

31 January 2003

## **REQUIREMENTS FOR REGISTERING A NEW FRIENDLY SOCIETY UNDER THE LIFE INSURANCE ACT 1995**

Thank you for your interest in seeking information on the requirements for registering a new friendly society.

The *Life Insurance Act 1995* has been enacted to ensure that only those companies that are able to demonstrate their capabilities for meeting obligations accruing to benefit fund owners are able to be registered as friendly societies. As well as considering applications for new registrations, it is also APRA's role to ensure that the legislative requirements are satisfied on a continuing basis. These requirements directly affect the way friendly societies operate and impose strict obligations on directors, actuaries and auditors.

The legislative requirements for registering a friendly society are set out in Part 3 of the *Life Insurance Act 1995*, particularly sections 17 to 22 and Schedule 1, Parts A & B of Regulation 3.01. Should you be considering registering a friendly society you will need to purchase the legislation from an AusInfo bookshop.

In preparing an application for registering a friendly society these legislative requirements are paramount, but to give you an initial overview of their requirements we have prepared the following summaries of the main matters they cover. From APRA's perspective, two of the most important matters are the availability of capital (outlined below) and the applicant's business plan (outlined in ATTACHMENT A, items 4-7).

### **Preliminary Matters**

1. Applications must be in writing and signed by both the principal executive officer and a director of the company.
2. Bankrupts and person with certain convictions are prohibited from acting as directors or holding other key positions with of life companies.
3. Only companies incorporated in Australia can be registered; branches of overseas companies cannot be registered as a friendly society unless they become an Australian incorporated subsidiary.
4. The name of the company for which registration is being considered cannot be so similar to that of an existing registered friendly society or life company that it would create a misleading impression (ie deceive).
5. Any business that the company proposing to be registered is already undertaking, or intends to undertake, must be considered by APRA to be in the public interest.

6. APRA may impose conditions on a registration at any time.
7. Where information contained in an application for registration ceases to be accurate at any time either before or after registration, the company must notify APRA within 14 days of the changed circumstances.

### **Capital Requirements**

8. The Management Capital Standard (Actuarial Standard 6.02) requires that a friendly society maintains at all times a minimum amount of capital, that is, assets of a value considered sufficient to meet the obligations of the management fund, under a range of adverse conditions.
9. You are reminded that APRA may impose conditions on registration at any time, including minimum Management Capital Requirements.

### **Information that must be included in an Application**

10. Part A of Schedule 1 (found in *Life Insurance Regulation 3.01*) sets out the information that needs to be included in the application. For your assistance a summary of this list has been included in **ATTACHMENT A** to this letter. However, you are reminded that the legislation takes precedence over this summary when you are preparing an application.
11. Where items specified are not appropriate to the applicant company's operations, the application needs to explain why this is the case.

### **Documents That Must Accompany an Application**

12. Part B of Schedule 1 (also found in *Life Insurance Regulation 3.01*) sets out the documents that need to accompany the application. With the same qualification as in item 10 above, we have also provided a summary of this list in **ATTACHMENT B** to this letter.
13. Where items specified are not appropriate to the applicant company's operations, the application will also need to explain why this is the case.

### **On Going Reporting To APRA**

14. Division 6 of Part 6 of the *Life Insurance Act 1995* sets out the broad obligations on friendly societies to make quarterly and annual reports to APRA.
15. The broad requirements set out in the *Life Insurance Act 1995* are complemented by Prudential Rules 47<sup>1</sup> and 48 and Actuarial Standards. These cover the detail and methods that must be adhered to.
16. A summary of the reporting requirements is provided at **ATTACHMENT C**.
17. APRA has been given power under Section 252 of the *Life Insurance Act 1995* to make prudential rules. The rules currently in force have been listed in **ATTACHMENT D**.
18. APRA also has power under Section 230A of the *Life Insurance Act 1995* to make prudential standards. The standards currently in force are listed in **ATTACHMENT E**.

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<sup>1</sup> Note that there have been a number of variations to Prudential Rule 47.

19. In addition to the requirements listed in ATTACHMENT D and E, there are a number of Transitional Prudential Standards which have been preserved under the Financial Sector Reform legislation.
20. APRA often needs to communicate with all life companies and it does this by means of Letters to CEOs and Friendly Society Circulars.

**The Australian Securities and Investment Commission (ASIC) and Consumer Protection**

21. From 1 July 1998 ASIC took over responsibility for disclosure, code of practice and complaints handling procedures for the Friendly Society sector from APRA. Applicants are advised to contact ASIC to determine the relevant requirements.

**ATTACHMENT A****INFORMATION THAT MUST BE INCLUDED IN AN APPLICATION TO REGISTER AS A FRIENDLY SOCIETY**

1. Particulars of the company:
  - a) contact details for head office, including street address, postal address, email & homepage addresses;
  - b) the states in which the company is or proposes to be registered under Corporations Law;
  - c) the names under which business will be carried on in each state; and
  - d) any other registered names used by the company.
2. Particulars of each company related to the company:
  - a) particulars of the Board of directors and managerial structure of related companies; and
  - b) activities of related companies or proposed to be carried on by that company.
3. Particulars of the managerial structure of the company:
  - a) the name and address of:
    - i) the Principal Executive Officer;
    - ii) each Director;
    - iii) the Company Secretary;
    - iv) the Chief Financial Officer of the company;
    - v) the officer in charge of operations;
    - vi) the members of the audit and compliance committees;
    - vii) the Auditor of the company; and
    - viii) the Appointed Actuary of the company.
  - b) particulars of the relevant work experience and qualifications of those mentioned in a); and
  - c) if the company is held by a holding company the particulars of the extent of the managerial authority of the first mentioned company.
4. Particulars of the operational structure of the company:
  - a) countries other than Australia in which life business is carried on;
  - b) particulars of each statutory fund;
  - c) the classes of business to be carried on within each statutory fund;
  - d) categories of life business to be carried on within the classes; and
  - e) the types of policies to be written by the companies in those categories.
5. Particulars of the plans for new business:
  - a) sample premium rates for each kind of policy; and
  - b) particulars of reinsurance arrangements entered into, or proposed to be entered into.
6. Particulars of financing of new business:
  - a) particulars of proposed financing arrangements for new business;
  - b) projections of life business for the greater of the following periods:
    - i) the period of the financing arrangements; or
    - ii) 10 years;
  - c) a statement by the Actuary as to the accuracy of the information provided in accordance with b).

7. Particulars of distribution arrangements:
  - a) Particulars of the person responsible for management of distribution arrangements:
    - i) name and address; and
    - ii) relevant qualifications and work experience.
  - b) Particulars of distribution structure;
  - c) information relating to the work experience and qualifications the company requires for distribution staff and intermediaries;
  - d) basis of remuneration for those staff; and
  - e) information as to how distribution staff and intermediaries are recruited and trained.
8. Particulars of investment policy:
  - a) particulars of the person responsible for management of the investments:
    - i) name and address; and
    - ii) relevant qualifications and work experience.
  - b) the way in which the initial capital will be invested;
  - c) if Investment Management is contracted out:
    - i) who it is contracted to; and
    - ii) information about the contract for investment management;
  - d) information relating to any custody agreements.
9. Particulars of administrative functions:
  - a) particulars of the person responsible for administration:
    - i) name and address; and
    - ii) relevant qualifications and work experience;
  - b) information relating to administration, statistical, valuation and accounting computer systems;
  - c) a statement from the Actuary as to the adequacy of these systems;
  - d) particulars of all life policy registers;
  - e) if the administration function is contracted out:
    - i) who it is contracted to; and
    - ii) information about the contract for administrative functions;
  - f) if the computing function is contracted out:
    - i) who it is contracted to; and
    - ii) information about the contract for computing functions.

**ATTACHMENT B****DOCUMENTS THAT MUST ACCOMPANY AN APPLICATION TO REGISTER AS A FRIENDLY SOCIETY**

1. A copy of the constitution of the company which includes:
  - a) any documents under which the company is constituted; and
  - b) any other documents governing the activities or conduct of the company or its members.
2. Financial statements for the most recently completed financial year.
3. Advice by the Appointed Actuary under section 116 (1) in relation to the proposed issue of each kind of policy.
4. Advice under section 116(2) of the Act by the Appointed Actuary in relation to reinsurance arrangements.
5. A copy of all service agreements:
  - a) For investment management services;
  - b) For custody of investments;
  - c) For administration services; and
  - d) For computing services.
6. A copy of pro-forma agency and broker agreements.
7. If the company is currently selling life business outside Australia it must provide a copy of each of the following documents for the most recently completed financial year:
  - a) financial statements of the company;
  - b) an actuarial report of the company; and
  - c) Auditors or other examination report.
8. For each holding, associated or subsidiary company a copy of each of the following documents for the most recently completed financial year:
  - a) an annual report; and
  - b) financial statements.
9. For a company that does not propose to operate as a friendly society examples of the promotional material for each kind of policy:
  - a) customer information brochures;
  - b) policy documents;
  - c) policy information statements; and
  - d) annual statements.
10. For a company that proposes to operate as a friendly society, copies of:
  - a) Proposed benefit fund rules; and
  - b) Disclosure documents.

## ATTACHMENT C

### QUARTERLY AND ANNUAL REPORTING REQUIREMENTS CHECKLIST

Return Type	Legislative Reference	Format Required
<b>Quarterly</b> Due within 21 days of the end of each quarter	Section 244; PR48	Diskette containing all quarterly forms, using the <i>APRA, Copy to disk (unaudited data)</i> menu option in the diskette system, and
<b>Annual</b> Due within 3 months of balance date		
Financial Statements and reports to Members	Section 82, 118, 122 and Prudential Rule 47	Paper – Original signed Annual Report & Financial Statements
Financial Condition Report ('FCR') (including all approved benefit fund valuations)	Section 113, Section 119	Copy of the signed report
Reinsurance Report (if applicable)	Section 123, Prudential Rule 23	Original signed report, preferable lodged as part of the FCR
Appointed Actuary Statement of Pecuniary Interests	Section 120 Regulation 6.01	Original signed statement, to be lodged with the FCR.
Audit Report on the Risk Management Statements	Transitional Prudential Standard 6.3C	Original Signed Statement

This document is provided to give general direction only. To determine exact requirements, companies should refer to the Life Insurance Act 1995, it's Regulations, Commissioner's/Prudential Rules, Circulars and letters to CEOs.

**ATTACHMENT D****PRUDENTIAL RULES CURRENTLY IN FORCE IN RELATION TO FRIENDLY SOCIETIES**

<b>Rule Number</b>	<b>Relevant section of the <i>Life Insurance Act 1995</i></b>	<b>Description</b>	<b>Date of Commencement</b>	<b>Date of Gazette Publication</b>
PR36	Section 52(1) & (3)	Restructure of Statutory Funds	1/7/99	30/6/99
PR37	Section 53(1) & (2)	Termination of Statutory Funds	1/7/99	30/6/99
PR38	Section 54	Restructure and Termination of Statutory Funds – Transitional Matters	1/7/99	30/6/99
PR39	Section 16B(2)	Adequate adoption of Benefit Fund Rules or amendments of Approved Benefit Fund Rules	1/7/99	30/6/99
PR40	Section 16L(2) & (4)(b)	Approval of Benefit Fund Rules	1/7/99	30/6/99
PR41	Section 16Q(2) & (4)(b)	Approval of amendment of Benefit Fund Rules	1/7/99	30/6/99
PR42	Section 16R(6)(b)	Approval of amendment of approved benefit fund rules as required by APRA	1/7/99	30/6/99
PR43	Section 16U(2) & (4)(b)	Approval of Consequential Amendments of Company's Constitution	1/7/99	30/6/99
PR44	Section 16V(3) & (7)(b)	Approval of Consequential Amendments of Company's Constitution as required by APRA0	1/7/99	30/6/99
PR45	S16H(4A)(b)	Joint Investments of Friendly Society Approved Benefit Funds	1/7/199	30/6/99
PR46	S16H(4)	Single Bank Account for Friendly Society Approved Benefit Funds	1/7/99	30/6/99
PR47	S82(5)	Financial Statements	1/7/99	30/6/99
PR47(Var)	S82(5)	Financial Statements	1/7/01	30/6/01
PR47(Var2)	S82(5)	Financial Statements	30/6/02	30/6/02
PR48	S244(1) & (2)	Collection of Statistics – Friendly Societies	1/7/99	30/6/99

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**ATTACHMENT E****PRUDENTIAL STANDARDS CURRENTLY IN FORCE IN RELATION TO FRIENDLY SOCIETIES**

<b>Rule Standards</b>	<b>Relevant section of the <i>Life Insurance Act 1995</i></b>	<b>Description</b>	<b>Date of Commencement</b>	<b>Date of Gazette Publication</b>
PS1	Section 113 & 115	Actuarial Advice	1/7/99	30/6/99
PS2	Part 2A & Part 4	Approved Benefit Fund Requirements	1/7/99	30/6/99

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