TRANSITIONAL PROVISIONS

The Life Insurance Act 1995 (the Act) commenced on 1 July 1995. In order that the operational aspects of the Act were in place for commencement, it was necessary to make actuarial standards in respect of those matters required under the Act.

The Board released, on 28 June 1995, transitional actuarial standards in respect of:
* the valuation of policy liabilities
* the solvency standard
* the capital adequacy standard
* the calculation of paid-up values and minimum surrender values
* the calculation of performance guarantees in investment-linked funds.

The transitional provisions reinstated, with minimal change, the relevant aspects of the regulatory and reporting regime under the Life Insurance Act 1945. Despite this, an exposure process was undertaken in developing the transitional provisions.

The submissions received through this process were broadly supportive of the actuarial standards. Identified issues of concern were given the due consideration of the Board in finalising the standards.

Having these transitional provisions in place, the Board’s considerations turn to the development of the actuarial standards which will form an integral part of the new financial reporting regime for the industry.

VALUATION OF POLICY LIABILITIES

A discussion draft of the actuarial standard for the valuation of policy liabilities has been released. The Board elected to adopt as its discussion draft the Professional Standard of the Institute of Actuaries of Australia (IAA) titled ‘Determination of Life Insurance Policy Liabilities’.

The consultation processes of the IAA in finalising the professional standard, ensured that the professional and technical aspects of the document were sound. Further the development of the professional standard involved significant consultation and liaison between the IAA and the Australian Accounting Standards Board (AASB).

While recognising that there are some outstanding issues of concern with the principles of the document, it seemed premature to attempt to address these concerns prior to seeking formal input through an exposure process.

The Board is looking to continue the working relationship with the AASB in further developing the actuarial standard. To this end, representatives of the AASB Life Insurance sub-committee attended the August meeting of the Board. The discussions highlighted a commonality of objectives and principles between the two bodies and augured well for the development of a single reporting format for the life industry.

SOLVENCY AND CAPITAL ADEQUACY STANDARDS

The Board has been progressing its considerations on these standards over the last two months, and in this process has been closely considering the draft documents produced by the IAA.

The Board has identified a number of issues which it considers require further development. In particular:
* the issues pertaining to reserves against asset related risks (resilience reserves, inadmissible assets)
* accounting issues, including derivatives, off balance sheet liabilities, materiality.

These are not uniquely actuarial issues, and may be covered to a greater or lesser degree in the IAA documents. The Board feels a fuller consideration of these issues is required before exposing discussion drafts.

The Board will not be adopting the documents produced by the IAA, without amendment or addition, as its discussion drafts for the solvency standard or capital adequacy standard.
Progressing Resilience Reserve Issues

This is a relatively new area of research.

It is believed that the IAA, in producing their documents (originally in 1991), made use of such research and experience in the area of stochastic modelling of asset and liability portfolios as was available.

The Board intends to revisit the market, identifying any further advances which have been made. In recognising that the analysis of asset related risks is not a uniquely actuarial science, the Board has sought expertise outside the actuarial profession.

It is noted that the IAA has commenced further research into the stochastic modelling methodology underlying its guidance notes.

Progressing the Accounting Issues

In progressing these issues, the Board is fortunate to have Bill Bartlett as a member, providing a direct knowledge of the latest advances in the accounting profession.

Further, the Board has established, or is liaising with existing, industry working groups with representation from the accounting, legal and/or actuarial professions, to progress the issues.

TIMETABLE

Attached to this newsletter is a revised timetable for the development of the actuarial standards.

The Board believes that appropriate consultation in the development phases of the actuarial standards is critical. To get the maximum possible benefit from that consultation, the material exposed should incorporate the conclusions of the Board or at least its detailed considerations, in respect of all issues of relevance to the standards. The revised timetable reflects a deferral of the release of discussion drafts in recognition of the significant issues which are still being progressed.

This approach should ensure that the mechanisms put in place are practicable, realistic in achieving their purpose and, overall to the benefit of the industry.

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