

THE SOCIETY OF ACTUARIES IN IRELAND

ACTUARIAL STANDARD OF PRACTICE LA-1

APPOINTED ACTUARIES AND LIFE ASSURANCE BUSINESS

Classification

Mandatory

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

Legislation or Authority

Insurance Act 1989

European Communities (Life Assurance) Framework Regulations 1994

Application

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

Version	Effective from
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1.0	25.04.1995
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2.0	03.09.1997
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3.0	30.12.2006
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Definitions

“*the Act*” means the Insurance Act 1989

“*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

“*the Financial Regulator*” means the Irish Financial Services Regulatory Authority

“*the PCS*” means the Society’s Professional Conduct Standards

“*the Regulations*” means the European Communities (Life Assurance) Framework Regulations 1994

“*the Society*” means the Society of Actuaries in Ireland

1 General

- 1.1 This ASP is the document referred to in the Regulations as “*the Guidance Note “Actuaries and Long Term Insurance Business (GNI)” issued by the Society of Actuaries in Ireland*”.
- 1.2 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 role of the Appointed Actuary is to carry out duties set out in legislation or in other regulatory requirements. In particular, the Appointed Actuary is required under the Regulations, from time to time, to:
- (a) make an investigation into the financial condition of the Company’s life assurance business, including a valuation of the Company’s life assurance liabilities, and determine any excess over those liabilities of the assets representing the life assurance fund or funds maintained by the Company; and
 - (b) state, if such be the case, that the Company's premiums for new business are sufficient, on reasonable actuarial assumptions, to enable it to meet all its commitments and, in particular, to establish adequate technical reserves.
- 1.3 The regulatory responsibilities of Appointed Actuaries are central to the financial soundness of the life assurance business of the companies in respect of which they are appointed. The financial security of policyholders depends in no small measure on the proper discharge of these responsibilities. An Appointed Actuary must, therefore, take all reasonable steps to ensure that he or she is, at all times, satisfied that the life assurance business of the Company is being operated on sound financial lines that will enable the Company to meet its commitments to policyholders and, in particular, to establish adequate technical reserves.
- 1.4 Any Appointed Actuary who becomes doubtful as to the proper course to adopt in relation to a potentially significant problem should normally seek guidance from the Society (in accordance with paragraph 1.5 of the PCS).
- 1.5 In accordance with the PCS, an actuary must not accept an appointment as an Appointed Actuary if he or she does not have the appropriate knowledge and practical experience relevant to the life assurance company and types of business concerned. In addition, an Appointed Actuary must possess a Practising Certificate of the appropriate type.
- 1.6 Before taking up an appointment as an Appointed Actuary, an actuary must ensure that the relevant requirements of the PCS have been met including, in particular, a discussion with his or her immediate predecessor, if any. For the avoidance of doubt, such a discussion must take place, unless the circumstances are such that it is impossible to make contact with the relevant individual. In accordance with the PCS, this discussion must address the question of whether there are any professional reasons why the appointment

should not be accepted. The Company must be informed of such consultation and its permission sought. If such permission were withheld it would be a material factor which would be relevant to the prospective appointee's decision as to the propriety of accepting the appointment.

- 1.7 The Appointed Actuary must have a right of direct access to the Board and have access to all relevant information and resources so that the full range of his or her duties can be carried out satisfactorily. This must be explicit from the inception of the new appointment. Where there is a group structure, the Appointed Actuary must also endeavour to ensure that his or her reports are seen by the management or board, as appropriate, of any organisation in the parental hierarchy of the Company which exerts significant influence on the decisions of the Board, particularly where any material risk to the solvency of the Company has been identified.
- 1.8 The Appointed Actuary must be objective in the performance of his or her duties and must take all reasonable steps to be satisfied that he or she is free from bias. The PCS provides specific guidance on conflicts of interest, which must be followed. Specifically, where an individual's financial interests in a Company by their nature and size are or become such that a material conflict of interest would, in the normal course of events, arise or seem to arise (or where a material conflict arises for some other reason), an actuary must not accept the position of Appointed Actuary or continue in it as the case may be.

2 The duties of the Appointed Actuary

- 2.1 In accordance with Article 15 of the Regulations, the Appointed Actuary must carry out, from time to time, and report on an investigation into the financial condition of the Company, including a valuation of its life assurance liabilities. The Appointed Actuary must certify that, inter alia, ASP LA-1 and ASP LA-3 have been complied with, stating the effective date of the ASPs complied with. Although, as a statutory requirement, an investigation is to be made only at specific intervals, the Appointed Actuary must take all reasonable steps to ensure that he or she is, at all times, satisfied that in any investigation the life assurance fund would be sufficient and the Company would be able to satisfy any obligation to which it is subject by virtue of the Regulations.
- 2.2 The Appointed Actuary must have regard to all aspects likely to affect the financial position of the Company in respect of its life assurance business, including the possible effect of any contingent liabilities should they crystallise. Although the following list is not exhaustive, the financial position is particularly affected by:
 - (a) the terms on which existing business has been, and current new business is being, written, with particular reference to all options and guarantees, together with the entitlements and reasonable expectations of the policyholders of those contracts;

- (b) the existing investments of the life assurance fund (including the free assets contained in that fund) and the continuing investment policy, including the use of derivative instruments;
- (c) the nature, extent and availability of the Company's assets outside the life assurance fund;
- (d) the marketing plans, in particular the expected volumes and costs of sales;
- (e) the current and likely future level of expenses;
- (f) the current and likely future levels of mortality and morbidity;
- (g) the reinsurance, underwriting and (for health insurance) claims handling arrangements;
- (h) the Company's policy in regard to the nature and timing of allocations of profits to policyholders and/or shareholders;
- (i) the current and likely future taxation position of the Company;
- (j) the persistency of the business written, both in the short and long term, and the terms for discontinuance; and
- (k) the extent to which assets and liabilities are matched by term, by type and by currency.

2.3 The Appointed Actuary must obtain from the Company sufficient information on the above items and any other relevant information, so that he or she is able to carry out the necessary financial investigations to be satisfied as to the continuing financial state of the Company and to sign the relevant certificates. The Appointed Actuary must make sure that the necessity for such information is fully understood by the Company. If sufficient information is not available to ensure compliance with ASP LA-1 and ASP LA-3, the Appointed Actuary must qualify the certificate.

2.4 Circumstances may arise such that the Appointed Actuary considers that there is a material risk that the life assurance fund will be insufficient to cover its liabilities or that the Company will fail to meet its obligations under the Act in relation to its life assurance business. This may be because:

- (a) a particular course of action is being, or is proposed to be, followed by the Company, or
- (b) the Company is failing to take appropriate action in response to a change in circumstances, or
- (c) a situation has arisen, perhaps outside the control of the Company.

In these circumstances the Appointed Actuary must inform the Company accordingly. If the Company fails to take action to remedy the position, and does not advise the Financial Regulator of the situation, then the Appointed Actuary must advise the Financial Regulator after so informing the Company. This duty applies, notwithstanding paragraph 2.5 of the PCS.

- 2.5 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 in accordance with ASP LA-4.
- 2.6 Subject to any statutory regulations, the responsibility for investment policy rests with the Board, as also does the decision as to the value to be placed on the assets in any balance sheet. However, the Appointed Actuary must determine whether the investment policy pursued by the Company is, or could become, inappropriate having regard to the nature and term of the Company's liabilities. If this is the case, the Appointed Actuary must advise the Company of the changes in investment policy necessary to protect the position of policyholders.
- 2.7 If the Appointed Actuary considers the Company's reinsurance arrangements are inappropriate or inadequate, he or she must advise the Company on the modifications necessary to protect the position of the policyholders.
- 2.8 The Appointed Actuary must prepare, and submit to the Board, Actuarial Financial Condition Reports in accordance with ASP LA-2 and the relevant guidelines issued by the Financial Regulator.

3 Premium Rates and Policy Conditions

- 3.1 The Appointed Actuary must be satisfied that the premium rates being charged for new business are appropriate. That is to say, they should be sufficient to enable the Company in due course to meet its emerging liabilities, having regard to the items listed in paragraph 2.2 above and to the extent of the Company's free assets available for this purpose.
- 3.2 Paragraph 4(2) of Annex IV of the Regulations requires the Appointed Actuary to include, in the certificate to be completed by the Appointed Actuary under Article 32(b) of those Regulations, a statement that premiums being charged for new business are sufficient, on reasonable actuarial assumptions, to enable the Company to meet all its commitments and, in particular, to establish adequate technical reserves.
- 3.3 For almost all types of policy, it is impossible to be certain that a premium rate will be sufficient, because sufficiency depends on the future course of factors including mortality, persistency, the return on investments, and the Company's expenses. However, sound techniques must be used to enable the

circumstances and extent of potential insufficiency to be identified and quantified.

- 3.4 The Appointed Actuary must pay special attention to contracts involving guarantees and policyholder options, including circumstances in which the policyholder or an intermediary could gain by surrender and re-entry.
- 3.5 The Appointed Actuary must also consider the implications for the Company and for policyholders if future economic, demographic or business circumstances were to be radically different from those of today, particularly where the policy contains guarantees and options.
- 3.6 It may be that a practicable premium basis, whilst commercially justifiable, will involve significant new business strain. The Appointed Actuary must be satisfied that the Company will be able to set up the necessary reserves and solvency margin.
- 3.7 Should premium rates be such that business is expected to be written on terms which require support from the Company's free assets, the Appointed Actuary must assess the Company's ability to continue to write business on such terms and must inform the Board of this, indicating any limits on the volume of business that may prudently be accepted. Where the Appointed Actuary is assuming support from free assets held outside the life assurance fund, he or she must inform the Board of the extent of such assumed support.
- 3.8. Some companies may include in their policy contracts a statement that certain terms will be determined by the Appointed Actuary, or by the Company's actuary or by the Company on the advice of the Appointed Actuary. In determining such terms, or in providing advice to the Company in this area, the Appointed Actuary must have regard to policyholders' reasonable expectations, relevant legislation, including that covering unfair contract terms, and relevant regulatory requirements.

4 Actuarial Investigations

- 4.1 The Appointed Actuary must be satisfied in relation to the financial condition of the existing business. To this end, the Appointed Actuary must consider the liabilities, the corresponding assets, and their interrelationship, and be satisfied as to the resilience of the financial position of the Company in all reasonably foreseeable circumstances which might affect that position.
- 4.2 The Appointed Actuary is required to state, in the certificate to be completed under Article 32(b) of the Regulations, if such be the case, that, in his or her opinion, proper records have been kept by the Company adequate for the purposes of the valuation of the liabilities of its life assurance business. The Appointed Actuary must, therefore, be satisfied as to the material correctness and completeness of the valuation data, and must seek such additional information from the Company as he or she considers necessary for this purpose.

- 4.3 If the Appointed Actuary has doubts about the material correctness and completeness of the valuation data, but considers that the establishment of additional reserves will compensate for any shortcomings in the valuation data, then such additional reserves must be established. Where such additional reserves are material, they should be both separately identified in the valuation summary and explained in the abstract of the valuation report prepared by the Appointed Actuary.
- 4.4 If the Appointed Actuary is unable to state that, in his or her opinion, proper records have been kept by the Company adequate for the purposes of the valuation of the liabilities of its life assurance business, the certificate to be completed under Article 32(b) of the Regulations must be appropriately qualified.
- 4.5 The Appointed Actuary must be satisfied that the appropriate valuation procedures have been correctly carried out and adequately documented.
- 4.6 The Appointed Actuary must use liability valuation methods that:
- (a) comply with the requirements of the Regulations, other relevant regulatory requirements and ASP LA-3, and
 - (b) are appropriate to the contracts in question, taking into account not only the principal benefits but also any ancillary benefits, including surrender and paid-up values and any options and guarantees.
- 4.7 When assessing the liabilities of the life assurance business of the Company, the Appointed Actuary must have regard to policyholders' reasonable expectations in accordance with ASP LA-3 and ASP LA-4.
- 4.8 Appropriate provision must be made for future expenses of continuing the existing business. This provision must not be less than that which would be required if the Company were to be closed to new business.
- 4.9 The Appointed Actuary must decide the rates of interest to be used in the valuation of the liabilities. These are affected by the Appointed Actuary's estimates of the rate at which future investment will be possible and by relevant regulatory requirements.
- 4.10 The Appointed Actuary must also pay regard to the relationship between the term of the assets and that of the corresponding liabilities. The importance of this will vary widely from one situation to another, but experience suggests that this can be an area of particular importance.
- 4.11 The nature of the Company's reinsurance arrangements, including any financing provision implicit therein, must be taken into account in the Appointed Actuary's valuation. The Appointed Actuary must not reduce reserves in respect of a reinsurance contract to the extent that the relevant benefits of the reinsurance contract have been included in the value of the Company's assets. The Appointed Actuary must take account of the

likelihood of payment by the relevant reinsurer in valuing benefits from a reinsurance contract.

- 4.12 The Appointed Actuary must be satisfied that, in each of the assumptions, the margins in any published valuation of the liabilities, including any margins required by statute, are adequate having regard to his or her own assessment of the risks inherent in the nature and conduct of the Company's business.

5 Recommendations on allocation of profits

- 5.1 In accordance with Article 15 of the Regulations, the Appointed Actuary must determine in accordance with any applicable valuation regulations any excess of the assets representing a life assurance fund over its liabilities. If the rights of any life assurance business policyholders to participate in profits relate to a part of such a fund, the Appointed Actuary must also identify separately any excess which relates to that part.
- 5.2 The Company is permitted by Section 15 of the Act to make transfers of assets representing its life assurance funds to the extent that they have been shown by a recent Article 15 investigation (or an investigation made in pursuance of a requirement imposed under Section 16 or 17 of the Act) to exceed the amount of the liabilities. The Appointed Actuary must advise the Company on the extent to which it would be appropriate to distribute any excess to policyholders or transfer it to shareholders and must make recommendations for its specific allocation.
- 5.3 In making recommendations in respect of any proposed allocation of profits, the Appointed Actuary must carry out appropriate financial investigations including an appraisal of the relevant past experience.
- 5.4 In the report that includes the recommendations, the Appointed Actuary must include sufficient information and discussion about each factor, and about the results of any financial investigations, to justify the recommendations, and to enable the Board to judge the appropriateness of the allocation and to understand its implications for the future course of the Company's business. In particular, the Appointed Actuary must state his or her:
- (a) conclusions from the appraisal of the relevant experience including, if asset share techniques are used, the way in which the recommendations are derived from those techniques;
 - (b) understanding of the Company's financial and business objectives to the extent that they are relevant to the recommendations;
 - (c) assessment of the Company's ability to meet its minimum required solvency margin following the recommended allocation;
 - (d) interpretation of legal advice given to the Company constraining, or potentially constraining, the Board's discretion when allocating surplus and how this has been reflected in the recommendations;

- (e) interpretation of policyholders' reasonable expectations having regard in particular to (a), (c) and (d);
- (f) opinion of the extent to which it is appropriate to distinguish between groups of participating policies having regard, inter alia, to the nature of the policies, their duration and their relevant pooled experience, and taking account of (d) and (e); and
- (g) opinion of how the recommendations maintain fairness between different categories of policy or policyholder and between policyholders and the Company.

The extent of information and discussion appropriate for any factor will depend on the extent to which, if at all, the factor has been covered in a report formally presented to the Board in the previous eleven months. In particular, the Appointed Actuary may report in an appropriately abridged form when interim or terminal bonus rates are being reviewed during the eleven months following an investigation and full report.

- 5.5 If the recommendations anticipate the results of a determination of surplus, the Appointed Actuary must include in the report the estimated results of the determination and show how the recommendations can be financed.
- 5.6 The Appointed Actuary must discuss the relationship between the recommended allocation and recent and expected future experience. In the case of with-profits business, the report must address bonus prospects, including terminal bonus, in different future investment scenarios. If the recommended allocation is excessive relative to the recent and expected experience (excluding any non-recurring elements) and if the continuation of this relationship in future years could result in a material deterioration in the Company's financial position, the report must indicate whether and how this could appropriately be avoided, taking policyholders' reasonable expectations into account.
- 5.7 Where, in the opinion of the Appointed Actuary, there is uncertainty regarding the extent to which the Board can exercise its discretion when allocating surplus, he or she must state in the report the nature of the uncertainty, the assumptions made with regard to the uncertainty when making the recommendations and the consequences were the uncertainty to be resolved differently.

6 Insolvency

- 6.1 If the Appointed Actuary's judgement is required in a matter which may affect the solvency of the Company, it would not be appropriate to base such judgement on his or her estimates of the most probable outcome; rather, much more rigorous standards must be applied.
- 6.2 The possibility of insolvency, or intervention by the Financial Regulator on the grounds of the Company being unable to fulfil the reasonable expectations of

its policyholders, may arise from factors, some of which are within the control of the Company and some not. To the extent that they are within the control of the Company, the Appointed Actuary must assess the limits within which the Company must act and advise the Company of the necessity for these limits.

- 6.3 The Appointed Actuary must consider all external factors outside the control of the Company which could lead to insolvency and must ensure that the Company is aware of these possible situations and advise it accordingly. The Appointed Actuary must pay the most scrupulous regard to prudent judgement in these matters.

7 Written reports

- 7.1 The Appointed Actuary must report to the Financial Regulator in a prescribed form on actuarial investigations carried out under Article 15 of the Regulations. The Appointed Actuary must first report in writing to the Board on the results and implications of any such investigation, whether or not an allocation of profits is involved. In the Article 15 Report to the Financial Regulator, the Appointed Actuary must present the results in a way that demonstrates, subject to the constraints of the regulatory valuation basis, the correct underlying position of the Company. All material valuation methods and assumptions must be stated.
- 7.2 The Appointed Actuary must be aware of the requirements of the PCS relating to the inclusion in a report of an assessment of the implications for policyholders of any recommendations contained in the report.
- 7.3 The Appointed Actuary should normally present the report in person to the Board, so that he or she may identify and address any areas of misunderstanding or concern that may arise.