GUIDELINES

CERTIFICATION OF FUNDING PLANS BY AUDITORS AND ACTUARIES

Background

1. A body corporate, being either:

   (a) a Medical Defence Organisation (MDO) within the meaning of the *Medical Indemnity (Prudential Supervision and Product Standards) Act 2003* (the Act); or

   (b) a body corporate prescribed in the *Medical Indemnity (Prudential Supervision and Product Standards) Regulations 2003* (the Regulations); or

   (c) a body corporate related to a body corporate mentioned in (a) or (b);

   may apply to APRA, under subsection 13(1) of the Act, for a determination under subsection 13(3) of the Act that the minimum capital requirements[1] do not apply to the body corporate during 1 July 2003 to 30 June 2008 (the transition period).

2. APRA can only make a determination under subsection 13(3) of the Act where, at the time of application by the body corporate, the body corporate:

   (a) is not a general insurer under the *Insurance Act 1973* (Insurance Act), or is a general insurer and is prescribed by the Regulations; and

   (b) does not, or would not during the transition period, comply with the minimum capital requirements; and

   (c) lodges a funding plan that:

      (i) is in the form prescribed by the Regulations;

      (ii) is certified by an independent auditor and independent actuary; and

      (iii) complies with guidelines issued by APRA.

3. APRA can not make any determinations on or after 1 July 2005.

[1] Minimum capital requirements are those prescribed by *Prudential Standard GPS 110 Capital Adequacy for General Insurers* made under section 32 of the *Insurance Act 1973*.

Purpose

4. These guidelines set out the matters to which an independent auditor or independent actuary is to certify in relation to a funding plan in accordance with subparagraph 13(3)(d)(ii) of the Act.

Authority

5. These guidelines are made under paragraph 13(9)(b) of the Act.

Auditor Certification

6. The auditor must provide a report that:

(a) has regard to:

(i) financial projections prepared by management;

(ii) the historical financial performance and the financial position of the body corporate, including trends;

(iii) the ability of the body corporate, in accordance with its constitution and the *Corporations Act 2001*, to raise capital; and

(iv) the guidance provided in Australian Securities and Investment Commission (ASIC) Policy Statement 170 on what might constitute reasonable grounds for prospective financial information;

and considers whether any matters have come to the auditor's attention which causes the auditor to believe that the best estimate assumptions that form the basis of the financial projections and targets in the funding plan do not provide a reasonable basis for the preparation of the funding plan given the occurrence of hypothetical assumptions;

(b) states in the auditor's opinion whether:

(i) the funding plan is properly prepared on the basis of the best estimate assumptions and hypothetical assumptions used in the funding plan;

(ii) the funding plan is presented fairly in accordance with:

- prudential standards made under section 32 of the *Insurance Act 1973* and, to the extent that they do not contain any requirements to the contrary, the recognition and measurement criteria of Accounting Standards and other mandatory professional reporting requirements in Australia;

- a basis consistent with the accounting policies adopted and disclosed by the entity in its latest audited financial report to the extent these are not inconsistent with prudential standards; and

- accounting records, for best estimate assumptions being based on historical financial information.

Actuary Certification

7. The actuary must provide a report that states the actuary's opinion as to whether:

   (a) the assumptions made in the funding plan and supporting financial projections are reasonable and appropriate having regard to the nature of the funding plan, the historical performance and trends of the body corporate and the medical indemnity industry; and

   (b) the assumptions made in the financial projections in relation to:

      (i) premium income;

      (ii) membership growth;

      (iii) claims and expenses, including inflation;

      (iv) investment returns;

      (v) provisions for liabilities; and

      (vi) reinsurance and other relevant matters;

   are based on best estimates and are consistent with the assumptions made in the funding plan and the assumptions underlying the Liability Valuation Report prepared in accordance with *Prudential Standard GPS 210 Liability Valuation for General Insurers* and any recent reports on premium rates prepared for the body corporate (where there are material differences in the assumptions made in the funding plan and the assumptions used in other reports, details should be included, including the rational for the differences); and

   (c) key risks have been identified that potentially threaten compliance with the funding plan and that, where practical, sensitivity analysis on the financial projections adequately reflects each identified risk.