

NZSA Professional Standards Roadmap

1 Introduction

This document sets out the professional standards that the PSC intends to review or create, as of April 2006. In addition, all existing professional standards will need to be amended to comply with the new template and, as far as is appropriate, the generic reporting standard.

It also sets out the priority for review and the future of the current NZSA guidance notes and professional standards.

2 Professional Standards for Creation or Review

Professional standards have been divided into the three sections: professional standards of behaviour; professional standards required by legislation or regulation; and professional standards for areas of common practice.

2.1 Professional Standards of Behaviour

It is intended that the following professional standards will apply to and be mandatory for all members providing actuarial advice.

Professional Conduct

A Code of Professional Conduct that sets out the minimum standard which is acceptable to the Society for the orderly conduct of the profession. The Code of Professional Conduct will define 'actuarial advice'.

Continuing Professional Development

This professional standard sets out the minimum level of continuing professional development by members which is acceptable to the Society. The current guidance will be reviewed, taking into consideration international developments, and redrafted as a mandatory professional standard.

Generic Reporting Professional Standard

This will be a new professional standard. It will set out the minimum standard which is acceptable to the Society for the preparation and communication of actuarial advice. It will cover:

- The definition of an actuarial report (including consideration of visual and oral reports)
- The items that should be included in an actuarial report
- A requirement to make some caveat if work has been constrained by time or cost
- Disclosure of all information which the actuary has materially relied on
- Statement of compliance with relevant standards
- The inherent uncertainty involved in the use of assumptions and actuarial methodologies

The use of reports by third parties will be covered in the Code of Professional Conduct.

2.2 Regulated Areas

This section covers areas where actuarial advice is required by or supports legislation or regulation. It is envisaged that these professional standards will be tight and descriptive leaving little room for actuaries to derive widely varying outcomes. Each of these professional standards will take precedence over the generic reporting standard and the generic professional standards detailed in section 2.3.

The following professional standards are required:

Reports and Advice to an Organisation Carrying on Long Term Insurance Business (PS 1)

This professional standard was last amended on 6 December 2000. It needs to be reviewed to ensure continued relevance of all sections and to allow for any changes resulting from the implementation of International Financial Reporting Standards (IFRS) or the review of the Life Act.

Actuarial Reporting for Superannuation Schemes (PS 2)

This professional standard was last amended on 31 March 2003. No significant changes appear to be required at present but it should be reviewed in line with the template and the new reporting standard.

Determination of Life Insurance Policy Liabilities (PS 3)

This professional standard was last amended on 21 February 2001. Implementation of IFRS is likely to result in changes to the determination of policy liabilities for profit reporting purposes for life insurance companies. PS3 will require amendment as a result and the Life Committee has started a process to revise this standard.

General Insurance Business (PS 4)

This professional standard became effective on 1 September 1999. It needs to be reviewed to take into account the requirements of IFRS. The other aspects should be reviewed and possibly covered separately.

Life Insurance Company Prudential Reserving (GN 5)

This guidance note was last amended on 1 January 2004. This guidance note is currently being reviewed by the Life Committee and will be released as a standard (PS 5). This review will also cover any changes resulting from the implementation of IFRS.

Provision of Actuarial Advice under the Friendly Society and Credit Unions Act

These are areas of legislation that require actuarial advice and thus should be subject to professional standards. A new professional standard covering the requirements of Sections 15 and 24 of the Friendly Societies and Credit Unions Act 1982 is therefore required. This covers advice on financial soundness and setting of contribution rates.

Provision of Actuarial Advice under the Income Tax Act

A new professional standard covering the requirements of Section EY4 of the Income Tax Act 2004 is required. This has proved problematic in the past given the potentially contradictory nature of the wording in the Act and the confidential agreements that some companies may have entered into with the IRD.

Financial Reporting for Superannuation Schemes under IFRS

This would be a new professional standard to assist members preparing actuarial advice under NZ IAS19.

Solvency Requirements for Health Insurers

Actuaries provide advice to a number of Health Insurers on a range of issues including solvency. The development of a professional standard would provide a consistent basis for advice and provide the individual actuary with guidance of best practice. It will also provide the client companies with comfort that the advice is consistent between actuaries. The Health Insurance Committee is well advanced in work to produce such a standard.

2.3 Other Areas of Common Practice or Public Interest

This section covers areas where actuarial advice is commonly provided, but is not regulated. Common practice in such areas will be the subject of guidance, but in the form of principles-based professional standards.

The following professional standards are required:

Valuation of Interests

This principles-based professional standard covering the valuation of interests in a generic sense. This would effectively set high level guidelines that should be applied to the valuation of relationship property settlements, reversionary interests, and in other similar situations.

Human Rights Act 1993 (GN3)

This guidance note was adopted on 1 May 1997. The continued relevance of the guidance will be reviewed, updated for any changes to the Act or practice associated with the Act since 1997, and redrafted as a professional standard.

Health Insurance Premiums (GN3A)

This guidance note was adopted on 1 March 2002. The continued relevance of the guidance will be reviewed and interaction with the Standard developed for the Friendly Societies and Credit Unions Act 1982 (see above) be taken into account. The guidance note should be redrafted as a professional standard.

Investment Advice

A significant proportion of NZSA members are involved in providing investment advice. A professional standard will set out the expectations of members providing investment advice. It may require members to comply with the professional standards of some other body, for example the CFA Institute.

3 Priority for Review

Top priority will be given to the professional standards governing professional behaviour, as these provide the foundation for governance of the profession. Given that the Code of Professional Conduct is already under review, and there is an existing guidance note for Continuing Professional Development the next priority should be the development of the Generic Reporting Professional Standard. This new standard will work in tandem with the revised Code of Professional Conduct. CPD guidance will be reviewed subsequently.

The next priority should be given to the new professional standards that need development. As a number of different drafting groups will be established, these are listed in no particular order.

Provision of Actuarial Advice under the Friendly Society and Credit Unions Act

Provision of Actuarial Advice under the Income Tax Act

Financial Reporting for Superannuation Schemes under IFRS

Solvency Requirements for Health Insurers

Valuation of Interests

Investment Advice

As the IFRS stage II requirements become clearer, the professional standards relating to financial reporting should be updated promptly.

4 Future of Current NZSA Standards & Guidance Notes

The table below sets out the current NZSA standards and guidance notes and what would happen to them as a consequence of the implementation of this roadmap.

Standard / Guidance	Title	Status
PS No. 1	Reports and Advice to an Organisation Carrying on Long Term Insurance Business	Change for new template and reporting requirements Extensive review required once stage II IFRS requirements known
PS No. 2	Actuarial Reporting for Superannuation Schemes	Change for new template and reporting requirements
PS No. 3	Determination of Life Insurance Policy Liabilities	Likely to be replaced - depends on IFRS
PS No. 4	General Insurance Business	Possibly split up – IFRS requirements and financial soundness Will need further review once stage II IFRS requirements are known
GN No. 1	Compliance with Actuarial Advice Requirements of Code of Business Practices for Life Insurance Companies	Obsolete ⁽¹⁾ , Delete
GN No. 2	Continuing Professional Development	Change to mandatory. Review
GN No. 3	The Human Rights Act 1993	Update to new template and reporting requirements. Review for changes since 1997
GN No. 3A	Health Insurance Premiums	Update to new template and reporting requirements. Review for changes since 2002 and interaction with new standards
GN No. 5	Life Insurance Company Prudential Reserving	Change to mandatory. Review and update to new template and reporting requirements

⁽¹⁾ The only reference to actuarial advice in the ISI Manual of Practice Standards is 2.2.3 *Bonus rate(s) used in the benefit projection must be clearly defined and stated, together with the basis on which they were determined using wording approved by the life company after taking actuarial advice.*