
EXPLANATORY MEMORANDUM TO PS 201 ACTUARIAL ADVICE TO A LIFE INSURANCE COMPANY OR FRIENDLY SOCIETY

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 201 Actuarial Advice to a Life Insurance Company or Friendly Society (PS 201).

PS 201 is one of four professional standards applying to actuarial advice provided to life insurers including friendly societies (hereafter in this Explanatory Memorandum references to life insurers includes friendly societies).

These standards 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). For life insurers, it replaces LPS 320 Actuarial and Related Matters (LPS 320). The four 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.
- ▶ PS 201 Actuarial Advice to a Life Insurance Company or Friendly Society – the subject of this Explanatory Memorandum.
- ▶ PS 202 Actuarial Valuations for Life Insurance Companies (Including Friendly Societies and Eligible Foreign Life Insurance Companies).

Currently, professional standards for advice to life insurers are set out in a single standard, PS 200 Actuarial Advice to a Life Insurance Company or Friendly Society (PS 200), which was most recently issued in July 2015.

B. Feedback on Exposure Draft

The Exposure Draft for PS 201 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.

Explanatory Memorandum to PS 201
Actuarial Advice to a Life Insurance Company or Friendly Society

June 2019

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 201:

- ▶ 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.
- ▶ Inclusion of a requirement to include a statement that written advice has been prepared in accordance with this professional standard (clause 5.2.2).
- ▶ Altering clause 5.2.4 to remove the compulsion for Members to communicate reliance on the work of others, instead ensuring that the Member considers how to communicate and verify the work.
- ▶ 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 201

As part of its regulation of insurers, APRA issued CPS 320 in June 2018 and it requires life insurance companies to have an Actuarial Advice Framework (AAF) for the provision of actuarial advice. PS 200 previously governed the work of the Appointed Actuary in giving product and reinsurance advice under the previous regulatory standard, LPS 320. PS 201 has additional requirements compared to the requirements of PS 200, including recognising that actuarial advice may be provided under the AAF by a Member other than the Appointed Actuary.

D. Key additions and differences from PS 200

Key changes in PS 201 compared with the requirements in PS 200 applicable to giving product and reinsurance advice are set out below.

It should be noted that, while some of the main additions and differences in PS 201 from PS 200 are set out below, a reading of PS 201 in its entirety is needed to fully understand the differences.

Section 1 Introduction

This section is overall similar to PS 200 and has been written to have a structure and content consistent with other professional standards.

It clarifies that PS 201 applies to Members providing advice on products and reinsurance arrangements, apportionments or distributions of profit and capital.

Clause 1.1.1 outlines that this Standard applies to Members providing advice as required by the regulatory regime because CPS 320 permits actuarial advice to be provided by actuaries who are not the Appointed Actuary. PS 200 previously referred to only Appointed Actuaries. PS 201 also applies to Members who support another Member in providing such advice.

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 201.

Clause 1.3.7 outlines the requirements where work performed is Prescribed Actuarial Advice.

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. This information **must** be disclosed to comply with the standard.
- ▶ **'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 201 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 similar to the current PS 200.

In producing PS 201 there was debate whether the definition of materiality for actuarial advice must be in accordance with any relevant requirements of the Actuarial Advice Framework. It was decided that, while Members giving advice should be aware of the materiality set within the Actuarial Advice Framework, Members should not always be bound by this in carrying out their duties.

Section 5 Overall Principles

In producing PS 201, there was debate whether Members should be bound by requirements of the Actuarial Advice Framework. It was decided that this would not be appropriate for all Members in all situations, therefore, 5.2 "Written advice and record keeping" states that written advice, should have "reference to the requirements and authorities of the Actuarial Advice Framework pertinent to the advice."

PS 200 referenced Sections 97 and 98 of the Life Insurance Act which give the Appointed Actuary power to carry out their duties. These sections of the Act may not apply for advice given by Members who are not the Appointed Actuary and therefore these references have been removed. However, there is a requirement for Members to outline material information relied upon and material issues or concerns with information or data when giving advice (clause 5.4.3 of PS 201).

Section 6 Product Advice and Section 7 Reinsurance Arrangements

The description of the requirements for product and reinsurance advice in PS 201 has a similar structure to the equivalent section in PS 200. The word "buyer" has been replaced with "Policy Owner", the word "should" has been replaced with "must", consistent with the mandatory nature of an Institute professional standard and the word "ensure" has been removed or replaced, consistent with Institute professional guidance.

Other modifications to PS 201 compared to PS 200 are set out below:

- ▶ An additional requirement has been included in clause 6.1.1 to include commissions.
- ▶ Clause 6.4.3 has slightly revised the Member's responsibility for considering equity, replacing the need in PS 200 to "try to ensure that the maintenance of equity during the life of the policy will not present undue practical difficulty" with the need in PS 201 to "consider aspects which could impact the maintenance of equity during the life of the policy."
- ▶ Clause 6.6.1 clarifies that a profit testing approach may not be required in all cases to test the suitability of premium rates and charges.
- ▶ The requirement in the existing PS 200 that the Member be satisfied that documentation and promotional material related to the product is consistent with the terms and conditions

of the policy, was revised in PS 201. Requiring the Member to consider the controls over final public material is considered a practical and realistic requirement, as well as aligning to what might be a minimum expected role of actuaries within an organisation's overall processes and governance over such documents. On this basis revised paragraphs on this matter were included as clauses 6.7.2 and 6.7.3.

- ▶ PS 201 has a new clause 6.9.5 outlining that advice on the approach to unit pricing for new policies could potentially reference previous advice given.

Section 8 Investment Strategy

Clause 8.1 addresses the requirement for advice per Attachment B of CPS 320 in respect of changes in investment strategy for participating business and business with discretionary participating features.

Section 9 Apportionments

Clause 9.2 (c) has had the specific example on audit fees removed.

Clause 9.6.1 has had the specific reference to the tax treatment of expense deductions removed.

Section 10 Distributions of Profits and Capital

Clause 10.1.1 now specifies Section 62 of the Life Insurance Act as the requirement for written advice, previously referred to as "the regulatory regime".

E. Commencement date

PS 201 applies to any relevant advice or Report given to an Entity on or after 1 July 2019. The aspects of PS 200 relevant to the matters covered by PS 201 will be withdrawn at the time that PS 201 becomes effective.

END OF EXPLANATORY MEMORANDUM