

EXPLANATORY MEMORANDUM TO PROFESSIONAL STANDARD PS 103 ACTUARIAL REVIEW

June 2019

A. About this Explanatory Memorandum

This Explanatory Memorandum has been prepared to assist Members in understanding the rationale underlying the new Professional Standard 103 Actuarial Review (PS 103).

PS 103 is a professional standard that is cross practice, applying to actuarial reviews requested by APRA of life companies including friendly societies, (hereafter in this Explanatory Memorandum, referenced as life companies), general insurance companies and private health insurance companies.

PS 103 is one of five professional standards to address the requirements under the Australian Prudential Regulation Authority's (APRA's) Prudential Standard CPS 320 Actuarial and Related Matters which comes into effect 1 July 2019 (CPS 320). The five new standards are as follows:

- ▶ PS 102 Financial Condition Report - cross practice standard addressing the production of Financial Condition Reports.
- ▶ PS 103 Actuarial Review - cross practice standard addressing actuarial reviews required by APRA – the subject of this Explanatory Memorandum.
- ▶ PS 201 Actuarial Advice to a Life Insurance Company or Friendly Society.
- ▶ PS 202 Actuarial Valuations for Life Insurance Companies (Including Friendly Societies and Eligible Foreign Life Insurance Companies).
- ▶ PS 302 Valuations of General Insurance Claims.

Previous versions of PS 103 do not exist. The external peer review of general insurance policy liabilities was previously governed by Professional Standard PS 315 last updated in December 2014.

B. Feedback on Exposure Draft

The Exposure Draft for PS 103 was released for member consultation during the period 19 February 2019 to 22 March 2019. Five pieces of written feedback were received, detailed feedback from two large consulting firms and shorter feedback from individual members.

On 5 March 2019 an Actuaries Institute Insight session presented on the new professional standards. This included a summary of the work done to produce the standards, the specific issues relevant for each practice area, and the key questions on which feedback was sought.

A summary of the main points raised through the session and the written feedback is as follows:

- ▶ The standards should not contain excessive use of “must” and “disclose”, which could be detrimental either in terms of requiring an increase in the length of a formal report or not being appropriate in all circumstances.
- ▶ There was a request for clarity on the commencement date of the standards, particularly for companies with an annual balance date of 30 June 2019.
- ▶ There were suggestions that there was a need to consider “customer value” or customer needs when giving actuarial advice and discussion of whether this should be mandated in professional standards or addressed through other guidance.
- ▶ There was a suggestion to include an option to seek APRA guidance when Members were unsure of or require specific guidance regarding their legal obligations.
- ▶ There was a suggestion to include commentary to better support the aim of making the Appointed Actuary’s role more strategic in an organisation.

This resulted in the following significant changes for PS 103:

- ▶ Additional wording in clause 1.3.7 to include seeking regulator clarification if required;
- ▶ Further clarification of the terms ‘disclose’ and ‘record’ (clause 3.1) as outlined in Section D below.
- ▶ Clarification that the level of detail in a review Report depends on the matters specified in the scope of the review (clause 6.1).
- ▶ Inclusion of a requirement to include a statement that the Report has been prepared in accordance with this professional standard (clause 6.3).
- ▶ Change to the commencement date (clause 2), as discussed in Section E below.

Other minor grammar corrections have also been made which do not change the obligations on Members.

C. Background to PS 103

As part of its regulation of insurers, APRA issued CPS 320 in June 2018. It will replace LPS 320 Actuarial and Related Matters (LPS 320) for life insurers, GPS 320 Actuarial and Related Matters (GPS 320) for general insurers and HPS 320 Actuarial and Related Matters (HPS 320) for private health insurers. CPS 320 contains prudential requirements when performing an actuarial review required by APRA.

As the prudential requirement for this actuarial review is across all insurance practice areas, PS 103 has been produced to provide consistent cross-practice professional requirements.

D. Requirements of Actuarial Review

Key sections of PS 103 are set out below.

Section 1 Introduction

PS 103 applies to Members when performing an actuarial review required by APRA.

The introduction has a consistent structure and content as other professional standards.

Clauses 1.3.3, 1.3.4 and 1.3.5 outline the requirements where a Member finds that they cannot carry out their work in a way that complies with PS 103.

Section 3 Definitions

There are 2 important new definitions that Members should be aware of:

- ▶ **'To disclose'** means to include information within a written communication, such as a Report where one is prepared.
- ▶ **'To record'** means to include information within working papers or other documentation, but this information does not need to be included in written Reports or similar communication.

Previous professional standards across practice areas were not always clear on what was meant when information had to be 'documented'. All standards being released in June 2019 introduce the terms 'disclose' and 'record' to clarify expectations of Members when carrying out actuarial work. PS 102 introduces these terms to indicate when the Member has to include information in a Report when giving actuarial advice (i.e. **disclose**) or when the information need only be recorded in working papers (i.e. **record**).

Section 4 Materiality

The Materiality definition is consistent with that in other professional standards.

Section 5 Purpose and Scope

PS 103 sets out considerations for Members when performing actuarial reviews. This is a new requirement within CPS 320 and replaces the previous External Peer Review Requirement for general insurers as set out in GPS 320 and supporting Professional Standard PS 315. The scope and nature of the actuarial review will vary depending on the specific matters to be reviewed as specified by APRA. A Member must give consideration to quality of data, reasonableness of assumptions, methodologies and results and appropriateness of controls (as relevant under the specified review scope). The level of detail included in a Member's Report will depend on the matters specified in the scope of the review.

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Actuarial Review (cross practice)

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E. Commencement date

This Professional Standard applies to any relevant advice or Report given to an Entity on or after 1 July 2019. PS 315 will be withdrawn on the commencement of PS 103.

END OF EXPLANATORY MEMORANDUM