

Response to feedback received

Appointed Actuary: Appointment and Duties

Introduction

This document contains the Bank's responses to specific concerns on the role of the appointed actuary, reporting/governance structure, the effective implementation date and transitional arrangements following the issuance of the concept paper on Appointed Actuary: Appointment and Duties (AA requirements) on 7 June 2013 for consultation over a period of two months.

Bank Negara Malaysia

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Role of the appointed actuary

1. Why has the accountability for product pricing been removed from the appointed actuary's duties?

[Paragraphs 9.8 and 9.9]

The appointed actuary has, in the past, been involved in both the business and control aspects of the company by virtue of being accountable for product pricing, valuation and the preparation of the Financial Condition Report (FCR). The Bank has observed circumstances in which tensions can arise between the appointed actuary's duties in these roles and over time, this can undermine the effectiveness of the control function intended to be provided by the appointed actuary.

With progressive developments now achieved in enlarging the actuarial talent pool, the Bank considers it timely to reinforce the appointed actuary's primary responsibilities for providing objective and independent advice to management and the Board on matters concerning an insurer/takaful operator's financial condition and responsibilities for the equitable treatment of policyholders. In particular, the appointed actuary will be better placed to provide impartial opinions on product pricing, as expected by the Bank in paragraph 9.9 of the policy document.

2. What are the Bank's expectations on accountability for product pricing?

[Paragraphs 9.8 and 9.9]

The policy document does not prescribe requirements on the person accountable for product pricing. The Bank expects insurers/takaful operators to ensure that the product pricing process is supported by sufficient resources and expertise, commensurate with the insurers/takaful operators' product risk profiles. Similarly, the Bank would expect all insurers/takaful operators to determine the governance structure and processes for product pricing which are most appropriate to their individual circumstances.

The Bank's expectations on product risk management and the role of the Board in endorsing the policies and procedures for managing product risks are also outlined in the Guidelines on Introduction of New Products for Insurance Companies and Takaful Operators. Related policy documents, including those on the submission of the Actuarial Certificate and family takaful products, will be reviewed to ensure alignment with the AA requirements.

3. With the introduction of the requirement for general insurers/takaful operators to prepare FCRs, will the Bank be issuing guidance on the preparation of the FCR for general insurers/takaful operators?

[Paragraphs 9.1(b), 9.5 and 9.6]

The Bank is currently developing a concept paper on the preparation of the FCR by all insurers and takaful operators, which will include a proposal for insurers/takaful operators to submit their FCRs to the Bank three months after the end of the financial year beginning on or after 1 January 2015.

Pending the finalisation of the concept paper, general insurers/takaful operators are advised to consider and plan for necessary enhancements to their existing processes and data requirements in preparation to meet the requirement to prepare the FCR. In doing so, general insurers/takaful operators can be guided by the Guidelines on Financial Condition Report (which was issued for life insurers and family takaful operators) which will also provide the basis for the development of the FCR to be submitted by general insurers/ takaful operators. All insurers and takaful operators are also encouraged to engage with the supervisors to discuss any company-specific concerns that will have bearing on the preparation of the FCR.

Reporting / Governance Structure

4. Will the Bank mandate specific organisational structures/reporting lines in relation to the interactions between the Board and the appointed actuary?

[Paragraphs 10.1, 10.4 and 10.5]

The policy document does not prescribe specific organisational structures or reporting lines between the Board and the appointed actuary. Insurers/takaful operators should determine the appropriate governance arrangements for their organisations, which should also work to enhance the quality of the interaction between the Board and the appointed actuary

These arrangements should, however, observe the requirement for the appointed actuary to be provided with direct access to the Board, as specified in paragraph 10.1(a) of the policy document.

5. Is the appointed actuary allowed to dual-hat as the Chief Risk Officer (CRO)?

[Paragraph 10.2]

The Bank, in principle, does not restrict the appointed actuary from dual-hatting as the CRO. However, the intention for the appointed actuary to take on other roles should be highlighted by the insurers/takaful operators in the application for the appointment of the appointed actuary submitted to the Bank.

The Bank will assess, on a case-by-case basis, the appropriateness of the dual-hatting of the appointed actuary role with other roles, taking into account the profile of the insurer/takaful operator, and the capacity and capability of the candidates to assume the additional roles intended.

6. Where would the responsibility to protect policyholders/participants' interest lie?

[Paragraphs 9.6 and 9.7]

The overall responsibility to ensure fair treatment of policyholders/participants is placed on the Chief Executive Officer and ultimately the Board.

In addition to the professional opinion and advice provided in line with paragraphs 9.6 and 9.7, the appointed actuary plays a significant role in supporting the Chief Executive Officer and the Board to ensure fair treatment of policyholders/participants.

Effective Implementation Date and Transitional Arrangements

7. Why are there different effective dates in the policy document?

[Paragraphs 4.1 and 4.2]

All parts of the policy document will take effect from 1 January 2015. However, a longer transition period is provided for general insurers/takaful operators to take into account new requirements that are being applied to the general insurance/takaful industry for the first time and resource constraints in terms of actuarial talent that may currently be faced in the general insurance/takaful industry.

General insurers/takaful operators will be given until:

- (a) the financial year beginning on or after 1 January 2015 to fully comply with the requirements on the preparation of the FCR (paragraphs 9.1(b) and 9.5); and
- (b) 1 January 2017 to comply with the requirement for the appointed actuary to -

- (i) be an employee of the company (paragraph 7.4);
- (ii) investigate and provide opinions on product pricing (paragraph 9.9); and
- (iii) be a Malaysian resident (paragraph 9.14).

8. Will the requirements apply to reinsurers/retakaful operators?

[Paragraph 2.1]

The requirements in the policy document apply to direct insurers and direct takaful operators only. The requirements for reinsurers/retakaful operators will be modified to better suit their business models and issued bilaterally to the individual reinsurers/retakaful operators.