1 October, 1987

PROFESSIONAL STANDARD NO. 1

ACTUARIAL REPORTS AND ADVICE TO A LIFE INSURANCE COMPANY

1 Introduction

1.1 This revised Professional Standard No. 1 is effective from 1st October 1987. It expands Section 4 of the previous version.

1.2 The standard is consistent with the latest draft Guidance Note on the Appointed Actuary. Until such time as changes to the Life Insurance Act complementary to the Appointed Actuary Guidance Note are enacted and the final form of the Institute's Guidance Note is determined, the term "Appointed Actuary" in this Statement should be treated as referring to the actuary appointed by the Company for each particular actuarial duty currently specified under the Act.

1.3 The financial soundness of life insurance business depends substantially on the way appointed actuaries discharge their responsibilities, as also does the reputation of the actuarial profession. As a result it is incumbent on appointed actuaries to ensure, to the extent of their authority, that Australian life insurance business is conducted on sound financial principles.

1.4 Most of the matters with which the appointed actuary is concerned are not capable of precise assessment but are, rather, matters of judgement. In some circumstances, this judgement may appropriately be based on the appointed actuary's views of the most probable outcome - perhaps, for example, in relation to bonus rates. If however, judgement is required in a matter which may affect the solvency of the company, much more rigorous standards should be applied. (Two such contrasting situations are exemplified in 5.2.2 below).

2 Explanation of Certain Technical Words Used

2.1 "Experience related non-participating"

The Life Insurance Act classifies policies as either participating or non-participating. Participating policies are entitled to share in the surplus or profits made by the company. Non-participating policies traditionally have fully defined and guaranteed benefits and premiums. However, in recent years policies have been developed which are legally non-participating yet one or more of their elements such as benefits, premiums or some other factor can be varied by the company in a discretionary

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manner. Often such variation is related to the experience of the company in respect of one or more factors such as expenses, investment returns, mortality or morbidity. To simplify the text of these notes the description "experience related non-participating policies" has been used where appropriate to cover the range of such policies.

2.2 "Estate"

The word "estate" is commonly used by actuaries to denote reserves of a capital nature used in a number of ways in supporting the life insurance business of a company. There is no universally agreed precise definition but conceptually it is:

"the excess of assets held by the company in respect of its life insurance business over the amount it needs to be able to meet the liabilities in respect of that business. Typically it comprises margins in assessed values of liabilities and assets, disclosed reserves, undistributed surplus, and the shareholders fund."

The word "estate" has been used where appropriate in the text to denote such reserves.

2.3 "Reasonable benefits"

Under participating and experience related non-participating policies either the premium or the benefits may be varied. This may enable a company to underwrite risks more confidently in the knowledge that adjustments can be made as experience unfolds. A purchaser of such a policy shares the risk to some extent and is entitled to be treated equitably in the light of that experience. The expression "reasonable benefits" is used in connection with such policies to describe benefits which fall within a range which could be reasonably held to recognise these features and all the matters described in 7.3 below.

3 General

3.1 In carrying out his responsibilities the appointed actuary of a company, among other things:

3.1.1 must comply with the requirements of the Life Insurance Act and other relevant legislation;

3.1.2 must satisfy the Articles of Association or other instruments constituting the company;

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3.1.3 should seek to ensure, within the bounds of reasonable probability, the long term financial soundness of the life insurance business of the company;

3.1.4 should seek to achieve equity in the distribution of surplus to participating policyholders in general, between different groups of such policyholders, and to shareholders;

3.1.5 should seek to achieve equity in the treatment of experience related non-participating policies in a manner which is broadly consistent with the distribution of surplus but which recognises the different contract structures involved.

3.2 The statutory duties specified in the Life Insurance Act which the appointed actuary of a company must carry out are:

3.2.1 to investigate and report on the financial condition of the company in accordance with Section 48;

3.2.2 to approve premium rates, and report if required, in accordance with Section 78;

3.2.3 to approve increases in commission rates in accordance with Section 79.

3.3 The assessment of the financial condition of a company is particularly affected by:

3.3.1 the premium rates on which existing business has been, and current new business is being, written;

3.3.2 the nature, terms and conditions of the contracts in force and currently being sold with particular reference to all options and guarantees, and the scope for adjusting the terms and conditions in the light of emerging experience;

3.3.3 the existing investments, the continuing investment policy and likely future investment experience;

3.3.4 the marketing plans, in particular the expected volumes and costs of sales;

3.3.5 the current and likely future level of expenses and taxes;

3.3.6 the current and likely future experience in respect of the risk elements;

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3.3.7 the current and likely future experience in respect of forfeiture and surrender rates;

3.3.8 the extent of the company's estate, its position in the various statutory funds, the ability to transfer it between them, and additional capital which the company is able and willing to add in further support;

3.3.9 the arrangements for reinsurance.

3.4 The appointed actuary should ensure that the company is aware that he will be unable to properly carry out his responsibilities unless it makes available to him adequate information on the items listed in 3.3 above and other relevant information. In this regard he should specify his needs and, if the appropriate information is not forthcoming, he should qualify his report or state his inability to give approval as the case may be.

4 Premium Rates

4.1 General

4.1.1 Section 4 is not limited to the requirements of the Life Insurance Act but applies whenever an actuary is advising a company about premium rates. As well as satisfying himself that premium rates for new business are suitable, where existing policies have premium rates which are subject to variation he should satisfy himself as to their continuing suitability. These are prime responsibilities of the appointed actuary.

4.1.2 Sections 78 and 79 of the Life Insurance Act say,

4.1.2.1 in Section 78(1) that a company shall not issue a policy unless its premium rate has been approved as suitable by the appointed actuary of the company;

4.1.2.2 in Section 78(2) that the Commissioner may require a company to provide him with a report on the suitability of a premium rate prepared by its appointed actuary;

4.1.2.3 in Section 79 that a company shall not exceed the maximum commission rates previously approved by an actuary without new approval from its appointed actuary or the Commissioner.

4.1.3 It would be a matter of judgement in each case but approval of a variation of commission rates in accordance with Section 79 of the Act may require an appointed actuary to apply all the considerations as if he were approving premium rates under Section 78(1) of the Act.

4.1.4 The statement that a premium rate will be suitable cannot be an absolute statement - it is inevitably a probability statement because it depends on the future experience of such things as mortality, morbidity, the return on investments, tax, and expenses of administration. The adequacy or otherwise of premium rates cannot, therefore, be other than a matter of judgement. The required judgement will, of course, need to be based on the use of sound techniques. It should specifically take into account the complex matters involved in contracts containing various options or guarantees.

4.1.5 An appointed actuary has a continuing responsibility to withdraw approval of premium rates if at any time he no longer considers them to be suitable.

4.1.6 A detailed check list of the matters the appointed actuary would normally consider in examining premium rates follows section 7 below.

4.2 Definitions

4.2.1 Premium Rate

4.2.1.1 Traditionally a premium rate has been calculated to make a profit after meeting expected expenses, mortality and morbidity claims with allowance being made for anticipated investment returns. However, policies have been developed under which the mortality and other risk, expense and investment elements have been separated out in a variety of ways, sometimes forming pools which may have their profits distributed among the contributors to the pools. There may be guarantees in relation to earnings or other benefits to which the policyholder is entitled. Premium rate is defined to include any rate or charge which is specified in a policy and any benefits, entitlements, options or conditions which are guaranteed in the policy.

4.2.1.2 Where separate rates, or charges, are specified for different elements within one policy the actuary should approve them as a whole for the policy.

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4.2.2 Suitable Premium Rate.

4.2.2.1 An appointed actuary would regard premium rates as suitable if, in his judgement, they should be sufficient to enable the company in due course to meet its emerging liabilities having regard to the items in 3.3.2 to 3.3.9 above.

4.2.3 Commission

4.2.3.1 To ensure that the company can comply with Section 79 of the Life Insurance Act the appointed actuary should define what constitutes commission and rebates and specify to the company the maximum rates payable.

4.3 Assumptions about Future Experience

4.3.1 The appointed actuary should be satisfied as to the suitability of all material assumptions about the expected future experience. If available he should take account of the recent experience of the company. He should also take into account available published experience and trends from Australia and overseas which he considers relevant. If, in his judgement, the information available from these sources is inadequate he may take into account any material which he considers relevant.

4.3.2 Experience is not static and changing trends should be taken into account. The longer the period of the contract, the less likely it is that the experience as it emerges will match the assumptions. As a result making assumptions can be problematic, for example :-

4.3.2.1 particular difficulties are involved in reaching an option about likely future investment earnings allowing for taxation in the longer term;

4.3.2.2 expense levels are particularly affected by inflation as well as the size and number of policies involved;

4.3.2.3 mortality improvements are important in relation to annuities;

4.3.2.4 morbidity is affected by social attitudes and economic conditions as well as basic health issues.

4.3.3 Insurance is a commercial service and innovation should be encouraged.

The undertaking of new types of risk should not be prevented because no specific past experience exists. In determining his opinion as to the likely future experience in such circumstances the appointed actuary should take into account such statistics relating to similar events or conditions as he can obtain and considers relevant. He should exercise his judgement with great care. He may place limitations, constraints, or other conditions on his approval of premium rates while experience is being gained. He should specify that close monitoring of experience is required. Risks can be reduced if contracts allow the insurer to adjust premiums for existing policies in the light of emerging experience.

4.3.4 The various elements in the assumptions will have experienced more or less stability in the past and confidence about the likely future will vary according to that and other considerations. The appointed actuary should consider the degree of uncertainty in each of the assumptions and the potential effects of experience being relatively adverse. He should consider the company's capacity to finance such adverse experience. The greater the volatility or uncertainty the greater the need for contingency margins and contingency reserves.

4.4 Equity

4.4.1 In the case of a participating policy a buyer will be entitled to a share of the surplus or profits made by the company during the life of the policy. In the case of an experience related policy a buyer pays premiums for benefits where one or more of the elements can be varied during the life of the policy at the discretion of the company. In both these cases equity may not be involved at the time the initial premium rates or benefits are established but it will be involved later as the experience emerges and the appointed actuary of the company advises it as to how the discretion should be exercised.

4.4.2 In the case of a non-participating policy, which has no provision for the terms to be varied, a buyer decides to pay non-discretionary defined premiums for defined benefits. Questions of equity are not normally involved. Policies are on sale in a competitive environment. A buyer has a wide range of choices. He can buy or not buy and can choose from whom to buy.

4.4.3 In the cases outlined in 4.4.1 above the appointed actuary, at the time of approving the initial premium rates and benefits, should try to ensure that the maintenance of equity during the life of the policy will not present undue practical difficulty. This may involve considerations of, and advice to the company, in relation to :-

4.4.3.1 the manner in which a suitable asset structure may be maintained relative to the premiums and benefits;

4.4.3.2 a practical manner by which emerging surplus can be allocated and distributed to entitled policies;

4.4.3.3 where asset structures or surplus distribution methods already in use in the company are not appropriate for a new product and new ones are required, the degree of difficulty and the costs likely to be experienced in maintaining equity between the old and the new.

4.5 Finance

4.5.1 In the early years of a policy, expenses incurred may exceed premiums received or the reserves to be held in respect of the future liabilities may exceed the accumulated net cash flow, thus resulting in a requirement for finance. Where this is the case the actuary should consider :-

4.5.1.1 the amount and incidence of the finance;

4.5.1.2 the capacity of the company to meet this requirement for finance and the source of this finance. For example :-

- from the estate
- from additional capital
- by deferring the release of surplus.

4.5.1.3 any constraints which should be imposed on the volume of new business, the period for which it may be written, size of policy, or otherwise.

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4.6 Tests of Suitability

4.6.1 The appointed actuary will normally test the suitability of premium rates by using "profit testing" projection methods with all reasonable contingencies taken into account together with the valuation basis expected to be adopted. However there may be occasions when he justifiably does not consider it necessary to do so.

4.6.2 In using such methods he will normally test not only on the future experience he considers most likely but also on a range of variations from that most likely scenario.

4.6.3 In considering the suitability of premium rates for his approval an appointed actuary will make a number of assumptions about items listed in 3.3.2 to 3.3.9 above. He may carry out investigations or refer to others which he or the company may have carried out previously and which he considers relevant.

4.6.4 The range of matters to be taken into account when considering suitability may well vary with the particular circumstances. In each case the appointed actuary should be in a position to justify any decision to limit the range. For example :-

4.6.4.1 in the case of a new product, thorough investigations and a consideration of all or most of the items listed in 3.3.2 to 3.3.9 above will normally be required;

4.6.4.2 In the case of the revision of an existing product, last approved recently, it may be appropriate to consider only those matters relevant to the revision;

4.6.4.3 in the case of a review of existing premium rates under changed circumstances, it may be appropriate to consider only those matters relevant to the changes.

4.7 Level of Documentation

4.7.1 In approving premium rates the appointed actuary will not normally prepare a full formal report covering all items on the Premium Rates Check List. However he should make and keep sufficient written notes about relevant matters to enable a formal report to be prepared later by himself or a successor if required.

4.7.2 Such tests as have been carried out should be adequately documented and preserved for future reference for at least as long as the premium rate is approved.

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4.8 Reports

4.8.1 The reporting requirements of approving premium rates vary with circumstances.

4.8.2 In approving premium rates in accordance with Section 78(1) of the Act an appointed actuary should provide written confirmation of his approval which would refer to any conditions or limitations he may impose, the range of eligibility to which they apply, and the selection standards which are required. This confirmation would be a relatively simple document.

4.8.3 A report requested under Section 78(2) of the Act will be a formal document. It will set out all the matters taken into account, the assumptions made, and the judgements made by the appointed actuary in arriving at his decision that the particular premium rates are suitable.

4.8.4 In approving the payment of increased commission under Section 79 of the Act an appointed actuary should provide written confirmation of his approval.

5 Financial Condition Investigations

5.1 Introduction

5.1.1 Sections 5 and 6 set down those matters which the Institute considers the appointed actuary should address in examining and reporting on the financial condition of a life insurance company. They may well go beyond the requirements of the Life Insurance Act.

5.1.2 Section 48(1) of the Act requires every company to "cause an actuary to make an investigation into its financial condition, including a valuation of its liabilities in respect of its life insurance business, and to furnish it with a written report of the results of the investigation."

5.1.3 In examining the financial condition of a company an appointed actuary should consider all the items listed in 3.3 above and any other matters he considers relevant. This investigation would normally be on an open-to-new-business basis but he should also consider the possibility that the company might be closed to new business. In particular, he should consider the liabilities, the corresponding assets, and their inter-relationship.

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He should do this from two points of view - the solvency of the company and its ability to provide reasonable benefits to its participating and experience related non-participating policyholders. It may be that different valuation methods or bases are appropriate for each purpose. He should consider the possibility of insolvency or the company's being unable to provide reasonable benefits to its policyholders from factors within and outside the control of the company. In relation to those under the control of the company he should assess the limits within which the company should act and advise it accordingly. In relation to those outside the control of the company he should take whatever action he considers necessary.

5.1.4 A detailed check list of the matters the appointed actuary would normally consider in making a financial condition investigation follows section 7 below.

5.2 Assets

5.2.1 Subject to any statutory regulations, the responsibility for investment policy rests with the directors of the company. However, the appointed actuary should decide whether, in his judgement, the investment policy pursued by the directors is, or could become, inappropriate having regard to the nature and term of the company's liabilities. If this is the case he should, in his report, advise the company of the constraints on investment policy which he regards as necessary to protect policyholders.

5.2.2 The financial condition of a life insurance company depends fundamentally on the relationship between the nature and term of the assets and of the corresponding liabilities. The importance of this will vary widely from one situation to another, for example:

(a) Towards one extreme, for a company with a large portfolio of long established participating business, and where the company is transacting (and seems likely to continue to do so) a steady volume of new business which is small in relation to the existing business, the possibility of insolvency arising from mis-matching of assets and liabilities may be minimal;

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(b) Towards the other extreme, for a company transacting a volume of non-participating new business which is very large in relation to the existing portfolio and which has only a small estate, matching of asset proceeds to liability outgo may be critical to solvency. The dangers are increased if there are guarantees or options which could, in certain circumstances, require a different distribution of assets by term.

5.2.3 As in the case of investment policy, the responsibility for the values to be placed on the assets in the company's balance sheet rests with the directors. The appointed actuary should consider the suitability of those values for the purpose of his investigation. If he considers they are unsuitable in any respect he should comment and adopt values which he considers are appropriate for the purpose.

5.3 Data

5.3.1 Regulation 5 of Part 1 of the Second Schedule of the Life Insurance Act requires an appointed actuary to certify the accuracy of the data used in carrying out his investigation if he is an employee of the company or to state what precautions he took to ensure its accuracy if he is not an employee. If an appointed actuary has any doubts about such accuracy he should advise the company. If he cannot obtain a satisfactory clarification he should qualify his report.

5.4 Liabilities

5.4.1 In making his investigation the appointed actuary should deal with the company as a whole and separately with each of the statutory funds operated by the company. Further sub-division may be necessary, for example when

(a) a single statutory fund covers
(i) liabilities in more than one currency, or
(ii) both ordinary and superannuation business, or

(b) some liabilities of a statutory fund should be related to values of part of the assets of that fund.

5.4.2 In his report the appointed actuary should comment on the main features of the valuation methods and assumptions. If there has been any change in valuation methods or assumptions from the preceding investigation, the reasons for the change should be explained and, unless the appointed actuary is satisfied they are not material, the effects of the change on the valuation results should be quantified.

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5.4.3 All material valuation assumptions, whether explicit or implicit, should be stated and the appointed actuary should be satisfied as to their suitability in relation to the recent and expected experience of the company. He should also seek to ensure that the valuation basis adopted is robust enough to cope with changing conditions.

5.4.4 The appointed actuary should use liability valuation methods that are appropriate to the contracts in question, and the purpose of the valuation, taking into account not only the principal benefit, but any ancillary guaranteed benefits such as surrender and paid-up values, and any options. It is noted that although the form of the Second Schedule to the Act envisages a net premium valuation method, the appointed actuary should adopt for all or part of the life insurance business whichever valuation methods he considers most appropriate to the policies concerned.

5.4.5 The appointed actuary should make appropriate provisions

(a) for the likely future experience of the risk elements such as mortality and morbidity;

(b) for future expenses of continuing the existing business;

(c) either explicitly or implicitly, for future bonuses consistent with reasonable benefits for the company's participating policyholders;

(d) for overall reserves to meet adverse contingencies.

5.4.6 In deciding the interest rates to be used, the appointed actuary should examine the earnings on investments having regard to the values placed on assets and the investment policy of the company. He should consider the likely future rate of return after tax on the existing assets and that possible on future investments. In relation to the existing assets, he should assess the nature of the portfolio and consider what rate of return, capital and income, is likely to be realised over the future period relevant to the liabilities.

5.4.7 The appointed actuary should satisfy himself that, for the purpose of the statutory return required by Section 48 of the Act, the value placed upon the aggregate liabilities of a statutory fund in respect of policies is not less than the value calculated on the minimum basis set out in the Fourth Schedule of the Act and that the basis of valuation is such as to ensure that no policy is treated as an asset. He should recognise that the minimum basis under the Act may be weaker than proper for the company.

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5.4.8 The Act does not recognise some important types of policies. The Institute is of the opinion that the appointed actuary should satisfy himself as to the value placed on the aggregate liabilities of the policies recognised by the Act, as required by Section 49(3) of the Act, and that for the remainder of the policies a proper value should be placed on the liabilities pursuant to Section 49(2).

5.5 <u>Premium Rates</u>

5.5.1 The appointed actuary should comment if in his judgement the premium rates charged by the company are, or could become, unsuitable. (If a review of premium rates is recommended, it need not be completed as a part of a financial condition report).

5.6 <u>Reinsurance</u>

5.6.1 The appointed actuary should examine the company's reinsurance arrangements including any financial provision implicit therein. If he considers these arrangements are inappropriate or inadequate he should advise the company to seek appropriate modifications.

5.7 <u>Benefit Illustrations</u>

5.7.1 The appointed actuary should indicate the rates of bonus or investment performance results which he considers it would be reasonable for the company to use in illustrating policy benefits to policyholders.

6 <u>Distribution of Surplus</u>

6.1 The directors are responsible for deciding the distribution of surplus - usually after considering the recommendation of, or with the approval of, the appointed actuary. In addition the Life Insurance Act provides that the distribution cannot be made unless the appointed actuary approves it.

6.2 Recommending or approving a distribution of surplus disclosed by a financial condition investigation is complex and requires considered judgement. The framework within which the appointed actuary should exercise this judgement is that:

6.2.1 the distribution must comply with Section 50 of the Life Insurance Act;

6.2.2 the distribution must satisfy the Articles of Association or other instruments constituting the company;

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6.2.3 he should seek to achieve equitable treatment between participating policyholders in general, between different groups of such policyholders and shareholders.

6.3 The appointed actuary should take into account that the surplus disclosed by a financial condition investigation is dependent on the methods and bases used in the valuation of the liabilities and assets. He should ensure the methods and bases are appropriate for the purpose. He should also take into account that surplus consists of operating profit increased or reduced by a release from or addition to the estate included in the liabilities and assets. Separate consideration of each may be necessary.

6.4 In any report regarding distribution of surplus the appointed actuary should

6.4.1 identify the major components of surplus since the previous investigation

6.4.2 give the reasons upon which his recommendation or approval is based

6.4.3 report on the short term outlook for surplus distributions to policyholders and transfers between statutory funds and shareholders' funds.

7 <u>Soundness, Reasonable Benefits and Equity</u>

7.1 When the appointed actuary reports on the financial condition of the company in terms of Section 48 of the Life Insurance Act, makes recommendations on the distribution of surplus or approves the treatment of surplus in terms of Section 50 of the Act:

7.1.1 he should seek to protect the ongoing financial soundness of the company;

7.1.2 he should seek to ensure that reasonable benefits are provided to participating and experience related non-participating policyholders;

7.1.3 he should seek to achieve equitable treatment between different groups of participating and experience related non-participating policyholders.

7.2 There is no universally agreed definition of equity and a decision about it can only be a matter of judgement. In making his judgement an appointed actuary should give consideration to the following:

7.2.1 the sources of the surplus disclosed, the relative contribution to it by the different groups of policyholders and by the shareholders, and the release of estate previously committed to support existing business;

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7.2.2 the relative risks taken by the participating and experience related non-participating policyholders in paying premiums for benefits either of which may be varied, and by the shareholders in contributing capital;

7.2.3 the need to maintain the overall viability of the company for existing policyholders;

7.2.4 prevailing attitudes within the actuarial profession.

7.3 Likewise a decision about reasonable benefits for the different groups of participating and experience related non-participating policyholders can only be a matter of judgement. In making his judgement an appointed actuary should give consideration to each of, and the inter-relationship between, the following:

7.3.1 the terms and conditions including the premium rates, options and guarantees on which the policies were issued;

7.3.2 the information conveyed by the company to the policyholders in connection with the sale and subsequently;

7.3.3 the experience of the company, subsequent to the issue of the policies, in relation to each of the elements in their terms and conditions such as mortality, morbidity, the return on investments, tax and expenses of administration, forfeiture and surrender experience;

7.3.4 the need, if any, for each policy to make a contribution, from the surplus it generates, to the company's estate in recompense for and appropriate to the support it may have received from the estate and the company generally.

7.4 In seeking to protect the ongoing financial soundness of the life insurance business of the company the appointed actuary should have regard to all the items listed in 3.3 above and should pay particular attention to:

7.4.1 the need to preserve sufficient estate in the company for the ongoing support of the continuing business, both existing and new, especially taking account of the likely new business strain which may arise from the company's marketing plans;

7.4.2 the need for a solvency margin to minimise the possibility of the company getting into financial difficulty.

Premium Rates Check List

Items to be considered when exercising judgement on suitability.

1 Assumptions

1.1 Mortality
- 1.1.1 By duration in force (selection).
- 1.1.2 By sex.
- 1.1.3 By age.
- 1.1.4 By risk classification parameters and restrictions.

1.2 Morbidity
- 1.2.1 By duration in force (selection).
- 1.2.2 By sex.
- 1.2.3 By age.
- 1.2.4 By risk classification parameters and restrictions.

1.3 Investment earnings.
- 1.3.1 Nature of Assets.
- 1.3.2 By anticipated duration.
- 1.3.3 Income
- 1.3.4 Capital.
- 1.3.5 Taxation.

1.4 Expenses.
- 1.4.1 Maximum commission or rebate allowable including definition.
- 1.4.2 Allocation of costs.
- 1.4.3 Size of policy.
- 1.4.4 By anticipated duration.
- 1.4.5 Inflation.

1.5 Termination of Contract.
- 1.5.1 Surrender and forfeiture rates.
- 1.5.2 Surrender values.

1.6 Marketing.
- 1.6.1 Volume of Business.
- 1.6.2 Distribution.
- 1.6.3 Policy size.
- 1.6.4 Constraints.

1.7 Reinsurance.

1.8 Distribution of surplus.
- 1.8.1 Philosophy
- 1.8.2 Valuation basis.

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2 Profit and Contingency Margins

3 Policy Conditions

3.1 Options and guarantees.
    3.1.1 Contingencies.
    3.1.2 Periods of application.

4 Finance

4.1 Amount and incidence.
4.2 Company capacity from:
    4.2.1 Estate.
    4.2.2 Additional capital.
    4.2.3 Otherwise.
4.3 Constraints on marketing.

5 Suitability

5.1 Tests.
5.2 Limits to approval of suitability.
    5.2.1 Minimum viable volumes.
    5.2.2 Average policy size.
    5.2.3 Actual expenses.

6 Taxation

6.1 On income.
6.2 On capital.
6.3 Other.

7 Marketability

7.1 Comparison with competition.

8 Identification

Items, in addition to the appropriate items from above, which would normally be included in a formal report.

8.1 Name of company.
8.2 Date of investigation (i.e. date at which suitability is being tested).
8.3 Name of actuary.
8.4 Date of report.
8.5 Nature of report (e.g. submitted in terms of Section 78).
8.6 Reason for preparation.
8.7 Class of policy (e.g. ordinary individual).
8.8 Statutory fund.
8.9 Description of policy provisions.
8.10 Last "Financial Condition Report" - name of actuary and date of report.
8.11 Last relevant "Premium Rates Report" - name of actuary and date of report.

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Financial Condition Reports Check List

1 **Report Identification**

1.1 Name of Company.
1.2 Date of Investigation.
1.3 Name of Actuary.
1.4 Relationship to Company.
1.5 Date of Report.
1.6 Last previous report - Name of Actuary
Date

2 **General Comment on Nature of Business**

2.1 Structure of Company.
2.2 Countries and currencies of operation.
2.3 Main lines of life insurance policies.
2.4 Risks underwritten other than life.
2.5 Marketing methods.

3 **Identification of Statutory and Other Funds**

3.1 List all funds.
3.2 Any subdivision of funds.
3.3 Purpose of fund or subdivision.
3.4 Tax status.
3.5 Any reserve funds and their purpose.
3.6 Currency.

4 **Policy Guarantees**

4.1 Premiums.
4.2 Charges.
4.2.1 Managed funds.
4.2.2 Investment account and investment linked policies.
4.3 Sums insured and bonuses.
4.4 Surrender Values.
4.5 Options.
4.6 Other.

5 **Reinsurance Arrangements**

6 **Experience - Recent and Expected**

6.1 Mortality.
6.2 Morbidity.
6.3 Investment Earnings.
6.3.1 Income.
6.3.2 Capital.
6.3.3 Tax.

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6.4 Expenses.
- 6.4.1 Initial.
- 6.4.2 Other.
- 6.4.3 Inflation.

6.5 Termination of policies.
- 6.5.1 Lapse.
- 6.5.2 Surrender.
- 6.5.3 Transfer.

6.6 Product mix.
- 6.6.1 Proportion of with profits policies.

7 <u>Assets</u>

7.1 Veracity of data.
7.2 Summary by type.
7.3 Investment return.
7.4 Term.
7.5 Suitability to liabilities.
7.6 Value.
7.7 Tax.

8 <u>Investment Policy</u>

8.1 Current policy and trend.
8.2 Impact on Return.
8.3 Suitability to liabilities.

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