



EXPLANATORY MEMORANDUM TO PROFESSIONAL STANDARD 200: ACTUARIAL ADVICE TO A LIFE INSURANCE COMPANY OR FRIENDLY SOCIETY

July 2015

About this Explanatory Memorandum

This Explanatory Memorandum has been prepared by the Life Insurance and Wealth Management Practice Committee (LIWMPC) to assist Members in understanding changes to Professional Standard 200 (Actuarial Advice to a Life Insurance Company or Friendly Society) (PS 200).

Introduction

PS 200 applies to Appointed Actuaries and Members who support the Appointed Actuary of life insurance companies and friendly societies providing advice as required by the regulatory regime.

PS 200 was last updated in December 2010. Since that time, there have been some changes to life insurance prudential guidance and standards, most notably the changes for the life and general insurance capital regulations. As a result, there were specific references within PS 200 which were no longer applicable and the changes address those.

In addition to the legislative changes, there has also been additional information produced by the Actuaries Institute and the Australian Prudential Regulation Authority which Members may also consider in addition to PS 200 when providing advice. This specifically includes the Institute's Information Note: Actuarial Advice regarding Risk Management of a Life Insurer (LPS 220) which was prepared to assist Appointed Actuaries in their roles of providing actuarial advice regarding the suitability and adequacy of risk management frameworks.

Exposure Draft

An Exposure Draft of the (then proposed) changes was released in March 2015. Only one submission was received and was taken into account.

Changes from the existing Professional Standard

The main changes from the previous Professional Standard are:

- ▶ replacing references to capital adequacy and management capital requirement with terms and requirements from the APRA capital adequacy standards effective from 1 January 2013;
- ▶ including additional prudential and regulatory requirements for a financial condition investigation, namely assessment of the Internal Capital Adequacy Assessment Process and compliance with Prudential Standards LPS 360 Termination Values, Minimum Surrender Values and Paid-up Values and LPS 370 Cost of Investment Performance Guarantees;
- ▶ specifying that the Appointed Actuary gives advice to the life company regarding the valuation of the policy liabilities (rather than the Appointed Actuary values the policy liabilities) as per the updated version of LPS 320 Actuarial and Related Matters;
- ▶ detailing situations where the Member should disclose potential or actual conflicts of interest by referring to the Actuaries Institute's Code of Professional Conduct; and
- ▶ bringing the standard into line with the Policy for Developing Documents to Guide and Regulate Professional Practice.

Future developments

A separate Actuaries Institute Taskforce was formed in 2014 to review the role of Appointed Actuaries in life insurance and delivered its final report in March 2015. The results of that review will also be considered by the Australian Prudential Regulation Authority. It is expected that a further redraft of PS 200 will be undertaken as a result at a later date.

Commencement date

This release of PS 200 applies to any relevant advice or Report given to an Entity on or after 1 July 2015.

END OF EXPLANATORY MEMORANDUM