
PROFESSIONAL STANDARD 102
FINANCIAL CONDITION REPORT
October 2024

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1. Introduction

1.1. Application

- 1.1.1. This Professional Standard applies to the Appointed Actuary in preparing a Financial Condition Report (FCR) for an Entity. Financial condition generally refers to the current and expected future financial capacity of an Entity to meet its business objectives, regulatory requirements and customer obligations. The FCR is a written report to assess the financial condition of an Entity, at the end of each financial year or at other times as may be required.

In addition to assessing the overall financial condition of the Entity, the FCR for a life insurer must include an assessment of the financial condition of each of the statutory funds of the Entity; and the FCR for a private health insurer must include an assessment of the financial condition of each of the health benefit funds of the Entity. Additional requirements for each practice area are in Appendix A (general insurers), Appendix B (life insurers and friendly societies) and Appendix C (private health insurers).

This Professional Standard also applies to Members supporting the Appointed Actuary in preparing the FCR for an Entity, as relevant to their contribution to the Services.

- 1.1.2. An Appointed Actuary preparing an FCR for an Entity under this Professional Standard:

- a. must be an Eligible Actuary; and
- b. must exercise his or her independent professional judgement and give impartial advice.

Members supporting the Member providing advice under the Professional Standard are not required to be an Eligible Actuary. However, this Professional Standard applies to Members who support another Member in providing advice under the Professional Standard, to the extent relevant to their contribution to the Services.

- 1.1.3. All work performed under this Professional Standard, whether by the Appointed Actuary preparing the FCR for an Entity or by a Member supporting the Appointed Actuary preparing the FCR, is designated as an Applicable Service. As such, Members' attention is directed towards Practice Guideline 1 (General Actuarial Practice) which applies to Applicable Services. In the case of a Member supporting the Appointed Actuary, Practice Guideline 1 applies as relevant to their contribution to the Services.
- 1.1.4. There may be circumstances in which a Member is asked to prepare a FCR for a body other than an Entity. In such instances, the Member does not need to be an Eligible Actuary, however the Member must take account of the general considerations in this Professional Standard. Work performed in these circumstances is designated as an Applicable Service and the Member's attention is directed towards Practice Guideline 1 as relevant to the nature of the Services.

- 1.1.5. This Professional Standard was first released in response to APRA's reconsideration of the functions of the Appointed Actuary role and subsequent release of CPS 320 Actuarial and Related Matters dated 6 June 2018, which was effective 1 July 2019.
- 1.1.6. There are likely to be other matters or situations not directly referred to in this Professional Standard, whether or not referenced by the regulatory regime, in which an Appointed Actuary's advice will be sought or must be given to the management or the Board of the Entity. In such circumstances, the Appointed Actuary must take account of the general considerations in this Professional Standard, along with relevant provisions of the Code.
- 1.1.7. The Appointed Actuary may be required to provide the Entity with written advice. In doing so, the Appointed Actuary must bear in mind that one of the principal objectives of the relevant Acts is to protect the interests of the owners and prospective owners of insurance policies in a manner consistent with the continued development of a viable, competitive and innovative insurance industry.
- 1.1.8. An Appointed Actuary has legal obligations to report certain matters, information or opinions to APRA. These obligations are referred to as "whistle blowing". The obligations, details about what must be reported, related powers and protections are provided in relevant sections of the Acts. An Appointed Actuary and Members supporting the Appointed Actuary must understand the obligations that apply to them in their circumstances. This may require the Appointed Actuary and/or Members to seek legal or other professional advice.

1.2. Previous Versions

- 1.2.1. The previous version of this Professional Standard was issued in March 2020 and incorporated conformance changes to align with the Institute's new Code (effective 31 March 2020). The initial version of this Professional Standard was issued in June 2019. Prior to June 2019, there were related industry-specific standards, as set out in clause 1.2.2.
- 1.2.2. Actuarial advice to life insurers and friendly societies was governed by Professional Standard 200 Actuarial Advice to a Life Insurance Insurer or Friendly Society (PS 200), which was most recently issued in July 2015. Actuarial advice on financial condition reports to general insurers was governed by Professional Standard 305 Financial Condition Reports and Review of Run-off Plans for General Insurance (PS 305), which was most recently issued in March 2013. Actuarial advice to private health insurers was governed by Professional Standard 600 Financial Condition Reports for Private Health Insurers (PS 600), which was most recently issued in March 2017.
- 1.2.3. Changes were made from 1 October 2024 in line with the revised Policy for Developing Professional Practice Documents adopted by Council in September 2024.

1.3. About this Professional Standard

- 1.3.1. This Professional Standard:

- a. has been prepared in accordance with the Institute's Policy for Developing Documents to Guide and Regulate Professional Practice;
 - b. must be applied in the context of the Code;
 - c. binds Appointed Actuaries when they perform work that the Standard covers; and
 - d. defines the Institute's requirements for all work the Professional Standard covers.
- 1.3.2. If an Appointed Actuary believes that this Professional Standard is ambiguous or wishes to seek clarification of it, then they may consult the Institute's Professional Standards Committee for an interpretation.
- 1.3.3. A Member may in rare circumstances be unable to carry out their work in full compliance with this Professional Standard. If a Member finds that they cannot carry out their work in a way that fully complies with this Professional Standard, then they must:
 - a. decline to carry out the work; or
 - b. end their agreement to do so.
- 1.3.4. Notwithstanding clause 1.3.3, if
 - a. in the judgement of the Member, the Client is likely to suffer significant loss or disadvantage if the Member ceases to provide the Services, and
 - b. the Services will not be Materially affected if the Member completes the work without full compliance with this Professional Standard,the Member may complete the Services but must:
 - i. clearly qualify the resulting work product, with both the title of the report and the scope of the work set out in the report acknowledging the relevant limitations,
 - ii. make all reasonable attempts to comply with this Professional Standard to the fullest extent possible, and
 - iii. disclose the areas where change would be needed to enable the creation of an unqualified work product along with the reasons for issuing qualified work.
- 1.3.5. If a Member does not comply with this Professional Standard then that may constitute Misconduct under the Institute's Disciplinary Scheme, although proper account will be taken of provisions of clauses 1.3.3 and 1.3.4.

- 1.3.6. This Professional Standard does not constitute legal advice. Any interpretation or commentary within this Professional Standard regarding specific legislative or regulatory requirements reflects the expectations of the Institute but does not guarantee compliance under applicable legislation or regulations. Accordingly, Members should seek clarification from the relevant regulator and/or seek legal advice in the event they are unsure or require specific guidance regarding their legal or regulatory obligations.

1.4. Other relevant documents

- 1.4.1. This Professional Standard must be applied in the context of the relevant law, and relevant accounting, auditing standards and other regulatory standards.
- 1.4.2. A reference to legislation or a legislative provision in this Professional Standard includes any statutory modification, or substitution of that legislation or legislative provision and any subordinate legislation issued under that legislation or legislative provision. Similarly, a reference to a Professional Standard includes any modification or replacement of that Professional Standard.
- 1.4.3. Apart from the Code, from legislation or from regulatory standards, no other document, advice or consultation (including Practice Guidelines of the Institute) can be taken to modify or interpret the requirements of this Professional Standard.
- 1.4.4. If there is a conflict between this Professional Standard and any legislation, then the legislation takes precedence. In this context, legislation includes regulations, prudential standards, subordinate standards, rules issued by government authorities and standards issued by professional bodies which have the force of law.

2. Commencement Date

This Professional Standard applies to any relevant advice or Report given to an Entity in respect of an Effective Date on or after 1 October 2024.

3. Definitions

3.1. In this Professional Standard:

‘Acts’ mean collectively the Life Act, the Insurance Act and the Health Act.

‘Actuarial Advice Framework’ means the Entity’s framework for the provision of actuarial advice that enables the Appointed Actuary to perform the functions of the role, as required under CPS 320.

‘Applicable Services’ mean Services that are designated in an Institute Professional Standard or Practice Guideline as being Applicable Services.

‘Appointed Actuary’ means a Member holding an appointment by the Entity under section 93 of the Life Act, section 39 of the Insurance Act or section 106 of the Health Act.

‘APRA’ means the Australian Prudential Regulation Authority.

‘APRA Standards’ mean the Prudential Rules, Prudential Standards, Prudential Practice Guidelines and Reporting Standards issued by APRA from time to time in accordance with the Act.

‘Actuarial Valuation Report (AVR)’ means a report prepared in accordance with CPS 320.

‘Board’ means the Board of directors of an Entity.

‘Capital’ and ‘Capital Base’ are defined in LPS 112 and GPS 112.

‘Code’ means the Code of Conduct of the Institute.

‘CPS 320’ means APRA Prudential Standard CPS 320 Actuarial and Related Matters.

‘Disciplinary Scheme’ means the document of that name prepared by the Institute setting out the rules and procedures governing professional discipline of a Member, as amended by Council from time to time.

‘Discretionary Investment Benefit’ means any participating benefit or non-participating benefit where the benefit is increased to reflect the investment experience of the assets backing the benefit, and where the amount of the increase in the benefit to reflect the investment experience is either subject to averaging over time or at the discretion of the Entity. For the purposes of this definition, the allowance for a certain rate of investment return in determining the premiums for a benefit does not imply that the benefit reflects the investment experience of the assets backing the benefit.

‘Effective Date’ means the date of the financial statements and valuation of policy liabilities to which the FCR applies.

‘Eligible Actuary’ means:

- a. a Fellow or Accredited Member of the Institute; or
- b. a Member who is eligible to act in an actuarial capacity pursuant to a requirement under legislation.

‘Entity’ means the legal entity registered under the Act as the general insurer, life insurer, as the friendly society, private health insurer or otherwise, as the context requires. Reference in the Professional Standard to advice to the Entity includes advice to the Board of the Entity.

‘Financial Condition Report (FCR)’ means a written Report to assess the financial condition of an Entity.

‘GPS 110’ means APRA Prudential Standard GPS 110 Capital Adequacy.

‘GPS 112’ means APRA Prudential Standard GPS 112 Capital Adequacy: Measurement of Capital.

‘GPS 230’ means APRA Prudential Standard GPS 230 Reinsurance Management

‘Health Act’ means the Private Health Insurance (Prudential Supervision) Act 2015.

‘HPS 100’ means APRA Prudential Standard HPS 100 Solvency Standard.

‘HPS 110’ means APRA Prudential Standard HPS 110 Capital Adequacy.

‘Internal Capital Adequacy Assessment Process’ (ICAAP) is defined in LPS 110 and GPS 110.

‘Insurance Act’ means the Insurance Act 1973 (Cth).

‘Intended User’ means any legal or natural persons (generally including the Client) whom

- a. the Member intends to use the output of the Services, or
- b. at the time the Member performs the Services, the Member ought reasonably to expect will use the output of the Services.

‘Life Act’ means the Life Insurance Act 1995 (Cth).

‘LPS 110’ means APRA Prudential Standard LPS 110 Capital Adequacy.

‘LPS 112’ means APRA Prudential Standard LPS 112 Capital Adequacy: Measurement of Capital.

‘LPS 230’ means APRA Prudential Standard LPS 230 Reinsurance.

LPS 370’ means APRA Prudential Standard LPS 370 Cost of Investment Performance Guarantees.

‘Material’ means relevant to a decision of an Intended User of the Services (clause 4 addresses ‘Materiality’ for the purpose of this Standard). For this purpose, ‘Material’ does not have the same meaning as in Australian accounting standards.

‘Misconduct’ is defined in the Actuaries Institute Disciplinary Scheme.

‘Policy Owner’ means the owner of an insurance policy as defined in the relevant Acts, and includes reference to a member of a benefit fund of a friendly society as the context requires.

‘Recovery Plan’ means a plan of actions an institution can take to respond to a significant stress and restore itself to a financially sound position.

‘Report’ means a document prepared by a Member under this Professional Standard.

‘Risk Management Framework’ is as defined in APRA Prudential Standard CPS 220 Risk Management.

‘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.

3.3. A word that is derived from a defined word has a corresponding meaning.

3.7. Other capitalised terms used in this Professional Standard have the same meaning as set out in the Code.

4. Materiality

4.1. The Member must take Materiality into account when performing work under this Professional Standard.

4.2. Determining whether something is Material or not, or determining the threshold of Materiality, will always be a matter requiring the exercise of the Member’s professional judgement. When exercising this judgement, the Member must:

- a. assess Materiality from the point of view of the Intended User(s), recognising the purpose of the Services. Thus, a matter required to be considered under this Professional Standard, or an omission, understatement, or overstatement, is Material if the Member expects it to affect significantly either the Intended User’s decision-making or the Intended User’s reasonable expectations; and
- b. consider the Services and the subject of those Services.

In setting a threshold of Materiality, a Member must consider any requirements advised by the Client, an auditor retained by the Client or a relevant regulator. Where those requirements result in the exclusion of a matter which would otherwise be included, the Member must disclose the reason for the exclusion, and its nature and extent.

4.3. If the Member has formed the opinion that a matter required to be considered is not Material, then the Member must record that the matter is not Material and provide reasons for forming that opinion but does not have to further consider that matter.

4.4. The Member must assess whether any omissions, understatements, or overstatements are Material. If the effect of these in aggregate is Material, the Member must disclose this in any Report to which it is relevant.

5. Scope of FCR

5.1. Principles of FCR

- 5.1.1. The purpose of the FCR is to assess the overall financial condition of the Entity. In addition, the FCR for a life insurer must include an assessment of the financial condition of each of the statutory funds of the Entity; and the FCR for a private health insurer must include an assessment of the financial condition of each of the health benefit funds of the Entity. The criteria used to assess the financial condition of the Entity must be stated, and the reasons for reaching the outcome of the assessment must be summarised in the FCR. The assessment criteria and the reasons for conclusion can be based on both financial (e.g. capital adequacy, profitability of product) and non-financial assessments (e.g. reputation risk and the Entity's operating environment), to the extent that non-financial risks may impact on the future financial position of the Entity.
- 5.1.2. The FCR must disclose the following information listed below, with consideration as at the Effective Date of historical analysis and/or future implications, where applicable:
- a. Business overview;
 - b. Assessment of insurance liabilities, including a summary of the Actuarial Valuation Report for Life and General Insurers, and a summary of the insurance liability valuation for Private Health Insurers;
 - c. Assessment of pricing;
 - d. Assessment of reinsurance strategy;
 - e. Assessment of investment strategy;
 - f. Assessment of actual experience and profitability;
 - g. General observations on the risk management framework;
 - h. General observations on the Entity's approach to Capital management and assessment of current and future profitability and capital adequacy;
 - i. For life insurers, assessment of the equitable treatment of participating Policy Owners;
 - j. For life insurers, assessment of guarantees in investment-linked funds; and
 - k. Comments on concerns in relation to the operation and effectiveness of the Actuarial Advice Framework.
- 5.1.3. If the Appointed Actuary identifies additional matters Material to the Entity's financial condition, not detailed in the above clause, the Appointed Actuary must disclose such matters in the FCR.

- 5.1.4. In this Professional Standard, where an Appointed Actuary is placed under an obligation “where reasonably practicable”, and the Appointed Actuary forms the view that it is not reasonably practicable, the Appointed Actuary must record their reasons.

5.2. Content of FCR

5.2.1. A FCR must:

- a. comply with any relevant documentation and reporting requirements set out in the Code;
- b. include all items required by this Professional Standard to be disclosed and any items required to be documented by applicable APRA Prudential Standards; and
- c. disclose such other matters as to which the Appointed Actuary forms a view, as a matter of judgement, that circumstances surrounding or affecting the financial condition assessment warrant disclosure.

- 5.2.2. The level of detail to be provided in a FCR will depend on the purpose of the financial condition assessment, the size and complexity of the Entity’s insurance business and considerations of Materiality. In determining the level of detail to be provided, the Appointed Actuary must disclose information in the FCR sufficient for an informed reader of that FCR to draw a conclusion that the derivation of the results stated in the FCR was reasonable.

5.3. Working papers and other documentation

- 5.3.1. CPS 320 requires an Entity to take all reasonable steps to ensure that working papers and other records of an Appointed Actuary in relation to prudential requirements are retained for a period of seven years. An Appointed Actuary must assist an Entity by identifying their working papers and other records and retaining this information and/or providing it to the Entity. The Appointed Actuary must also make this information available to APRA where requested in writing.

An Appointed Actuary must include in their documentation all items required by this Standard to be recorded. The items required by this Standard to be recorded must contain sufficient detail and clarity that another actuary qualified in the same practice area could make an objective assessment of the reasonableness of the Appointed Actuary’s work.

5.4. Corporate group considerations

- 5.4.1. Where the FCR is being prepared with respect to the business carried out in Australia by, or to the Australian branch operation of, an overseas entity, the FCR at a minimum must be prepared in respect of the Australian operations.
- 5.4.2. In such cases, where there is potential for the overseas head office, or other business carried on outside Australia by the Entity, to Materially affect the position of the Entity, the FCR must, where possible:

- a. take into consideration the financial position of the business, or head office; and
- b. include commentary and analysis on risks and/or benefits to the Entity both financial and non-financial.

5.5. Non-Fund Business (for private health insurers)

- 5.5.1. For private health insurers, the Appointed Actuary must disclose commentary and analysis on business conducted by the Entity outside its health benefit funds which may impact on the financial condition of these funds. In doing so, the Appointed Actuary must be guided by clause 5.1.2 and Materiality guidance above (clause 4).
- 5.5.2. The Appointed Actuary must disclose commentary on identified financial and non- financial risk(s) the non-fund businesses may have on the financial condition of the private health insurer's funds.

6. Requirements of the FCR

6.1. Statements by the Appointed Actuary

- 6.1.1. The Appointed Actuary must sign and state the date of completion of the written FCR.
- 6.1.2. The Appointed Actuary must provide the FCR to the Entity to allow the Board sufficient and reasonable opportunity to consider the information within the FCR in preparing the annual regulatory financial statement.
- 6.1.3. A statement must be included that the FCR has been prepared in accordance with this Professional Standard.
- 6.1.4. The Appointed Actuary must disclose in the FCR that it is a report as required b CPS 320.

6.2. Data/Information requirements

- 6.2.1. The Appointed Actuary must request:
 - a. relevant information required for preparation of the FCR, including data and reports; and access to staff and/or contractors of the Entity.
- 6.2.2. Where the Entity does not provide adequate and timely access to information (including data and reports) and staff, as required by the Appointed Actuary, and the information cannot otherwise be practically obtained, the Appointed Actuary may omit from the Report analysis that is dependent on that information, but must disclose:
 - a. an explanation as to why it has been omitted;
 - b. Details of any assumptions made as a result of the information limitations; and

- c. an assessment of the consequent limitations of the FCR.

6.2.3. Where the Appointed Actuary places reliance upon others to provide information required, and this information is limited or not forthcoming, the Appointed Actuary must disclose this in the FCR, together with an assessment of the consequent limitations of the FCR.

6.2.4. The Appointed Actuary must take reasonable steps to verify and record the completeness and accuracy of the information, including data and reports, provided by the Entity against the Entity's financial and other records. Material discrepancies that cannot be resolved with the Entity must be disclosed, together with any consequent limitations of the FCR.

6.3. Reliance on others

6.3.1. In the FCR, the Appointed Actuary must:

- a. disclose what the Appointed Actuary has relied on that has been provided by another person; and
- b. disclose details of the steps the Appointed Actuary took to determine whether it was appropriate to rely on the other person's work.

6.3.2. If, in performing work under this Professional Standard, an Appointed Actuary wishes to rely on someone else's (including another Member's) work, then the Appointed Actuary must:

- a. inform the other person that the Appointed Actuary is relying on his or her work; and
- b. assess the appropriateness of the other person's work for the Appointed Actuary's intended purpose.

6.3.3. If, following the Appointed Actuary's assessment under clause 6.3.2, where the Appointed Actuary is not satisfied, if possible, alternative analyses must be undertaken and explained in the FCR. If the alternative analysis is not performed, the Appointed Actuary must disclose the reasons why, including the implications, if any, on the assessment of financial condition of the Entity.

6.4. Business overview

6.4.1. A FCR must include general background information about the Entity.

6.4.2. General background information includes relevant information about:

- a. the Entity's corporate structure;
- b. the Entity's operations, including sales, underwriting and claim management practices;
- c. the Entity's strategy including business plans and projections;
- d. the Entity's product characteristics, and for life insurers, Policy Owner characteristics;

- e. any support given or likely to be given to the Entity by any parent or associated body, including implicit and explicit guarantees; and
- f. any prudential requirements imposed on the Entity by APRA in writing that do not form part of the Act or prudential standards.

6.4.3. Risks arising from the above background information must be discussed in the FCR.

6.4.4. In the FCR the Appointed Actuary must also comment on recent developments in the Entity's operating environment which could have an impact on the Entity's future financial position. This may include but not be limited to industry, environmental, political, legal and social changes.

6.4.5. For private health insurance, the Appointed Actuary must disclose a summary of relevant changes to fund rules.

6.5. Valuation of insurance liabilities

6.5.1. A FCR must include a summary of the key results of, and risks arising from, the valuation of insurance liabilities prepared at the Effective Date. For a life or general insurer, this is in reference to the key results detailed in the AVR and for a private health insurer, to the insurance liability valuation.

6.5.2. The key results from the valuation of insurance liabilities in the FCR must include a summary of:

- a. completeness and accuracy of data and information relied on;
- b. assumptions used and the methodologies applied, including any key risks and limitations;
- c. for life insurers, key drivers of profit over the year and any implications for future expectations. Where the Entity has Material participating business, a corresponding analysis must be produced in respect of Policy Owner profit emergence; and
- d. for general and private health insurers, a reconciliation to prior results.

6.5.3. The Appointed Actuary must review risks in calculating the valuation of insurance liabilities of the Entity and disclose the principal means by which those risks are managed and/or controlled.

6.6. Pricing

6.6.1. A FCR must include the Appointed Actuary's assessment of pricing, including the suitability and adequacy of premiums and, if relevant, the adequacy for both new business and in-force premiums.

6.6.2. Where applicable, the Appointed Actuary must consider the following when undertaking an assessment of pricing:

- a. the process for establishing the actual premium rates charged;
- b. the links between underwriting, product design, valuation, claims management and pricing;
- c. monitoring of premium rates charged and how the Entity responds to the outcomes of that monitoring;
- d. the adequacy of premium rates relative to the business plan and/or the Entity's corporate pricing standards;
- e. the likely outcome for the customer; and
- f. other risks arising from the Entity's pricing processes.

6.6.3. For life insurers, if it is considered that the premium rates and charges for a product are inadequate, or likely to become inadequate, the Appointed Actuary must disclose why that opinion is held and indicate the potential or likely financial consequences of their continued adoption by the Entity. If a review of premium rates is recommended, it need not be completed as a part of the FCR.

6.7. Reinsurance arrangements

6.7.1. The FCR must include the Appointed Actuary's assessment of the suitability and adequacy of reinsurance.

6.7.2. The Appointed Actuary must consider the following when assessing the suitability and adequacy of the reinsurance strategy:

- a. the reinsurance management strategy, and the appropriateness of this given the risk and capital profile of the Entity. Any intra-group reinsurance arrangements and relationships between the Entity and other Entities or institutions within the corporate group must be considered;
- b. the effectiveness of reinsurance arrangements in past periods when considered against the strategy;
- c. the risk appetite of the Entity;
- d. the sufficiency, adequacy and effectiveness of the current and planned arrangements given the Entity's risk profile, the administration of any arrangements, and the profile of the Entities with which the reinsurance has been placed and how this impacts the certainty of receiving future recoveries;
- e. whether any of the reinsurance arrangements are likely to become inappropriate; and
- f. other risks arising from the reinsurance strategy.

6.7.3. Further detail on the nature of specific reinsurance requirements related to general or life insurers are contained in Appendices A and B respectively.

6.7.4. For private health insurers, the Appointed Actuary must consider the impact of risk equalisation.

6.8. Investment strategy

6.8.1. A FCR must include the Appointed Actuary's assessment on the Entity's investment strategy, including its asset hedging strategy and its approach to asset and liability management.

6.8.2. In undertaking this assessment, the Appointed Actuary must consider:

- a. liquidity needs;
- b. the mismatching of assets and liabilities;
- c. investment assets, in particular the investment strategy, the nature and quality, quantum and performance of those assets;
- d. other assets, in particular reinsurance and non-reinsurance recoveries;
- e. insurance liabilities, including any guarantees and options;
- f. non-insurance liabilities;
- g. the methods for valuing assets and non-insurance liabilities, particularly, changes in those methods;
- h. default/credit risks and any derivative exposures held; and
- i. other asset risk.

6.9. Actual experience and performance

6.9.1. In the FCR, the Appointed Actuary must identify and comment upon features or trends in the Entity's recent experience.

6.9.2. In relation to experience items, deviations of actual experience from the projected experience of the Entity over the period, since the previous balance date, must also be discussed, including an assessment of the reasons for these deviations, the impact this has on the Entity's financial condition, and the associated risks and steps taken, or proposed to be taken to address any areas of adverse experience.

6.10. Risk management framework

- 6.10.1. In the FCR, the Appointed Actuary must provide general observations on the overall risk management framework, with a focus on financial and non-financial risks that could have a Material adverse effect on the financial condition of the Entity, including, how these risks are managed by the insurer.

6.11. Capital management

- 6.11.1. In the FCR the Appointed Actuary must comment on the Entity's approach to capital management (for general and life insurers, such comments must have regard to, where relevant, the Entity's ICAAP, ICAAP Summary Statement and ICAAP Report) and any associated risks, and if relevant, the Recovery Plan.
- 6.11.2. In making the comments, the Appointed Actuary must consider and disclose:
- a. the Entity's approach to setting and monitoring capital resources and capital needs over time including (if relevant) dividend policy; and
 - b. the processes and controls which the Entity has in place to monitor compliance with regulatory capital requirements and internal capital targets;

6.12. Current and future profitability and capital adequacy

- 6.12.1. The FCR must include the Appointed Actuary's assessment of current and future profitability and capital adequacy. In making the assessment, the Appointed Actuary must consider and disclose:
- a. the Entity's position with respect to its capital targets (including any regulatory capital requirements) since the previous FCR and, where the Entity has fallen below these capital targets during that time, the actions taken by it to rectify the shortfall. Where there is no previous FCR, the relevant period is to be the past year or for a new Entity, from when it was first established;
 - b. the Entity's capacity to meet its capital targets (including any regulatory capital requirements), over at least the next three years taking into account the Entity's:
 - i. current capital position, including the net assets;
 - ii. projected profitability;
 - iii. ability to access additional capital;
 - iv. assets which are either designated as regulatory adjustments to the net assets or which incur an asset concentration capital charge for capital purposes;
 - v. supervisory adjustment, if any, as determined by APRA;

vi. dividend policy; and

vii. plans and planned changes in risk profile.

c. in general, the effect other business the Entity conducts may have on its insurance business.

6.12.2. For a general and life insurer, the Appointed Actuary must also consider any relevant requirements in the Entity's ICAAP and those listed in Appendices A and B of this Professional Standard. For a private health insurer the Appointed Actuary must consider the requirements in Appendix C.

6.13. Equitable treatment of participating Policy Owners

6.13.1. For a life insurer, the FCR must include the Appointed Actuary's assessment of whether, over the period concerned, the treatment of participating Policy Owners has been both fair and equitable. Fair and equitable treatment would include consideration of equity between generations of Policy Owners, and consideration of the benefits that could reasonably be expected in relation to policy features as stated in the product disclosure statement.

6.14. Guarantees in investment-linked statutory funds

6.14.1. For a life insurer the FCR must include the Appointed Actuary's assessment of whether the Entity has complied with LPS 370 in respect of each relevant statutory fund during the financial year concerned.

6.15. Actuarial Advice Framework

6.15.1. In the FCR the Appointed Actuary must comment on, and disclose, any concerns they have in relation to the operation and effectiveness of the Actuarial Advice Framework.

6.15.2. The comments the Appointed Actuary has in relation to the operation of the Actuarial Advice Framework, if any, may relate to:

a. the operation and effectiveness of the Actuarial Advice Framework;

b. whether the Materiality policy has worked effectively; and

c. how the Entity has used actuaries other than the Appointed Actuary.

6.15.3. The Appointed Actuary must comment on any concerns that they have regarding the Actuarial Advice Framework that could impact the Entity's financial condition.

6.15.4. In commenting on the Actuarial Advice Framework, the Appointed Actuary must consider matters including:

- a. whether there are any matters that prevent the Appointed Actuary from adequately performing any functions of the Appointed Actuary role or the Entity from complying with applicable prudential requirements;
- b. whether these observations have been raised with management and, if so, how have they been addressed; and
- c. how the observations expressed by the Appointed Actuary in the previous year's FCR have been addressed by the Entity.

6.16. Conclusions and Recommendations

- 6.16.1. In the FCR the Appointed Actuary's assessment of the financial condition of the Entity must include a discussion of the implications for the Entity of identified risks and issues.
- 6.16.2. The Appointed Actuary must consider whether any specific actions by the Entity are warranted to address the identified risks and issues and, if so, the Appointed Actuary must make specific recommendations to the Board within the FCR.
- 6.16.3. The Appointed Actuary must provide reasons to support any recommendations.
- 6.16.4. The Appointed Actuary must consider whether to consult with management or the Board or both, as appropriate, in relation to any recommendations.
- 6.16.5. Where recommendations have been made in previous FCRs, the Appointed Actuary must comment on:
 - a. progress by the Entity in addressing those recommendations; and
 - b. the consequences of any lack of progress in addressing those recommendations.
- 6.16.6. For a private health insurer, the Appointed Actuary must consider whether any matter(s) in the FCR warrant the specification of an event by the Appointed Actuary as a private health insurance matter within the meaning of CPS 320.

Appendix A: General Insurance

A.1 Reinsurance

- A.1.1 When commenting on the suitability and adequacy of the reinsurance strategy the Appointed Actuary must also consider:
- a. The sufficiency to cover the Probable Maximum Loss;
 - b. sufficiency to cover likelihood of multiple events impacting on the Entity;
 - c. obligations to pay future premiums; and
 - d. sufficiency of reinstatement arrangements.
- A.1.2 The use of limited risk transfer products, such as financial reinsurance or purported reinsurance must be commented upon.

A.2 Current and future capital adequacy

- A.2.1 The Appointed Actuary must assess and disclose the adequacy of the calculation of the Entity's Insurance Concentration Risk Charge, including an assessment of the impact of multiple events in a year for an Entity with exposures to other accumulations.

A.3 Run-off insurers

- A.3.1 A run-off insurer's Appointed Actuary does not have to prepare a FCR where the Entity prepares a run-off plan.
- A.3.2 The Appointed Actuary must prepare a report on the review of the run-off plan. The Appointed Actuary must also advise on the insurance liabilities and demonstrate that tangible assets after any proposed capital reductions are sufficient to meet insurance liabilities at a 99.5% sufficiency.
- A.3.3 In such cases, the report on the review of the run-off plan must comply with the requirements of this standard as if the term "Review of Run-off plan" replaces "FCR".
- A.3.4 A review of the run-off plan must include the Appointed Actuary's opinion on whether the run-off plan and supporting financial projections are reasonable and adequate, and, if not, recommendations to address any identified issues.

Appendix B: Life Insurance and Friendly Societies

B.1 Reinsurance

- B.1.1 When considering reinsurance arrangements both risk-related and financial support arrangements must be considered, as per the requirements of LPS 230.
- B.1.2 The Appointed Actuary must describe in general terms all arrangements in-force, and their purpose.
- B.1.3 The Appointed Actuary must describe the identity of reinsurers, the nature of the cover held with each, and circumstances, if any, under which the risk mitigation strategy may be diminished, for example through any termination clause and re-pricing rights within the reinsurance arrangement.

B.2 Risk Management Framework

- B.2.1 The Appointed Actuary, when providing general observations on the Entity's Risk Management Framework, must specifically consider:
 - a. the effectiveness of the Entity's controls and procedures surrounding the unit pricing processes and other processes that determine benefits payable to policy owners and premiums, fees and charges payable by policy owners;
 - b. the likely consequences and financial impact in the event of a failure in these controls and procedures; and
 - c. in the circumstances of the particular Entity being advised, whether comment needs to be made upon the more general business or legal risks that the Entity faces and which could impact the financial security of the Entity.

B.3 Capital Management

- B.3.1 In considering the approach to capital management, the Appointed Actuary, when providing general observations, must have regard to:
 - a. the extent of the Entity's capital, its position in the various statutory funds, the ability to transfer capital between funds, and additional capital which the Entity is able and willing to add in further support; and
 - b. the need to preserve sufficient capital in the Entity 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 Entity's business plans.

B.4 Current and future capital adequacy

- B.4.1 The Appointed Actuary must provide advice to the Entity regarding the calculation of the Entity's capital base and the prescribed capital amount of each statutory fund and the General Fund in accordance with the APRA Standards.
- B.4.2 When advising on the Entity's ability to meet the Prudential Capital Requirement for each statutory fund, the Appointed Actuary must have regard to:
- a. the sensitivity of capital levels to adverse experience;
 - b. the level of capital needed as excess over the Prudential Capital Requirement; and
 - c. the options available to improve capital and the ability in doing so.

Appendix C: Health Insurance

C.1 Capital Management

- C.1.1 The Appointed Actuary, when providing general observations, must consider and comment on the private health insurer's approach to setting, measuring and monitoring the capital resources of each health benefit fund over time.
- C.1.2 The Appointed Actuary must specifically include comment on:
- a. the Entity's processes and controls to monitor compliance with HPS 110.
 - b. the Entity's approach, as set out in its liquidity management plan, to setting and monitoring the private health insurer fund's liquidity levels; and
 - c. key risks arising from that approach to managing liquidity risk, and the Entity's processes and controls to monitor and comply with HPS 100.
- C.1.3 In order to comment on the financial condition of the private health insurer fund, the Appointed Actuary must review or perform projections of the financial position of the fund for a period of at least three years from the Effective Date. The projections of financial position must include forecasts of the fund's business volumes, profitability, the health benefit fund's solvency and capital adequacy. These projections must be performed with a starting date no more than 12 months prior to the Effective Date.
- C.1.4 The Appointed Actuary must comment on the suitability of all Material assumptions about expected future experience for the purposes of the projections used for the FCR and their appropriateness in the context of the fund's experience and business plans.

C.2 Current and future capital adequacy

- C.2.1 The FCR must include the Entity's calculations which demonstrate whether it complies with HPS 110 at the Effective Date in respect of its health benefit fund, and the projections demonstrating whether the Insurer is expected to comply with HPS 110 over the projected period.
- C.2.2 The Appointed Actuary must consider and comment on the Entity's compliance with HPS 110 in respect of its health benefit fund. The Appointed Actuary must specifically include comment on:
- a. the insurance liabilities valuation methodology which is used by the Entity for the purposes of preparing returns of financial information to APRA; and
 - b. the reasonableness of the methodology and amount of uncertainty allowed for by the Entity in calculating the stress test amount under HPS 110.

- C.2.3 The Appointed Actuary must discuss and, where the Appointed Actuary considers it appropriate, analyse, the range of potential profit and capital outcomes for the fund over the projection period which the Appointed Actuary considers are plausible and relevant to the fund's circumstances.
- C.2.4 Additionally, the Appointed Actuary must comment on the potential impact on the fund's capital position of specific adverse scenarios chosen by the Appointed Actuary which are relevant to the circumstances of the fund.
- C.2.5 In order to provide an understanding of the fund's ability to withstand adverse scenarios, the Appointed Actuary must consider and comment on the capital management implications of the range of potential future capital outcomes discussed in the previous paragraphs.
- C.2.6 The consideration and commentary above relates to both:
- a. the period ended at the Effective Date; and
 - b. any projections of the relevant items over the period covered.

END OF PROFESSIONAL STANDARD 102