

NEW ZEALAND SOCIETY OF ACTUARIES
PROFESSIONAL STANDARD NO. 3
DETERMINATION OF LIFE INSURANCE POLICY LIABILITIES

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1 Introduction

This Standard concerns the determination of life insurance policy liabilities as required for general purpose financial reporting in conjunction with the Financial Reporting Standards issued by the Accountant Standards Review Board established under the Financial Reporting Act 1993.

This Standard deals specifically with financial reporting, and must be read in conjunction with Professional Standard No. 1 (Reports and Advice To An Organisation Carrying On Long Term Insurance Business).

This Standard replaces the existing Professional Standard No. 3 (effective 21 December 1998).

2 Effective Date

This Professional Standard is effective from 1 January 2007 and applies for reporting periods commencing on or after 1 January 2007.

Early adoption of this Standard is permitted only when complying with NZ IFRS 1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards for an annual accounting period beginning on or after 1 January 2005.

3 Definitions

Acquisition Costs: Fixed and variable costs of acquiring new business, including commissions and similar distribution costs, and costs of accepting, issuing and initially recording policies. Acquisition costs do not include general growth and development costs.

Actuary: A Fellow of the New Zealand Society of Actuaries.

Adequacy Threshold: The Adequacy Threshold is the minimum value for Profit Margins of a Related Product Group under this Standard - i.e. it is the level at which losses must be recognised. The Adequacy Threshold is to be determined in accordance with Section 11 of this Standard.

Best Estimate Assumptions: Assumptions about future experience which are made using professional judgement, training and experience and are neither deliberately overstated nor deliberately understated.

Best Estimate Liability: The liability calculated using the Best Estimate Assumptions. The Best Estimate Liability reflects the liability for guaranteed benefits only.

Bonus: An amount added at the discretion of the entity to the benefits due under a Discretionary Policy.

Discretionary Policy: A policy where the entity has discretion over additions to policies, including additions that represent investment earnings.

Economic Assumptions: Assumptions made in respect of factors influenced by the economy in which an entity operates. In particular these include investment returns, discount rates and inflation.

Experience Profit: The profit arising in a period from the difference between actual experience during that period and expected experience on the basis of Best Estimate Assumptions at the beginning of the period.

Insurance Contract: A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Investment Management Costs: Fixed and variable costs of managing the entity's investment funds.

Maintenance Costs: Fixed and variable costs of administering policies subsequent to the sale and recording of the policies and the fixed and variable costs of administering the general operations of the entity. Maintenance Costs include all operating costs and expenses other than Acquisition Costs and Investment Management Costs.

Policy Liability: A liability that arises under a life insurance contract or a life investment contract including any asset or liability that arises under a management services element of a life investment contract.

Profit Margin: The expected profit is the excess of future premium and investment income over benefit payments and expenses determined using Best Estimate Assumptions. One or more Profit Margins are included in a Policy Liability to enable a systematic release of the expected profit as it is earned through provision of services over the future life of a policy. The Profit Margin is expressed as a percentage of a financially measurable indicator of the provision of service (or related income).

Related Product Group: A grouping of products that have substantially the same contractual terms and were priced on the basis of substantially the same assumptions. The products must be considered by the Actuary to exhibit benefit characteristics and pricing structures sufficiently similar as to justify grouping for the purposes of profit margin calculation, loss recognition and reporting.

Servicing Costs: The combination of Maintenance and Investment Management costs.

Supportable Additions: The level of future bonus or crediting rate that it is expected on Best Estimate Assumptions can be added to a Discretionary Policy over its future life without supplementary income from sources outside the policy and exclusive of the policyholder unvested benefit liabilities, shareholders' profit and contribution to capital consistent with stated bonus/crediting rate philosophy.

Supportable Liability: The liability calculated for Discretionary Policies including the Supportable Additions and shareholder Profit Margin due on the current valuation date.

Valuation (of Policy Liabilities): A process which uses assumptions and calculation techniques to determine an estimate of the amount now required to meet the entity's future obligations under policies currently in force.

PART A – CONTRACT CLASSIFICATION

4 Contract Classification and Application

- 4.1 NZ IFRS 4 sets out the basis on which contracts are to be classified for the purpose of financial reporting. In particular it distinguishes between those contracts that meet the definition of an Insurance Contract for financial reporting purposes and those that do not (referred to as “Investment Contracts”).
- 4.2 If a contract includes an insurance element, and the contract is not unbundled such that the insurance element can be accounted for separately, then the Policy Liability in respect of the entire contract must be determined in accordance with the requirements of Part C of this standard.
- 4.3 If the contract is unbundled then only the Policy Liability in respect of the insurance element must be determined in accordance with Part C of this standard, while the Policy Liability in respect of the remainder of the contract must be determined in accordance with Part B of this standard.
- 4.4 If a contract is a Discretionary Policy, then the Policy Liability in respect of the entire contract must be determined in accordance with the requirements of Part C of this standard.
- 4.5 Part D of this standard applies to the determination of all policy liabilities within the entity.
- 4.6 For the purposes of this standard, an unbundled component of a contract is to be treated as if it were a stand-alone contract.

PART B - VALUATION OF INVESTMENT CONTRACTS

5 Valuation Method

- 5.1 The Policy Liability in respect of an Investment Contract is a financial liability as defined in NZ IAS 32 – Financial Instruments: Disclosure and Presentation.
- 5.2 A financial liability is recognised and measured according to the principles and methodology set out in NZ IAS 39 – Financial Instruments: Recognition and Measurement.
- 5.3 The measurement of all liabilities and assets arising in respect of any management services element of an Investment contract, which has been unbundled from the financial instrument element, should be measured in accordance with the relevant accounting standards.
- 5.4 These liabilities or assets include, but need not be limited to, the value of deferred fee revenue and deferred acquisition costs determined in accordance with NZ IAS 18 – Revenue.

PART C – VALUATION OF LIFE INSURANCE CONTRACTS

6 Valuation Method

- 6.1 It is the principles that are paramount in determining the Policy Liability; methodology is incidental to the principles. Projection or accumulation methodologies may be appropriate provided the Actuary can demonstrate that the principles have been followed.
- 6.2 The Policy Liability will provide for both:
 - Best Estimate Liabilities, and
 - The value of future expected Profit Margins, to be released as services are provided.
- 6.3 The Best Estimate Liability will be the amount calculated on Best Estimate Assumptions required to the end of the benefit period to meet future benefits and costs for the business in force. The calculation process will take into account all known material factors.
- 6.4 Proper allowance must be made for reinsurance having regard to the nature and materiality of the arrangements.
- 6.5 The Policy Liability may be less than the current surrender value of the policy and may be negative.
- 6.6 Any earning rate (discount rate) incorporated in the calculations of Policy Liabilities should be determined in accordance with paragraph 9.2, and, if not allowed for explicitly in the projection, should be net of tax on investment earnings (discount rates) and net of investment expenses.
- 6.7 The Policy Liability will usually be determined by a projection approach and hence will allow for both the Best Estimate Liability and the value of expected future profits. An approach of calculating the Policy Liability other than a prospective approach may be used providing that the profit emerging in each year will not be materially different from that using a prospective approach.
- 6.8 An accumulation methodology may be appropriate where the benefit is in the nature of an accumulation starting from the currently accumulated value and where expected future benefit growth and expected future investment income occur in the same time pattern. A similar methodology may be appropriate for other policies where revenue and costs are matched in the same time period, as for example is normally the case for group life policies.
- 6.9 Under an accumulation approach, the Policy Liability is equal to the current benefit accumulation less an amount representing the recoverable unrecouped portion of any Acquisition Costs (net of tax relief), subject to a minimum of the Best Estimate Liability. In determining the recoverable unrecouped portion of Acquisition Costs

it will be necessary to use projection techniques, so as to reflect the incidence and amount of ongoing fees, surrender penalties and any other elements of a benefit associated with the recovery of Acquisition Costs. The surrender value is not an appropriate basis for the Policy Liability unless the surrender penalty equals the recoverable unrecouped portion of Acquisition Costs.

- 6.10 An accumulation approach will cause Profit Margins to emerge as the excess of fee income over expenses and Acquisition Cost recovery amount in each period.
- 6.11 Where the basis of asset valuation used for the financial statements is not consistent with the basis of asset valuation implicit in the Valuation of the liabilities, the Actuary must make appropriate adjustments to the Policy Liability.
- 6.12 For the purposes of paragraph 6.11, differences in the basis used for the valuation of assets and liabilities that are required under international accounting standards should not be adjusted for. These include, but are not limited to, valuation of deferred taxation assets, application of selling costs and use of bid price in valuing assets

7 Expected Profit Emergence

- 7.1 There will be explicit allowance for one or more margins for profit where a prospective approach is used for calculating Policy Liabilities.
- 7.2 The Profit Margins will relate to the services provided for the policyholder. The provision of capital to create reserves is not to be regarded as one of these services.
- 7.3 All expected profits are to be incorporated in the future Profit Margins so that there will be no release of any expected profits at inception, or on any change in assumptions, except as provided in sections 8 and 11.
- 7.4 A Profit Margin is to be incorporated in a Policy Liability to generate a systematic release of expected profit over the future life of a policy. This profit release should coincide with the provision of the relevant service under the policy.
- 7.5 The magnitude of Profit Margins is governed by the premium charged (ie. by what is available), not by what is considered appropriate to the risk borne or service provided. However the pattern of release of Profit Margins is related to the incidence of service. A policy provides some or all of the following services:
 - Insurance of mortality, morbidity and other similar risks
 - Investment return

- Setting up the policy (sale or acquisition)
- Ongoing administration
- Investment management.

For Discretionary Policies the allocation of bonus/crediting rate may for simplicity be regarded as effectively an indication of provision of the above services. At the time of valuation of in force business, the service of setting up the policy has already happened, and therefore this service will not be the basis of a future Profit Margin.

7.6 To achieve the required timing of release of profit, the Profit Margin can be expressed as a proportion of:

- The expected cost of the service, e.g.
 - The claim payment
 - The investment return to the policyholder
 - The cost of ongoing administration
 - Fund management costs
 - Bonus allocated

Or as an approximation -
- The expected income item relating to the service, e.g.
 - The premium
 - The investment income on the assets corresponding to the policy liability
 - Explicit expense charges specified in the policy.

7.7 The choice of the appropriate type of Profit Margin from the list in paragraph 7.6 will depend on the service and income items applicable to the policy. It is generally simpler to adopt a single service or income item provided that this satisfies the requirements of paragraph 7.4. For instance, the one item of income (e.g. premium) may cover several services (e.g. insurance risk, administration) so it would be simpler as an approximation to adopt a single Profit Margin of a proportion of premiums rather than have two margins relating to cost of insurance and cost of administration.

7.8 If income items are used to approximate the provision of a service they should approximate the incidence of the service. In particular a contract which primarily provides investment service should use investment income and not premium income as the basis of a Profit Margin.

- 7.9 There will sometimes be several alternative Profit Margin structures available and it will be a matter of judgement as to which is selected. Once a structure is chosen it must be retained for that block of business (subject to issues of materiality and error correction) unless in the judgement of the Actuary it is no longer appropriate to do so.
- 7.10 To initially determine the size of a Profit Margin for new business, projected cash flows of premiums, commission and other (including tax expenses not covered elsewhere) expenses and claim or maturity payments can be generated using Best Estimate Assumptions for a new business case for each year until the expiry of the policy. The present value of each of the cash flows is then discounted to inception. The net total of these present values represents the present value at issue of expected future profits. The service/income item on which the Profit Margin is to be based is similarly projected and its present value calculated. The present value at issue of expected future profits is then divided by the present value of the appropriate service or income item to give a Profit Margin proportion.
- 7.11 Profit Margins must not be negative for a Related Product Group.

8 Acquisition Cost

- 8.1 In setting Profit Margins (see section 7) allowance must be made for the Actuary's best estimate of Acquisition Costs.
- 8.2 If required, a deduction must be made (as an identifiable item) in arriving at the Policy Liability in respect of the value of planned acquisition cost recovery components.
- 8.3 Where expected establishment fee income exceeds the Actuary's best estimate of Acquisition Costs, the excess may emerge at outset as a planned profit.
- 8.4 The best estimate of Acquisition Costs should be determined having regard to the historical level of expenses, the entity's business plan, expected volumes of new business and any other factors that may impact on the level of acquisition expenses in the year.
- 8.5 If actual Acquisition Costs are different from the best estimate then an experience profit or loss will emerge at inception in addition to any planned profit.
- 8.6 Where a projection is used to calculate the Policy Liability then the income which is used to recover Acquisition Costs is already implicitly incorporated in the Policy Liability calculation. Consequently, the identification of the value of the unrecouped portion of Acquisition Costs is purely presentational and does not affect the Policy Liability. However, under the accumulation approach the value of the unrecouped portion of Acquisition Costs is central to the calculation of the Policy Liability.

- 8.7 When planned acquisition cost recovery components are required to be calculated, the planned acquisition cost recovery components of each premium or other income item (including surrender penalties) are determined to recover Acquisition Costs.
- 8.8 Appropriate adjustment to Acquisition Costs and the planned recovery components may be needed where Acquisition Costs (notably initial commission instalments and writebacks) are expected to be incurred in a year subsequent to the year of issue.

9 Assumptions

9.1 General

- 9.1.1 Best Estimate Assumptions must be made about the future cost of the risks accepted and services provided, including probabilities of occurrence, having regard to available statistical and other evidence subject to any requirements in this Standard.
- 9.1.2 The Actuary must review the assumptions at the time of each Valuation of Policy Liabilities.
- 9.1.3 The assumptions should be reviewed against the entity's own experience and management practices, published information on industry experience and emerging trends (both in New Zealand, and where relevant, overseas) and professional standards.

9.2 Discount Rates

- 9.2.1 Where the benefits are contractually linked to the performance of the assets, the Best Estimate Assumptions for investment earnings must reflect the expected investment earning applicable to the actual assets on which the cash flows depend.
- 9.2.2 For the purposes of 9.2.1, the expected earning rates are those applicable to the assets backing the Policy Liabilities, having regard to the value of assets adopted in the financial statements. It should include an allowance for future capital appreciation or depreciation in addition to interest, dividends and rents. The expected earning rate(s) should usually reflect the current mix of assets, and the expected earning rate on each category of relevant existing assets. The intended asset mix may be used in place of the actual asset mix and expected earning rates on reinvestment can be allowed for, so long as this is done consistently from year to year, is considered appropriate by the Actuary and is disclosed in the Report to the Board. The intended asset mix should only be used where the intended mix is likely to be achieved in the opinion of the Actuary.
- 9.2.3 Where the benefits are not contractually linked to the performance of the assets, the Best Estimate Assumptions for

investment earnings must reflect a risk free discount rate (or rates) based on the current observable, objective rates that relate to the nature, structure and term of the future liability cash flows.

9.3 *Servicing Costs*

- 9.3.1 The servicing expense assumptions for maintenance and investment management expenses should be of sufficient level that in aggregate across all business assumed to be in force in the year following the valuation date they cover the estimated expenses required in that year to fully support the administration of that business as a going concern and to manage the assets representing the Policy Liabilities.
- 9.3.2 It may be assumed (unless inappropriate) that the entity will continue to write new business with consequent impact on projected volumes of business in force, but the assumed levels of new business must be considered realistic by the Actuary. The estimated servicing expenses may exclude expenses which the Actuary considers to be “one-off” in nature. For maintenance expenses beyond the coming year the assumption should incorporate the rates of inflation considered appropriate.
- 9.3.3 In determining the level of servicing costs as they apply to differing Related Product Groups, or such other division as the actuary considers appropriate, the following principles should be applied unless considered inappropriate by the Actuary:
- Directly attributable expenses should be so allocated.
 - Other expenses should ideally be allocated as a result of an analysis of the entity’s functional operations as they relate to various identified expense drivers, these expense drivers then being the basis of an allocation between Related Product Groups. In undertaking this analysis regard should be had to the purpose of the entity in incurring the expense as well as the contribution of the expense to the business of the entity.

9.4 *Taxation*

- 9.4.1 Assumptions relating to taxation should be based on current legislation together with any relevant rulings by the Inland Revenue Department. The Actuary should consider which taxation basis will be applicable in future. Projections of the entity’s aggregate business may be required in order to determine the most appropriate basis.

9.5 *Mortality and morbidity*

- 9.5.1 Assumptions relating to mortality and morbidity should be based on, or have regard to, the entity’s own experience (where appropriate) and industry experience tables, making reasonable

allowance for the estimated effects of factors relevant to the particular entity (e.g. underwriting practices).

9.6 Discontinuance

- 9.6.1 In respect of discontinuance assumptions the Actuary should take account of any actual experience, and where appropriate, the influence of product design, age, mode of premium payment and duration. Composite discontinuance rates may be used, provided that they are representative of the entity's actual mix of business.

9.7 Policy Conditions

- 9.7.1 The Actuary should assume paid up values and surrender values on future discontinuance are calculated on the entity's current basis unless the actuary is aware that a change will be made.
- 9.7.2 Under certain types of policy, the entity has the right to change the level of mortality, morbidity or management charges. For the purpose of determining the Policy Liabilities, the Actuary should assume the current level of charge including inflation allowances unless the Actuary is aware that a future change will be made.
- 9.7.3 The Actuary should allow for the actual frequency of premium payment and any experience of premium dormancy under the class of business where relevant and material, when projecting future premiums and the corresponding benefits.
- 9.7.4 In valuing any options the Actuary should have regard to materiality, given the expected take up rates and analysis of the entity's own experience.
- 9.7.5 The Actuary should be aware of, and make appropriate allowance for, the outworkings of any elements within the conditions of policies, which are not explicitly addressed in this section.

10 Discretionary Policies

- 10.1 Calculations for the Policy Liabilities must include allowance for future Supportable Additions and associated shareholder Profit Margins and may include allowance for other Profit Margins. These Profit Margins are set for new business such that there is no planned profit emerging at issue from a calculation of the Best Estimate Liability.
- 10.2 Instead of retaining separate rates of supportable bonus for each year of issue, a uniform rate of bonus across all, or a selected cohort of, years of issue may be determined by equating Policy Liabilities.
- 10.3 The relationships between reversionary bonuses on sums insured and on previous reversionary bonuses, and terminal bonuses and

shareholder transfers should be consistent with the entity's philosophy and practice.

10.4 Recalculation

10.4.1 For discretionary business the Supportable Additions, and shareholder Profit Margin, are recalculated at the time of each Valuation by equating the Supportable Liability using the assumptions applying at the valuation date with the value of supporting assets applicable to that business.

10.4.2 The recalculation is undertaken to ensure that the actual experience during the year regarding investment returns is properly factored into the determination of future years' Supportable Additions.

10.5 The Policy Liability is determined as the Supportable Liability, reduced by the "cost of Supportable Additions" on the valuation date and the associated shareholder Profit Margin due on the valuation date, but increased to allow for the cost of actual discretionary additions due on the valuation date. In this way the value of the Supportable Additions and associated shareholder Profit Margin attributable to the past year will emerge but is offset by actual discretionary additions to policies.

10.6 The relevant value of supporting assets is determined as follows:

- Determine the net of tax investment yield applicable to the relevant assets during the past year.
- Build up the value of assets at year end by applying this yield to the Policy Liability plus the cost of declared bonus or crediting rate at year start and policy related cash flows during the year less Profit Margins / contributions emerging during the year.
- Determine the experience profit on non investment functions (e.g. for expenses by comparing actual payments to those expected on the previous valuation assumptions).
- Adjust the year end value of assets in the second point above by deducting the experience profits in the third point above.

10.7 For conventional business the absorption of a change in asset value may be straight into terminal bonus or be spread by changing the reversionary bonus, depending on the entity's (stated) bonus philosophy. The spreading into reversionary bonus of an exceptional year's investment performance need not be on an "even across life time" basis if there is a structured bonus philosophy which designates a shorter spread period (eg 5 year smoothing).

11 Change of Assumptions and Loss Recognition

- 11.1 On a change in assumptions, Profit Margins (and Supportable Additions if applicable) are to be recalculated resulting in the amortisation of the effect of the change over the remaining policy term rather than immediately recognising the value of the change, except as provided below for changes to Economic Assumptions due to changed market conditions applicable to assets and loss recognition.
- 11.2 The Adequacy Threshold for the Profit Margins (and Supportable Additions if applicable) of a Related Product Group in respect of benefits that are contractually linked to the performance of the assets held (i.e. where a risk free discount rate is not used to discount future expected cash flows) is equal to the difference between
- The Best Estimate Liability calculated using a risk free discount rate (or rates) based on the current observable, objective rates that relate to the nature, structure and term of the future liability cash flows; and
 - The Best Estimate Liability calculated using the discount rate in accordance with paragraph 9.2.
- The Adequacy Threshold cannot be less than zero.
- 11.3 For all other Related Product Groups the Adequacy Threshold is zero.
- 11.4 Where the assumptions made at the time of a Valuation establish that a Profit Margin would be below the Adequacy Threshold for a Related Product Group, then the difference between present value of the Profit Margin and the Adequacy Threshold shall be recognised as a reduction in the total profits of the entity at that Valuation. When such a Related Product Group has previously had future losses recognised and at a subsequent Valuation the assumptions made establish that profits will eventuate above the Adequacy Threshold then a reversal of the effect of the previously recognised value (or part thereof) of future losses shall be recognised at that Valuation.
- 11.5 The impact of a change in assumptions (excluding a change to Economic Assumptions due to changed market conditions applicable to assets) on the Profit Margins for non-discretionary business is assessed by calculating:
- The Policy Liabilities using the previous assumptions (except that the new Economic Assumptions should be used to the extent that the changes in the Economic Assumptions have resulted from changed market conditions applicable to assets) and the previous Profit Margins;
 - The Policy Liabilities using the new assumptions and the previous Profit Margins.

If the Policy Liabilities in aggregate from the second point above are lower than the first point above then the Profit Margins should be increased so that the Policy Liabilities using the new assumptions and the new Profit Margins give a result equal to the first point above

Conversely, if in aggregate the second point above is higher than the first point above then the Profit Margins should be decreased so that the Policy Liabilities equal the first point above. If the new Profit Margins would become lower than the Adequacy Threshold in aggregate for a Related Product Group to satisfy this equation then the new Profit Margins will in aggregate be made equal to zero and the discounted value of the eliminated negative Profit Margins is determined. This value is the amount of the loss that will be recognised in the accounts (because the Policy Liabilities were larger having been determined using zero Profit Margins) and should be noted for future reference when reversal of previous loss recognition is applicable.

- 11.6 The impact of a change in Economic Assumptions, due to changed market conditions applicable to assets, on the Profit Margin for non-discretionary business is to flow directly to the Policy Liabilities.
- 11.7 Changes in respect of 11.6 are not to be treated in the manner described in paragraph 11.1. Changes to the Economic Assumptions for other reasons, where material, are treated in the manner described in paragraph 11.4.
- 11.8 Where for a Related Product Group a loss from this procedure of using a zero Profit Margin has been recognised in a previous year and the recalculation of Profit Margin at this valuation date indicates a positive Profit Margin is required, then such Profit Margin will be reduced (subject to a minimum of zero) to reverse the previous loss recognition.
- 11.9 Where there is more than one Profit Margin for a policy and it is necessary to alter Profit Margins in accordance with paragraphs 11.4, 11.5 or 11.8 then the Profit Margin first to be altered will be that which relates to the reason for the change. For example if assumed mortality worsens then reduce the Profit Margin on the death claim service.
- 11.10 If a change in assumptions leads to a change in the taxation liability or taxation basis, this should not be capitalised (unless a loss). The Profit Margin should be recalculated and the impact of the change allowed to flow through into the Profit Margin. This reflects the fact that taxation is paid commensurate with profits earned (or services provided). There is no reason that a change in future taxation liabilities should be treated differently from other assumed changes in income/outgo.

12 Reinsurance

12.1 The valuation method in section 6 applies to both the calculations of the gross Policy Liability and the reinsured Policy Liability.

12.2 The reinsured Policy Liability will provide for both:

- Reinsured Best Estimate Liability, and
- The value of future expected reinsured Profit Margins, to be released as services are received

12.3 For the purpose of section 11, the reinsurance may be included within the same Related Product Group of the direct insurance business if it directly and solely relates to the direct business of a single Related Product Group. If the reinsurance does not relate directly or solely to the direct insurance business of a single Related Product Group then the reinsurance must be appropriately allocated to Related Products Groups.

12.4 Losses expected in relation to the reinsured business in a Related Product Group should be recognised to the extent they exceed the value of expected future profits in respect of the associated direct insurance business in the same Group, and vice versa. However, the Profit Margins in respect of the reinsurance must continue to be determined separately from the Profit Margins in relation to the associated direct insurance business.

PART D - GENERAL STANDARDS AND STATEMENT BY THE ACTUARY

13 Materiality

- 13.1 The determination of Policy Liabilities is subject to the same materiality standards as apply to the overall financial statements.
- 13.2 The applicable principle is that values or information are material when their mis-statement or omission would cause the actuarial report or financial statements to mislead users when they make evaluations or decisions.
- 13.3 The above statement on materiality covers the situation regarding the acceptability of grouped data and modelled projections. The implication is that occasionally a full individual policy valuation has to be done to compare with an equivalent approximate calculation to demonstrate the extent of variation. This will not be mandated because different analytical methods may be developed to assess such variations.

14 Statement by the Actuary

- 14.1 The Actuary must provide a Statement for inclusion in the entity's financial statements in accordance with the requirements of the Financial Reporting Standards applicable to insurance contracts. The Statement must include:
- A summary of the Policy Liabilities;
 - A description of the calculation methods adopted for determining the Policy Liabilities in respect of each type of policy; including profit carriers where appropriate,
 - A description of the assumptions adopted for the determination of the Policy Liabilities for each type of policy valued by a projection method, including:
 - Discount rates,
 - Maintenance and investment management expenses and the applicable rate of inflation,
 - The rates of indexation applied to any automatic indexation of benefits and premiums;
 - Rates and basis of taxation;
 - Mortality and morbidity, with reference to standard tables if appropriate;
 - Rates of discontinuance;

- Rates of growth of unit prices in respect of unit-linked benefits;
- Future Supportable Additions in respect of Discretionary Policies; and
- The basis of calculating surrender values;

A specific description of each assumption is encouraged.

- A description of the derivation of each of the assumptions must be given. In addition, each of the assumptions must be quantified in respect of each type of policy, or reasons for non-quantification stated.
- A description of which types of policy have been classified as discretionary and which as non-discretionary,
- An explanation of how products were grouped for purposes of loss recognition, Profit Margin calculations and Acquisition Cost components,
- An analysis of profit broken down into planned and experience components, and profit on non-projected business,
- An opinion regarding the data upon which the Valuation was conducted, and
- Confirmation that the value of the Policy Liabilities conforms with this Standard in all material respects.