

EXPLANATORY MEMORANDUM

UPDATED VERSION OF PRACTICE GUIDELINE 5 (ACTUARIAL PRACTICE IN RELATION TO INSURER ENTERPRISE RISK MODELS)

March 2020

1. About this Explanatory Memorandum

This Explanatory Memorandum has been prepared by the Professional Standards Committee (PSC) to explain the changes to Practice Guideline 5 (Actuarial Practice in Relation to Insurer Enterprise Risk Models) (PG 5).

As the nature of the changes to PG 5 are not substantive they have not previously been exposed to Members, but were approved by Council as part of an expedited process.

2. Background

PG 5 is the Australian adaptation of ISAP 5 issued by the International Actuarial Association (IAA). PG 5 was first issued by the Institute in September 2018. At that time the PSC assessed that there was “strong convergence” between PG 5 and ISAP 5 i.e. it was considered that PG 5 materially conformed to the requirements of the IAA, with allowance for local modification to fit local conditions.

Since then, the IAA has made conformance changes to ISAP 5 resulting from changes to ISAP 1. In light of these changes and noting that the Institute is also updating PG 1 and the Glossary of General Defined Terms Used in Practice Guidelines (Glossary) to take into account the changes to ISAP 1, the Risk Management Practice Committee has reviewed and updated PG 5 where appropriate. In addition, a number of changes have been made to align PG 5 with the Institute’s new Code of Conduct which takes effect on 31 March 2020.

3. Changes to PG 5

The key changes to PG 5 are outlined below:

(a) Changes to align with the wording in PG 1 issued by the Institute in March 2020:

- Updated wording in paragraph 1.5 of PG 5 to replace references to “this PG” in PG 1 with “the Applicable PPD” or “all Applicable PPDs” as appropriate;

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Updated Version of Practice Guideline 3 (Actuarial Practice in Relation to AASB 119 Employee Benefits)

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- Changed “Professional Services” to “Services”, and “Applicable Professional Services” to “Applicable Services”, consistent with changes in PG 1 and the Glossary;

(b) Changes to wording consistent with conformance changes to ISAP 1:

- Updated reference to the term “Data” as a defined term in the Glossary.

(c) A new paragraph has been included in Section 1.3 of PG 5 for consistency with other professional regulation documents, stating that the PG does not constitute legal advice.

A number of other changes have been made to PG 5 in line with changes to ISAP 5, to streamline working and clarify requirements, and fix some minor formatting issues.

4. Degree of Convergence between PG 5 and ISAP 5

Despite there being a few differences between PG 5 and ISAP 5, the PSC has assessed that, based on the nature and extent of these differences, there continues to be “strong convergence” between PG 5 and ISAP 5 i.e. PG 5 materially conforms to the requirements of the IAA, with allowance for local modification to fit local conditions.

However, given the differences, it should be noted that compliance with PG 5 will not necessarily result in compliance with ISAP 5. Therefore, where a Member is required to perform work in conformity with ISAP 5 (e.g. because the work is being undertaken in an overseas jurisdiction) the Member should refer to the specific requirements of ISAP 5.

5. Commencement Date

The updated version of PG 5 will take effect for Applicable Services in connection with AASB 119 performed on or after 31 March 2020.

END OF EXPLANATORY MEMORANDUM