

## **TERMS OF REFERENCE NHS RESOLUTION RESERVING AND PRICING COMMITTEE (RPC)**

*NHS Resolution relies on case estimates as well as financial and actuarial models when setting reserves and projecting future cashflows for the indemnity schemes, see Appendix A for a list of the schemes.*

*For the purpose of accounting for NHS Resolution responsibilities in relation to the historic liabilities relating to general practice (ELGP) NHS Resolution will also rely on actuarial models to calculate the known claims and IBNR provision.*

*The RPC is constituted as a sub-committee of the NHS Resolution Board. Its purpose is to:*

- Determine, on the basis of the evidence and advice available, the most appropriate methodology and practice, modelling methodologies, assumptions and outputs to be used in reserving and pricing; and*
- To provide assurance to the Board that these are appropriate and escalate to the Board any areas of significance*

### **TERM**

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

### **MEMBERSHIP**

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

By invitation: the NHS Resolution'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 and pricing decisions. The role of the actuarial advisers in relation to the committee's responsibilities is set out at Annex A.

By invitation: NHS Resolution Deputy Director of Finance and Planning as a formal deputy for NHS Resolution Director of Finance and Corporate Planning. Deputy Director of Claims Management and/or Head of Claims Strategy as a formal deputy for NHS Resolution Director of Claims.

### **REPORTING**

- A note of the key points from each Committee meeting will be prepared and circulated to the membership for agreement
- The NHS Resolution Chief Executive will report outputs of the work of the Committee in regard to reserving to the Audit and Risk Committee (ARC) to inform its work on the annual report and accounts (ARA); and
- The NHS Resolution Chief Executive will report to the NHS Resolution Board on proposals regarding pricing for membership of the NHS Resolution 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 NHS Resolution or the schemes, including:

### Reserving

- 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 and for agreed periodic payment orders (PPOs)
- Adjustments to case reserves for accounting purposes
- The setting of assumptions for reserving and instructing the actuarial advisers to perform the required calculations, based on the agreed methodologies
- Report to the ARC on the key judgements in valuing the liability in respect of the indemnity schemes for financial reporting purposes.

### Pricing

- Determining the total collect amounts for each scheme, and reporting to the Board
- Review the overall method and principles proposed for setting member contributions annually including use of cash flow projections

### General

- Formally set out the responsibilities to the Reserving and Pricing Committee of the NHS Resolution's actuarial advisers (Annex A)
- 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 ARA.
- 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 which will report to the Committee and to inform and support the work of the Committee 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 at least quarterly.
- The Chair or their nominated deputy 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
- NHS Resolution may convene additional meetings or cancel meetings as deemed necessary, with the agreement of Committee members

**Updated January 2021**

## **Annex A – Role of the actuarial advisers and the assurance process**

The Accounting Officer, supported by the NHS Resolution 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 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 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 Resolution 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. In addition, the signing actuary provides a statement of opinion as part of the report on IBNR provisions which indicates that the methodology used and assumptions selected are within a reasonable range, if this is indeed the case. The decisions of the RPC are fully documented in the minutes of the meeting. RPC will provide ARC with a report on the key judgements made in respect of the valuation of the liabilities 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

Resolution'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 Resolution's actuaries have built and operate insofar as they are used to calculate reserves and sensitivities included in the ARA.

## Appendix A

**Clinical Negligence Scheme for Trusts (CNST)** – for clinical claims brought by patients receiving NHS care arising from incidents since 1 April 1995.

**Existing Liabilities Scheme (ELS)** – is centrally funded by the Department of Health and covers clinical claims against NHS organisations where the incident took place before 1 April 1995.

**Ex-RHA Scheme (Ex-RHAS)** – is a relatively small scheme covering clinical claims made against former Regional Health Authorities which were abolished in 1996.

**Risk Pooling Schemes for Trusts (RPST)** – operating since 1999:

i. Property Expenses Scheme (PES) - for non-clinical claims including 'first party' losses such as property damage and theft where the incident occurred on or after 1 April 1999.

ii. Liabilities to Third Parties Scheme (LTPS) - for non-clinical claims such as public and employers' liability.

**Department of Health & Social Care Liabilities (DH CL and DH Liab)**

i. Liabilities that transferred to the Secretary of State for Health following the abolition of Primary Care Trusts and Strategic Health Authorities in 2013

**General Practice Indemnity:**

i. Clinical Negligence Scheme for General Practice (CNSGP) - covers clinical negligence claims for incidents occurring in general practice on or after 1 April 2019.

ii. Existing Liabilities Scheme for General Practice (ELSGP) - a new scheme launched on 6 April 2020 covering liabilities pre-dating CNSGP. Currently ELSGP covers the historic liabilities of the Medical and Dental Defence Union of Scotland (MDDUS).

**Clinical Negligence Scheme for Coronavirus (CNSC)** - launched on 3 April 2020.