TERMS OF REFERENCE
NHS LA RESERVING AND PRICING COMMITTEE

The NHS Litigation Authority (NHS LA) relies on case estimates as well as financial and actuarial models when setting reserves and projecting future cashflows for CNST, LTPS, PES, DH Clinical, DH Non-Clinical, Ex-RHA and ELS (the schemes).

The purpose of the Reserving and Pricing Committee, which is constituted as a sub-committee of the NHSLA Board, is to provide assurance to the NHS LA Board that the case reserving methodology and practice, as well as modelling methodologies, assumptions and outputs used in pricing, are appropriate.

TERM

There is no fixed term for the Committee, but it will be subject to review by the NHS LA Board at the beginning of each financial year.

MEMBERSHIP

- NHS LA Chief Executive (Chair)
- NHS LA Non-Executive Director (appointed by the NHSLA Chair)
- NHS LA Director of Finance and Corporate Planning
- NHS LA Director of Claims
- NHS LA Head of Reserving and Pricing (Secretary)

By invitation: the NHS LA’s actuarial advisers. To ensure robust governance and to allow the Committee to sufficiently challenge their advice, the actuarial advisers will not be formal members of the Committee. In practice, it is expected that the actuarial advisers will attend most meetings and, where appropriate, provide input into many of the reserving decisions. The role of the actuarial advisers in relation to the committee’s responsibilities is set out at Annex A.

REPORTING

- A note of the key points from each Committee meeting will be prepared and circulated to the membership for agreement
- The NHS LA Chief Executive will report the proposals and work of the Committee in regard to reserving to the Audit and Risk Committee; and
- The NHS LA Chief Executive will report to the NHS LA Board on proposals regarding pricing for membership of the NHS LA Schemes

RESPONSIBILITIES

- Set and review the reserving methodology for each scheme, with reference to a materiality framework agreed and maintained by the committee, in the light of any emerging external factors affecting NHSLA or the schemes, including:
  - The approach to setting case reserves by claims managers
  - Monitoring the quantum and constituents of case reserves for outstanding known claims
  - Reserving for incurred but not reported (IBNR) claims
  - Reserving for agreed periodic payment orders (PPOs)
  - Adjustments to case reserves for accounting purposes
- Cashflow projections
- The setting of assumptions

- Recommend to the Board reserves for accounting purposes and total collect amounts for each scheme
- Report to the Audit and Risk Committee on the key judgements in valuing the liability in respect of the indemnity schemes for financial reporting purposes.
- Review the overall method and principles proposed for setting member contributions annually.
- Formally set out the responsibilities to the Reserving and Pricing Committee of the NHS LA’s actuarial advisers (Annex A)
- Instruct the actuarial advisers to perform the required calculations, based on the agreed methodologies
- Identify and monitor the key risks affecting the projected cashflows, sufficiency of reserves and emerging claims experience, and report to the Board on these at least annually and as appropriate advise on the disclosure of these in the Annual Report and Accounts.
- Ensure there is a framework of assurance that complies with the recommendations of the March 2013 Macpherson Report on the assurance of business critical models, and therefore also ensures full compliance with the HM Treasury Aqua Book: guidance on producing quality analysis for government.

The Committee may make provision for tasks and projects to be delegated to individuals or subcommittees as necessary.

The Committee will annually review and assess, and report to the Board, whether it has complied with its Terms of Reference and whether it considers the Terms of Reference to be appropriate.

MEETINGS

- The Committee will meet quarterly, normally in London
- The Chair and two other members of the Committee must be present for meetings to be in quorum
- The agenda for each meeting will be decided by the Chair but all members will be asked to suggest items for consideration
- The NHS LA may convene additional meetings or cancel meetings as deemed necessary, with the agreement of Committee members

Updated December 2016
Annex A – Role of the actuarial advisers and the assurance process

The Accounting Officer, supported by the NHS LA Board, has overall responsibility for the setting of reserves in respect of the various indemnity schemes, and the contribution levels required annually from individual scheme members to fund the schemes on a pay as you go basis.

The Board has allocated responsibility to the Reserving and Pricing Committee (RPC) for the development of methodologies for both reserving and pricing, and the production of robust estimates of provisions for financial reporting, and cashflow forecasts and pricing for financial planning.

In all cases, the Committee will have regard to relevant requirements including the HM Treasury Financial Reporting Manual and Managing Public Money.

The Audit and Risk Committee (ARC) is responsible for reviewing the arrangements in place to ensure that they are effective in providing a control framework for the delivery of statutory financial reports.

The actuarial advisers provide the expertise required to undertake the analysis of claims data in order to develop methodologies and assumptions to inform reserving, cashflow forecasting, and pricing. Specifically, they are responsible for:

- Undertaking analysis
- Reporting that analysis to RPC
- Advising on appropriate methodologies and assumptions
- Performing calculations using the chosen methodologies and assumptions.

Throughout these processes, RPC will test these assumptions and approaches with the actuarial advisers, reviewing the outputs against management’s knowledge of the business and current trends to ensure that the results are reasonable and stand up to scrutiny.

This dialogue between the actuarial advisers and NHS LA management on the full range of evidence available will inform the decisions on the setting of assumptions and methodologies by RPC that the actuarial advisers will then translate into the required outputs.

In the event that it appears that RPC are instructing the actuarial advisers to apply assumptions or methodologies that are inappropriate or outside a reasonable range based on an analysis of the available data and evidence, the actuarial advisers, through their own professional standards and ethical conduct requirements, are obliged to highlight this in their report to RPC. The decisions of the RPC are fully documented in the minutes of the meeting. RPC will provide ARC a report on the key judgements made in respect of the valuation of the liability arising from the indemnity schemes, as well as the minutes of RPC meetings.

The work of the actuarial advisers is subject to relevant technical, professional and internal standards, including an internal peer review, and the principles for the effective management of business critical models as set out in the HM Treasury Aqua Book.
Further assurance is provided to ARC and the Board through the external audit process, conducted by National Audit Office. To support their scrutiny of the work undertaken by NHS LA’s actuaries, NAO also engage actuaries to review the methodologies and approaches deployed to calculate the reserves, evidence provided by management and the decisions of RPC, as well as undertaking their own assessment of the business critical models NHS LA’s actuaries have built and operate insofar as they are used to calculate reserves and sensitivities included in the Annual Report and Accounts.