 17 question, and ended up giving details about CSM and RA, etc. Others lacked the understanding of "Admin and Claim system" vs an Actuarial model, so there were lots of irrelevant points around "the ability of the system to store historic yield curves" or "the ability for the system to separate directly attributable expenses and non-directly attributable expenses".

Reasons for changing system

- Legacy system might be outdated and only capture very aggregated data.
- Legacy system might be on an old platform and there is no way of making changes to the system required for IFRS 17
- IFRS 17 requires an insurance company to identify portfolios of insurance contracts that have similar risk and are managed together and not issued more than one year apart. If the legacy system does not capture information at a granular level to determine these groups, then the new system would be required.
- The new system might be required to accurately group contracts that are onerous at initial recognition, no significant possibility of becoming onerous and group of the remaining contracts in the portfolio.
- IFRS 17 only allows you to group contracts together if an entity has reasonable and supportable information to conclude that a set of contracts will all be in the same group. Otherwise, it shall determine the group to which contracts belong by considering individual contracts. A new system would allow the insurance company to carry out investigations and store information at the correct level of granularity to ensure that reasonable and supportable information can be provided.
- The insurance company could be looking for synergies and automation with other processes within the company e.g. automating claim decisions, premium checks, experience investigations to help reduce costs
- Legacy system might involve lots of manual and outdated processes that the company wants to remove. IFRS 17 could give the company the incentive to make changes in one go rather than over time.
- Designing both an administration and claims system together could create synergies to between IP claim assessments and administration payments to ensure no claims are paid on declined or suspended claims.
- New administration system could link in with underwriting systems to streamline onboarding of new clients and improve client experience.

ii. Discuss the checks the valuation team would need to carry out before signing off the new system.

This was answered fairly by most students. Unprepared students focused a lot on generic data checks rather than on the "Old system" vs "New system" checks.

Valuation checks

- Would want to carry out a parallel test (back-to-back) test where both systems are run at the same time to check that the aggregated results provided are the same. Alternatively re-run a previous time period where you can verify the results obtained for the valuation.
- The aim would be to test the following:
 - Both systems produce the same totals for accounting data e.g. premiums received and claim payments. No policies are “lost”.
 - Need to check the claims in payment lists are the same with correct future payment amounts, increases for inflation and product specifications can be captured correctly.
 - Need to check the claims in payment dates are the same with correct date notified, date of events and payment dates.
 - Would need to verify the exposure data pulled for in-force premiums are the same with correct product features for sum assured increases, deferred periods and claim escalation rates.

The company is considering recapturing the reinsurance of the current in-force book of active policies and the disability income claims in payment reserves. If the company recaptures the reinsurance then they will retain the full liability for both the active policies and claims in payment so that no further risk is ceded to the reinsurer.

iii. Discuss the factors the company needs to consider before recapturing the reinsurance.

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Students were generally able to generate valid points across board. The length of the question meant more points were needed to score enough marks. Some students struggled with providing unique points, others went deep into detail on one point, e.g. SCR cover impacts, risk management or reasons for having reinsurance etc.

The first step would be to review the treaty terms within the reinsurance contract.

This would include terms for:

- “Cancellation to new business” as this would determine how much new business could be included in the recapture calculations
- “Special Right of Termination” which would outline the terms that each party has to terminate the reinsurance contract
- “Finalisation Settlement” and/or “Termination Settlement” which will outline the terms for calculating the settlement agreement for recapture

- “Natural Expiry” / “Guarantee Period” will define the period until which the policy would be reinsured

Another factor to consider with the treaty terms is what happens should both parties disagree on the termination settlement. This would normally involve obtaining an independent consulting actuary to decide which basis for the assumptions is considered more appropriate, either the insurer or reinsurers proposal, or something between them, which shall then be used to determine the termination settlement.

An estimate of the cost of recapturing the book should be considered. If the book is profitable this could result in an outlay of capital to recapture the in-force book. If the book is loss making, then the recapture fee might be zero but this would result in a liability being raised resulting in a loss.

Does the company have better uses for its capital than recapturing reinsurance? – like growing new business.

The company would also need to think about what the current best estimate basis would be for incidence rates, terminations, interest rates and new business as this would impact the estimate cost of the recapture. Insurer can consider the current best estimate assumption profile as a starting point, amend for current experience and agree with the reinsurer as part of the negotiation process.

The recapture fee should be weighed up against the cost of implementing changes in new system for the existing reinsurance deal.

IFRS 17 requires a reinsurance contract held to be accounted for separately from the underlying insurance contracts to which it relates. This will also mean that modelling of the reinsurance contracts for fulfilment cashflows will have to be set up separately. The current reinsurance terms might result in a misalignment of the contract boundaries under IFRS 17 and therefore it might be better to look at new reinsurance terms to align these.

The company would need to consider their current risk appetite and available capital. There might be a situation where the company would prefer to self-insure.

A review of the profitability for the in-force book by product should be looked at. There might be certain products the company wants to retain and others the company would want to reinsure. Reasons for this could be profitability, volatility, or capital management.

Recapturing the book would result in a direct increase in the SCR and therefore the required capital. Any implications this has on the SAM regulatory capital needs to be considered and implications for SCR targets.

Company needs to look at other reinsurance services provided e.g. underwriting, claims and actuarial support and the trade-off of forgoing these services by recapturing the book.

Company could look at re-tendering the book and determine whether the current reinsurance terms are above or below current rates in the market. This will also need to be traded off against other support services provided by reinsurers e.g. underwriting, claims and actuarial support.

The company could also look at restructuring their reinsurance with the current reinsurer or on new business.

The company would also need to review if there is any financial reinsurance on the in-force book and the implication of recapturing has on the financing of these policies.

- iv. **Outline how the reinsurance company would determine:**
 - a. **the reserve transfer for the disability claims in payment reserves and**
 - b. **the recapture fee for the current in-force book of active policies.**

[6]

Some students lacked the understanding of CIP, hence giving answers that entails projecting future premiums. Most students recognised the need for a best estimate basis, however the mention of additional risk margins came up a lot on most answers. Better prepared students scored easy marks for stating the obvious points.

CIP reserves

The basis used for determining the recapture value should be a best estimate basis without any margins and an appropriate discount curve should be used e.g. SAM yield curve.

A quick estimate would be to look at the current SAM reserves being held for the current policies.

Alternatively, they could be recalculated using either a formula or cashflow model.

A cashflow model could be set up which projects the future claim payments and expenses (allowing for escalations) at each future time point.

The future expected cashflow could then be calculated by allowing for the probability of making the payment at each future time point allowing for terminations due to returning to work or death.

These cashflows would then be discounted at an appropriate discount rate.

Summing up the discounted expected cashflows for each claim in payment would give the claims in payment reserve.

The following formula would need to be estimated:

$$\int_{t=0}^{t=\infty} B_t v^t {}_tP_x^{\overline{SS}} dt$$

where B_t is the benefit paid at time t , v^t is the discounting factor and ${}_tP_x^{\overline{SS}}$ is the probability that a sick life remains in the sick state during that time.

Re-capture fee for in-force book

An estimate of how much new business to include will depend on when the treaty allows cancellation to new business. This would normally be 1 – 3 months.

After finalizing the current in-force list and estimate of new business one could set up a cashflow model where you estimate the future premiums, claims and expenses at each future time period.

One would then need to determine the expected discounted value of these cashflows to determine the recapture fee.

To determine the expected future claims at time t , the incidence rate at time t would need to be multiplied by the probability of being alive and healthy at that point and then this would be time point t and then multiplied by the value of the annuity then payable on sickness also allowing for the deferred period allowing for terminations either due to death or returning to work/healthy state.

If a formula-based approach is used one would need to estimate the following:

$$\int_{t=0}^{t=\infty} \frac{(al)_{x+t}}{(al)_x} [P_t - S_t(a\mu)_{x+t} {}_d\bar{a}_{x+t}^i - E_t] v^t dt$$

where $\frac{(al)_{x+t}}{(al)_x}$ is the probability that x is alive and well at time t , P_t is the premium at time t , S_t is the sum assured at time t , $(a\mu)_{x+t}^i$ is the probability of falling sick in time interval δt , ${}_d\bar{a}_{x+t}^i$ is the value of the annuity then payable on sickness also allowing for the deferred period, E_t is the expenses at time t and v^t is the discounting factor.

Due to the fact that transition intensities would be required at all duration, this might not be a practical if the company does not have these readily available.

QUESTION 2

A South African company works in the funeral services industry and has acted as a distributor of funeral policies for several insurance companies. It has decided to investigate the option of being able to insure these policies itself and start a life insurance company. The intention would be to expand to small life insurance policies with sums assured up to R250k and potentially savings products as well. The company is researching this and is aware that it can apply for a life insurance license or a micro-insurance license.

Briefly explain the advantages and disadvantages of the company applying for a micro-insurance license as opposed to a life insurance license.

Candidates that focused on the advantages and disadvantages of writing the given products under a life license or a micro insurance license did well. However, a large proportion of students made the clear mistake that they focused on the risks/disadvantage of writing microinsurance products (e.g. higher lapse rates, low sums assured leading to high per policy expenses) and therefore did not answer the question asked.

Advantages of Micro-insurance license

Micro-insurers are subject to a simpler, dedicated prudential regulatory model suited to the risk profile of micro-insurers.

These insurers will have simplified governance and operational requirements than typical insurers due to limited value and complexity of micro-insurance products.

The commission regulations are less restrictive.

The FAIS Act requirements are also lighter.

Micro-insurers are subject to lower minimum regulatory capital requirements. MCR is set at an absolute minimum of R4m – much lower than under a life license.

Valuation of assets and liabilities also simpler and largely formula based.

Due to the lower regulatory, governance, operational and capital requirements a micro-insurer should be able to produce lower cost products than typical insurers.

Simpler regulatory process could mean a potentially quicker time to market.

Disadvantages of micro-insurance license

In terms of life insurance, micro-insurers are only permitted to offer risk only policies and these cannot have a surrender or investment value.

Micro-insurance products also have a prescribed set of product features such as:

- Policies are limited to 00 000 for life insurance.

- Micro insurance policies must have a contract term of not more than 12 months.
- Waiting periods are 3 months in the case of death due to natural causes.
- There is no waiting period for accidental death, renewed or replacement policies.
- No exclusions are permitted for funeral policies.

The company would not be able to offer the larger life insurance products and savings product as the regulations currently stand.

The company would need to decide whether to apply for a life license now to enable these plans for the future or obtain a micro-license and apply for a life license at a later stage.

A micro-insurer may only invest in cash, cash equivalents and money market funds.

QUESTION 3

A South African life insurance company specialises in group risk business. It provides group death, lump sum disability and income protection products. The company is currently completing its annual supervisory reporting which it does using the standardised formula approach.

Over the course of the year being considered the following occurred:

- **Losses were made due to termination rates being lower than expected.**
- **Best estimate termination rates were reduced as result.**
- **Government bond yields increased.**
- **A large group covered by the company that makes up a significant share of its total cover is under-priced and a loss component under IFRS 17 has been set up.**
- **The company has invested in a larger sales force.**
- **Business grew significantly over the year.**
- **A stop loss reinsurance treaty was set up for the death benefits.**

- i. Describe the expected impact of the above events on the solvency cover of the company.**

Many candidates failed to consider the nature of group risk business and made generic points that are appropriate to liabilities/SCR in general without considering the context. Strong candidates were able to discuss the SCR and Own Funds impacts of each of the factors that were mentioned in the question and were able to make relevant comments on how it impacts short boundary business.

The solvency of the company will be assessed under the SAM framework. The solvency cover is the number of times the Basic Own Funds covers the Solvency Capital Requirement.

The company made losses which will generally be a drain on capital. This would have lowered the company's own funds over the year and had a negative impact on solvency cover.

The reduction in BE termination rates will increase existing reserves for claims in payment for the income protection business. This will increase the technical provisions and reduce the solvency coverage.

There would be a knock-on impact on the shocks on the terminations rates under the SCR. This will increase the SCR and further reduce solvency.

The increase in government yields would have resulted in a higher government bond curve prescribed by the Prudential Authority for discounting technical provisions.

For prudential reporting purposes, technical provisions (except for claim in payment reserves) are typically calculated using a retrospective reserving methodology and as such changes in discount rates will not impact them. (reserves such as IBNR, UPR etc)

This higher yield curve would result in lower claims in payment reserves for the income protection business. This would have a positive impact on solvency.

However, if these liabilities are well-matched, the value of the assets backing this reserve would reduce to a similar extent and as such the yield curve move would be neutral.

The impact on the value of other assets over the year would not be known. Generally in an increasing interest rate environment asset prices would be lower.

Group business is annually renewable and as such the loss component (deficiency reserve) would be calculated as the excess claims cost until the premiums rates are able to be changed within one year.

The additional deficiency reserve would increase the technical provisions and reduce the Own Funds and solvency position.

The investment in a new sales force would have increased the expected ongoing expenses of the company and resulted in an increase in the technical provisions and a negative impact on solvency.

Inflation assumption for expenses would depend on movements in the expected inflation rate relative to the change in the yield curve.

The growth in business over the year may have caused some new business strain. This is not usually an issue for group business (compared to individual life policies) because it is an annual policy. As such the insurer must recoup all expected costs in that year.

Assuming the business was priced profitably this would have had a positive impact on the result and Own Funds. i.e. the loss suffered by company over the year would have been worse without this new business. This would have had a positive solvency impact.

The new business would also result in an increased SCR through the life shocks applied.

The stop loss treaty would have a significant impact on the SCR. This will reduce the SCR and have a positive impact on solvency.

Depending on where the stop loss cover is triggered, it could have an impact under the mortality shock of the SCR. If the stop loss pays out at a lower level of excess mortality than the prescribed 15% shock then a lower shock (set at the stop loss trigger) could be used.

The stop loss cover would reduce the life catastrophe shock significantly.

Overall it is difficult to say what the overall impact on solvency cover:

- There is upward pressure on TPs (claims in payment, deficiency reserve, expenses)

The company experienced losses and asset values are not likely to have increased significantly (these would have reduced the basic own funds available to cover the SCR)

- The SCR would have increased through the growth in business and change in BE termination rates but would have reduced significantly through the introduction of the stop loss cover.

One of the large groups insured by the life insurance company has merged with another company forming a larger group. The group wants the same group death benefits to be offered to the additional staff members of the new group. Because the benefits are the same the group is expecting the cost per employee as a percentage of salary to be the same. The life insurance company has provided updated premiums which have resulted in a significantly increased cost per employee as a percentage of salary.

ii. Explain why the cost per employee as a percentage of salary could have increased.

Generally, poorly answered. Candidates that scored well were able to generate plenty of points on how the risk profile changed. Too many candidates focused on items like overheads, admin systems and made very generic comments.

Premium rates are determined for the group as a whole. Premium rates per employee will often be the same for a specific benefit and there will be cross-subsidisation between age and gender.

If the benefits for the added employees are the same (in terms of multiple of salary) but the cost is increasing it means that the risk or probability of claim of the added employees is higher.

It could be that the added group are much older on average.

There could be a higher proportion of male employees than female for the company that is being added.

The added company may be higher risk due to the nature of the work or the employees. It may be a company that does predominantly blue-collar work merging with a white-collar company.

Large groups tend to have claims experience that insurers can access. The added company could have particularly poor claims experience (or the other company could have particularly good claims experience).

The added group could be involved in particularly hazardous work that has attracted an extra premium, e.g. mineworkers or security services.

The added group could be in a region that is assessed as higher risk. E.g. a region that could have higher HIV infections.

Due to the increased size of the merged companies and the increased costs, the company is considering self-insuring the death benefit offered. One option that has been suggested is to set up a cell captive to do this.

iii. Set out the factors that would need to be considered in assessing this option.

Many students failed to grasp that you are exchanging the reinsurance premium for the cost of managing the cell. The insurer is faced with more mortality risk, but the potential to make profits if the experience is lower than expected. The pros and cons of this arrangement needed to be discussed in more detail as well as the practical considerations.

The premiums charged by the insurer compared to premiums to fund the cell and fees charged by the cell captive insurer.

The cost of insurance is the profit margin charged by the insurer, the ongoing cost of the cell captive is the fees charged.

The expected claims experience. It could be that the company expects the insurer to make a much higher profit at the premiums it is charging and if the same premiums were paid into the cell profits could be passed to the company through dividends.

Risk appetite of the company. While it can retain profits made when experience is good, it will also need to fund all claims when experience is bad.

The company is exchanging a fixed annual cost (insurance premiums) for an unknown cost (claims) through the cell captive.

The company is now exposed to insurance risk. The cell captive can access reinsurance support on the company's behalf though, at an additional cost.

The cell will need to comply with all relevant life insurance regulation.

The cell will need to comply with solvency regulation and the company will need to fund the initial solvency capital requirement and recapitalization if required in future.

The services that the cell will provide for the fees charged (e.g. administration, accounting, regulatory, claims payments etc)

The solvency position of the cell captive insurer. If the solvency position of the cell captive was ever threatened, the divisions between cells would be ignored in order to keep the cell captive insurance company solvent.

QUESTION 4

A South African life insurance company sells investment products that have a smoothed bonus portfolio as an investment option. There are two smoothed bonus portfolios the client can choose between. Both declare monthly bonuses. However, only 80% of Portfolio A's bonus vests every month, whereas the bonus for Portfolio B is fully vesting. Portfolio B has a higher fee for guarantees, but other fees are the same for the two. The products are now valued under IFRS 17.

Under IFRS4, the savings policies were valued retrospectively. The reserve consisted of the value of policyholder accounts accumulated at declared bonuses (book value) and a bonus stabilisation reserve, which is the difference between the unit fund (market value) and the book value.

- i. Explain the difference between the allowance for future bonuses in the calculation of policyholder liabilities under the IFRS4 valuation and the IFRS 17 valuation.**

A lot of students failed to read the question properly. The question clearly states that under IFRS 4 a retrospective reserve was held, yet many students spent time explaining an IFRS 4 prospective valuation. Also, the question focused on the valuation of the bonuses and many students went to great lengths to describe the valuation of the whole product.

Under IFRS4, the bonus stabilisation reserve was an implicit allowance for future bonuses.

A positive bonus stabilisation reserve meant that the expectation was that benefits paid out in future would be more than the accumulated book value fund and the investment returns on it.

And a negative bonus stabilisation reserve meant that the expectation was that benefits paid out in future would be less than the accumulated book value fund and the investment returns on it.

In both cases, the implicit assumption is that future bonuses will be such that the market value of assets is eventually distributed to policyholders.

Under IFRS 17 a full prospective reserve is calculated. Future cash flows are projected and discounted to get a best estimate liability.

The future cash flows must include an explicit projection of future bonuses.

The projection of future bonuses must take into account the bonus that is expected to be paid given expected investment returns, the current difference between market value and book value of the portfolio, and the bonus smoothing philosophy of the company.

The bonus assumptions are set so that the market value of the assets is projected to be distributed to policyholders.

Assumptions such as surrender rates will therefore also affect the allowance for bonuses under the IFRS 17 valuation.

The calculation of the IFRS 17 bonus allowance is similar to that for Prudential Solvency calculations.

For both products the monthly bonus is calculated by determining an expected long-term investment return net of fees (j) and making an adjustment for the funding level (fnlv) of the portfolio (market value/book value), with the aim of achieving a funding level of 102% in 24 months, according to the following formula:

$$\text{Monthly bonus} = j + (\text{fnlv} - 102\%)/24$$

It has been suggested that since the IFRS 17 policyholder liabilities do not have an explicit funding level, the actual bonuses be changed to be the same as those used in the IFRS 17 valuation.

ii. Discuss the suitability of this proposal.

This question was answered poorly by most candidates.

The IFRS 17 valuation should use a best estimate of the future bonus rate, which at first glance could be the same as the existing bonus rate.

However, since the expected investment return (j) for bonuses is based on a long-term assumption, it may differ from the valuation best estimate rate, which would be based on the yield curve at the valuation date.

Furthermore, the valuation bonus rate will also seek to distribute the surplus/deficit to policyholders within a defined period of time, which may deviate from the $(\text{fnlv} - 102\%)/24$ factor in the bonus formula.

The combination of these two factors could therefore result in different bonuses than under the present method.

Under IFRS 17, policies need to be grouped into cohorts with starting dates not more than twelve months apart. Depending on the granularity of the model, there could be different valuation rates (that are needed to distribute the surplus/deficit to policyholders within the defined period of time) between cohorts. This would be unsuitable to use for actual bonuses, as differences between policyholders are not part of the product design.

This would in turn affect the level of policyholder benefits. It does not seem suitable to change the benefits payable to policyholders because of a change in the accounting standard.

In the case of Portfolio A, where the non-vested guarantee may be removed in a severely underfunded position, the valuation model would need to be quite complicated to cater for this.

The ability to change the calculation method would depend on how the bonus calculations are described in the company's PPFM.

If the formula is mentioned, then the company would be constrained in changing it.

The formula may have been communicated in other product literature (e.g. member statements), in which case an expectation would have been created that the bonus would be calculated in that way, so it would not be suitable to change it.

The current formula has the advantage of transparency and simplicity.

Queries about bonuses would be much easier to answer with reference to the formula than the valuation model.

Although the funding level is not used explicitly in the valuation of the liabilities, it will still be readily available.

There is also an issue of how often the IFRS 17 valuation is done. If it is not done monthly, then the bonus for interim months would need yet another calculation method, which adds to costs and complexity.

A further consideration is how long it would take to determine the bonus using the valuation model. Any longer than the current method might have operational/administrative consequences.

If there are concerns about the closeness of the modelled bonuses to the actual bonuses, then it would be better to improve the modelling than to change the calculation of bonuses.

A new investment product (Product C) has been proposed, which is similar to Product B, but has higher fees and a reward bonus. The extra fees are invested separately and distributed to policyholders as the reward bonus. The reward bonus is added to the member account at the end of every 5 years. It is described as “additional investment profits made during the period” and is discretionary. It cannot be negative.

iii. Discuss the advantages and disadvantages to the company of launching this product

This question was quite well answered by most students. Though a fair number of students demonstrated a lack of understanding of how modern smoothed bonus investment products worked by referring to the shareholder's profit from a bonus declaration.

A new product, if priced correctly, should add to the new business and profits of the company.

It will not succeed in its aim if all it does is transfer sales from the existing product

The product has lower guaranteed values than Product B, which should result in lower capital needed to back it.

Because of the lower guaranteed values (and the buffer provided by the extra fees), the company should be able to invest in higher yielding but riskier assets, which will result in higher “investment profits”, and an overall better return to policyholders. This will improve its competitive position.

There is an incentive for policyholders to keep the policy active until the reward bonus vesting date, which should improve persistency rates.

This will lead to higher profits as the company will collect fees from policies for longer.

The product is in direct competition with Product B, which may lead to cannibalisation of sales.

Before the first vesting date, the bonuses will be noticeably lower than those of Product B, which may lead to policyholder dissatisfaction.

There will need to be changes to the policy administration system, which will increase expenses.

Processes and systems will need to be put in place to calculate and approve the reward bonuses.

It will take time for the company to develop a track record of paying reward bonuses that result in a higher overall return than under Product B. Policyholders may prefer the certainty of fully vesting bonuses.

Product C's bonus calculation is less transparent than that of Product B, which policyholders may also dislike.

iv. Discuss the additional responsibilities of the Head of Actuarial Function (HAF) that Product C brings over Product B.

Many students struggled to apply the guidance note to the particular product. Although open book exam is a new thing, it is quite naïve to think that a copy and paste of sections of the guidance note/GOI would get good marks for the question.

Since the reward bonus is a discretionary allocation, the HAF will need more oversight of the bonus declaration process than for Product B.

Guidance on the review of profit allocations (bonuses) is given in AP06.

Whereas for the monthly bonuses it is sufficient for the Board to be informed of the methodology and the HAF's opinion thereon, the reward bonus should be recommended by the HAF and approved by the Board.

In order to exercise this oversight, the HAF will need to:

- Review the calculation of the excess of assets maintained for the review bonuses over the liability attributable to the review bonus.
- Determine whether the bonus declaration is in line with the *Principles and Practices of Financial Management* for the product.
- Determine whether the declaration is in line with policyholders' *Reasonable Benefit Expectations (RBE)*.
- Express an opinion on how the recommended bonuses maintain fairness between different categories of policyholder.

The HAF will also need to consider the impact that a reward bonus declaration will have on future policyholder RBE.

- In particular there are 2 sources of revenue for the reward bonus – the extra fees charged and investment return thereon, and the surplus created by policyholders who leave before the vesting

date. If the latter results in a bonus significantly higher than that generated by the investment returns, then an expectation of higher than sustainable bonuses might be created.

The HAF will need to ensure that sufficient provision is made for reward bonuses that have not been declared yet in the technical provisions of the SCR.

The HAF has a responsibility to consider the Treating Customers Fairly aspects of the reward bonus feature.

For a new product with discretionary features, the HAF should review the product and marketing material to ensure that benefit expectations that are created are in line with product design.