

Professional Standard 1

(Effective date: 1 January 2025)

1. Introduction and purpose

This Professional Standard sets out the requirements for Fellow Members of the Actuarial Society of Hong Kong (“Members”) carrying out the roles of:-

- An actuary under section 15AAA(1)(a) or (b) of the Insurance Ordinance (Cap. 41) (“the Ordinance”) of an authorized insurer carrying on long term business, being referred to herein as “Appointed Actuary”;
- An actuary under section 15AAA(1)(c) or (d) of the Ordinance of an authorized insurer carrying on general business, being referred to herein as “Certifying Actuary”.

2. General obligations

- 2.1 The Appointed Actuary and the Certifying Actuary must possess qualifications as prescribed under the Insurance (Actuaries' Qualifications) Regulation (Cap. 41A), which include a requirement to be a Fellow Member of The Actuarial Society of Hong Kong.
- 2.2 A Member, before accepting appointment as an Appointed Actuary or a Certifying Actuary, must consider most carefully in the light of his/her previous experience and work whether acceptance would be in line with proper professional behaviour and standards. No actuary should act as an Appointed Actuary or a Certifying Actuary if he/she does not possess the necessary practical experience.
- 2.3 Before taking up an appointment as an Appointed Actuary or as a Certifying Actuary, a Member must consider whether it is necessary to have a discussion with the immediate predecessor, if any, about the role. The Member should make every effort to ensure that such a discussion takes place in a manner that is appropriate and proportionate to the circumstances.
- 2.4 A Member who is fulfilling the role of Appointed Actuary or Certifying Actuary should pay due regard to Accepted Actuarial Practice including the Actuarial Guidance Notes issued by the Actuarial Society of Hong Kong. A Member who adopts a practice which is significantly different from Accepted Actuarial Practice must disclose the reasons for adopting that practice. In this context, "significantly different" refers to the effect of the practice on the results. A major difference in practice on an item which is trivial in its effect is not significant for this purpose.

3. Appointed Actuaries of insurers carrying on long term business

General duties of the Appointed Actuary

3.1 It is the duty of the Appointed Actuary to advise the company as soon as he is of the view that:

(a) a course of action is being, or is proposed to be, followed by the company,
or

(b) a situation has arisen, perhaps outside the control of the company,
creates a material risk that the long term fund may be insufficient to comply with the requirements stipulated under sections 21B and 22 of the Ordinance in relation to its long term business.

It is also the Appointed Actuary's duty:

- (i) if the company persists in following such a course of action under (a), or
- (ii) if the company fails to remedy the situation in (b) and does not report this fact to the Insurance Authority,

to advise the Insurance Authority after so informing the company.

The Appointed Actuary must take all reasonable steps to:

3.2 Ensure that they have the right to present a report to the insurer's governing body in person, whenever they deem the report sufficiently important., including in particular the situations described in 3.1(a) and 3.1(b).

3.3 Ensure that they have sufficient information and resources to enable necessary investigations to be carried out, both at the time of the appointment and thereafter, including in particular to enable them to report to the insurer's Governing Body on compliance with the insurer's actuarial policy¹, covering in particular:

¹ As defined in 7.9 of the Insurance Authority's Guideline on Enterprise Risk Management

- (a) the methodologies, models, data and assumptions (including allowances, whether explicit or implicit, for uncertainty in data and assumptions) used in calculations of the solvency position, regulatory capital requirements, technical provisions, premium and pricing, which in all cases should take into account the nature of contracts, including guarantees and options provided to policyholders, investment strategy, and policyholders' reasonable expectations;
- (b) capital adequacy assessments and stress tests under various scenarios, and their impact on assets, liabilities, and actual and future capital levels, taking into account business plans including expected levels of new business and expenses;
- (c) development, pricing and assessment of the adequacy of the reinsurance arrangements;
- (d) distribution of bonuses or dividends for participating policies and determination of crediting interest rates for universal life policies or other discretionary (or non-guaranteed) benefits, as applicable;
- (e) risk modelling in the Own Risk and Solvency Assessment ("ORSA");
- (f) the setting of materiality thresholds or risk limits to facilitate monitoring and reporting of risks that are evaluated and monitored by the actuarial function according to its enterprise risk management ("ERM") framework and the ORSA; and
- (g) regular review of actuarial-related risk management arrangements.

3.4 Ensure that they are aware of any relevant decisions taken by the insurer as they affect liabilities to policyholders, contracts with reinsurers, investment strategy and investment management.

3.5 Ensure that the insurer's management and Governing Body are aware at all times of their interpretation of the insurer's obligations to treat its customers fairly and their interpretation of policyholders' reasonable expectations which in particular need to be taken into account in assessing bonuses or dividends and relevant non-guarantee benefits to policyholders, liabilities and capital requirements.

- 3.6 Ensure that the insurer's management and Governing Body appreciate the implications for the reasonable expectations of policyholders of assumptions used for illustrations of participating and universal life policies.
- 3.7 Report on any material concerns they may have in any of the above areas, and advise on any steps that may need to be taken to address those concerns.

4. Certifying Actuaries of insurers carrying on general business

The Certifying Actuary must take all reasonable steps to:

- 4.1 Ensure that they have the right to present a report to the insurer's Governing Body in person, whenever they deem the report sufficiently important.
- 4.2 Ensure that they have sufficient information and resources to enable necessary investigations to be carried out, both at the time of the appointment and thereafter, including in particular to enable them to report to the insurer's Governing Body on compliance with the insurer's actuarial policy including any concerns they may have and advise on any steps that may need to be taken to address those concerns.
- 4.3 Ensure compliance with Guideline on Actuarial Review of Insurance Liabilities in respect of General Business (GL9), the relevant circulars and letters from the Insurance Authority, and consider the Guidance Notes and Guidelines as listed in AGN4, AGN9 (from the Actuarial Society of Hong Kong).

End of Professional Standard 1