

THE SOCIETY OF ACTUARIES IN IRELAND

THE ROLE OF THE APPOINTED ACTUARY IN IRELAND

Actuaries in Ireland, as in most countries, fulfil a wide range of functions in life assurance. They are involved in valuation and reserving work, premium setting, financial forecasting and product development, indeed in all aspects of the financial management of life assurance companies. However, the position of **Appointed Actuary** has a special role under Irish legislation and practice.

The Statutory Role of the Appointed Actuary

In Ireland, the insurance industry is supervised by the Financial Regulator. In accordance with legislation, every life assurance company must appoint an actuary (“the Appointed Actuary”) who is required to conduct an annual investigation into its financial condition and to report to the Board and to the Financial Regulator.

The Financial Regulator places considerable reliance on the Appointed Actuary. It receives a comprehensive report on the annual actuarial investigation, containing full details of the assumptions and methods used. The Appointed Actuary must certify the company’s technical reserves and state of solvency and confirm that new business premiums are sufficient, in the context of the company’s capital resources, to enable it to meet its commitments and to establish adequate technical reserves.

A framework for the annual actuarial valuation based on the European Union life assurance directives is laid down in legislation. However, reliance on the professional expertise of the Appointed Actuary in carrying out his or her statutory duties makes it unnecessary for the Financial Regulator to lay down detailed requirements in relation to premium rates, policy conditions and reserving standards. In this way, life assurance companies have considerable freedom to develop new products and, in general, to operate commercially, but within the framework of the strong financial discipline represented by the Appointed Actuary’s report.

The Appointed Actuary’s Professional Duties

While the preparation of the annual valuation report is the Appointed Actuary’s primary statutory duty, the Society of Actuaries in Ireland requires that he or she also carries out the much wider role of monitoring the financial position of the company on a continuing basis so as to be satisfied **at all times** as to its solvency. He or she also has a professional duty to inform the Board of any potential concern as to the company’s developing financial position.

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The Appointed Actuary is supported by the Financial Regulator and the actuarial profession in discharging these professional duties. He or she has direct access to the Financial Regulator for consultation, and the Society of Actuaries in Ireland has issued Actuarial Standards of Practice specifically related to the role of the Appointed Actuary. In the annual report, the Appointed Actuary must confirm that the Actuarial Standards of Practice LA-1 and LA-3 have been observed. (The main relevant Actuarial Standards of Practice are listed in the Appendix). The Society also requires all members, including Appointed Actuaries, to conform to its Professional Conduct Standards.

Since the Appointed Actuary is responsible for determining the technical reserves and assessing the company's solvency, he or she must have access to the necessary management information on the company's experience, the nature of its commitments, present and forecast levels of expenses, and investment policy. The Appointed Actuary will also need to be closely consulted on premium rates and policy conditions. While final decisions in these areas rest with the Board, the Appointed Actuary must certify, as part of the annual valuation report, whether or not premiums charged for new business are sufficient. It is, in any event, the Appointed Actuary's responsibility to establish the reserves required having regard to premium rates and policy conditions.

A further duty of the Appointed Actuary is to prepare, on specified occasions, an Actuarial Financial Condition Report for submission to the Board and to the Financial Regulator. An Actuarial Financial Condition Report will include forward projections of the Company's financial position, with the important assumptions being varied to establish the sensitivity of the Company's financial condition to changes in those assumptions. The purpose of preparing an Actuarial Financial Condition Report is to identify plausible threats to satisfactory financial condition, actions that lessen the likelihood of those threats, and actions that would mitigate a threat if it materialised. As such, an Actuarial Financial Condition Report serves a critical governance function by enabling the Board and management of the Company to focus on its future risk profile and on the risk management options available.

Another duty of the Appointed Actuary is to confirm annually that the Company has complied with the Actuarial Standards of Practice LA-8 and LA-9, relating to disclosure of information to policyholders resident in the Republic of Ireland, and with any advice provided by the Appointed Actuary to the Company in that context.

The Appointed Actuary and the Board of Directors

The Board is the Appointed Actuary's principal in the professional sense and the normal professional relationship of confidentiality, objectivity and independence applies. In many companies, Appointed Actuaries also hold senior executive positions, often as chief financial officer. If this is the case, it is important for the Board to be clear when the individual concerned is acting formally as Appointed Actuary and when he or she is acting as an executive. This also applies when the Appointed Actuary is a member of the Board.

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The Appointed Actuary must have a right of direct access to the Board, so that the full range of his or her duties can be carried out satisfactorily. Where the company is part of a group, access should be to the Board which exercises effective control of the life assurance business. Because the Appointed Actuary must have regard to all matters likely to affect the financial position of the Company, he or she will, therefore, expect to be consulted at an early stage of any significant proposals having financial implications.

The Appointed Actuary and Policyholders

The Financial Regulator expects life assurance companies to deal fairly and equitably with policyholders and to meet “policyholders’ reasonable expectations”. This term is not formally defined, but a working understanding of the concept has developed. Policyholders’ reasonable expectations will be affected by:

- (a) the communications provided to policyholders, including policy projections; and
- (b) the basis on which the company exercises any discretions that it has in relation to policy conditions.

The Board is responsible for meeting policyholders’ reasonable expectations. The Appointed Actuary must make an interpretation of the company’s policyholders’ reasonable expectations, in order to value the company’s life assurance liabilities, and will make the Board aware of his or her interpretation.

Among the areas where interpretation of policyholders’ reasonable expectations may be required are:

- (a) equity in bonus distribution to with profit policyholders;
- (b) the unit pricing process in the case of unit-linked policies; and
- (c) the exercise of discretions to change policy conditions, especially charges.

The Appointed Actuary may have a specified role in some of these matters in accordance with policy terms but, in any event, would be expected to inform the Board on his or her interpretation of the impact of proposals in all of these or similar areas on policyholders’ reasonable expectations.

The Appointed Actuary plays a key role in ensuring that life assurance policyholders in the Republic of Ireland are provided with illustrations of projected benefits and policy charges and commission payments that are clear and realistic, arising from the obligation on life assurance companies to comply with Actuarial Standards of Practice LA-8 and LA-9 and with any advice provided by the Appointed Actuary to the Company in that context.

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In Brief

The Appointed Actuary holds a special position in Irish life assurance legislation and practice. He or she has a responsibility to the Financial Regulator, the Board and the Company's policyholders to monitor and report on the Company's financial position, to assess the financial consequences of management proposals and decisions, and to weigh the potential exposure of the Company to the uncertainties of the external environment. By the exercise of professional expertise and judgement, the Appointed Actuary plays a vital and constructive role in enabling the Company to maintain and improve its financial position and to provide policyholders with realistic information on their policies.

Appendix

Main relevant Actuarial Standards of Practice issued by the Society of Actuaries in Ireland:

ASP LA-1	Appointed Actuaries and life assurance business
ASP LA-2	Actuarial Financial Condition Reports
ASP LA-3	Additional guidance for Appointed Actuaries on valuation of life assurance business
ASP LA-4	Additional guidance for Appointed Actuaries on policyholders' reasonable expectations
ASP LA-7	The role of actuaries in relation to financial statements of insurers and insurance groups writing life assurance business and their relationship with auditors
ASP LA-8	Life assurance product information
ASP LA-9	Life assurance remuneration information

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