

28 September 2016

Ms Heidi Richards
General Manager
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Australian Prudential Regulation Authority
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via email: insurance.policy@apra.gov.au

Dear Ms Richards

The role of the Appointed Actuary and actuarial advice within insurers

The Australian Institute of Company Directors (AICD) welcomes the opportunity to comment on the proposals put forward by the Australian Prudential Regulation Authority (APRA) in its paper '*The role of the Appointed Actuary and actuarial advice within insurers*' (the Paper).

The AICD is committed to excellence in governance. We make a positive impact on society and the economy through governance education, director development and advocacy. Our membership of almost 39,000 includes directors and senior leaders from business, government and the not-for-profit sectors.

This submission addresses matters in the Paper that are directly related to the work of boards of insurers. It was developed in consultation with a sub-committee of the AICD's APRA-Regulated Entities Forum which includes non-executive directors from the general and life insurance sectors.

1. Introduction

The AICD appreciates that APRA, in response to feedback, aims to improve the effectiveness of the role of the Appointed Actuary for the benefit of insurers and stakeholders. The AICD does not have specific expertise in the prudential regulation of insurers or the role of the Appointed Actuary. However, it is keenly interested in ways and means to help the board to carry out its responsibilities as effectively as possible. In considering the Paper, therefore, the AICD has focused on providing a principles-based response to some aspects of the Paper as they relate to the governance function and role of the board.

2. Introducing a purpose statement for Appointed Actuaries

Board directors require accurate and reliable information, supported by expert advice where necessary, to undertake their duties effectively. Given the complex nature of the

financial operations of insurance companies, it is critical that the board has access to deep expertise, and where appropriate impartial advice, in making the many deliberations needed in its governance of the business. We agree that this includes access to “unbiased advice on issues that are material to the financial condition of the company”.¹ However, we consider it appropriate for the delivery of this advice to be guided by principles and attributes, rather than detailed prescription, and so we support the general intent in this respect as set out in the Paper.

In light of industry feedback cited by APRA that the role of the Appointed Actuary has become task oriented, with a heavy compliance burden and an inability to delegate relatively simpler tasks appropriately, the AICD supports a move by APRA to clarify and reorient the role through the development of a purpose statement. It is important that this purpose statement also helps ensure that the focus of the Appointed Actuary’s work is on matters where he or she can provide most value to the board.

The AICD notes APRA’s proposed purpose statement focuses on the need for the Appointed Actuary to be able to challenge and debate activities and decisions that may materially affect the insurer’s financial condition or its treatment of policyholders, and we consider this appropriate in the context of board-level considerations.

3. Implement a clear actuarial advice framework

The AICD understands that the role of the Appointed Actuary, due to the current constraints set out in relevant Acts and prudential standards, has become inflexible with a heavy workload, and as noted above, an inability to delegate tasks. We appreciate that this may limit the ability of the Appointed Actuary to provide strategic advice to the board.

The AICD supports the notion of principles-based regulation so that the board has some flexibility in dealing with the particular circumstances of the insurer concerned. It supports the general idea of frameworks where appropriate. The AICD therefore supports APRA’s desire to reshape prudential standards to allow boards of insurers, based on their particular circumstances, to decide on how actuarial advice is undertaken and delivered, with the Appointed Actuary playing an active role in the framework’s development, and the board of the insurer approving the framework. We note APRA’s intention to specify certain areas requiring actuarial advice, and acknowledge the need for this.

Further, the AICD considers it appropriate that insurers outline the nature and materiality of matters to be dealt with under the framework. We emphasise that there should be sufficient flexibility for insurers to tailor the framework to the needs and scale of their organisation and its risks.

4. Management of conflicts of interest

The Appointed Actuary has to deal with the differing interests of management, board and policyholders from time to time. Given the board’s need for expert and impartial advice from the Appointed Actuary, it is critical that he or she is able to do this without fear or favour.

The AICD therefore supports the need for tight management of conflicts, under the oversight of the board, whether this forms part of an existing conflicts policy or otherwise.

¹ 2016 APRA Discussion Paper: The role of the Appointed Actuary and actuarial advice within insurers.

5. Improving reporting requirements

The AICD supports measures that aim to ensure that boards receive clear and appropriate information in an efficient way, unencumbered by detailed information where this is not necessary for the board to properly carry out its responsibilities. The AICD therefore supports in principle APRA's proposed approach to providing greater discretion to the Appointed Actuary to focus on matters that are material to the financial condition of the insurer, under a framework approved by the board.

We understand that due to the current prescriptive nature of reporting requirements, key messages may be difficult to determine among the volume and complexity of information received by the board. As such, a minimum set of areas for comment, with an 'if not why not' reporting principle may assist the Appointed Actuary in delivering priority information to boards in the most effective way.

The AICD supports APRA's desire to minimise the level of ongoing review required by the Appointed Actuary of the risk management framework and the ICAAP. APRA's proposal to have the Appointed Actuary significantly involved in the setting of the framework, and ICAAP, and to be involved at the point when changes are made to these appears appropriate.

Lastly, for the reasons mentioned above concerning excessive detail, the AICD supports APRA's proposal to require an executive summary of the content of the ILVR to be provided to the board, without a requirement for the delivery of the full ILVR to the board. This is consistent with the principle that boards should not be overloaded with information, and can control the level of information they receive.

6. Conclusion

In summary, the AICD supports the general thrust of APRA's intent to be less prescriptive in its regulation of the Appointed Actuary role. We hope this submission will be of assistance. If you would like to discuss our views, please contact Amber O'Connell, Advocacy Manager, on (02) 8248 8424 or via aconnell@aicd.com.au.

Yours sincerely



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