



The Society of Actuaries in Ireland

Actuarial Standard of Practice LA-5 The Prudential Supervision outside the Republic of Ireland of Life Assurance Business

Classification

Mandatory

MEMBERS ARE REMINDED THAT THEY MUST ALWAYS COMPLY WITH THE CODE OF PROFESSIONAL CONDUCT AND THAT ACTUARIAL STANDARDS OF PRACTICE IMPOSE ADDITIONAL REQUIREMENTS UNDER SPECIFIC CIRCUMSTANCES.

Legislation or Authority

Any applicable insurance legislation or regulations in the relevant country

Application

Actuaries appointed to report, in fulfilment of a regulatory requirement, on the actuarial valuation and/or other aspects of the financial management of life assurance companies or other organisations writing life assurance business which are domiciled outside the Republic of Ireland, except

- a. in any country in which a full member of the International Actuarial Association or a regulatory or supervisory body provides formal guidance on the subject matter of this Actuarial Standard of Practice, provided that the work in question is performed in accordance with that formal guidance, or
- b. when preparing an Actuarial Function Report (AFR) in connection with an undertaking's compliance with Article 48 (1) of the Solvency II Directive and paragraph 8 of Article 272 of the Commission delegated regulation (EU) 2015/35, in relation to which ASP INS-1 applies.

Version	Effective from
1.0	25.04.1995
2.0	30.12.2006
2.1	01.11.2010
2.2	01.10.2017
2.3	01.09.2018
2.4	01.09.2021

Definitions

“*ASP*” means Actuarial Standard of Practice

“*the Code*” means the Code of Professional Conduct of the Society of Actuaries in Ireland

“*Company*” means the life assurance company or other organisation writing life assurance business for which the actuary acts

“*Liabilities to Policyholders*” means any liability of a Company to or in respect of a policyholder, including any obligation arising out of any broader regulatory requirement to treat its policyholders fairly

“*should*” is used to indicate that members must comply with a particular requirement or prohibition, unless the circumstances are such that the requirement or prohibition is inappropriate or disproportionate and non-compliance is consistent with the standards of behaviour, integrity, competence and professional judgement which other members or the public might reasonably expect of a member.

1 General

- 1.1 This ASP should be interpreted in the context of the legislation, regulations and practice of the country(ies) in which the Company is domiciled, with which an actuary to whom this ASP applies should be familiar. In addition, members of the Society of Actuaries in Ireland are reminded of their obligations under ASP PA-2, General Actuarial Practice. Members must ensure compliance with all relevant aspects of ASP PA-2 which should normally take precedence if any points of overlap cause a contradiction with this ASP.
- 1.2 The responsibilities of an actuary to whom this ASP applies are central to the financial soundness of the life assurance business of the Company in respect of which he or she is appointed.
- 1.3 In accordance with the Code, an actuary should not accept an appointment if he or she does not have the appropriate knowledge and practical experience relevant to the Company and types of business concerned. Regulations may also specify additional requirements. Before taking up an appointment, an actuary should ensure that the relevant requirements of the Code have been met.,
- 1.4 An actuary to whom this ASP applies should take all reasonable steps to ensure that the Company understands whether he or she is providing advice in accordance with regulations or related ASPs.
- 1.5 An actuary should be aware of the requirements of the Code relating to Communication. Advice provided by an actuary to the Company should normally include sufficient information and discussion about each relevant factor and about the results of his or her investigations to enable the recipient of the advice to judge both the appropriateness of any recommendations and the

implications of accepting them, including any implications for the Company's policyholders.

- 1.6 An actuary should be objective in the performance of his or her duties and take reasonable steps to satisfy himself or herself that he or she is free from bias. The Code provides relevant guidance on impartiality.
- 1.7 Sections 4 of this ASP applies only to an actuary who performs work referenced in that section for the purposes of a Company's compliance with legislative or regulatory requirements. An actuary should ensure that his or her terms of engagement are clear about whether these legislative or regulatory requirements apply or not.

2 The actuary's duties

- 2.1 The actuary should carry out the actuarial investigations specified and report in accordance with the relevant legislation or regulations. Where the actuary believes that the regulatory basis or format materially fails to make the real financial circumstances of the Company clear, the actuary should draw the attention of the Company to this in a supplementary report.
- 2.2 All material valuation methods and assumptions should be stated.
- 2.3 If the actuary considers that the report contains matters of significant concern which need to be addressed by the Company, he or she should normally seek permission to present the report in person (or via video/phone link as appropriate).
- 2.4 Where a material risk to the adequacy of the actuarial valuation has been identified, the actuary should consider advising the Company that the report, together with any relevant risk management reports or other relevant reports if any, or at least a specifically drafted summary of it or them, should be sent to the management or controlling body, as appropriate, of any organisation in the parental hierarchy of the Company which exerts significant influence on the decisions of the Company.
- 2.5 The actuary should bear in mind that any report required by the regulator which is publicly available may be used by third parties, including financial advisers and current and potential policyholders.
- 2.6 The actuary should consider whether to notify the regulator if, when he or she resigns from that role or when his or her appointment in that role is terminated or not renewed, there are circumstances concerning the cessation of the appointment which he or she thinks ought to be brought to the regulator's attention. Such considerations should take into account the duty of confidentiality to the client and the extent, if any, to which legislation overrides or exempts the actuary from that duty.
- 2.7 If the Company also carries out general insurance business or any non-insurance activities, the actuary should consider that business to the extent to which it might impact on the life assurance business. Even where the life assurance

business is legally separated, poor performance of the other business could affect, for example, the apportionment of overheads between the businesses or the capital available outside the life assurance business fund to meet any regulatory minimum margin. Where necessary, the actuary should seek advice from an actuary with relevant experience in general insurance or, in the case of non-insurance business, a recognised expert in that business.

- 2.8 The actuary should advise the Company if he or she believes that it may not currently be meeting Liabilities to Policyholders as they fall due or might not have done so in the past, or might in reasonably foreseeable circumstances fail to do so, either as a result of insufficient financial resources or otherwise.
- 2.9 Liabilities to Policyholders may include obligations arising from a regulatory requirement for the Company to treat its policyholders fairly, and may include implicit liabilities created by literature, illustrations or precedent. If so, the actuary should ensure that the Company's management is aware of his or her interpretation of its obligations to treat its policyholders fairly which need to be taken into account. In general terms, this interpretation should have regard to the broad nature of the Company's practices and its approach to the treatment of policyholders both individually and (where appropriate) collectively as a group vis-à-vis shareholders.
- 2.10 An actuary fulfilling a regulatory role should consider whether he or she is required to inform the regulator without undue delay if, having first informed the Company of matters envisaged in paragraph 2.8 above, the Company does not take appropriate action to remedy the situation. Such considerations should take into account the duty of confidentiality to the client and the extent, if any, to which legislation overrides or exempts the actuary from that duty. The actuary should ensure that the Company is aware of this professional consideration prior to informing the regulator.
- 2.11 The following list, which is not exhaustive, sets out the most usual items of information which are likely to be relevant to this section (noting that the relevance will be dependent upon the scope of the actuary's responsibilities and/or engagement):
 - (a) the current and likely future economic, investment, and regulatory environment;
 - (b) the terms on which existing business has been, and current new business is being, written, with particular reference to all options and guarantees, together with the entitlements and reasonable expectations, (where the actuary has a regulatory/statutory responsibility to consider such expectations), of the policyholders of those contracts;
 - (c) the existing investments of the life assurance fund (including the free assets contained in that fund) or equivalent where a life assurance fund concept does not exist and the continuing investment policy, including the use of derivative instruments;

- (d) the nature, extent and availability of the Company's assets outside the life assurance fund i.e. shareholder assets not backing policyholder liabilities outside the life assurance fund;
- (e) the marketing plans, in particular the expected sales volumes and costs of sales;
- (f) the current and likely future level of expenses;
- (g) the current and likely future levels of mortality and morbidity;
- (h) the reinsurance, underwriting and (for health insurance) claims handling arrangements;
- (i) the Company's policy with regard to the nature and timing of allocations of profits to policyholders and/ or shareholders;
- (j) the current and likely future taxation position of the Company;
- (k) the persistency of the business written both in the short and long term, and the terms for discontinuance;
- (l) the extent to which assets and liabilities are matched by term, by type and by currency;
- (m) counterparty risk exposures;
- (n) contingency action plans relating to the management of risks under adverse scenarios; and
- (o) information on the current and expected future liquidity position;

3 The actuarial valuation

- 3.1 The actuary should satisfy himself or herself as to the material correctness and completeness of the valuation data and should seek such additional information from the Company as he or she considers necessary for this purpose. If the actuary has doubts about the material correctness and completeness of the valuation data, but considers that the establishment of additional reserves will compensate for any shortcomings in the valuation data, then such additional reserves should be established and documented. If the actuary is unable to satisfy himself or herself as to the material correctness and completeness of the valuation data, any communication required to be provided to a regulator should be appropriately qualified.
- 3.2 The actuary should be satisfied that the appropriate valuation procedures have been correctly carried out and adequately documented.

- 3.3 The actuary should use liability valuation methods that comply with the relevant regulatory requirements and are appropriate to the contracts in question, taking into account not only the principal benefits but also any ancillary benefits, including surrender values and any options or guarantees. Depending on the nature of the regulatory requirements, the valuation may be required to be prepared on a best-estimate or prudent basis. When assessing the liabilities of the Company, the actuary should also have due regard to any obligations arising from any regulatory requirements to treat policyholders fairly.
- 3.4 Appropriate provision should be made for future expenses of administering the business existing at the date of the investigation. Allowance should be made for the possibility that preferential service agreements or outsourcing arrangements might be altered or terminated. If appropriate in the context of the regulatory environment, prudent allowance should be made for the loss of future margin as policies are made paid-up and, if the number of policies is declining or expected to decline, for the possibility of more slowly declining overhead costs. Any regulations which specify that the provisions should be sufficient in the event of closure to new business at a specified future time should be taken into account.
- 3.5 Assumptions about future mortality and morbidity should take into account recent relevant credible experience and trends which may relate to that of the country, the industry or the Company.
- 3.6 Where the rates of discount to be used in the valuation of the liabilities are not prescribed by legislation, the actuary should decide the rates of discount to be used and document the rationale for the decision made.. Where assets are valued at current market value, the deterministic or stochastic discount factors used should be consistent with those market values, making allowance, where appropriate, for credit risk exposures relating to the assets. Where assets are valued on a different basis, the rates of discount should be determined consistently with that basis. In addition, due allowance should be made for the current and future taxation position of the Company. Any such allowance should be consistent with any allowance made for tax relief on expenses.
- 3.7 The actuary will need to ensure that allowance has been made for the effect or possible effect of derivatives and other financial instruments when choosing the valuation basis. The actuary should particularly bear this in mind when choosing the basis used in the changed investment conditions envisaged in paragraph 3.10 below. The appropriate valuation interest rates should allow for the return on the assets held as adjusted to reflect credit risk exposure and economic exposure under futures contracts and contracts for differences. Consideration should also be given to the treatment of, and allowance for, financial options, particularly when close to an option date.
- 3.8 The actuary should take account of the Company's reinsurance arrangements in the valuation, including any implicit financing provision. The actuary should take account of the likelihood of payment by the relevant reinsurer in valuing benefits from a reinsurance contract.

- 3.9 Where appropriate in the context of the regulatory requirements, the actuary should ensure that adequate margins are included in the valuation assumptions or methods, having regard to the actuary's own assessment of the risks inherent in the nature and conduct of the Company's business.
- 3.10 Where there is any mismatching of assets and liabilities, the actuary should ensure that there is adequate explicit or implicit provision for reasonably foreseeable adverse movements in asset values or yields, recognising that this may be addressed explicitly in solvency capital standards in some regulatory environments.
- 3.11 On occasions, expenses or the return on new investments may be at a level which, if it persisted, would render it unlikely that the Company would be able to meet Liabilities to Policyholders. If there are well-founded reasons for believing that these matters will change for the better in the foreseeable future, the actuary is not obliged to assume their indefinite continuation at the present level. However, the actuary should clearly state in all written reports regarding both valuation and premium bases his or her assumptions about future change in these items.

4 Exercising discretion over charges or other conditions

- 4.1 This section applies to an actuary who is required to exercise discretion over charges or other policy conditions. This may arise where the Company has included in its policy documents a statement that certain terms will be determined by the actuary or other similar wording.
- 4.2 In determining such terms, or in providing advice to the Company in this area, the actuary should have regard to the need to treat policyholders fairly, any regulatory requirements to that effect, to any other relevant regulations (including any covering unfair contract terms) and to policyholder expectations created by literature, illustrations or precedent.

EXPLANATORY NOTE

ACTUARIAL STANDARD OF PRACTICE LA-5, VERSION 2.4

This Explanatory Note does not form part of the ASP.

Version 2.4 was updated as part of a review conducted by a small Working Group under the guidance of the Life Committee. Key elements of this review included:

1. Understand the current need from members for ongoing Actuarial Standards of Practice in this area
2. Refresh the existing ASP to align with the ongoing needs of members
3. Consider whether similar ASPs have been deemed necessary for similar considerations for companies operating within the Republic of Ireland and align the approach where feasible