BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Appointed Actuary: Appointment and Duties

Concept Paper

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PART A OVERVIEW

1. Objective

1.1 This policy document sets out the duties of an Appointed Actuary, and the Bank's expectations of the roles and responsibilities of the Board[1] and the Board Nominating Committee[1] (NC) in relation to the Appointed Actuary. The policy document aims to reinforce the professional standards expected of an Appointed Actuary in carrying out his/her role, taking into account the specified duties imposed on the Appointed Actuary in addition to the responsibilities generally held towards the licensed person.

1.2 This policy document addresses the:

(a) requirements relating to the appointment and cessation of the Appointed Actuary;

(b) duties and obligations of the Appointed Actuary; and

(c) specific responsibilities of the Board in relation to the Appointed Actuary.

2. Legal provisions

2.1 The requirements in this policy document are issued pursuant to sections 47(1), 74, and 76 to 80 of the Financial Services Act 2013 (FSA) as well as sections 57(1), 83, and 85 to 89 of the Islamic Financial Services Act 2013 (IFSA).

[1] As defined in the Prudential Framework of Corporate Governance for Insurers and the Minimum Standards for Prudential Management of Insurers (Consolidated).

3. Applicability

3.1 This policy document is applicable to the Appointed Actuary and the Board of all:

(a) insurers and reinsurers licensed under the FSA; and

(b) Takaful operators and retakaful operators licensed under the IFSA.

S 3.2 This policy document supersedes the Guidelines on the Role of the "Appointed Actuary" (JPI/GPI 10) and the Guidelines on the Role of Appointed Actuary (BNM/RH/GL/004-10).

4. Effective date

S 4.1 This policy document will take effect from dd/mm/yyyy

5. Interpretations

S 5.1 The terms and expressions used in this document shall have the same meanings assigned to it in the FSA and IFSA as the case may be unless otherwise defined in this document.

S 5.2 For the purposes of this document:

"S" denotes a standard, requirement or specification that must be complied with. Failure to comply may result in one or more enforcement actions.

"G" denotes guidance which may consist of such information, advice or recommendation intended to promote common understanding and sound industry practices which are encouraged to be adopted.

"Licensed persons" will be used to refer to insurers and takaful operators collectively

PART B APPOINTMENT AND CESSATION: THE APPOINTED ACTUARY

6. Appointment by the licensed person

S 6.1 Every licensed person must appoint a person approved by the Bank to be its Appointed Actuary. The appointment is the responsibility of the Board and in doing so, the Board must ensure that the appointment is in accordance with the requirements set out in this policy document and the application procedure specified in the **Appendix**.

S 6.2 The licensed person must ensure that a person who is being considered as a candidate for Appointed Actuary fulfils the following minimum qualifications:

(a) The person is a Fellow of either:
  - (i) the Institute and Faculty of Actuaries of the United Kingdom;
  - (ii) the Institute of Actuaries of Australia;
  - (iii) the Canadian Institute of Actuaries;
  - (iv) the Society of Actuaries of the United States of America (only applicable for life insurance/family takaful business); or
  - (v) the Casualty Actuarial Society of the United States of America (only applicable for general insurance/takaful business); or
  - (vi) holds any other qualifications as the Bank may approve.

(b) The person possesses at least three (3) years of relevant post qualification practical experience as a Fellow of one of the respective professional bodies highlighted in paragraph 6.2(a);

(c) The person meets relevant continued professional development requirements; and

(d) The person has been assessed by the NC to have met the fit and proper requirements outlined in the Guidelines on Fit and Proper for Key Responsible Persons.

S 5.2 The NC, when carrying out the assessment on the suitability of the candidate, must comply with the Guidelines on Fit and Proper for Key Responsible Persons. In addition, the NC must have been satisfied, based on a reasonably robust assessment process, that the candidate:

(a) has adequate practical experience in or understanding of the Malaysian insurance industry and is familiar with Malaysian laws and regulations relevant to the conduct of insurance/takaful business;

(b) has adequate technical experience (which includes the use of relevant analytics) and has had key responsibilities in performing valuations of actuarial liabilities for a life, family or general insurance/takaful licensed person as applicable;

(c) is well informed on emerging developments in the insurance business and actuarial practice which are relevant to the duties of the Appointed Actuary;

(d) has adequate experience in engaging with members of the Board and senior management, in particular the ability to communicate and contextualise the results of technical actuarial assessments in a clear and comprehensible manner to key stakeholders who may not have an actuarial background;

(e) has a good professional track record;

(f) has not been the subject of findings of a material contravention of the standards of any actuarial professional body or any law or regulation relating to actuarial conduct; and

(g) has no conflict of interest that would impair the ability of the candidate to effectively discharge his/her duties as an Appointed Actuary.

S 5.3 The Appointed Actuary must be an employee of the licensed person. The Bank may consider, under exceptional circumstances, and if supported by strong justification, an application for an Appointed Actuary not to be an employee of the licensed person.

7. Cessation of appointment

S 7.1 In addition to the requirement under Section 78(1) of the FSA and Section 87(1) of the IFSA that an Appointed Actuary must notify the Bank in writing, with reasons, of a cessation under Section 77 and Section 86 of the FSA and IFSA respectively, the licensed person must notify the Bank in writing of that fact and the reasons of such cessation not later than seven days from the date of giving or receiving the notice of cessation. In the notification to the Bank, the Appointed Actuary and the licensed person must state whether there have been any disagreements between the licensed person and the Appointed Actuary on matters which the Appointed Actuary has a duty to report or provide an opinion on.

S 7.2 The licensed person must appoint another person, subject to the approval of the Bank, as its Appointed Actuary no later than 90 days from the effective date of cessation.

PART C DUTIES

8. Duties and obligations of the Appointed Actuary

S 8.1 The Appointed Actuary must:

(a) certify that the valuation of actuarial and other policy liabilities is in accordance with the generally accepted actuarial principles and practices, valuation methods and assumptions which are consistent with the applicable requirements, as set out in paragraph 8.2, as part of his/her valuation duties;

(b) prepare the Financial Condition Report, in accordance with the requirements in the policy document on the Financial Condition Report (FCR);

(c) provide recommendations to the Board on the appropriateness of the surplus distribution to policyholders/participants as well as any relevant distribution to shareholders; and

(d) apply the appropriate tests to reasonably satisfy himself/herself about the completeness and accuracy of the database of business in force used to perform the specific duties in paragraphs 8.1 (a) to 8.1 (c).

S 8.2 The valuation duties of the Appointed Actuary under paragraph 8.1(a) must be discharged in accordance with the following policy documents, as applicable:

(a) Life insurance business – Appendix VII of the Risk-Based Capital Framework for Insurers;

(b) General insurance business – Appendix VI of the Risk-Based Capital Framework for Insurers;

(c) Family takaful business – Guidelines on Valuation Basis for Liabilities of Family Takaful Business; and

(d) General takaful business – Guidelines on Valuation Basis for Liabilities of General Takaful Business.

S 8.3 The report by the Appointed Actuary to the Board and senior management on the matters covered in paragraph 8.1 must include a narrative of his/her findings, recommendations and conclusions, as well as the basis for those conclusions. This must be presented in a manner which gives sufficient prominence to, and clearly explains, significant issues and developments which have material implications for the financial condition of the insurer/takaful operator, or the interests of its policyholders/participants. The Appointed Actuary must be available to respond directly and in a timely fashion, to any questions or issues raised by the Board in relation to his/her report.

S 8.4 In relation to paragraph 8.1(a), the report by the Appointed Actuary must draw the attention of the Board to the following:

(a) key trends in the business composition, the portfolio's experience for each class of business and movements in the reserves for actuarial and other policy liabilities;

(b) any material changes in selected assumptions;

(c) reasons for any deviation from the assumptions implied by the experience analysis;

(d) key assumptions for which small changes can cause significant variations in the valuation results;

(e) for general insurance, significant observations from the comparison of actual and expected experience for both premium/contribution and claim liabilities; and

(f) for life insurance/family takaful, significant observations from the analysis of the experience and composition of surplus arising.

S 8.5 In relation to paragraph 8.1(b), the Appointed Actuary must take appropriate steps to effectively engage the Board and senior management on the results of his/her investigations into the licensed person's current and expected future financial condition, including key analyses. The Appointed Actuary must present clearly and discuss directly with the Board plausible threats identified by the Appointed Actuary to the financial condition of the licensed person, recommendations to address those threats and observed actions of the senior management in response to the recommendations in the previous year's FCR.

S 8.6 In addition to the requirement in paragraph 8.1(b), the Appointed Actuary must report in writing to the Board and senior management any developments that may materially affect the financial condition of the licensed person or compromise the interests of policyholders, as soon as practicable. In the report, the Appointed Actuary must address the effect of the development and the recommended corrective measures. If no action has been taken by the senior management within a reasonable period of time following the report from the Appointed Actuary, the Appointed Actuary must report this fact to the Board and notify the Bank that he/she has done so.

S 8.7 Prior to making any recommendations for surplus or investment income distribution, the Appointed Actuary must consider and be satisfied that:

(a) the proposed distributions preserve equity among the different groups of policyholders/participants and are consistent with the reasonable expectations of the policyholders;

(b) the proposed bonus distributions are sustainable, taking into account the current and future capital needs of the licensed person's operations under a range of circumstances; and

(c) there has been proper management of participating life policy business[2] and the requirements set out in the Takaful Operational Framework have been met, as applicable.

S 8.8 The Appointed Actuary must take reasonable steps to avoid actual and potential conflicts of interest in the course of carrying out his/her duties. Consistent with this, the Appointed Actuary must not assume responsibility for product pricing. This prohibition does not preclude the Appointed Actuary from providing advice on matters related to product pricing based on his/her knowledge and experience. However, in providing such advice, he/she must consider whether the nature of the advice and reasonable expectations of reliance on that advice would materially conflict with the duties of the Appointed Actuary set out in this document.

S 8.9 The Appointed Actuary must take reasonable steps to ensure that any communication which he/she is associated with is effective, not misleading and cannot be misinterpreted. This includes ensuring that the technical components of the communication are not overly complex or excessively detailed as to cloud or impair effective and informed decision-making. The Appointed Actuary must also ensure that any significant limitations or variations to the basis or assessment upon which a recommendation has been formed are clearly highlighted, and sufficient information is provided on alternative conclusions that might be reached by the Appointed Actuary if the basis or assessment were different.

G 8.10 The Appointed Actuary should ensure that communications with the Board and senior management on actuarial matters are timely, and that the method of communication is appropriate, having regard to

[2] Further guidance is set out in the policy document on the Management of Participating Life Policy Business which will be issued in the future.

the purpose and subject matter of the communication and its significance. This may entail supplementing written reports with briefings to properly explain and emphasise the issues raised by the Appointed Actuary.

S 8.11 The Appointed Actuary must keep adequate documentation of his/her work to facilitate continuity and such that any party reviewing the Appointed Actuary's work would be able to understand his/her findings, recommendations and conclusions. This should include sufficient detail on:

(a) his/her engagements, whether written or verbal, with stakeholders;

(b) the activities carried out as part of his/her duties, including the processes relating to the certification of the valuation of liabilities, the preparation of the FCR and recommendations on the distribution of surplus or investment income; and

(c) the methodology employed to satisfy himself/herself of the accuracy of data used in performing his/her duties.

S 8.12 Unless the Bank otherwise approves, an Appointed Actuary must have his/her principal place of residence in Malaysia and must devote his/her full attention and sufficient time to be able to discharge his/her duties effectively and diligently.

Question 1

Please describe the current role of the Appointed Actuary in your existing product pricing process and how paragraph 8.8 will be complied with. Please also elaborate on changes that have to be made, measures that would be taken to build capacity and what the involvement, if any, the Appointed Actuary will continue to have in the pricing process within the limited scope provided under paragraph 8.8.

9. Responsibilities of the Board in relation to the Appointed Actuary

The Bank would like to request that the Board provide comments/responses specifically in relation to this section

S 9.1 The Board must ensure that the duties of the Appointed Actuary can be discharged without any hindrance. This includes ensuring that arrangements are in place to:

(a) provide the Appointed Actuary with direct access to the Board;

(b) keep the Appointed Actuary informed about the licensed person's business plans;

(c) ensure that the Appointed Actuary is provided with sufficient resources for effective discharge of his/her duties, including human resources as well as information technology and other appropriate systems;

(d) provide the Appointed Actuary with full access rights to relevant records, accounts and any other information of the licensed person; and

(e) enable the Appointed Actuary to request and receive information or explanation from the senior management and officers of the licensed person as necessary.

S 9.2 Where the Appointed Actuary is to be assigned into any other roles, the Board must be satisfied that there will be no conflict of interest. In particular, the role of the Appointed Actuary must be distinct from other executive functions and business line responsibilities. The Appointed Actuary's role must not be combined with other executive functions ("dual hatting" i.e. where the Appointed Actuary also serves as the chief executive officer, chief financial officer, chief operating officer or chief internal auditor). In addition, the Appointed Actuary must not have any management or financial responsibility in respect of business lines or revenue-generating functions.

S 9.3 The Board must review the reports submitted to it by the Appointed Actuary at a sufficiently granular level that enables the Board to form a well-founded view on the following matters:

(a) whether adequate provisions have been made to meet the licensed person's obligations under policies which it has written;

(b) whether any major risks or concerns exist which affect the licensed person's ongoing financial soundness;

(c) whether current strategies and business plans pursued by the licensed person are consistent with the sound financial management of the licensed person and the fair treatment of policyholders/participants;

(d) whether the licensed person's processes for identifying, reporting and managing new risks have been effective in the light of issues raised by the Appointed Actuary;

(e) whether business decisions taken or planned need to be reviewed in the light of limitations and alternative conclusions highlighted by the Appointed Actuary; and

(f) whether corrective actions recommended by the Appointed Actuary have been implemented adequately.

S 9.4 The Board must ensure that the level of direct engagement with the Appointed Actuary is sufficient to inform the Board's views on matters that have been outlined in paragraph 9.3. In addition, the Board must request advice from the Appointed Actuary on the likely effects of any changes in business plans on the financial condition of the licensed person and interests of the policyholders.

G 9.5 Direct engagements between the Board and the Appointed Actuary may be useful avenues for exchange of knowledge that could enhance the Board's understanding of the reports submitted by the Appointed Actuary or to obtain additional updates on specific actuarial developments. These developments may not have an immediate impact on the licensed person but could potentially have medium to longer term effects on the safety and soundness of the business as well as fair treatment of policyholders. Examples of these developments include discussions on regulatory changes that relate to the duty of the Appointed Actuary, discussions on the demographic and social factors that could affect the management of insurance funds and setting of assumptions or the risk appetite by the licensed person, as well as changes to the financial landscape such as availability of investment and reinsurance.

Question 2

In what way do you think communication between the Appointed Actuary and the Board can be further enhanced and what steps have you taken to ensure effective communication?

Question 3

What measures will be taken to enable the Board to more effectively perform its function, especially in relation to the expectations in paragraph 9.3?

Question 4

Are reviews of the Appointed Actuary's work conducted? If yes, please elaborate on the process, including the frequency, scope and parties involved in carrying out the review.

APPENDIX APPLICATION FOR APPROVAL

1. General procedure

1.1 An application for the appointment of the Appointed Actuary must be submitted to the Bank at least one month prior to the proposed appointment date.

1.2 A composite insurer/takaful operator must submit separate applications for its life insurance/family takaful business and general insurance/takaful business respectively, even if the positions are to be held by the same person.

2. Assignments to additional roles and responsibilities

2.1 If the Appointed Actuary is also assigned to other roles and responsibilities within the licensed person, the following additional information must be furnished to the Bank:

(a) a list of all additional duties of the Appointed Actuary, other than those required in Section 8;

(b) details of the line of reporting for each additional duty; and

(c) reasons/justifications for the assignment to the additional roles and responsibilities, with evidence that the Board is satisfied that the requirement set out in paragraph 9.2 is sufficiently met for such assignments.

2.2 The licensed person must inform and submit additional information to the Bank in the event that the Appointed Actuary is assigned to more functions than originally declared.

3. Application form

3.1 For purposes of appointment of a person as the Appointed Actuary, the licensed person must submit the following application form to the Bank:

APPLICATION FORM FOR APPOINTED ACTUARY

FORM BNM/JP3/ACT1 **Page 1/2**					
APPLICANT (LICENSED PERSON)					
CANDIDATE DETAILS					
1. SALUTATION	**2. NAME**				
3. IDENTITY CARD NO[1]	**New**		**4. PASSPORT NUMBER**[2]		
	Old				
5. NATIONALITY		**6. DATE OF BIRTH**			
7. RESIDENTIAL ADDRESS	**8. CONTACT DETAILS**				
	Telephone Number (House)				
	Telephone Number (Mobile)				
	Email				
9. IS THE CANDIDATE AN EMPLOYEE OF THE LICENSED PERSON? (If no, please provide justification)					
10. PROPOSED PERIOD OF APPOINTMENT (dd/mm/yyyy – dd/mm/yyyy)					
11. ACADEMIC AND PROFESSIONAL QUALIFICATION (Please state the latest qualification obtained first)					
Qualification	**Awarded by**	**Country**	**Year Obtained**		
12. WORKING EXPERIENCE (Please state the latest position held first)					
Positions held/Department	**Main responsibilities**	**Organisation /Licensed person**	**Country**	**Duration**	
Please elaborate on how the candidate's previous working experience will be relevant to the role of the Appointed Actuary					
13. CURRENT EMPLOYMENT INFORMATION					
Organisation Name					
Designation					
Type of Appointment					
Address					
Telephone Number					

[1] For Malaysian Citizens only. Please also enclose a photocopy of the identity card (front and back) marked "For Bank Negara Malaysia use"

[2] For non-Malaysia Citizens : Please also enclose a photocopy of the passport (personal particulars pages) marked "For Bank Negara Malaysia use"

FORM BNM/JP3/ACT1

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14. DETAILS OF JOB DESCRIPTION INCLUDING OTHER DUTIES[3]

15. CURRENT DUTIES IN OTHER LICENSED PERSONS

Licensed person	Details of Duties

16. DETAILS OF INTEREST IN LICENSED PERSONS OR OTHER ORGANISATION RELATED TO THE INSURANCE INDUSTRY[4]

Organisation/Licensed person	Interests

17. DECLARATION BY APPLICANT

I do solemnly and sincerely declare that:

(i) I am not disqualified under section 59 of the Financial Services Act 2013 or section 68 of the Islamic Financial Services Act 2013;

(ii) To the best of my knowledge and belief, there are no bankruptcy proceedings being initiated against me at present and I have not been declared an undischarged bankrupt by any competent authority to do so within or outside Malaysia;

(iii) I have never been subject to any form of disciplinary actions by any professional body

(iv) I am not aware of any conflicts of interest or any other reason that could prevent me from carrying out my duties professionally; and

(v) All the information submitted in this form is true and complete.

Signature :
Name :
Date :

18. ACKNOWLEDGEMENT BY PRINCIPAL OFFICER OF LICENSED PERSON

I hereby

(i) affirm that the applicant above has provided the details in this application form, and has signed it in my presence.;

(ii) confirm that the details in this application form are true to the best of my knowledge

(iii) confirm that this application has been approved by the Nominating Committee (or the Board of Directors), and attach evidence of the corresponding assessment and approval

Signature : Licensed person stamp :
Name :
Designation :
Date :

[3] Including other duties not required in paragraph Section 8, other actuarial or non-actuarial duties as per requirements in paragraph 2.1 of the **Appendix**. Justification for the appointment into any additional roles and responsibilities must be attached to the form, as per paragraph 2.1(c)

[4] Any interests as a partner, shareholder, officer or director in insurance companies, brokerage firms, loss adjuster firms and insurance agencies.