



International Actuarial Association  
Association Actuarielle Internationale

# IAA Risk Book Conduct of Business Risk

Insurance  
Regulation  
Committee

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## **Conduct of Business Risk**

**This Risk Book chapter has been developed and approved  
by the Insurance Regulation Committee of the IAA**

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## Comment and feedback

Comment and feedback on Risk Book chapters are welcomed.

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## Version

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## **Introducing the IAA Risk Book**

The actuarial profession has contributed significantly to the development of risk management tools and processes in insurance, pensions and related industries. Actuarial skills are also increasingly being applied in new and developing areas of knowledge.

The Risk Book is intended to provide high-quality reference materials to support a better understanding of the risks and inherently uncertain future outcomes that need to be managed when delivering financial services products – whether they involve insurance, investments or retirement incomes, or more broadly. The Risk Book is written to be accessible to a wide range of readers, many of whom may not be actuaries or experts in the areas discussed but may be decision-makers in those areas. Consequently, the Risk Book aims to provide insight into the ideas and concepts behind actuarial topics. It is therefore focused on being descriptive rather than being formal and mathematically precise.

All the Risk Book chapters are publicly available on the IAA website and are periodically updated. See [www.actuaries.org](http://www.actuaries.org) and follow the path to 'Publications' and then to 'Risk Book'. A discussion of their structure and relationships is provided in the chapter *Introduction – Using the Risk Book*.

The Risk Book is intended to be a dynamic and evolving resource, updated over time, reflecting new areas where actuarial expertise can add value, experience and advances, and topics of current interest and importance. It is electronically distributed to support ongoing updates. Risk Book chapters will be reviewed periodically at least every 5 years and more frequently if significant changes or developments occur.

The development and maintenance of the Risk Book is managed by the Risk Book Editorial Board of the IAA Insurance Regulation Committee.

Many people, mostly actuaries, have contributed to the Risk Book. Contributors are listed on the website.

To submit comments or questions about this Risk Book chapter, or to report any problems with the website, please email [riskbookcomments@actuaries.org](mailto:riskbookcomments@actuaries.org). To express interest in becoming involved with the Risk Book please go to the website and provide the requested information.

## Executive Summary

The topic of conduct of business (COB) risk covered in this chapter of the Risk Book involves any product or service relationship between insurance companies—including agents, intermediaries, and other service providers—and their customers. Insurance companies are expected to interact with their customers in a fair and equitable manner. COB risk emerges when insurers fail to meet this expectation.

While the potential risks posed by COB may be relevant in many areas of actuarial practice, this chapter is written from the perspective of actuaries working with insurance companies and insurance supervisory bodies.

The International Association of Insurance Supervisors (IAIS) provides the following high-level definition of COB risk:

Conduct of business risk can be described as the risk to customers, insurers, the insurance sector or the insurance market that arises from insurers and/or intermediaries conducting their business in a way that does not ensure fair treatment of customers.<sup>1</sup>

Several key perspectives are relevant when considering COB risk:

1. **Supervisory perspective:** Supervisors in each jurisdiction impose requirements and expectations that customers be treated fairly by insurance companies. Failure to do so may result in supervisory actions with potentially serious adverse consequences for an insurer.
2. **Customer perspective:** Customers have expectations regarding fair treatment. When these expectations are not met, insurers may face reputational damage, legal action, and adverse policyholder behavior, such as reduced new business, increased lapses, etc.
3. **Interpretive perspective:** The concepts of “fair” and “equitable” treatment are inherently subjective. They may vary depending on industry practices, regulatory frameworks, policyholder expectations, sales materials, and historical treatment of customers.

This chapter examines the roles actuaries play—directly or indirectly—in managing COB issues across all the products sold by life, general insurance,<sup>2</sup> and health insurers, including interactions with supervisors. It does not address forms of misconduct that generally fall outside actuarial responsibilities, such as investment operations, agent incentive schemes, shareholder (sometimes also called stockholder) dividends, insider trading, etc.

Actuaries may be involved in work that, directly or indirectly, contributes to COB risk. Such work may include:

- Product design and pricing;
- Sales practices;

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<sup>1</sup> Issues Paper on Conduct of Business Risk and its Management, IAIS, November 2015.  
<https://www.iais.org/uploads/2022/01/151123-Issues-Paper-on-Conduct-of-Business-Risk-and-its-Management.pdf>.

<sup>2</sup> In various regions of the world, “general insurance” is also known as “non-life” or “property and casualty” (P&C) insurance.



- Policy illustrations;
- Underwriting;
- In-force administration;
- Claims administration;
- Renewal of adjustable policies; and
- Setting participating policyholder dividends/with-profit bonuses.

In addition, actuaries' work in functions that are essential to the sound operation of insurers—such as financial reporting, risk management, and the assessment of corporate structural changes (e.g., demutualization)—may also affect the management of COB risk.

Professional actuarial standards require actuaries to consider the interests of relevant stakeholders, such as policyholders and shareholders. As these interests may not always align, actuaries performing work on behalf of one stakeholder group may encounter potential professional conflicts of interest with respect to another stakeholder. Actuaries follow professional actuarial standards in dealing with such conflicts of interest.



## 1 Background

Conduct of business (COB) encompasses any product or service relationship between insurance companies, including their agents, intermediaries, suppliers, and other service providers—and their policyholder customers. Central to these relationships is the expectation that insurers will treat policyholders fairly and equitably. These expectations are shared by supervisors through their supervisory frameworks.

Insurers that demonstrate sound COB practices—by consistently treating customers fairly and equitably—may benefit from stronger new business growth, higher policy retention, and reduced supervisory scrutiny. Conversely, insurers exhibiting poor COB practices may experience adverse outcomes, including diminished sales, increased policyholder complaints or lapses, and heightened legal or supervisory intervention.

Corporate culture plays a critical role in shaping how insurers interact with customers and comply with regulatory requirements. To mitigate COB risk, insurers should aim to operate in a manner that systematically incorporates customer interests as a core organizational priority. COB risks may arise from interactions with individual policyholders, from broader company policies or practices, or from a combination of both.

Each insurer's COB risk profile is inherently unique and depends on factors such as corporate culture, product offerings, and the jurisdictions in which it operates. As a result, the assessment of COB risk can vary significantly:

- COB risk may differ by product line.
- Perceptions of appropriate COB practices may evolve over time.
- Definitions of fair treatment may vary across jurisdictions due to differing legal and regulatory frameworks (e.g., practices considered unfair or unethical in one jurisdiction may be accepted in another).

Accordingly, the assessment of appropriate COB practices must take into account the specific market and regulatory environment in which an insurer operates.

## 2 Relevance to Actuaries

While the potential risks posed by COB may be relevant in many areas of actuarial practice, this chapter is written from the perspective of actuaries working with insurance companies and insurance supervisory bodies. It illustrates how actuaries can influence organizational practices to promote the fair treatment of policyholders and help to ensure that reasonable customer expectations are met.

Actuaries are involved—either directly or indirectly—in many activities that affect COB, including product pricing and design, policy contract development, marketing support, in-force administration, financial reporting, and risk management. While the specific responsibilities of actuaries vary by organizational structure, actuarial involvement in these areas often includes a financial control function or a risk mitigation role.

In many jurisdictions, actuaries holding statutory roles—such as the Appointed Actuary or Head of the Actuarial Function (HoAF)—are required to provide assurance that policyholders are treated fairly; for example, supervisors expect insurers to comply with IAIS Insurance Core Principle (ICP) 19,<sup>3</sup> which addresses the fair treatment of customers.

Actuaries may also contribute to COB oversight in external roles, including work for supervisory authorities, regulatory agencies, and rating agencies. These roles may involve evaluating insurer practices related to policyholder treatment, reviewing compliance with rating manuals, or preparing supervisory or assessment reports.

### 3 Consequences of Poor COB Practices

Insurers that fail to adhere to appropriate COB standards may be exposed to one or more of the following risks:

- Supervisory interventions or enforcement actions;
- Reputational damage;
- Rating agency downgrades; and
- Litigation.

Each of these outcomes has the potential to adversely affect an insurer's financial performance and strength.

#### 3.1 Supervisory Actions

ICP 19 defines supervisory expectations for the COB as follows:

The supervisor requires that insurers and intermediaries, in their conduct of insurance business, treat customers fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.

Supervisors require that insurers maintain appropriate COB standards in both their direct interactions with policyholders and indirectly by requiring the insurer to maintain its ongoing financial soundness. The scope and severity of supervisory actions depend on the legal framework of each jurisdiction. Potential supervisory measures related to COB include:

- Strengthening consumer protection requirements across the industry;
- Imposing supervisory fines, including fines levied on senior management or board members;
- Requiring remediation or compensation for affected policyholders;
- Restricting new business for specific product lines or for the insurer as a whole;
- Imposing constraints on policy administration processes; and

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<sup>3</sup> See <https://www.iais.org/activities-topics/standard-setting/icps-and-comframe/>.

- In extreme cases, withdrawing the insurer's license to operate.

Supervisory expectations regarding fair customer treatment have evolved over time and are likely to continue to do so. Increasing emphasis is being placed on concepts such as “value for money” and on avoiding unfair outcomes arising from the use of advanced analytics and artificial intelligence (AI). In several jurisdictions, emerging AI-related regulations have heightened supervisory scrutiny of pricing and underwriting practices.

### 3.2 Reputational Damage

Public disclosure of supervisory actions can significantly harm an insurer's reputation. Negative publicity may also arise from policyholder complaints, consumer advocacy organizations, or media reporting. Because trust is fundamental to insurance markets, reputational damage can result in reduced sales, increased lapses, adverse selection, higher complaint volumes, and declining market valuation of the insurer.

### 3.3 Rating Agency Downgrades

Rating agencies may consider COB practices as part of their assessment of an insurer's financial performance and strength, particularly where deficiencies could continue to affect them in the future. Adverse findings may contribute to a downgrade, leading to higher costs of capital, reduced market confidence resulting in reduced sales volume/increased lapses, and contractual consequences where minimum rating thresholds apply. A downgrade can be materially detrimental if large group contracts require the company to maintain a certain minimum rating agency classification.

### 3.4 Litigation

Policyholders may initiate individual or class-action lawsuits alleging harm arising from poor COB practices. Such litigation may involve claims for economic losses, punitive damages, or both. Public disclosure of litigation and its underlying causes can further damage an insurer's reputation. Past examples include disputes over policyholder dividends that differed materially (downward) from illustrations provided at the point of sale.

### 3.5 Impact on Financial Performance and Strength

Any of the above outcomes arising from deficient COB practices can adversely affect the insurer's financial performance and strength not only in the short term (e.g., fines, litigation, increased payouts to policyholders) but also in the longer term (e.g., reduced sales, increased withdrawals, lowered profitability). As a result, both the insurer's financial performance and its financial strength may be put at risk. This can lead to a lower stock price, thus dissatisfying shareholders while at the same time garnering the increased attention of supervisors and rating agencies.

## 4 COB Considerations

The sound and prudent operation of an insurer depends on the combined effectiveness of its various operating activities. COB considerations for several of these operating activities are identified in this section. Actuaries' work within these activities can contribute to the management of COB risk.

### 4.1 Product Design and Pricing

Actuaries play a central role in decisions relating to the design and pricing of insurance products offered to customers. Offering products that do not meet customer needs can lead to dissatisfaction, reputational damage, and reduced policy retention. Sound product design can mitigate post-sale disputes and reduce policyholder dissatisfaction, particularly at the time of a claim.

Prospective customers purchase insurance (e.g., life, health, general insurance) and annuity products to meet specific needs and objectives. Some of these needs include protection of property due to damage or loss, protection for beneficiaries against early death, and protection against longevity (e.g., annuities). Consideration of potential COB issues during product design and pricing helps to ensure that the product will be designed to meet the customers' needs and expectations while delivering reasonable value.

Actuaries typically contribute to the design and pricing of insurance products. Their involvement helps to ensure that products are fit for purpose. Sound COB outcomes could be enhanced by actuarial involvement in various areas. For example:

- Premiums should be fair and reasonable when meeting customer needs. Pricing that generates excessive profits may lead to future policyholder dissatisfaction and increased lapses.
- Premium differences between individual policyholders or groups of policyholders should be actuarially and legally justifiable.
- Policy contracts should be written in clear and understandable language, particularly where products contain complex features such as options. Key terms—including benefits, limitations, exclusions, conditions, and duration—should be understandable to non-technical audiences.
- Policy contracts should clearly distinguish policy elements (e.g., premiums, cost-of-insurance charges, policyholder dividends) that are non-guaranteed from those that are guaranteed for the term of the contract.
- Pricing assumptions should be realistic and should explicitly reflect embedded options, guarantees, and allowable future pricing adjustments. Appropriate risk margins should be included to recognize compensation for the uncertainty and riskiness of projected cash flows.
- Pricing practices should be consistent between new business and in-force policies with similar risk characteristics.
- Insurers should also ensure equity in pricing and avoid unfair discrimination. While risk segmentation is a fundamental actuarial principle, pricing practices must comply with legal and ethical standards. Many jurisdictions impose limits on acceptable discrimination, such as requirements for unisex pricing in specific product lines.

The use of realistic assumptions is essential to avoid undue financial strain on insurers that could undermine the long-term security of policyholder benefits. Product design may also have unintended tax consequences for customers in certain jurisdictions, which should be considered where feasible.

In some jurisdictions and for certain lines of business, supervisors play a role in approving policy forms and/or premium rates.

Certain pricing strategies, such as the use of introductory or “teaser” rates, have attracted regulatory scrutiny. In some jurisdictions, including the United Kingdom, practices such as “price walking”—where new customers receive lower premiums while long-standing customers face increasing renewal rates—have been restricted by supervisors. The UK Financial Conduct Authority<sup>4</sup> (FCA) found that “while lower prices are available for customers if they regularly switch or negotiate with their existing provider, price walking distorts competition and leads to higher overall prices for customers”. Similar practices are controlled elsewhere through rate approval processes or consumer protection regulation.

In some jurisdictions, insurers are required to offer specific products or coverage, including compulsory insurance or coverage for vulnerable populations. Fair COB practices require that such products be offered at reasonable and sustainable prices. Examples include:

- Mandatory insurance coverage, such as motor liability insurance;
- Coverage for high-risk individuals; and
- Insurance products for vulnerable customers or those with substandard health risk.

Certain product design practices, such as mandatory product bundling (e.g., requiring the purchase of life insurance to obtain property coverage), may be inappropriate from a COB perspective and are prohibited in some jurisdictions.

## 4.2 Sales Practices

The point of sale represents a critical stage in influencing the expectations of policyholders and for setting the foundation for their fair treatment. Although actuaries are typically not directly involved in individual sales interactions, they play an important role in shaping the actuarial and product elements that underpin fair sales practices.

The following practices contribute to sound COB outcomes:

- Marketing and promotional materials should be accurate, complete, clear, and not misleading.
- Commission structures should avoid incentives that may encourage agents to recommend unsuitable products. Poorly designed incentives can create conflicts of interest and lead to product suitability concerns.
- Communication with customers should clearly explain the consequences of late premium payments, early lapses, or surrenders, including any loss of benefits or cash values.

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<sup>4</sup> General Insurance Pricing Practices Market Study – PS21/5, UK FCA, May 2021.  
<https://www.fca.org.uk/publication/policy/ps21-5.pdf>.



- Communication should also explain how changes in future experience may affect non-guaranteed policy elements.

### 4.3 Policy Illustrations

For certain life insurance products, including participating and universal life policies, illustration materials play a key role in informing prospective customers about potential future policy performance under alternative scenarios. These products contain elements (e.g., policyholder dividends, cost-of-insurance charges) that are not guaranteed and are subject to change based on emerging experience.

Actuaries are typically involved in the design of illustration formats and assumptions to ensure consistency with policy provisions. In some jurisdictions, the use of standardized illustrations is required by regulation.

Illustration practices contribute to fair COB practices if they:

- Assist customers in understanding how a product meets—or fails to meet—their needs;
- Include information that would reasonably influence a prospective customer’s decision;
- Use clear and customer-friendly descriptions of policy features;
- Are based on realistic assumptions;
- Clearly distinguish between guaranteed and non-guaranteed elements; and
- For long-term policies with non-guaranteed elements (e.g., permanent life insurance with policyholder dividends), illustrate the financial impact on customers of possible future scenarios.

Actuaries are typically involved in scenario analysis demonstrating the sensitivity of policy outcomes (e.g., premiums, dividends, cash values) to changes in non-guaranteed elements. A base scenario should reflect best-estimate assumptions consistent with pricing, with additional scenarios illustrating adverse or alternative experience. The construction of these scenarios should align with accepted actuarial standards and practices.

### 4.4 Underwriting

Underwriting is a normal part of the insurance company process of selecting and pricing new risks. However, such decisions should be fair, equitable, reasonable, and non-discriminatory. Premium differences between individual policyholders or groups of policyholders should be actuarially and legally justifiable. Information requested from policyholders in the application for an insurance policy should be limited to only the relevant data required to underwrite the policy. Policyholder data should be handled confidentially and not be used for any other purposes.

### 4.5 In-Force Administration

While policies remain in force, ongoing interactions with policyholders present further opportunities to reinforce fair COB practices. Clear communication with non-technical audiences is essential. Actuaries may contribute directly or indirectly to the following areas:



- Responding to policyholder inquiries related to premiums, benefits, or classifications;
- Designing and reviewing periodic in-force illustrations that provide meaningful information on policy status and available choices;
- Explaining the implications of changes in investment allocation for products that allow policyholder-directed investment choices;
- Communicating clearly and fairly the financial consequences when policyholders inquire about lapsing or converting policies to paid-up status (e.g., including surrender charges, market value adjustments, and any benefit reductions);
- Performing experience studies on in-force business, such as lapse or claims analyses—deviations from expected experience may indicate potential COB issues and warrant further investigation;
- For products with automatic renewals, such as motor, property, or renewable term insurance, providing changes to premiums or benefits at renewal that are fair, transparent, and communicated in advance;
- For certain adjustable life insurance products requiring periodic review of pricing elements (e.g., cost-of-insurance charges or unit prices), the use of discretionary judgment should be governed by clear policies to ensure fair treatment of policyholders;
- Avoiding unreasonable barriers to policy switching or cancellation;
- Maintaining systems to log and analyze policyholder inquiries and complaints (systemic issues identified through such monitoring may signal the need for corrective action); and
- Where disputes are resolved for individual policyholders, offering similar remediation to all policyholders in comparable circumstances to ensure equitable treatment.

#### 4.6 Adjustable Product Renewals

Adjustable insurance products permit insurers to modify certain pricing elements and/or contractual terms at renewal dates. The scope of adjustability varies by product type and jurisdiction. Such features reduce insurers' exposure to adverse future experience and, in principle, allow policyholders to benefit from lower initial premiums compared with fully guaranteed products.

Adjustable products may expose the insurer to unique COB issues. For example, adjustability is often constrained. While an insurer may be permitted to increase premiums, increases that are inconsistent with customer expectations—such as those materially exceeding inflation or market norms—may lead to non-renewal. In addition, supervisory approval or prior notification may be required before adjustments are implemented in certain jurisdictions.

Examples of adjustable products and typical actuarial considerations are noted in the following box.

## **General Insurance**

General insurance contracts, such as motor or homeowners' insurance, are commonly issued with fixed terms—typically one year. At renewal, insurers may adjust premiums based on updated experience or risk assessments. Policyholders retain the option to renew at the revised rate or seek coverage elsewhere. Insurers also generally retain the right to decline renewal.

Adjustments reflecting changes in expected experience that affect all policyholders should be applied consistently across comparable risks. Where experience changes affect only certain risk segments, adjustments should be limited accordingly.

## **Investment-Linked Products**

Certain variable annuity and unit-linked products include guarantees and embedded options that may become financially significant under adverse market conditions. If such features are inadequately priced or hedged, they can generate substantial losses, as observed during the 2007–2008 Global Financial Crisis.

Actuaries should be directly involved in the design, pricing, valuation, and risk management of these products to ensure both financial sustainability and fair COB practices. Supervisory actuaries are likely to give particular attention to such products due to their potential solvency and conduct implications.

## **Health and Disability Products**

Long-term health and disability products may be issued on either a guaranteed or renewable basis. Renewable contracts allow premium adjustments reflecting emerging experience. Long-term care insurance provides a prominent example of products that have required significant premium increases in some jurisdictions, attracting heightened supervisory scrutiny.

In some cases, policyholders may be offered benefit reductions as an alternative to premium increases. Such options should be clearly explained and designed to be fair and reasonable.

## **Life Insurance Products**

Various forms of life insurance products provide death and surrender values. Such products provide protection for specific terms (e.g., 10 years, term to age 65) or for the lifetime of the insured. In addition, these products may be offered with all their features (e.g., premiums, investment return, charges, benefits) fully guaranteed or with some features adjustable based on emerging experience. This latter category of products, called adjustable life insurance products, includes participating insurance (i.e., with entitlement to dividends, bonuses and possibly ownership rights), universal life, unit-linked policies, and certain forms of non-participating insurance (i.e., without entitlement to dividends, bonuses or ownership rights) which include adjustable premiums or charges. Adjustability may be limited to specified components, such as cost-of-insurance charges.

Contracts should clearly specify the experience factors that permit adjustments. For example, universal life policies should state whether cost-of-insurance charges may be adjusted solely for mortality experience or also for other factors.



Actuarial involvement is especially important with respect to adjustable products to help ensure both financial sustainability and fair COB practices. Supervisory actuaries are likely to give particular attention to such products due to the potentially divergent interests of shareholders and policyholders for these products. To promote fair COB treatment, insurers should maintain policies governing the management of adjustable products. Actuaries, including the HoAF, play a key role in the development, implementation, and monitoring of such policies. In some jurisdictions, this involvement is mandated.

Policyholders should be clearly informed that adverse deviations from expected experience may result in increased premiums or reduced benefits on non-guaranteed contracts. Also, actuaries should ensure that pricing is based on realistic assumptions, to minimize the likelihood of unexpected future adjustments.

#### **4.7 Participating Policy Dividends/With-Profits Bonuses**

Participating insurance policies (also known as with-profits policies or par policies) are a type of adjustable product. They share emerging policy experience through their policyholder dividends/bonuses. These can vary over time from what was illustrated at the time of policy issuance. With these insurance policies, not only do the par policyholders participate in the earnings of the insurer, or of a designated segment of the insurer, but they may also retain some ownership rights in the insurer. The payment of par policyholder dividends/bonuses is the mechanism for this sharing of company earnings.

Fair COB practices require the fair and equitable treatment of participating insurance policyholders. This is a key requirement for these policies since the management of policyholder dividends is subject to the discretion of the actuary, company management, and the board.

Misconduct related to shareholder dividends is not discussed in this chapter as the board has sole responsibility for them and they fall outside of actuarial responsibilities.

A concept guiding the determination of par policyholder dividends, and dividend changes, is known as “policyholder reasonable expectations” (PRE). PRE refers to the expectations of policyholders regarding how their insurance policies will be managed, particularly in relation to discretionary elements like dividends, bonuses, or other adjustable product elements. The concept of PRE is clearly consistent with fair COB practices. These expectations are shaped by marketing materials, historical practices, regulatory frameworks, and legal precedents. PRE are especially relevant in life insurance and with-profits policies, where insurers have some discretion in managing funds and distributing returns.

PRE may also be a relevant concept where there are areas of discretion or non-guaranteed elements in non-par products.

Actuaries play key roles in determining the amount and timing of policyholder dividends. Some jurisdictions require the actuary to report either to the board, or in public statements, on the continuing fairness of the dividend determination methodology, whether the dividends are consistent with management-approved policy, and whether the dividends meet PRE.



Some jurisdictions regulate the minimum proportion of profits that must be credited to par policyholders. Some jurisdictions mandate the maximum amount that may be transferred each year from the par fund to shareholders.

Frequently, the par fund operating principles allow for a regular contribution to par surplus. The purpose of such contributions is to smooth out periods of adverse experience and protect policyholder dividends from volatility. Over time, par surplus can grow and require a par surplus management policy to be developed to define how and when the surplus will be returned to current and/or future generations of par policyholders. Such a policy is needed to avoid a tontine whereby large amounts of surplus are due to the last remaining par policyholders.

The following criteria for the management of policyholder dividends contribute to fair COB practice:

- There should be a board-approved policy for the management of par business, which is clear and transparent, both inside the insurance company and to the participating policyholders.
- This policy should cover topics such as par policyholder dividend determination, changes to par dividend scales, changes in asset mix backing the participating blocks of business, and management of par surplus. In addition, this protocol should be in existence at the time of the issuance of policies and should continue to be followed thereafter.
- Individual par policies should be classified as part of a block or a cohort of policies with similar characteristics, which are not changed after issue, and which will be treated consistently for the determination of dividends.
- The determination of par policyholder dividends should be based on the contribution to the earnings of a company by the underlying experience of each participating block of policies. For instance, any investment income experience attributed to a block of policies should reflect the earnings of the block of assets that are determined to back that block of policies, including any related capital gains/losses and investment expenses. Similarly, mortality, lapse, and expense experience should be reflected separately for each participating block of policies.
- There should not be cross-subsidization between separate blocks of par policies.
- Some smoothing of par policyholder dividend payment amounts over some time periods is expected but should not be excessive since this may become inequitable by policy duration.
- The emergence and build-up of distributable par surplus should be monitored to avoid inequitable build-ups between generations (e.g., tontines).
- The blocks of participating policies should have participation rights in any surplus funds generated by such blocks that have not been distributed. This includes the calculation of terminal dividends.

Actuaries play important roles in many aspects of the management of par business, including dividend determination, dividend illustrations, experience studies, fair/equitable/PRE opinions, projection of future liabilities for financial reporting, management of par surplus, etc. Such work, at the heart of par business operations, can expose the actuary to conflicts of interest between key stakeholders (e.g.,



shareholders vs par policyholders). An example of such a potential conflict may occur during the preparation of experience studies (e.g., for investment income, expenses, mortality) if such work requires the separation of total experience between its par and non-par components. The HoAF plays an important role in ensuring that PRE considerations are maintained.

To ensure that the interests of par policyholders are respected, several jurisdictions require actuaries to opine on specific aspects of the operation of par business (e.g., the fairness of allocating expenses and investment income to par policyholders).

A similar concept relates to “excess profits” laws, minimum loss ratio requirements, and other annual experience reporting mechanisms, wherein insurers are required to refund money if actual results prove to be more profitable than provided for in the original pricing. In such cases, the company actuary has the duty of fairly stating results in the face of potentially reducing company profits.

#### **4.8 Claims Administration**

Claims administration represents a very important interaction between insurers and policyholders, and is a key determinant of customer perceptions of fairness. Although actuaries are not typically involved in individual claim handling, their work can influence the claims process in several important ways.

Insurers should respond promptly to claims notifications and ensure timely investigation and settlement. Claim events—such as death, disability, or property loss—cause periods of heightened stress for policyholders or beneficiaries. Product design and clear disclosure at issue can reduce complexity and facilitate efficient claims processing.

Disputes may arise when policyholders are unfamiliar with claim reporting requirements, exclusions, or benefit limitations. While claims management is generally operational in nature, actuaries can contribute by ensuring that contract provisions are clearly defined and that benefit structures are fair and transparent.

The use of predictive analytics and AI in claims management may involve actuarial input. Such tools should be developed, monitored, and governed to ensure accuracy, transparency, and non-discriminatory outcomes.

Insurers should maintain systems to record and analyze claims-related complaints. Patterns of complaints may indicate systemic COB issues requiring corrective action.

Disputes should be resolved in a timely and equitable manner. Independent dispute resolution mechanisms, such as ombudsman services, may form part of a fair resolution framework. Actuaries may assist in evaluating the financial implications of alternative resolution approaches.

Some life insurance products give the beneficiary options for how the funds at death or maturity can be managed, such as annuity options. Similarly, there are sometimes options for investment contracts at maturity. Actuaries play a role in ensuring that these options are fair, appropriately priced, and clearly communicated.

## 4.9 Financial Reporting

Financial reporting communicates an insurer's financial performance and position to management, shareholders, supervisors, rating agencies, and other stakeholders. Although the relationship between financial reporting and COB practices may not be immediately apparent, it becomes clearer, especially when examining the reporting of long-term policy obligations.

Most financial reporting regimes for long-term insurance products require the projection and discounting of future policy cash flows. These projections may involve discretionary elements, particularly for participating, adjustable non-par, and unit-linked products. The valuation of policy liabilities including discretionary elements is frequently conducted consistent with PRE. As noted earlier, the concept of PRE is consistent with fair COB practices.

For participating business, a common starting point for projecting future dividends is the current dividend scale. Where valuation discount rates are consistent with assumptions underlying dividend determination, the resulting liability appropriately reflects the expectation that dividends will adjust in line with future experience. Appropriate margins should be included to allow for uncertainty.

However, if financial reporting requirements impose discount rate constraints that differ from those implicit in dividend assumptions, inconsistencies may arise. Such inconsistencies may lead to economic misstatements of participating policy liabilities and result in corresponding distortions in surplus. To maintain consistency with PRE, actuaries may be required to adjust projected dividends to align with the valuation discount framework.

Transparent disclosure in financial statements should explain how the PRE have been reflected in the valuation of policy liabilities.

For some general insurance, policy liabilities are typically of shorter duration, reducing the significance of PRE-related valuation issues. However, longer-tail lines—such as medical malpractice or workers' compensation—require careful consideration to ensure that reported liabilities fairly reflect expected outcomes and their inherent uncertainty.

Health insurance products may also involve long-term obligations, particularly in the case of long-term care insurance. In such cases, PRE considerations may similarly be relevant in financial reporting.

In some jurisdictions, regulatory frameworks require:

- The HoAF to describe how PRE have been interpreted and reflected in policy liability valuations;
- Independent actuarial opinions on the reasonableness of reported liabilities ("reserve opinions");
- Board accountability for with-profits operating principles and for ensuring fair treatment of participating policyholders; and
- HoAF reporting on compliance with governance policies, the exercise of discretion, and the management of conflicts of interest between policyholders and shareholders.



## 4.10 Risk Management

COB practices are an integral component of an insurer's overall risk profile. When executed effectively, they can enhance value, trust, and long-term sustainability. Conversely, deficient COB practices can represent a material source of operational, legal, reputational, and financial risk.

Given their involvement in pricing, reserving, financial reporting, experience analysis, and solvency assessment, actuaries play increasingly important roles in enterprise risk management and in the identification, assessment, and mitigation of COB risk.

## 4.11 Company Structural Changes

Changes in an insurer's corporate structure or business model may materially affect in-force policyholders. Examples include:

- Reinsurance or the transfer of a block of business;
- Mergers and acquisitions;
- Closure of products to new business and run-off of existing portfolios;
- Demutualization; and
- Portfolio transfers.

Fair treatment of policyholders in such circumstances requires that:

- Guaranteed premiums and benefits are not altered without policyholder consent;
- Participating policyholders of a mutual insurer consent to demutualization;
- Any changes to dividends or benefits meet reasonable policyholder expectations; and
- Administrative or operational changes do not disadvantage policyholders relative to prior practices.

Actuaries play an important role in assessing the impact of structural changes and in ensuring that policyholders continue to be treated equitably and that their financial security is maintained. Recognizing that the interests of shareholders and policyholders in these changes may differ, some jurisdictions require a report and opinion from an independent actuary before supervisory approval can be considered. The independent actuary is retained to provide assurances to the affected policyholders that they will be treated fairly by the transaction and that their solvency protection has been maintained or enhanced. Naturally, such an opinion is of value to the supervisor as they consider regulatory approval for the proposed changes.

## 4.12 Supervisory Requirements

As discussed throughout this chapter, supervisory authorities place significant emphasis on fair COB. ICP 19 establishes high-level supervisory expectations, including the following:

- **ICP 19:** The supervisor requires that insurers and intermediaries, in their conduct of insurance business, treat customers fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.
- **ICP 19.2:** The supervisor requires insurers and intermediaries to establish and implement policies and processes on the fair treatment of customers, as an integral part of their business culture.
- **ICP 19.3:** The supervisor requires insurers and intermediaries to avoid or properly manage any potential conflicts of interest.

These principles reinforce the relevance of COB practices to actuarial work and highlight the importance of identifying and managing conflicts of interest. Actuaries should remain mindful of the applicability of ICP 19 to their professional responsibilities.

The IAIS has also published an application paper<sup>5</sup> supporting the implementation of ICP 19. This paper emphasizes the need to embed fair treatment throughout insurer culture and identifies consumer groups that may be particularly vulnerable to unfair outcomes. It also notes that supervisory initiatives should promote fair access and treatment without undermining sound prudential management.

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<sup>5</sup> Application Paper on Fair Treatment of a Wide Range of Consumers, IAIS, July 2025.  
<https://www.iais.org/uploads/2025/07/Application-Paper-on-fair-treatment-of-a-wide-range-of-consumers.pdf>.



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