

APN 111 / 404: HEAD OF ACTUARIAL FUNCTION FOR SOUTH AFRICAN INSURANCE GROUPS

Classification

This Advisory Practice Note (APN) provides guidance for Heads of Actuarial Function, including Actuaries who support or review this function, of South African *Insurance Groups* (Group HAF).

Abstract

The *Group HAF*, and *Actuaries* who support or review this function, perform an oversight and reviewing role on specified actuarial functions (calculations, results and reports) within an *Insurance Group*. The *Group HAF* provides advice to the *Board* of directors on these activities, by reporting to the *Board*. These duties are described in this practice note and guidance is given on their application.

Purpose

The purpose of this APN is to provide guidance on the statutory duties and professional responsibilities of the *Group HAF*, and those *Actuaries* who support or review this function, for South African *Insurance Groups*.

Legislation or Authority

Insurance Act (18 of 2017); and the Actuarial Society of South Africa.

Application

This APN applies to Heads of Actuarial Function for *Insurance Groups* who perform their duties in terms of the Insurance Act (18 of 2017) including *Actuaries* who support or review this function. Additionally *Actuaries* responsible for the underlying work, on which the *Group HAF* relies, should duly consider this practice note.

Authors

Life Assurance Committee and Short-Term Insurance Committee of the Actuarial Society of South Africa.

Status

APN 111

Version 1 Effective from 01 August 2019

APN 404

Version 1 Effective from 01 August 2019

Definitions

<i>Accounting Consolidation Method</i>	The alternative method for assessing group-wide capital adequacy under the financial soundness framework for an <i>Insurance Group</i> as defined in the <i>Act</i> .
<i>Act</i>	Insurance Act (18 of 2017), including relevant amendments, Prudential Standards, regulations, <i>Prudential Authority</i> directives and guidance notes.
<i>Actuary or Actuaries</i>	A Fellow or Associate member of the ASSA as defined in the Code of Professional Conduct, or a member of another recognised actuarial association to whom this APN applies.
ASSA	Actuarial Society of South Africa.
<i>Board</i>	The term <i>Board</i> refers to the full <i>Board</i> of the <i>Controlling Company</i> of the <i>Insurance Group</i> , or a duly appointed sub-committee thereof.
<i>Control Function</i>	A function, as defined in the <i>Act</i> , which forms part of an <i>Insurance Group</i> 's governance framework.
<i>Controlling Company</i>	The holding company of, or another juristic person that controls, an <i>Insurance Group</i> as defined in accordance with section 1 of the <i>Act</i> and designated by the Prudential Authority.
<i>Deduction and Aggregation Method</i>	The default method for assessing group-wide capital adequacy under the financial soundness framework for an <i>Insurance Group</i> as defined in the <i>Act</i> .
<i>Distribution</i>	A Distribution to shareholders as defined in the Companies Act (71 of 2008).
<i>Group Eligible Own Funds</i>	Eligible own funds as defined in the <i>Act</i> as determined at the <i>Insurance Group</i> level.
<i>Group HAF</i>	An <i>Actuary</i> appointed by the <i>Controlling Company</i> of an <i>Insurance Group</i> in terms of the <i>Act</i> as the Head of the <i>Actuarial Function</i> for the <i>Insurance Group</i> .
<i>Group SCR</i>	The solvency capital requirement of the <i>Insurance Group</i> as calculated in the <i>Prudential Supervision Reporting</i> .
<i>Group Solvency Capital Ratio</i>	The ratio of the <i>Group Eligible Own Funds</i> to the <i>Group SCR</i> as calculated in the <i>Prudential Supervision Reporting</i> .
<i>Group Technical Provisions</i>	<i>Technical Provisions</i> for the <i>Insurance Group</i> calculated using the <i>Accounting Consolidation Method</i> .

<i>Insurance Group</i>	A group of companies designated an insurance group under section 10 of the Act by the <i>Prudential Authority</i> in respect of which the <i>Group HAF</i> is appointed.
<i>Insurance Policy</i>	An Insurance Policy as defined in the Act.
<i>Insurer</i>	A South African or non-South African insurance company (including mutual societies or micro insurers) writing life or non-life insurance business (as defined in the Act) within the <i>Insurance Group</i> .
<i>ORSA</i>	Own Risk and Solvency Assessment as required in terms of the Act.
<i>Prudential Authority</i>	Means the prudential authority established in terms of the Financial Sector Regulation Act (9 of 2017).
<i>Prudential Supervision Reporting</i>	Refers to results calculated for prudential supervision purposes as determined in terms of the Act, including any such results in the ORSA report.
<i>Public Interest</i>	Benefiting the general public or a large class of persons. Not something which only benefits one person or a small number of people at the expense of the general public.
<i>Published Reporting</i>	When figures are those shown in the annual financial statements, these will be referred to as published reporting figures, prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.
<i>SCR</i>	The solvency capital requirement of the <i>Insurer</i> as calculated in the <i>Prudential Supervision Reporting</i> .
<i>Solo HAF</i>	An <i>Actuary</i> appointed by an <i>Insurer</i> in terms of the Act as the Head of the Actuarial Function for the <i>Insurer</i> within the <i>Insurance Group</i> . This includes an equivalent role in a non-South African <i>Insurer</i> where the <i>Insurer</i> is based in a regime deemed to be equivalent by the <i>Prudential Authority</i> under the Act.
<i>Technical Provisions</i>	Insurance liabilities as calculated in the <i>Prudential Supervision Reporting</i> .

Sections

1. Introduction
2. Responsibilities of the Group HAF
3. Appointment and termination
4. Reliance and interaction with other professionals
5. Review of adequacy of Group Eligible Own Funds and Group SCR
6. Review of financial position
7. Shareholder Distributions
8. Opinion on stipulated policies
9. Review of Product design, premium rates and policy conditions
10. Transfers of business and other significant transactions

1. Introduction

- 1.1. This APN applies to both the *Group HAF* and *Actuaries* who support or review the *Group HAF*. Additionally *Actuaries* responsible for the underlying work, on which the *Group HAF* relies, should duly consider this practice note.
- 1.2. The *Group HAF*'s role can be considered in two parts, namely oversight / review and reporting. Depending on the nature, scale and complexity of the *Insurance Group*, the oversight / review function may comprise a range of activities that can be delegated to *Actuaries* acting in support of, and who are accountable to, the *Group HAF*. However, the reporting function, and in particular when providing opinions or advice to the *Board*, would be expected to be performed by one person, being the duly appointed *Group HAF*.
- 1.3. The *Group HAF* should be sufficiently independent from the activities associated with the underlying actuarial roles such that the *Group HAF*'s responsibilities of oversight and review can be appropriately performed. A single *Actuary* is not precluded from performing the role of the *Group HAF* and *Solo HAF* within an *Insurance Group*.
- 1.4. The role of the *Group HAF* is not intended to be an additional or duplicate layer of oversight / review and reporting within the *Insurance Group*. Rather, the role of the *Group HAF* is intended to provide oversight / review and reporting from an *Insurance Group* perspective. Therefore, the role of the *Group HAF* should be performed in the context of the oversight / review and reporting arrangements within the *Insurance Group*, with the *Group HAF* typically placing reliance on the work performed by other *Actuaries* and professionals in order to fulfil their responsibilities under the *Act*. Section 4 sets out the considerations to be made when placing reliance on other *Actuaries* and professionals.
- 1.5. This APN covers all kinds of *Insurance Groups*. Some points may be more or less relevant to a particular *Insurance Group*. The *Group HAF* should exercise their professional judgement in deciding which points are relevant for the *Insurance Group* they are advising, and which matters are deserving of more attention.
- 1.6. There are similarities between the role of the *Group HAF* and the *Solo HAF*. This APN focuses on the considerations unique to the *Group HAF* and refers the reader to APN 106 / 403 Head of Actuarial Function for South African Insurers (APN 106 / 403) where this is considered appropriate. The *Group HAF* should exercise their professional judgement when applying APN 106 / 403 in an *Insurance Group* context.

2. Responsibilities of the Group HAF

- 2.1. This APN makes reference to statutory duties which arise in terms of the *Act*, as well as professional responsibilities which stem from ASSA.

Statutory duties

- 2.2. Requirements relevant to the *Group HAF*'s statutory duties are set out in the Prudential Standards under the *Act*. The rest of this APN provides more detailed guidance, where deemed necessary or desirable, for *Group HAFs* in fulfilling the statutory duties. Where no guidance corresponding to the *Act* is provided in this APN, the *Group HAF* is expected to apply their own professional judgement, or to discuss with the *Prudential Authority* or an appropriate senior *Actuary*.
- 2.3. The *Group HAF* should be familiar with the requirements of the *Act*.

Professional responsibilities

- 2.4. The *Group HAF* is reminded of their responsibilities under ASSA's Code of Professional Conduct.
- 2.5. The essence of a profession lies in upholding its standards, technical and ethical, in the *Public Interest*. A *Group HAF* who becomes doubtful as to the proper course of action to adopt in relation to a potentially significant matter is strongly advised to seek help and advice through the President or President-Elect of ASSA, or the *Prudential Authority*.
- 2.6. The *Group HAF* should at all times act in recognition of the prominent role that the *Group HAF* plays in the financial position of the *Insurance Group* in respect of which they are appointed, and the reliance that the *Board* places on the *Group HAF*.
- 2.7. The *Group HAF* should take reasonable steps to ensure access to the *Board*, the Audit Committee and other relevant committees at appropriate times. The *Group HAF* should also take reasonable steps to ensure they are aware of developments in the *Insurance Group* that may be material to any opinion or advice provided by the *Group HAF*. This may for example include requesting copies of Board minutes and relevant tabled documents.
- 2.8. The *Group HAF* should take reasonable steps to attend any meeting where the *Group HAF*'s own report is discussed, so that the *Group HAF* may identify and address any area of misunderstanding or concern that may arise.
- 2.9. The *Group HAF* should bear in mind that depending on the purpose for which the *Group HAF*'s report has been prepared, the report might be used by third parties.
- 2.10. The *Group HAF* should take all reasonable steps to ensure that the *Board* understands when the *Group HAF* is providing advice in accordance with statute (including Prudential Standards and regulations) or actuarial professional guidance, as opposed to providing advice or expressing an opinion as an employee, director or external adviser, as the case may be.
- 2.11. The *Group HAF* should pay due regard to generally accepted actuarial best practice including SAPs and APNs issued by ASSA. SAPs and APNs establish some elements of generally accepted actuarial best practice. The *Group HAF* should also consider whether there are any other practices that may be considered as generally accepted actuarial best practice.

Reporting requirements

- 2.12. The *Group HAF* should, in a timely manner, report in writing on any opinions and advice to the *Board* required in terms of the *Act*.
- 2.13. Such reporting can be a single overall report covering all the necessary requirements, or it can be made up of individual component reports completed at suitable points in the *Group HAF*'s work cycle. The intention is not to duplicate other reports presented to the *Board*. However, the *Group HAF* should ensure that all the required tasks are reported on in some appropriate way at some stage.
- 2.14. The reports should be produced at least annually or more frequently as the *Board* requires. Alternatively, components of the annual report may be produced as and when required.

3. Appointment and termination

- 3.1. An *Actuary* must not accept and continue an appointment as a *Group HAF* if the *Actuary* does not have the knowledge, skills and experience that would reasonably be considered appropriate and necessary for the role, given the nature and complexity of the particular *Insurance Group* concerned. In order to be appointed as a *Group HAF*, ASSA does not require its members to hold a practicing certificate but they are required to be a Fellow of ASSA.
- 3.2. A potential *Group HAF* has a professional duty to consult with the present *Group HAF* (if there is one) to determine if there are any professional reasons why the appointment should not be accepted. Permission from the *Insurance Group* to consult with the present *Group HAF* should be obtained first. If the *Insurance Group* withholds such permission, it would be a material factor in deciding whether or not to accept the appointment.
- 3.3. Any *Actuary* has a duty to the profession. The *Actuary's* responsibility to the *Insurance Group* must be consistent with this. The *Group HAF*, however, is in a special situation in that the *Group HAF* is being appointed and remunerated by the *Controlling Company*, while at the same time having responsibilities and obligations to the *Board* under the *Act*. These responsibilities may be in conflict from time to time and it would be important for any material conflict to be resolved via discussions with the *Controlling Company* and/or the *Prudential Authority*.
- 3.4. Upon appointment, and where deemed necessary thereafter, the *Group HAF* should inform the *Board* of the *Group HAF's* responsibilities in terms of this APN and the *Act*.
- 3.5. Under the *Act*, a *Group HAF* who resigns or whose appointment has been terminated, must at the request of the *Prudential Authority*, notify the *Prudential Authority* in writing of any matter relating to the affairs of that *Controlling Company* of which the *Group HAF* became aware in the performance of the *Group HAF's* role, responsibilities, duties or functions, and which may prejudice the ability of the *Controlling Company* to comply with the *Act*.

4. Reliance and interaction with other professionals

- 4.1. The nature and scale of some *Insurance Groups* may result in the potential for the role of the *Group HAF* to be broad and varied. The *Group HAF* may not be an expert in all areas in which the *Insurance Group* operates and reliance on other *Actuaries* and professionals may be required. The *Group HAF* should consider on an ongoing basis whether they require the knowledge and experience from another *Actuary* or professional (either internal or external to the organisation) to support them in the execution of their responsibilities as *Group HAF*.
- 4.2. The *Group HAF* should consider what additional work is required to place reliance on other *Actuaries* and professionals, for example validation of the work and/or ensuring that relevant controls have been put in place. The extent of additional work should be guided by the materiality of the reliance to the assessment the *Group HAF* is performing and the familiarity the *Group HAF* has in the aspect concerned. In all cases, the *Group HAF* should clearly disclose when and where reliances have been placed or not placed. The *Group HAF* should consider whether it is appropriate to discuss with the other *Actuary* or professional where reliance is placed.
- 4.3. There may be instances where the *Group HAF* is performing an evaluation or providing an opinion at different points in time to the work performed by the other *Actuary* and/or professionals where reliance is placed. In these instances the *Group HAF* should consider the nature of the reliance being placed, and any material changes since the work was performed, in order to determine if the reliance remains appropriate.

- 4.4. In instances where an *Insurer* within the *Insurance Group* has a *Solo HAF*, it is acceptable for the *Group HAF* to place reliance on the *Solo HAF*. In instances where an *Insurer* within the *Insurance Group* does not have a *Solo HAF* and the *Insurer* is material to the *Insurance Group*, the *Group HAF* should take a special interest in the *Insurer*. The *Group HAF* should take the necessary steps to ensure that they have available to them whatever is needed (such as information, resources, etc.) to perform the duties of the *Group HAF* in respect of the *Insurer*.
- 4.5. There may be cases where the *Group HAF* has limited influence over some *Insurers* in the *Insurance Group*. This would be especially true where the *Controlling Company* is not the majority shareholder. In these cases, it may be more challenging for the *Group HAF* to obtain whatever is needed (such as information, resources, etc.) to perform the duties of the *Group HAF*. In such cases, the *Group HAF* should ensure that the relevant actuarial functions in the *Insurer* are aware of the requirements of the *Group HAF*. Should the *Group HAF* fail to obtain whatever is needed to perform their duties in respect of the *Insurer*, the *Group HAF* should escalate the requirements via the *Insurance Group's* governance structures and the *Group HAF* should take reasonable steps to include an estimate of the required information for the *Insurer* (where relevant).
- 4.6. Where necessary and appropriate (for example, consolidation adjustments to determine the *Group Eligible Own Funds* and the valuation of assets and liabilities other than *Technical Provisions*), the *Group HAF* may place reliance on accounting professionals (either internal or external to the organisation).
- 4.7. Where necessary and appropriate (for example assessing adequacy and effectiveness of controls), the *Group HAF* may place reliance on the work of other group or solo *Control Functions* or on appropriate third party providers.

5. Review of adequacy of Group Eligible Own Funds and Group SCR

- 5.1. The *Group HAF* is required to provide the *Board* with an opinion on the adequacy and reliability of the *Group Eligible Own Funds* and *Group SCR*. Such opinion would typically be provided in a formal report.
- 5.2. The opinion provided on the adequacy and reliability of the results should include an assessment as to whether the results have been calculated in accordance with the *Act*, with *ASSA* standards and with generally accepted actuarial best practice. The *Group HAF* should advise the *Board* if any changes are needed to achieve compliance.
- 5.3. There are two methods for assessing group-wide capital adequacy under the *Act* for an *Insurance Group*, namely the *Deduction and Aggregation Method* and the *Accounting Consolidation Method*. The *Deduction and Aggregation Method* is the default method specified in the *Act*. Further, *Insurance Groups* may apply to the *Prudential Authority* for approval to use an internal model to calculate all or part of their *Group SCR*. The guidance set out below is applicable to all the methods for assessing group-wide capital adequacy. However, additional considerations applicable to the *Accounting Consolidation Method* or the use of an internal model (partial or full) are set out separately.
- 5.4. The *Group HAF* should clearly state and explain any material concerns as to the sufficiency of the *Group Eligible Own Funds* and *Group SCR*. This refers to the uncertainty about the ultimate outcome and the circumstances that might lead to the ultimate outcome deviating significantly from the key assumptions underlying the *Group Eligible Own Funds* and *Group SCR*. The report should disclose how the *Group HAF* has assessed the sufficiency of the *Group Eligible Own Funds* and *Group SCR*. This should include disclosure of the reliance placed on other professionals and/or *Actuaries*.

and those factors, including risk drivers and assumptions made, which in the opinion of the *Group HAF* have a material impact on the *Group Eligible Own Funds* or *Group SCR*, and, in particular, any material judgements made in the calculations.

- 5.5. When considering the adequacy and reliability of the *Group Eligible Own Funds* and *Group SCR*, the *Group HAF* should consider whether:
- a) The eliminations of inter-group transactions are appropriate;
 - b) The determination of *Group Eligible Own Funds* appropriately applies eligibility limits and considers the restrictions on the availability of own funds, including the fungibility and transferability, across the *Insurance Group*;
 - c) Appropriate allowance is made for risks which arise solely as a result of the *Insurance Group* structure (e.g. contagion risk, concentration risk and risks arising due to complexity in the *Insurance Group* structure) and *Insurance Group* specific risks (e.g. currency translation risk);
 - d) The methodology used to set the key assumptions and select the models used to calculate the *Group Eligible Own Funds* and *Group SCR* is consistent across the *Insurance Group*;
 - e) Risk mitigations and management actions assumed at the *Insurance Group* level are appropriate and are not overstated on consolidation;
 - f) There are any concentrations of risk which may not affect solo entities, but are material at the *Insurance Group* level; and
 - g) The loss-absorbing capacity of *Technical Provisions* across the *Insurance Group* has been allowed for appropriately when calculating the *Group SCR* and should make an appropriate adjustment if needed.
- 5.6. The report should raise any issues that require the attention of the *Board*, particularly any material areas of uncertainty and the causes of such uncertainty related to the calculations.
- 5.7. The *Group HAF* should review, and sign-off where required, the relevant *Insurance Group* returns to the *Prudential Authority*.
- 5.8. The *Group HAF* should refer to APN 106 / 403 (as applied in an *Insurance Group* context) for considerations on the data, assumptions, methodology and models used and the analysis of change when considering the sufficiency of the *Group Eligible Own Funds* and *Group SCR*.

Accounting Consolidation Method considerations

- 5.9. The *Accounting Consolidation Method* may result in *Group Technical Provisions* and/or *Group SCR* being different to what would be obtained when using the *Deduction and Aggregation Method*. In this case where there may be additional calculations (which may include data, assumptions, methodology and models), the *Group HAF* should refer to the considerations outlined in APN 106 / 403 (as applied in an *Insurance Group* context) to provide an opinion on the adequacy and reliability of the *Group Eligible Own Funds* and *Group SCR*. In this case, reliance on the *Solo HAF* may not be appropriate and the *Group HAF* should consider where reliance is still appropriate.
- 5.10. The *Group HAF* should provide assurance to the *Board* that the level of diversification achieved when using the *Accounting Consolidation Method* is appropriate for the risks faced by the *Insurance Group*. In order to provide this assurance, the *Group HAF* could consider, amongst others, empirical evidence, internal capital requirements and group capital management frameworks.

Internal models (partial or full) considerations

- 5.11. Where an *Insurance Group* uses a full or partial internal model for *Prudential Supervision Reporting*, the *Group HAF* should express an opinion to the *Board* regarding the accuracy of the calculations and the appropriateness of the assumptions underlying the approved internal model that is used to calculate the *Group SCR*.
- 5.12. Where a full or partial internal model is used by an *Insurer* within the *Insurance Group*, the *Group HAF* should ensure that the *SCR* for the *Insurer* using a full or partial internal model is incorporated into the *Group SCR* in an appropriate manner.
- 5.13. Where the *Group HAF* places reliance on a third party for the review of any approved internal model, this should be stated.

6. Review of financial position

- 6.1. The *Group HAF* should evaluate and provide advice to the *Board* on the *Insurance Group's* financial position, including the impact of any *Distribution*. Such advice would typically be provided in a formal report. In any such report, the *Group HAF* should present the results in a way that demonstrates the correct underlying position of the *Insurance Group*. All material risks to the solvency and liquidity of the *Insurance Group* should be highlighted and explained to the *Board* unless these are reported elsewhere to the *Board* and this information remains valid. The *Group HAF* should draw particular attention to areas where the *Group HAF* has materially relied on other professionals and/or *Actuaries*.
- 6.2. The *Group HAF* should refer to the considerations set out in APN 106 / 403 (as applied in an *Insurance Group* context) when evaluating and providing advice to the *Board* on the *Insurance Group's* financial position.
- 6.3. In respect of the financial position of the *Insurance Group*, the *Group HAF* should ensure the *Board* is made aware of the following *Insurance Group* specific aspects:
 - a) The financial position of the different solo entities and the statutory supervision (if at all) each is subject to;
 - b) Whether [1] the *Deduction and Aggregation Method*, [2] the *Accounting Consolidation Method* or [3] an internal model (partial or full) was used for determining the *Group SCR* and the reasons for selecting the particular method;
 - c) The main contributors to the *Group SCR* both in terms of [1] the different solo entities and [2] the different risks allowed for;
 - d) Where the *Deduction and Aggregation Method* is used, any adjustments made to the solos' regulatory capital (for regulated entities) when calculating the *Group Eligible Own Funds* and *Group SCR*;
 - e) Where the *Accounting Consolidation Method* is used, the methodology and assumptions to determine the *Group Eligible Own Funds* and *Group SCR*, including the methodology to allow for diversification;
 - f) Where an internal model (partial or full) is used, the methodology and key assumptions to determine the *Group SCR*;
 - g) Whether allowance was made in the *Group SCR* for risks which arise solely as a result of the *Insurance Group* structure (e.g. contagion risk, concentration risk and risks arising due to complexity in the *Insurance Group* structure) and *Insurance Group* specific risks (e.g. currency translation risk), and if so what allowance has been made;
 - h) The consistency of approach in determining the *Prudential Supervision Reporting* figures across the different *Insurers* within the *Insurance Group*; and
 - i) The fungibility and transferability of own funds across the *Insurance Group*.

Future solvency / ORSA Report

- 6.4. The *Group HAF* should evaluate and provide advice to the *Board* on the future solvency of the *Insurance Group*. This can be done via an *ORSA* report or via alternative reporting that allows the *Group HAF* to be satisfied with the future solvency of the *Insurance Group*. This report should include a summary of the results of the projections and commentary from the *Group HAF* on matters as outlined on APN 106 / 403 (as applied in an *Insurance Group* context). In addition the *Group HAF* should comment on the following *Insurance Group* specific actuarial-related items (where relevant):
- a) Risks that exist as a result of the *Insurance Group* structure (e.g. contagion risk, concentration risk and risks arising due to complexity in the *Insurance Group* structure) and *Insurance Group* specific risks (e.g. currency translation risk); and
 - b) The extent to which there are any material inconsistencies in the approach to managing risk and capital between the different solo entities;

7. Shareholder Distributions

- 7.1. In terms of the *Act*, a *Controlling Company* shall not declare or pay a dividend if the *Controlling Company* fails or is likely to fail to maintain a financially sound condition (as determined in accordance with the *Act*). A dividend is one form of *Distribution*. The *Group HAF* should consider all *Distributions* from the *Controlling Company*.
- 7.2. The *Group HAF* should advise the *Board* on the impact of any proposed or actual *Distribution*. In this evaluation, the *Group HAF* should consider the impact of the *Distribution* on the *Controlling Company's* current *Group Solvency Capital Ratio* and on the *Controlling Company's* ability to maintain a financially sound condition for the foreseeable future after the *Distribution*. The *Group HAF* should also consider the impact of the *Distribution* on the liquidity of the *Controlling Company* and its ability to meet on-going liquidity requirements (such as conditions imposed by the *Prudential Authority*). Where possible, the *Group HAF* should express these views in writing to the *Board*.
- 7.3. The *Group HAF* should advise the *Board* whether *Distributions* would result in a current or projected solvency position which may fall short of the *Controlling Company's* minimum or target capital as stated in the *Insurance Group's* capital management policies or risk appetite.

8. Opinion on stipulated policies

- 8.1. The *Group HAF* is required to express an opinion on the appropriateness of the following policies of the *Insurance Group*:
- a) Asset-liability management;
 - b) Underwriting; and
 - c) Reinsurance and other forms of risk transfer.
- 8.2. The *Group HAF* should regularly review these policies and related matters and report on this to the *Board*. The frequency of reporting should be as required by the *Board* (typically on an annual basis, or when there are significant changes to the business).
- 8.3. In reviewing these policies, the *Group HAF* should consider:
- a) The requirements set out in the *Prudential Standards*;
 - b) The coverage of these policies, taking into account the nature, size and complexity of the *Insurance Group*;

- c) The consistency between these policies adopted throughout the *Insurance Group*;
 - d) Whether all areas relevant to the particular policy have been properly and consistently addressed in the policy (taking into consideration the areas outlined in APN 106 / 403); and
 - e) The policies in the context of the *Insurance Group*'s overall risk management framework.
- 8.4. The *Group HAF* should assess whether the policies in question pursued by the *Insurance Group* are, or could become, inappropriate having regard to the current and expected future nature of the *Insurance Group*'s business. If this is the case, the *Group HAF* should advise the *Board* of the changes required to policy, and possibly short-term constraints on business, to protect the financial position of the *Insurance Group*.
- 8.5. The *Group HAF* is not expected to monitor the implementation of, and compliance with, the particular policies. This monitoring is more suited to other *Control Functions*.

Reinsurance and other forms of risk transfer arrangements

- 8.6. In addition to expressing an opinion on the appropriateness of the *Insurance Group*'s reinsurance and other forms of risk transfer policy, the *Group HAF* is required to express an opinion on the adequacy of the reinsurance and other forms of risk transfer arrangements from an *Insurance Group* perspective. Reinsurance arrangements refers, for example, to the actual reinsurance treaties, structures, levels and reinsurers in place at a particular point in time.
- 8.7. In assessing the adequacy of reinsurance and other forms of risk transfer arrangements, the *Group HAF* would not be expected to consider each individual reinsurance arrangement within the *Insurance Group* and would typically rely on any assessment performed by the *Solo HAFs* within the *Insurance Group*. Where an *Insurer* does not have a *Solo HAF* and the *Insurer* is material to the *Insurance Group*, the *Group HAF* may want to perform additional work and should refer to the considerations outlined in APN 106 / 403 when assessing the adequacy of reinsurance and other forms of risk transfer arrangements.
- 8.8. The focus for the *Group HAF* when assessing the adequacy of reinsurance and other forms of risk transfer arrangements should be from the *Insurance Group* perspective. To do this, the *Group HAF* should consider the following *Insurance Group* specific items (where relevant):
- a) Accumulations and concentrations of risks (including credit risk exposure to individual reinsurers) across the *Insurance Group*;
 - b) Reinsurance or risk transfer structures between *Insurers* within the *Insurance Group*; and
 - c) Risk transfer structures that transfer risk to non-insurance entities within the *Insurance Group*.

9. Review of Product design, premium rates and policy conditions

- 9.1. The *Group HAF* is required to evaluate and provide advice to the *Board* on the actuarial soundness of the terms and conditions of *Insurance Policies* issued within the *Insurance Group*. These *Insurance Policies* are issued by *Insurers* within the *Insurance Group*.
- 9.2. In instances where an *Insurer* has a *Solo HAF*, the *Group HAF* is not expected to perform their own evaluation and would rely on the *Solo HAF* in this regard. The *Group HAF* should ensure the necessary processes are in place such that they are made aware of any instances where the *Solo HAF* raises concerns on the actuarial soundness of the

terms and conditions of *Insurance Policies* issued that are material to the *Insurance Group*. This would then inform the advice to the *Board* provided by the *Group HAF*. In instances where an *Insurer* does not have a *Solo HAF*, the *Group HAF* should consider the guidance set out in paragraph 4.4. of this APN.

- 9.3. Where the *Group HAF* performs a review of product design, premium rates and policy conditions, the considerations set out in APN 106 / 403 should be taken into account.
- 9.4. The *Act* does not require the *Group HAF* to evaluate or provide advice on the actuarial soundness of the terms and conditions of non-insurance contracts.

10. Transfers of business and other significant transactions

- 10.1. The *Act* applies only to transfers of assets and liabilities relating to insurance business, which must be carried out by an *Insurer*. Therefore, the requirements relating to transfers of business and other significant transactions do not apply directly to an *Insurance Group*. The *Prudential Authority* will nevertheless consider the impact on the *Insurance Group* where an *Insurer* within an *Insurance Group* proposes a transfer of insurance business.
- 10.2. The *Group HAF* should provide the *Board* with advice on the impact on the soundness of the *Insurance Group* of any transfer of business or other significant transaction within the *Insurance Group*, as set out in the *Act*. The *Group HAF* should be guided by APN 106 / 403 in terms of the transactions to consider.
- 10.3. The *Group HAF* should consider the potential conflicts of interest that may arise in such situations, and should manage these conflicts appropriately. For example, material conflicts must be fully disclosed to all *Boards* involved and in all reports produced (refer to ASSA's Code of Professional Conduct). Where in doubt, the *Group HAF* is advised to seek appropriate professional guidance.
- 10.4. For the purposes of the advice, "soundness" may be defined as the ability of the *Insurance Group* to maintain, post-transaction, a financially sound condition on the *Prudential Supervision Reporting* basis, as determined in accordance with the *Act*. This does not preclude the *Group HAF* from advising the *Board* on the likely effects on other bases or results (such as *Published Reporting* or economic capital for example).
- 10.5. The advice the *Group HAF* provides should be in the form of a written report. In preparing the report, the *Group HAF* should bear in mind that such a report could be made available to various stakeholders. The *Group HAF* should consider preparing separate reports for separate stakeholders where this is deemed necessary.