

NEW ZEALAND SOCIETY OF ACTUARIES INC.

PROFESSIONAL STANDARD NO. 1

REPORTS AND ADVICE TO AN ORGANISATION CARRYING ON LONG TERM INSURANCE BUSINESS

1. Introduction

- 1.1 This Professional Standard is effective from 1 January 1990.
- 1.2 This Standard applies to every member of the New Zealand Society of Actuaries (the Society) who, when acting in such capacity, gives advice to a life insurance company, friendly society or other organisation in New Zealand carrying on long-term insurance business. Throughout this Professional Standard the term "company" includes both a life insurance company, a friendly society or other such organisation.
- 1.3 The financial soundness of long-term insurance business depends substantially on the way actuaries discharge their responsibilities, as also does the reputation of the actuarial profession. As a result, it is incumbent on actuaries to ensure, to the extent of their authority, that New Zealand long-term insurance business is conducted on sound financial principles.
- 1.4 It is a common situation for the actuary to a company to hold a managerial appointment or (whether an employee or not) to be invited to join the board. On occasions the actuary will then be expressing views as a member of the management or as one director among many; at other times the actuary will be advising as an actuary. The actuary must make sure that the other members of the management or the other directors, as the case may be, understand this position.
- 1.5 It is recognised that most of the matters with which the actuary is concerned are not capable of precise assessment but are matters of judgement.

2. Considerations Affecting Acceptance of an Actuarial Appointment or Assignment

- 2.1 All actuaries, before accepting any actuarial appointment or actuarial assignment, must consider most carefully in the light of their previous experience and work whether acceptance would be in line with proper professional behaviour and standards. An actuary should not act without the necessary practical experience. An exception to this might be where arrangements have been made for the actuary to have recourse on a professional and formal basis to another actuary who has such experience.

- 2.2 An actuary who has not already worked in close touch with any immediate predecessor has a professional duty to consult such predecessor (if this is possible) to discover whether there are any professional reasons why the appointment should not be accepted. This should be made clear to the prospective principal and permission should be sought to hold such consultations. If such permission were withheld it would be a material factor which would be relevant to the propriety of accepting the appointment or assignment.
- 2.3 Where the actuary's financial interests in a company by their nature and size are or become such that a conflict of interest would, in the normal course of events, arise or seem to arise, the actuary should not accept the appointment or assignment or continue in it as the case may be. If temporarily, in a special situation, a conflict of interest arose, or would seem to arise, the actuary before making a report should first ask the company to obtain a report from an actuary who has no conflict of interest.

3. **Extent of the Actuaries' Responsibilities**

- 3.1 In carrying out their responsibilities actuaries, among other things:
- a) must comply with the requirements of relevant legislation;
 - b) must satisfy the Articles of Association or other instruments constituting the company;
 - c) should seek to ensure, within the bounds of reasonable probability, and to the extent that their work impinges upon it, the long term financial soundness of the company;
 - d) should, to the extent that their work impinges upon it, seek to achieve equity between different groups of policyholders, and between policyholders and any shareholders.
- 3.2 The Society's Code of Conduct makes it clear that all actuaries acting in their professional capacity, however remunerated, have a duty to their profession and their responsibilities to their principals must be consistent with this. The actuary advising a company is in a special position in that:
- a) the actuary is appointed and remunerated by the company and at the same time
 - b) the actuary has responsibilities and obligations to other parties who may reasonably be expected to rely on the work done by that actuary.

If these two aspects of the appointment or assignment conflict, it is the duty of the actuary to advise the company as soon as it becomes apparent that a course of action is being, or is proposed to be, followed which seems likely to result in a need to qualify future reports (including any report currently being prepared).

3.3 The actuary, as such, has no executive authority within the company (even though, in another capacity, such executive position and authority may also exist). The responsibility for company decisions must, both in law and in practice, rest with the board of directors. Having regard to the paramount importance of actuarial advice in the context of long-term insurance business, the actuary who undertakes to provide a report concerning the financial condition of the company should have the right of direct access to the board of directors and this should be explicit from the inception of the appointment. Where there is a group or branch structure, the Actuary should bear in mind the possible implications and ensure a right of direct access to the relevant decision making bodies.

4. **Actuarial Investigations and Reports**

4.1 This section sets down those matters which the Society considers the actuary should address in examining and reporting on the financial condition of a company or on its policyholder liabilities. Such a report should be in written form.

4.2 **General**

4.2.1 In making an actuarial investigation, the actuary should consider and, if appropriate, comment on and make provision for all matters material to the financial condition of the company. Matters to be considered include the following:

- a) the premium rates, fees and charges on which existing business has been, and current new business is being, written.
- b) the nature, terms and conditions of the contracts in force and currently being sold with particular reference to all options and guarantees, and the scope for adjusting the terms and conditions in the light of emerging experience;
- c) the existing investments, the continuing investment policy and likely future investment experience;
- d) the marketing plans, in particular the expected volumes and cost of sales;
- e) the current and likely future level of expenses and taxes;
- f) the current and likely future experience in respect of the risk elements;
- g) the current and likely future experience in respect of voluntary discontinuance rates;
- h) the capital adequacy position of the company and the ability for the company to finance new business plans.

- i) the company's policy in regard to the nature and timing of allocations to policyholders and/or shareholders; and
- j) the arrangements for reinsurance.

4.2.2 Actuarial responsibilities cannot be carried out properly unless the company makes available adequate information on the items listed in 4.2.1 above together with any other relevant information and the actuary should ensure that the company is aware of this. In this regard, the actuary's needs should be specified and, if the appropriate information is not forthcoming, the report should be qualified.

4.2.3 For life insurance companies the report should include a calculation of the solvency position. The Actuary is referred to the guidance note "Life Insurance Company Prudential Reserving" issued by the Society.

4.3 **Data**

The actuary must consider the accuracy of the data which has been received from the company. If the actuary has any doubts about such accuracy the company should be advised.

In reporting, the actuary should provide a description of the source of the data and state to what extent (within the bounds of materiality) the accuracy of the data can be certified.

4.4 **Methods and Assumptions**

4.4.1 The actuary should use methods and assumptions that are appropriate to the purpose of the investigation and to the contracts in question taking into account not only the principal benefits, but any ancillary benefits and any options and guarantees.

4.4.2 All material assumptions, whether explicit or implicit, should be stated and the actuary should be satisfied as to their suitability in relation to the recent and expected experience of the company.

4.4.3 The actuary should comment on the main features of the methods or assumptions from the preceding investigation, the reasons for the change should be explained and, unless the actuary is satisfied they are not material, the effects of the change on the results should be quantified.

4.5 **Reinsurance**

The actuary's report should include a description of any reinsurance arrangements which are material and should comment on their adequacy and appropriateness. The report should describe the manner in which the valuation has taken account of these reinsurance arrangements. If the

valuation takes no account of an arrangement then the report should disclose the extent to which this affects the results.

4.6 **Assets**

In the course of the investigation the actuary should consider the assets, the liabilities and their relationship.

The responsibility for investment policy rests with the directors of the company. However, the actuary should decide whether, the investment policy is, or could become, inappropriate having regard to the nature, term and currency of the company's liabilities. If this is the case the actuary should advise the company of the constraints on investment policy which are regarded as necessary.

The responsibility for the values to be placed on the assets in the company's balance sheet also rests with the directors. The actuary should consider the suitability of these values for the purpose of the investigation. If they are considered unsuitable, the actuary should make an appropriate adjustment and comment on and disclose the nature and amount of such adjustment.