

GUIDANCE NOTE 250 THE APPOINTED ACTUARY

APPLICATION

Appointed Actuaries of life insurance companies.

LEGISLATION

This Guidance Note is written with specific reference to actuaries appointed in terms of the Life Insurance Act 1945.

FIRST ISSUED

April 1989

1. INTRODUCTION

- 1.1 Following changes to the Life Insurance Act in 1989 each company registered under the Act must have an appointed actuary.
- 1.2 The appointed actuary has specific responsibilities under the Act but is also expected to report to and provide actuarial advice to the company on all matters relating to or affecting the financial condition of its Australian life insurance business.
- 1.3 To assist Fellows and Accredited Members with a proper understanding of the responsibilities of the appointed actuary the Institute has prepared this guidance note which should be read in conjunction with the code of conduct and any professional standards and statements issued from time to time dealing with responsibilities of the appointed actuary.
- 1.4 The Institute expects the appointed actuary to comply with this guidance note or if there are special circumstances to be able to justify any departure.

2. APPOINTMENT

- 2.1 The Act requires that the appointment of an appointed actuary be in writing.
- 2.2 Similarly, any termination of an appointment by the company, must be in writing and any resignation of an appointed actuary must be accepted by the company in writing.
- 2.3 The Act requires appointments and terminations (for whatever reasons) to be notified within 14 days by the company to the Insurance and Superannuation Commissioner.

3. CONSIDERATIONS AFFECTING ACCEPTANCE

- 3.1 Any actuary before accepting appointment must consider most carefully in the light of previous experience and work in Australia whether acceptance would be in line with proper professional behaviour and standards. No actuary should act as appointed actuary who does not have the necessary practical experience. An exception to this might be where arrangements have been made for the appointed actuary to have recourse on a professional and formal basis to an actuary who has such experience.
- 3.2 An actuary before accepting appointment must, if possible, approach the previous appointed actuary who must advise whether any views are held as to whether, for professional reasons, the appointment should not be accepted or whether there are any particular considerations which should be taken into account before proceeding. This requirement should be made clear to the company.
- 3.3 An actuary considering holding the position of appointed actuary may also hold office as a director, principal officer or senior manager. Similarly an incumbent appointed actuary may be offered a concurrent directorship or senior management position. Holding two such positions may well be to the advantage of both the office and the actuary, but it should be recognised that conflicts of interest may arise. An appointed

actuary who is a member of the company's management team must ensure that the other members of the team understand the need to distinguish between views expressed as one of them and advice given to the company as appointed actuary.

- 3.4 The Act requires that a company submits, on a prescribed form, an annual return of any pecuniary interests in the company of its appointed actuary. Clearly an actuary whose financial interests in the company could lead to a conflict of interest should not accept appointment or continue in the position of appointed actuary.

4. NATURE OF RESPONSIBILITY

- 4.1 The code of conduct deals with behaviour wherever an actuary is acting in a professional capacity. The appointed actuary is however, in a special position because:
- (a) the appointment and remuneration are by the company;
 - (b) responsibilities under the Life Insurance Act are held; and
 - (c) the Articles of Association or other document constituting the company must be satisfied.
- 4.2 It is seldom that these three aspects of the appointment conflict but if they do there is a duty to advise the company. This will apply, in particular, where a belief is held that a course of action by the company would lead to adverse comments on the matter in the next statutory report. There is also a duty, if the company persists in following the course of action, and the matter is serious enough, to consider what action should be taken and this could include resignation from the position of appointed actuary. In such a situation it would be wise to seek advice as provided in the code of conduct.
- 4.3 Each appointed actuary is encouraged to develop a working relationship with the Deputy Commissioner (Life Insurance) to facilitate routine enquiries on matters of practice. In addition there may be exceptional circumstances where the appointed actuary may believe that the interests of policyholders are served by discussing a serious situation with the Deputy

Commissioner (Life Insurance); it is recommended that the counsel of the President be obtained before such action is taken.

- 4.4 The position of appointed actuary, as such, carries no executive authority within the company. The incumbent is expected to report to and provide actuarial advice to the company on all matters relating to or affecting the financial condition of its Australian life insurance business as well as having certain statutory responsibilities under the Act, which in the case of Australian domiciled companies extend to overseas business. Otherwise the final responsibility for company decisions rests with the company's directors. The appointed actuary must, therefore, have direct access to the board of directors and this must be explicit from the inception of the appointment. Similarly assurance must be obtained that access will be provided to all relevant information to enable the duties to be carried out.

5. DUTIES

- 5.1. The statutory responsibilities of the appointed actuary are covered by the following sections of the Act:
- (a) S.48 - financial condition investigations;
 - (b) S.49 - minimum valuation basis certification;
 - (c) S.50 - approval of allocation and transfer of surplus;
 - (d) S.78 - approval of premium rates;
 - (e) S.79 - approval of commissions or rebates.

The Institute will, from time to time, issue guidelines on professional principles and standards dealing with these responsibilities.

END OF GUIDANCE NOTE 250

We enclose Professional Standards and Guidance Notes updated as at April, 1993. These replace all Standards and Guidance Notes previously issued in the Year Book by The Institute.

New Standards and Guidance Notes and amendments will be sent to members as they are approved by Council.

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