

# THE SOCIETY OF ACTUARIES IN IRELAND

## ACTUARIAL STANDARD OF PRACTICE LA-4

### ADDITIONAL GUIDANCE FOR APPOINTED ACTUARIES ON POLICYHOLDERS' REASONABLE EXPECTATIONS

#### Classification

Mandatory

**MEMBERS ARE REMINDED THAT THEY MUST ALWAYS COMPLY WITH THE CODE OF PROFESSIONAL CONDUCT AND THAT ACTUARIAL STANDARDS OF PRACTICE IMPOSE ADDITIONAL REQUIREMENTS UNDER SPECIFIC CIRCUMSTANCES.**

#### Legislation or Authority

ASP LA-1: Appointed Actuaries and Life Assurance Business

#### Application

Appointed Actuaries appointed pursuant to Section 34 of the Insurance Act 1989

Version	Effective from
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1.0	30.12.2006
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1.1	01.11.2010
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Withdrawn	04.03.2020
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#### Definitions

“ASP” means Actuarial Standard of Practice

“the Board” means the Board of the Company

“the Company” means the life assurance Company in respect of which the Appointed Actuary is appointed

“should normally” indicates that members of the Society of Actuaries in Ireland to whom this ASP applies must comply with a particular requirement or prohibition, unless the circumstances are such that the requirement or prohibition is inappropriate and non-compliance is consistent with the standards of behaviour, integrity, competence and professional judgement which other members or the public might reasonably expect of a member

## 1 Introduction

1.1 The Board is responsible for the proper running of the Company, including all matters pertaining to the fair treatment of the Company's policyholders. The Board is, therefore, responsible for meeting policyholders' reasonable expectations.

1.2 In making a valuation of the Company's life assurance liabilities, the Appointed Actuary must take into account his or her interpretation of the Company's policyholders' reasonable expectations. Therefore, the Appointed

Actuary has a continuing responsibility to advise the Board of his or her interpretation of the Company's policyholders' reasonable expectations.

- 1.3 This ASP sets out the Appointed Actuary's responsibilities in relation to interpreting policyholders' reasonable expectations for the purpose of making a valuation of the Company's life assurance liabilities. It provides guidance as to the advice to be provided by the Appointed Actuary to the Board in relation to his or her interpretation of policyholders' reasonable expectations, in particular relating to:
- (a) the impact of policyholder communications and policy projections on policyholders' reasonable expectations; and
  - (b) the basis on which the Company exercises any discretions that it has in relation to policy conditions.

## **2 The Appointed Actuary's responsibilities**

- 2.1 The Appointed Actuary must ensure that the Board is aware of his or her interpretation of policyholders' reasonable expectations. In general terms, this interpretation must have regard to the broad nature of the Company's practices and its approach to the treatment of policyholders both individually and (where appropriate) collectively as a group vis-à-vis shareholders. When a material change is likely to take place in the Company's practices, the Appointed Actuary must advise the Board of the implications for policyholders' reasonable expectations.
- 2.2 In interpreting policyholders' reasonable expectations for the purpose of making a valuation of the Company's life assurance liabilities, the Appointed Actuary must take into account any legislation or regulatory requirements that confer entitlements on policyholders beyond those provided for in the policy terms or that impose constraints on policy terms or on the exercise of discretion by the Company in applying policy terms. The Appointed Actuary may rely on the Company to the extent that he or she considers appropriate to inform him or her of any such legislative or regulatory requirements or to confirm that it has complied with any such legislative or regulatory requirements.

## **3 Interpretation of practice**

- 3.1 Many life assurance policies allow the Company discretion in the way that the terms of the policy are applied. The Appointed Actuary must advise the Board of his or her interpretation of the impact of the past and current exercise of such discretion on policyholders' reasonable expectations.
- 3.2 For with-profit business, both conventional and accumulating, the Appointed Actuary must, where relevant in interpreting the impact of the exercise of discretion by the Board on policyholders' reasonable expectations, have regard to the following areas:
- (a) investment management policy;
  - (b) bonus and smoothing policies;

- (c) policy charges;
  - (d) risk charges;
  - (e) setting of surrender values and the application of market value adjustments;
  - (f) management of the estate;
  - (g) volumes of new business expected to be written in the with profits life assurance fund; and
  - (h) where relevant, arrangements on closure of the with profits fund.
- 3.3 For unit-linked business, the Appointed Actuary must, where relevant in interpreting the impact of the exercise of discretion by the Board on policyholders' reasonable expectations, have regard to the following areas:
- (a) determination of fund objectives and investment guidelines;
  - (b) unit pricing; and
  - (c) deductions and adjustments to unit prices for actual and contingent tax and other liabilities.
- 3.4 For policies with reviewable risk rates and / or policy charges, the Appointed Actuary must advise the Board of his or her interpretation of policyholders' reasonable expectations in relation to the review of such risk rates and / or policy charges.
- 4 Review of changes in practice**
- 4.1 The Appointed Actuary should normally review any changes in the Company's practices relating to the exercise of its discretionary powers in relation to the treatment of policyholders. This review should normally take place before any change in practice is implemented, in order to ensure that the Board, when making any decisions, is aware of the Appointed Actuary's interpretation of policyholders' reasonable expectations in so far as they impact on the valuation of the Company's life assurance liabilities. In this context, the Appointed Actuary should normally carry out a review of proposed communications to policyholders relating to the change in practice. The Appointed Actuary should normally report to the Board in writing on his or her review of the change in the Company's practices.
- 4.2 In carrying out such a review, the Appointed Actuary should normally consider whether the proposed change in practice:
- (a) is permitted under the policy conditions and relevant legislation;
  - (b) is consistent with the Company's stated policy relating to the exercise of its discretionary powers, and/or with relevant past practice;

- (c) is consistent with information previously issued to policyholders and, if the product is still being sold, whether any changes to current communications or sales procedures are required;
- (d) is equitable as between different classes or generations of policyholders or policies with different types of benefit;
- (e) is being implemented to protect the position of the Company due to adverse experience, while beneficial experience would not merit equivalent changes in practice (if this is the case the Appointed Actuary should normally consider whether the Company communications and policy conditions adequately reflect this position); and
- (f) is justifiable having regard to recent or expected demographic, economic or market conditions.

## **5 Reviews of policyholder communications**

- 5.1 The Appointed Actuary should normally be familiar with all relevant standard policyholder communications and policy projections, to enable him or her to assess their impact on his or her interpretation of policyholders' reasonable expectations in so far as they impact on the valuation of the Company's life assurance liabilities.
- 5.2 The Appointed Actuary should normally carry out a review of relevant material when new products are developed, so that, where the Appointed Actuary considers it necessary, the Board can be informed, before the Company commences to write such new products, of the Appointed Actuary's interpretation of policyholders' reasonable expectations in relation to such new products in so far as they impact on the valuation of the Company's life assurance liabilities.
- 5.3 In reviewing policyholder communications, the Appointed Actuary should normally consider the impact on his or her interpretation of policyholders' reasonable expectations of communications provided to policyholders on each of the following:
  - (a) the purpose of the product and the main benefits;
  - (b) each of the funds to which the policy may be linked;
  - (c) the nature of any guarantees provided and the identity of the guarantor;
  - (d) the principal risks associated with the product that are borne by the policyholder;
  - (e) the charges that apply and the circumstances in which charges may be reviewed;
  - (f) the extent to which any discretion in unit pricing may be applied for the benefit of the Company; and

- (g) the underlying charges taking account of any charges levied on the underlying assets of the fund.

5.4 In reviewing policy projections, the Appointed Actuary should normally consider the impact on his or her interpretation of policyholders' reasonable expectations of each of the following:

- (a) the rate of investment return used, in the context of local regulatory requirements or local market practice, as appropriate, the asset mix and any guarantees inherent in the product;
- (b) the assumptions made in relation to charges, including, for monetary charges that may be increased at the Company's discretion or in line with an index, the assumptions made in relation to such increases;
- (c) whether, if protection benefits are provided, the duration at which the fund is expected to be exhausted is disclosed and the likely revised premium stated; and
- (d) whether, if there is a difference between the projected fund value and the projected surrender value due to exit penalties, the projected surrender value is disclosed.

## **EXPLANATORY NOTE**

### **ACTUARIAL STANDARD OF PRACTICE LA-4, VERSION 1.1**

*This Explanatory Note does not form part of the ASP.*

Version 1.1 was introduced when the Society's Professional Conduct Standards were replaced by a new Code of Professional Conduct at 1<sup>st</sup> November 2010.

The "Classification" has been updated.

The definitions have been expanded to include the term "should normally".

*Withdrawn 04.03.2020*