

**APN 106 / 403: HEAD OF ACTUARIAL FUNCTION FOR SOUTH AFRICAN INSURERS
SUPPLEMENTARY NOTE**

Extracts from the Prudential Standards, version 1, commencement date 1 July 2018

PART 1
PRUDENTIAL STANDARDS

Requirements relevant to the *Head of Actuarial Function's* statutory duties, as set out in the Prudential Standards under the *Act*, are given below for ease of reference. However, the *Act* and Prudential Standards are the correct source and should be referred to in the first instance. A cross-reference to the APN is provided for convenience; however, the full APN should be consulted.

Prudential Standard	Para / Sec.	Text	APN ref.
FSI 1	2.6	An insurer's head of actuarial function is responsible for expressing an opinion to the board of directors regarding the accuracy of the calculations and the appropriateness of the assumptions underlying the valuation of the insurer's technical provisions, and calculation of the insurer's capital requirements.	4
FSI 2	2.2	An insurer's head of actuarial function is responsible for expressing an opinion to the board of directors regarding the accuracy of the calculations and the appropriateness of the assumptions underlying the valuation of the insurer's technical provisions.	4
FSI 2.2	2.2	The head of actuarial function is responsible for expressing an opinion to the board of directors on the valuation of insurance liabilities, and its impact on the overall financial soundness of the insurer. In providing this opinion, the head of actuarial function must have regard to the principles and requirements of this Standard, and relevant professional standards of the Actuarial Society of South Africa.	4, 5
FSI 3	2.3	An insurer's head of actuarial function is responsible for expressing an opinion to the board of directors regarding the accuracy of the calculations underlying the MCR.	4
FSI 4	2.3	An insurer's head of actuarial function is responsible for expressing an opinion to the board of directors regarding the accuracy of the calculations to derive the SCR, including the appropriateness of the assumptions underlying the calculations.	4
FSI 4	5.15	An insurer's head of actuarial function must ensure that the effect of each eligible risk mitigation instrument on the SCR is materially reflective of the risk mitigating reduction that would be expected at a 99.5% confidence level. Particular attention should be paid to eligible risk mitigation instruments that result in a material reduction in the SCR due to weaknesses in the assumptions underlying the SCR calculation. In such circumstances, the head of actuarial function should reduce the effect of the eligible risk mitigation instruments accordingly	-

Prudential Standard	Para / Sec.	Text	APN ref.
		to reflect the capital reduction expected at a 99.5% confidence level in line with the intended purpose of the SCR calculation.	
FSI 4.1	2.2	An insurer's head of actuarial function is responsible for expressing an opinion to the board of directors regarding the accuracy of the calculations and the appropriateness of the assumptions underlying the capital requirement for market risk.	4
FSI 4.2	2.2	An insurer's head of actuarial function is responsible for expressing an opinion to the board of directors regarding the accuracy of the calculations and the appropriateness of the assumptions underlying the capital requirement for life underwriting risk.	4
FSI 4.3	2.2	An insurer's head of actuarial function is responsible for expressing an opinion to the board of directors regarding the accuracy of the calculations and the appropriateness of the assumptions underlying the capital requirement for non-life underwriting risk.	4
FSI 4.3	A 2	The calculation of the adjustment factor must be performed separately to the calculation of other components of the standardised formula, and must be accompanied by a dedicated report issued by the head of actuarial function of the insurer.	4
FSI 4.3	Attachment 2 Item 4	The calculation of the adjustment factor must be performed separately to the calculation of other components of the standardised formula, and must be accompanied by a dedicated report issued by the head of actuarial function of the insurer. Footnote: The dedicated report on the calculation of the adjustment factor should be set up in accordance with any relevant guidance that may be issued by the Actuarial Society of South Africa. Such report and the insurer's ORSA report must both positively attest to the appropriateness of the non-life underwriting risk module's structure and calibration for the insurer's risk profile, in order for the insurer to be considered eligible to use the adjustment.	-
FSI 4.4	2.2	An insurer's head of actuarial function... is responsible for expressing an opinion to the board of directors regarding the accuracy of the calculation of the capital requirement for operational risk.	4
FSI 5	2.3	An insurer's head of actuarial function is responsible for expressing an opinion to the board of directors regarding the accuracy of the calculations and the appropriateness of the assumptions underlying the approved internal model that is used to calculate the SCR.	4
FSI 6	2.3	An insurer's head of actuarial function is responsible for expressing an opinion to the board of directors regarding the accuracy of the calculations and the appropriateness of the assumptions underlying the liquidity shortfall indicator.	-
GOI 3	2.2	The heads of the insurer's risk management, compliance and actuarial functions are responsible for providing input and expressing an opinion to the board of directors about the operations, efficiency, and effectiveness of the components of the systems for risk management and internal controls relevant to their respective areas of responsibility.	-

Prudential Standard	Para / Sec.	Text	APN ref.
GOI 3	9.1	... Control functions are a critical part of an insurer's checks and balances and must provide an independent perspective on risks and breaches of legal or regulatory requirements.	1
GOI 3	9.4	The authority and responsibilities of each control function must be documented and subject to regular review by the board.	-
GOI 3	9.5	An insurer's control functions must be adequately staffed by appropriately qualified and competent persons who have sufficient authority to perform their roles effectively.	-
GOI 3	9.6	Control functions should operate without conflicts of interest; where a conflict arises, it must be brought to the attention of the board of directors for resolution.	3
GOI 3	9.7	Control functions must have the right to conduct investigations of possible breaches and to request assistance for such investigations from specialists within the insurer, or external specialists.	-
GOI 3	9.10	Each control function must conduct regular self-assessments of their respective functions and implement or monitor the implementation of any needed improvements.	-
GOI 3	10.1	Heads of control functions must be fit and proper (see GOI 4 (Fitness and Propriety of Key Persons and Significant Owners of Insurers)).	2, 3
GOI 3	10.3	The appointment, performance assessment, remuneration, disciplining and dismissal of the head of each control function (other than the head of the internal audit function) must be done with the approval of, or after consultation with, the board of directors or relevant board committee.	-
GOI 3	10.5	The remuneration of heads of control functions must not be predominantly linked to the financial performance of the insurer and must not be inconsistent with the long-term strategy and financial soundness of the insurer. In addition, or where this function is outsourced the remuneration should be commensurate with the services provided.	-
GOI 3	10.6	Heads of control functions must have appropriate segregation of duties from operational business line responsibilities.	1
GOI 3	10.7	The heads of control functions must have: a) sufficient seniority and authority to be effective; b) reporting lines that support their independence; c) unrestricted access to relevant information; d) direct access to the board of directors or relevant Committee, without the presence of senior management if so requested, for the purpose of raising concerns about the effectiveness of the risk management system or system of internal controls; and e) the freedom to report to the board of directors or relevant Committee without fear of retaliation from senior management.	2, 3
GOI 3	10.9	Heads of control functions must report regularly to the board of directors or relevant Committee.	2

Prudential Standard	Para / Sec.	Text	APN ref.
GOI 3	10.10	The head of a control function must without delay report in writing to the board of directors or relevant Committee any reasonable suspicion that any financial sector law relevant to its area that applies to the insurer has or is being contravened. Where the suspected contravention is of the Act or the Financial Sector Regulation Act, 2017, the head must also report immediately to the Prudential Authority if, in the opinion of the head, satisfactory steps to rectify the matter have not been taken within 30 days from the date of the board meeting at which the report is considered.	-
GOI 3	14.2	An insurer's actuarial function is responsible for expressing an opinion to the board of directors on the reliability and adequacy of the calculations of the insurer's technical provisions, and minimum and solvency capital requirements, including on: <ul style="list-style-type: none"> a) the appropriateness of the methodologies and underlying models used and assumptions made; b) the sufficiency and quality of the data used in actuarial calculations; c) best estimates and associated assumptions against experience when evaluating technical provisions; d) the accuracy of the calculations; e) the appropriateness of and impact of assumed future management actions and the effect of risk mitigation instruments; and f) the appropriateness of approximations or judgements used in the calculations due to insufficient data of appropriate quality. 	4
GOI 3	14.3	An insurer's actuarial function is responsible for expressing an opinion to the board of directors on – <ul style="list-style-type: none"> a) the appropriateness of the following policies of the insurer: <ul style="list-style-type: none"> i. Asset-liability Management Policy; ii. Underwriting Policy; and iii. Reinsurance and Other Forms of Risk Transfer Policy; and b) the adequacy of reinsurance and other forms of risk transfer arrangements. 	7
GOI 3	14.4	An insurer's actuarial function is responsible for evaluating and providing advice to the board of directors, senior management and other control functions (where relevant) on: <ul style="list-style-type: none"> a) where the insurer uses the standardised formula to assess its risks, why that regulatory capital model is an accurate reflection of the insurer's own risk profile, board-approved risk appetite (and related risk limits), and business strategy. b) the development and use of internal models for internal actuarial or financial projections, or for own solvency projections as in the ORSA; c) the insurer's investment policy; d) the financial soundness position of the insurer, including the impact of any proposed dividend declaration or payment; e) the actuarial-related matters in the ORSA such as the economic capital requirements, the forward looking projections of the economic and regulatory financial 	5, 6, 8, 9, 10

Prudential Standard	Para / Sec.	Text	APN ref.
		<p>soundness positions, the stress-, sensitivity- and scenario testing, and the assumed management actions;</p> <p>f) the internal controls relevant to actuarial matters referred to under this section 14;</p> <p>g) the awarding of a bonus or similar benefit to participating policyholders in accordance with the principles and practises of financial management of the insurer; and</p> <p>h) the actuarial soundness of the terms and conditions of insurance contracts.</p>	
GOI 3.3	2.2	An insurer's actuarial function must periodically review the insurer's Reinsurance and Other Risk Transfer Policy (see section 5 below) and provide an opinion to the board of directors on its appropriateness in light of the insurance risks retained by the insurer.	7
GOI 3.3	2.3	An insurer's actuarial function must also assess and express an opinion on the appropriateness of all reinsurance arrangements in light of the insurance risks retained by the insurer, and advise the board of directors on the appropriate treatment of reinsurance arrangements for financial soundness purposes.	7
GOI 3.3	2.4	The head of the actuarial function of the insurer must provide the Prudential Authority with his or her assessment of, and opinion on, any reinsurance arrangements used in financial soundness calculations, if requested.	4
GOI 6	2.3	The head of the insurer's actuarial function is responsible for expressing an opinion to the board of directors about the soundness of the proposed action as far as the action relates to his or her functions as set out in GOI 3 (Risk Management and Internal Controls for Insurers).	11

PART 2 **POLICY REQUIREMENTS**

The minimum content of certain policies as required by the Act and set out in the Prudential Standards are given below for ease of reference. However, the Act and Prudential Standards are the correct source and should be referred to in the first instance.

Source: GOI 3, attachment 1

A. Asset-Liability Management Policy

An insurer's Asset-Liability Management Policy must:

1. Clearly specify the nature, role and extent of the insurer's asset-liability management activities and their relationship with product development, pricing functions and investment management.
2. Co-ordinate the management of risks associated with assets and liabilities and the complexity of those risks.
3. Recognise the interdependence between the insurer's assets and liabilities and take into account the correlation of risk between different asset classes and the correlations between different products and business lines.

4. Take into account any off-balance sheet exposures that the insurer may have and the contingency that risks transferred may revert to the insurer.

N. Underwriting Policy

An insurer's Underwriting Policy must:

1. Identify the nature of the insurer's insurance business, including, but not limited to:
 - a) the classes of insurance to be underwritten; and
 - b) the types of risks that may be underwritten and those that are to be excluded.
2. Describe the formal risk assessment process for underwriting, including, but not limited to:
 - a) the criteria used for risk assessment;
 - b) the method(s) for monitoring emerging experience; and
 - c) the method(s) by which emerging experience is taken into consideration in the underwriting process.
3. Establish decision-making processes and controls where non-mandated intermediaries or underwriting managers perform binder functions on behalf of the insurer in accordance with Part 6 of the Regulations made under the Long-term Insurance Act, 1998 or the Short-term Insurance Act, 1998.
4. Set out the actions to be taken by the insurer to assess and manage the risk of loss, or of adverse change in the values of insurance and reinsurance liabilities, resulting from inadequate pricing and provisioning assumptions.
5. Establish the insurer's approach to assumption setting, including the level of conservatism need to align with the insurer's risk appetite.
6. Set out the relevant data (quantity and quality) to be considered in the underwriting and reserving processes.
7. Provide for the regular review of the adequacy of claims management procedures, including the extent to which they cover the overall cycle of claims.

Source: GOI 3.3

5. Reinsurance and Other Risk Transfer Policy

5.1. An insurer's Reinsurance and Other Risk Transfer Policy must:

- a) Outline appropriate strategies and procedures for the selection of suitable reinsurance programs and other risk transfer techniques, proportionate to the nature, scale and complexity of the insurer's risks, and to the capabilities of the insurer to manage and control the risk transfer technique used.
- b) Ensure transparent reinsurance and other risk transfer arrangements that enable the Prudential Authority to understand the economic impact of these arrangements.
- c) Provide for processes and procedures for ensuring that the strategies referred to in subsection a) above are implemented and complied with, and that the insurer has in place appropriate systems and controls over its risk transfer transactions.
- d) Identify the level of risk transfer appropriate to the insurer's risk appetite and the types of reinsurance and other risk transfer arrangements most appropriate to effectively manage the insurer's risk profile.
- e) Establish principles for selecting, and assessing the appropriateness, creditworthiness and diversification of, reinsurance and other risk transfer counterparties.

- f) Set concentration limits for credit risk exposure to reinsurance and other risk transfer counterparties and appropriate systems for monitoring these exposures.
- g) Establish procedures for assessing the effectiveness of risk transfers.
- h) Provide for liquidity management to address any timing mismatch between claims payments and reinsurance or other risk transfer recoveries.