14 December 2017

Mr Peter Kohlhagen
Senior Manager, Insurance Policy
Policy and Advice Division
Australian Prudential Regulation Authority
GPO Box 9836
Sydney NSW 2001

Email: insurance.policy@apra.gov.au

Dear Sir/Madam

Review of the role of the Appointed Actuary and actuarial advice within insurers

The Actuaries Institute commends APRA for undertaking the review of the current framework for the Appointed Actuary (AA) role and for the spirit and degree of consultation that is being undertaken to understand the views of industry stakeholders, including the actuarial profession.

The institute supports the general thrust of APRA's review to; clarify the seniority of the AA role; reduce the compliance obligations associated with the actuarial function; and harmonise prudential standards across industries whilst accommodating inherent differences. While in some respects the changes proposed could be viewed as relatively minor, we do consider that the changes are positive, and note that the introduction of a formal actuarial advice framework will reduce unnecessary workload for life insurance AAs and hence facilitate these individuals contributing at a more strategic level to the management of insurance companies. The Institute also welcomes the statement of purpose for the AA role that explicitly recognises the need for actuarial input into the strategic discussions at senior management and Board level.

We are broadly supportive of the proposed new prudential standard and prudential practice guide. Nevertheless, below we make several comments relating to the reforms, including outlining some areas where the proposals may not give effect to APRA's policy intentions.

- Post Implementation Review

  We suggest that APRA conduct a follow up review of the effectiveness of its reforms after a period following implementation to assess whether the desired outcomes have been achieved. This review should cover the actuarial advice framework, the seniority of the AA and the input of the AA into strategic discussions at the senior management and Board level.

- AA Seniority

  We welcome APRA's strategic positioning of the AA role. The Institute agrees that the AA role needs to have an appropriate level of seniority to ensure that actuarial advice is given due consideration by an insurer's Board and senior management, and that this advice is provided at a suitable time in the decision-making process. APRA's proposed new prudential standard of itself will not be sufficient to ensure that AAs have a higher level of seniority or a greater level of influence in their organisations. To achieve the desired outcome, APRA, insurance companies, the actuarial profession and individual actuaries will need to work together.

Institute of Actuaries of Australia
ABN 69 000 423 656

Level 2, 50 Carrington Street, Sydney NSW Australia 2000
t +61 (0) 2 9239 6100 f +61 (0) 2 9239 6170
e actuaries@actuaries.asn.au **w** www.actuaries.asn.au

- ## Actuarial Advice Framework

The Institute supports the introduction of the actuarial advice framework and considers that this will assist in supporting a delegation framework in life insurance and enabling non-life insurers to formalise the key areas not already covered in APRA standards where they will seek actuarial advice.

- ## Conflicts of Interest

The Institute recognises that traditional conflicts of interests can arise in the course of professional actuarial work. Our Code of Professional Conduct addresses how actuaries are to approach these situations.

We do not consider actuaries operating at different levels of the three lines of defence model as a conflict of interest. It is important that any actuary providing advice under the actuarial advice framework be clear as to whether the advice is considered the primary advice or an independent review of other decisions (e.g. involvement in reinsurance structures, consideration around new products review of assumptions, approvals). We will adjust our professional standards to cover advice required under an insurer's actuarial advice framework. The documentation would include the timing, circumstances and the extent to which actuaries provided advice.

As set out in our Code of Professional Conduct, all actuarial advice must be impartial or, where impartiality is not possible, disclosed to the users of the advice the capacity in which the actuary was acting. In no circumstances can the advice be false, misleading or deceptive.

- ## Requirement to Timing of FCR

Section 29(a) of draft Prudential Standard CPS 320 states that the Appointed Actuary must provide the FCR "to the insurer within such time as to give the board a reasonable opportunity to consider and use the information to prepare the insurer's annual regulatory financial statements". While this section is currently an existing requirement of GPS 320, we consider that this requires clarification. Firstly, it is unclear what is meant by "annual regulatory financial statements"; whether this refers to published financial statements or returns to APRA. Secondly, it seems unnecessary (and potentially unfeasible) to provide a complete, signed FCR to the Board as technically required. Rather, it would seem more appropriate that the AA provides a relevant extract of content that will be included in the FCR (specifically the policy liabilities and capital requirements, and related commentary on any uncertainty in determining these amounts).

- ## Transition

The Institute supports APRA's intention to release the final prudential standards and prudential practice guide in 2018. Initial planning of the activities required for implementation of these standards and practice guides stipulates that several key areas of work need to take place to ensure successful implementation. Major activities include, but are not limited to:

1. Engagement and communication with senior management and company Boards
2. Draft and approval of the actuarial advice framework by companies

As such, an implementation date of 1 January 2019 would be considered the earliest feasible date, and an implementation date of 1 July 2019 may be an alternative.

The Institute would support an implementation date of 1 July 2019, with early adoption permitted. A company's approach in its implementation will take into consideration the nature and complexity of its business, and is therefore expected to vary from company to company. As such, at a later stage, the Institute would encourage APRA to share its views on the varied implementation approaches taken.

- Private Health Insurance

  Our submission on APRA's June 2016 discussion paper had regard to the potential for the new framework to cover the AA role in health insurance.

  The current notifiable circumstances regime works well in PHI, allowing the AA to provide advice and challenge when material decisions are being made. We therefore welcome APRA's decision to maintain notifiable circumstances within the Actuarial Advice Framework, as per Attachment C of CPS 320.

  We note additional flexibility regarding who provides advice under notifiable circumstances. This appears consistent with our understanding of APRA's objectives, and is reasonable.

  In respect of the documentation of liability valuations, it is appropriate that no additional regulation is proposed, and the approach remains at the discretion of the actuary and the insurer.

The Institute has established a Working Group to consider what changes are required to our professional standards, guidance notes and information notes. In particular, it will consider the impacts of the actuarial advice framework, materiality and conflicts of Interest.

The Working group will also consider what further action the Institute needs to take to embed the proposed changes into the AA regime. Our regular Insights Session, CPD training and various communication channels will be utilised to educate the profession about AA requirements and the importance of that role in the safeguarding the financial health of the insurance sector.

Please do not hesitate to contact myself or the Acting Chief Executive Officer of the Actuaries Institute, Elayne Grace (phone 02 9239 6100 or email elayne.grace@actuaries.asn.au) to discuss any aspect of this letter.

Yours sincerely

J. A. Lyon

Jenny Lyon
President