NEW ZEALAND SOCIETY OF ACTUARIES

PROFESSIONAL STANDARD NO. 25

ACTUARIES PROVIDING ADVICE UNDER THE FRIENDLY SOCIETIES AND CREDIT UNIONS ACT 1982

MANDATORY STATUS

EFFECTIVE DATE: 31 AUGUST 2018

INDEX

1 INTRODUCTION

1.1 Application

This Standard applies to every Actuary providing advice to the Registrar of Friendly Societies and Credit Unions and/or to a Friendly Society or other society under the Friendly Societies and Credit Unions Act 1982 ("the Act").

1.2 Background

1.2.1 Actuaries have specific responsibilities under three sections of the Act. The relevant sections are:

1.2.2 Section 15(1) "No society, whether a friendly society or otherwise, or branch of that society shall be registered under this Part of this Act until the rates of contributions for any benefits to be provided by the society or branch (being in accordance with the purposes specified in Schedule 1 to this Act and as set out in the rules submitted with the application for registration), are certified by an actuary as being appropriate for the business to which they relate."

1.2.3 Section 24(2) "If in the opinion of the Registrar any amendment of a rule may adversely affect the financial soundness of the society or branch or alters the rates of contribution certified pursuant to section 15(1) of this Act, the amendment shall not be registered until an actuary has certified in writing that the amendment does not adversely affect the financial soundness of the society or branch or that the altered rates of contributions are appropriate for the business to which they relate."

1.2.4 Section 74(1) "Every registered society shall - (a) At least once in every 5 years; or (b) Sooner, if requested by the Registrar in writing and within the time specified by him, - cause its assets and liabilities (including the assets and liabilities of its branches) to be valued by an actuary and the financial condition of the society and branches reported on to the Registrar within the time specified."

1.2.5 Section 74(1) does not apply to licensed insurers; see section 74(5).

1.3 Purpose

1.3.1 The purpose of this Standard is to set out principles for actuarial advice under the Act which may fall into one or more of three categories:

- Certifying that rates of contribution are appropriate for the business to which they relate.
- Certifying that an amendment to a Rule does not adversely affect the financial soundness of a Friendly Society.

- Conducting a valuation of the assets and liabilities of a Friendly Society and preparing a report on the financial condition of the Friendly Society. Such a valuation and report would occur at least every five years or more frequently if requested by the Registrar.

1.3.2 In some cases a Friendly Society will be conducting life insurance business or insurance business covered by other professional standards issued by the New Zealand Society of Actuaries. This Professional Standard does not discharge the Actuary from the requirements of other actuarial professional standards where they are applicable.

1.3.3 If the Friendly Society is a licensed insurer, the Actuary must comply with the requirements of the Reserve Bank of New Zealand, the provisions of the Insurance (Prudential Supervision) Act and any relevant regulations and standards.

1.3.4 Some Funds are established internally by Friendly Societies and are not legal entities in their own right. The Actuary will need to consider the Rules and any internal operational requirements of the Friendly Society or Branch in determining whether the requirements of this standard should be applied to each Fund separately or to the Friendly Society or Branch as a whole.

1.4 Previous Versions

This standard replaces the previous version, which was effective from 1 June 2015.

1.5 Legislation

This Professional Standard applies to actuarial work required in relation to the Friendly Societies and Credit Unions Act 1982.

1.6 Changes to Referenced Documents

When this professional standard refers to another document, the reference relates to the document as it was as at the effective date of this professional standard. The referenced document may be amended, restated, revoked, or replaced after the effective date. In such a case, the Member should consider the extent to which the modification is applicable and appropriate to the guidance contained in this professional standard.

2 EFFECTIVE DATE

This Professional Standard is effective from 31 August 2018.

3 DEFINITIONS

Act: The Friendly Societies and Credit Unions Act 1982.

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

Branch: A Branch of a Friendly Society.

Friendly Society: A society registered under Part 2 of the Act established to provide by voluntary subscriptions of the members of the Friendly Society, with or without the aid of donations, for any of the purposes specified in Schedule 1 to the Act.

Registrar: The Registrar of Friendly Societies and Credit Unions as appointed from time to time under the Act.

Rules: The Rules of the Friendly Society.

Solvent / Solvency: A Friendly Society or Branch is Solvent if, in the opinion of the Actuary, it has sufficient assets to be likely to meet its obligations in the event of wind up.

4 MATERIALITY

In case of omissions, understatements, or overstatements, the Actuary must assess whether or not the effect is material. The threshold of materiality under which the work is being conducted must be determined by the actuary unless it is imposed by another party such as an auditor or the party who engages the provider of actuarial services. When determining the threshold of materiality, the Actuary must:

- Assess materiality from the point of view of the intended user(s), recognising the purpose of the actuarial services; thus, an omission, understatement, or overstatement is material if the actuary expects it to affect significantly either the intended user's decision-making or the intended user's reasonable expectations;

- Consider the actuarial services and the entity that is the subject of those actuarial services; and

- Consult with the party who engages the provider of actuarial services if necessary.

Where materiality has been imposed by another party it should be stated as such.

5 RESPONSIBILITIES OF THE ACTUARY

The Actuary has a responsibility to the Friendly Society and the members of the Friendly Society.

The Actuary also has a professional responsibility to the Registrar of Friendly Societies as the Registrar will be provided with actuarial advice.

6 CONTRIBUTION RATES AND RULE CHANGES

6.1 Appropriateness of Rates of Contribution

6.1.1 In assessing the appropriateness of the rates of contribution the Actuary must consider:

- The cost of benefits likely to arise and the distribution of possible benefit outcomes.
- The fixed and variable expenses incurred by the Friendly Society or Branch in managing membership, administering benefits, and other activities.
- Investment and other income that may be received.
- Any guarantees or long-term commitments given to the members of the Friendly Society or Branch.
- Legislative requirements.
- The financial position of the Friendly Society or Branch and projected financial position taking into account the business plan of the Friendly Society or Branch.
- Equity between different classes or categories of member of the Friendly Society or Branch, where applicable.
- The Rules of the Friendly Society.
- Any other factors that are relevant in the opinion of the Actuary.

6.1.2 The Actuary must not assess the rates of contribution as appropriate if the application of those rates will adversely impact the financial soundness of the Friendly Society (see section 6.2).

6.1.3 If the Friendly Society is not financially sound as outlined in 6.2.2 below the Actuary must bring this to the attention of the Friendly Society and disclose it to the Registrar. In these circumstances the Actuary should also consider the requirements of the Insurance (Prudential Supervision) Act as it may apply to the Friendly Society.

6.1.4 The Actuary must also consider the timeframe over which contribution rates might remain appropriate and/or the circumstances under which contribution rates considered appropriate now may no longer be appropriate in the future.

6.2 Amendment of Rules and Financial Soundness

6.2.1 The Actuary may be asked to certify that an amendment to the Rules does not adversely affect the financial soundness of a Friendly Society or Branch.

6.2.2 For the purpose of this Standard, “financial soundness” is a status related to the financial position of the Friendly Society or Branch. A Friendly Society or Branch is financially sound if it is currently Solvent and, in the opinion of the Actuary, has sufficient assets to remain Solvent at all times over the next three years. This will require an assessment of the expected financial position for a minimum of three years into the future. The Actuary must make assumptions about future experience allowing for a range of adverse circumstances and reflect realistic planned levels of growth in the business.

6.2.3 Where appropriate the Actuary may rely on the results of a previous assessment of financial soundness made in accordance with section 6.2.2 of this Standard as a starting point for the evaluation of financial soundness. The Actuary must take into account the experience since the previous investigation if a previous investigation is being relied on.

6.2.4 A change to the Rules adversely affects the financial soundness of a Friendly Society or Branch if, in the opinion of the Actuary, the Friendly Society or Branch will no longer be financially sound as a result of the Rule change.

6.2.5 Where a Friendly Society or Branch is not currently financially sound, a change to the Rules adversely affects the financial soundness of the Friendly Society or Branch if, in the opinion of the Actuary, the financial position will deteriorate further as a result of the Rule change.

6.2.6 A change to the Rules that will improve the financial position (for example, an increase to contribution rates) does not adversely affect the financial soundness of the Friendly Society or Branch. However if, in the opinion of the Actuary, the Friendly Society or Branch is still not financially sound after the proposed Rule change, the Actuary must disclose this in the certification to the Registrar.

6.2.7 Amendments to Rules sometimes relate to increased or additional benefits for members of the Friendly Society. These have a financial cost. It is appropriate for the Actuary to take into account additional contributions that may be required immediately or in the future as a result of the Rule change. Where such additional contributions have been taken into account, the certification must include a qualification to this effect.

6.2.8 The Actuary must take into account all of the items in 6.1 above, where relevant, in considering the effect of an amendment to the Rules.

6.2.9 Where a Friendly Society is subject to a prescribed solvency standard the Actuary must comply with that standard for the purpose of certification. Otherwise, for an insurance business the assessment of financial soundness must be performed on the basis of the appropriate solvency standard issued by the Reserve Bank of New Zealand. For other business, the Actuary must apply a calculation basis that is reasonable in his or her opinion and which makes allowance for a range of adverse circumstances.

6.3 Certification for the Registrar

For advice under Sections 15(1) or 24(2) of the Act the Actuary must prepare a certification for the Registrar. The certification is not an actuarial report but it must include:

- The name and qualifications of the Actuary.
- The relationship of the Actuary to the Friendly Society.
- An outline of the matters the Actuary has considered in making the certification.
- The date by when contribution rates should be next reviewed if the certification relates to rates of contribution.
- Any additional information or qualifications required in accordance with the New Zealand Society of Actuaries Code of Professional Conduct.
- Any other qualifications deemed necessary in the opinion of the Actuary.
- A reference to the actuarial report prepared in relation to the certification (see section 6.4 below).

6.4 Actuarial Report in Relation to Certification

The Actuary must also prepare a report for the Friendly Society detailing the work undertaken in relation to a certification for the Registrar. The report should be useful for management of the Friendly Society in understanding the results of the actuarial work. This report must include in addition to the items in 6.3.1 above:

- The key assumptions made.
- Details of any reliance made on the work of others.
- A discussion of the data used including limitations of the data.

- A summary of the results of any calculations.

- An outline of the circumstances under which contribution rates may no longer be appropriate and should be reviewed by the Friendly Society.

- Any limitations in the work undertaken.

7 VALUATION OF ASSETS AND LIABILITIES AND REPORT ON FINANCIAL CONDITION

This section 7 does not apply to insurers licensed under the Insurance (Prudential Supervision) Act.

Assets and Liabilities must be valued in accordance with Generally Accepted Accounting Principles using relevant New Zealand Financial Reporting Standards. The Actuary may rely on the valuation of other professionals for those assets and liabilities where actuaries have no special professional competence. For insurance business the Actuary must comply with Professional Standard No. 20 (Determination of Life Insurance Policy Liabilities) and/or Professional Standard No. 30 (Valuations of General Insurance Claims) if these standards are applicable to the Friendly Society.

The Actuary must conduct an investigation into the Solvency position of the Friendly Society. Where a Friendly Society is subject to a prescribed solvency standard the Actuary must use that standard. Otherwise the Actuary must apply a calculation basis that is reasonable in his or her opinion and which makes allowance for a range of adverse circumstances.

The following matters must be addressed in any report on the financial condition of the Friendly Society:

- Report Identification

  This must include the name of the Actuary, details of the relationship with the Friendly Society, the period of investigation, the date of the report, and a reference to the previous report.

- Background

  A general outline of the Friendly Society, the benefits provided and membership. This would cover the Society structure, the nature of the business or benefits provided, details of membership trends and the business plan.

- Data

  A discussion of the data provided including a description of the data, a commentary on the adequacy of data and a summary of the reconciliations performed.

- Actual Financial Performance

  A summary of the actual financial performance of the Friendly Society over the period of investigation. Where the Friendly Society provides a range of benefits the financial performance of different classes of benefit should be considered separately. There must be an analysis and discussion of management expenses.

- Insurance and Benefit Liabilities

  Details of the calculations of insurance liabilities and liabilities for other benefits provided by the Friendly Society.

- Investments and Other Assets

  Details of the investment policy of the Friendly Society, a summary of current investments and details of historical investment returns. The Actuary must comment on the appropriateness of the investments with respect to obligations of the Friendly Society.

- Financial Position

  Details of the current financial position, and an assessment of the minimum assets required for the Friendly Society to be financially sound in the opinion of the Actuary. There must be a consideration of the adequacy of contribution rates and a discussion of the likely future financial position.

- Risk Management

  A discussion of the key financial risks facing the Friendly Society, including membership risks, benefit risks, asset risks and expense risks.