**RELEASE of ACTUARIAL STANDARDS**

The LIASB approved the making of the following new actuarial standards at its June 1999 meeting:

In respect of friendly societies:
- ASFS 1.01 Valuation Standard
- ASFS 2.01 Solvency Standard
- ASFS 3.01 Capital Adequacy Standard
- ASFS 5.01 Investment Performance Guarantee Standard
- ASFS 6.01 Management Capital Standard

In respect of life companies other than friendly societies, AS 6.01 Management Capital Standard

At the same meeting, the LIASB approved an instrument of variation which limits the application of existing actuarial standards AS1.01, AS2.01, AS3.01, AS4.01 and AS5.01 to life companies which are not friendly societies.

More detail on the development of the new actuarial standards is included below.


**NEW ACTUARIAL STANDARDS**

**Background**

The Financial Sector Reform (Amendments and Transitional Provisions) Act (No. 1) 1999 received Royal Assent on the 17 June 1999. This Act provides, amongst other things, for the transfer of prudential regulation of friendly societies to the Commonwealth. That is, it includes amendments to the Life Insurance Act 1995 (Life Act) to extend its application to friendly societies and to make some specific provision for their regulation.

Given the passing of required complementary State legislation, the transfer will occur on 1 July 1999.

It was the stated policy of the government that the transfer of prudential regulation of friendly societies provide, as an interim measure, for the preservation of much of the operational detail of the existing prudential regime. That is, the prudential standards established by the Australian Financial Institutions Commission (AFIC) were intended to be reinstated for a transitional period.

**Actuarial Standards for friendly societies**

In developing actuarial standards applicable to friendly societies, the LIASB worked within the stated policy of government. At the same time, the LIASB was conscious of its responsibility to develop requirements which reflect the risk profile of the industry and provide a sound basis for its prudential regulation.

The pre-existing AFIC regime imposed actuarial requirements on the valuation of liabilities of benefit funds, and the determination of capital requirements for benefit funds and the management fund. The AFIC standards were developed having regard to the actuarial standards of the LIASB, and consequently there are substantial similarities between the two regimes; any differential provisions reflect the different
operational structure and business profile of friendly societies generally. On this basis, the LIASB has been able to broadly accept the appropriateness of the AFIC standards and has sought, in making the actuarial standards in respect of friendly societies, to broadly reinstate the requirements of those standards.

**Valuation Standard**
In accepting the appropriateness of the AFIC requirements for the valuation of the liabilities under policies, it is noted that a fundamental difference exists between the valuation models underlying the two regimes. The friendly society model is one which seeks to identify the surplus existing in the benefit fund at the end of a reporting period. The focus is therefore on the realistic valuation of the liability.

This contrasts to the model underlying the existing valuation standard. A primary objective of this model is to provide for the appropriate emergence of profit over the life of the business. There is therefore a dual focus; on the best estimate liability and on the profit margins and the pattern of their emergence.

**Modification of AFIC Standards**
Despite this broad acceptance, there are two particular issues where the LIASB considered it necessary to modify the AFIC Standards. These relate to:
- the treatment of a particular product type, unique to the friendly society industry – funeral bonds – to ensure an appropriate solvency reserve; and
- the treatment of prudential capital in health insurance subsidiary entities for asset admissibility purposes, to ensure no double counting of capital.

In making these changes it is understood that few institutions will be materially affected and that for those so affected, APRA will continue to work with the individual institutions as they make the transition to the new capital requirements.

**ASFS 4.01 Surrender Value Standard**
It is noted that no surrender value standard has been made in respect of friendly societies (equivalent to AS4.01). This is because a modification, by regulation, has been made to the Life Act disapplying these requirements for friendly societies for a transition period.

**Actuarial Standard for life companies other than friendly societies**
A new actuarial standard applicable to life companies other than friendly societies has been made as part of the modifications to the Life Act. AS6.01- Management Capital Standard – is intended to reinstate the existing shareholder fund capital requirements previously provided for in sections 21 and 23 of the Life Act.

**REVIEW OF THE ACTUARIAL STANDARDS AS1.01, AS2.01 and AS3.01**
The process of developing actuarial standards in respect of transferring friendly societies has impacted on the progress of the LIASB in its review of existing actuarial standards.

There was an expectation that revised actuarial standards would be able to be released at 1 July (to coincide with the release of the standards for friendly societies). This, however, has not been achievable. Accordingly, an instrument of variation of the existing actuarial standards has been issued as at 1 July with the effect that the application of those standards is limited to life companies other than friendly societies. No other change to the provisions of the actuarial standards has been made.

The anticipated revised actuarial standards:
- AS1.02 Valuation Standard
- AS2.02 Solvency Standard
- AS3.02 Capital Adequacy Standard
are now scheduled for release for reporting periods ending on or after 31 December 1999.

In the meantime, the LIASB will fully consider the issues arising from the exposure draft consultation round.

In particular, the LIASB is conscious of the need to develop a considered response on the issue of the resilience reserve parameter for interest bearing securities in the Solvency Standard.

**HARMONISATION OF ACTUARIAL STANDARDS**
Late in 1999, the LIASB will initiate a program for the more comprehensive review of the actuarial standards under the Life Act, a primary objective of that review being to consider the appropriateness of harmonisation of the regime across life companies and friendly societies.
The LIASB acknowledges that there are differences between the two industries in terms of operational structure and business profile. Any considerations of harmonisation will be on the basis of consistency of provisions for like business risks, in accordance with the policy objectives of APRA more generally. There is, therefore, no implication that a single set of actuarial requirements will be the outcome of this project.

The processes of the LIASB for developing actuarial standards involve comprehensive consultation with the industry bodies, the professional associations and the regulated entities. Given the requirements of due process, the review and development of harmonised actuarial standards is expected to take 2 years.

### NOTICEBOARD

**UPCOMING**

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