

21 September 2016

Mr Pat Brennan
General Manager
Policy Development
Australian Prudential Regulation Authority
GPO Box 9836
SYDNEY NSW 2001

By email: insurance.policy@apra.gov.au

Dear Mr Brennan

Discussion Paper - The role of the Appointed Actuary and actuarial advice within insurers

Australian Unity welcomes the opportunity to comment on APRA's Discussion Paper - The role of the Appointed Actuary and actuarial advice within insurers.

Australian Unity is a national healthcare, financial services, and independent & assisted living organisation providing services to almost one million customers, including 300,000 members nationwide. As a mutual company with a 176 year history, Australian Unity has developed a strong focus on taking care of members.

The Australian Unity group includes a number of entities that are APRA regulated. These are: two private health insurers; a friendly society; a small ADI and the holding company is a registered Life Insurance NOHC.

General Observations

Australian Unity generally supports APRA's proposals to focus the role of the Appointed Actuary and reduce the compliance burden from task based activities.

While the proposals do not currently extend to the Appointed Actuary role for private health insurance (PHI), given the recently announced review of the prudential framework for PHI, we will take the opportunity to comment in this submission, in relation to PHI.

Specific Comments

1. *Purpose Statement for the Appointed Actuary:*

The Appointed Actuary's primary role is to provide expert and impartial advice, to the board and management, regarding prudent management of the insurer. APRA as a prudential regulator is concerned with the prudent management of regulated entities as a whole, with regard to policyholder interests, however ASIC remains the primary relevant consumer protection regulator. The purpose statement implies a specific consideration of policyholder interests, beyond the context of what is currently in place (eg in life insurance). We are concerned that this could impose significant additional areas of responsibility for the Appointed Actuary, which appear to be beyond the scope of the Discussion Paper and potentially conflicts with the principle of reducing the compliance burden and cost. The addition of the following to the purpose statement assists to address these matters:

- a materiality consideration in the purpose statement, as it relates to policyholder interests; and
- clarifying that policyholder interests, while not the primary concern of the Appointed Actuary, are to be considered in aggregate.

2. *The actuarial advice framework:*

We support the development and adoption of a tailored actuarial advice framework, suited to each insurer and setting out the relevant materiality considerations and delegation arrangements. The current approach under LPS 320 is prescriptive and doesn't adequately account for the nature, complexity and size of the insurer.

In addition to the current proposals, we recommend that the framework should also set out clearly, how the role of the Appointed Actuary contributes to the ICAAP.

It is worth noting that the current framework for the Appointed Actuary role in PHI, is quite different from other industries. The existing arrangements, specifically the 'notifiable circumstances' provisions, under HPS 320 provide a flexibility and focus on materiality that is not currently replicated in those other industries that APRA regulates. We would strongly support maintenance of the 'notifiable circumstances' framework for Appointed Actuaries in PHI. It provides a framework, established under legislation, that outlines clearly what the Appointed Actuary is required to advise on and diffuses any potential difference of opinion about materiality. It also makes clear that advice is not necessary on non-material matters. The current arrangements for PHI accord with APRA's proposed principles, relating to establishment of an advice framework for the Appointed Actuary's role.

3. *Temporary delegations:*

We support the principle of temporary delegations, however, would recommend APRA produce guidance as to its expectations on when this would be necessary. It should only be required and APRA formally notified, when an extended leave of absence is taken or

a leave of absence is required at a key period (eg another appropriately qualified and experienced actuary is required to produce the FCR). It should not be required and notification processes not be activated for routine leave or other short absences.

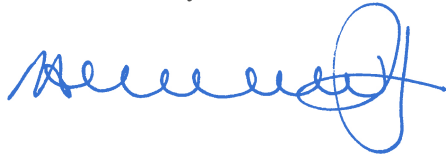
4. *The Financial Condition Report:*

We support the principle of a less prescriptive and more tailored FCR. The FCR does currently overlap with other reports, including the ICAAP. We welcome the prospective involvement of the Appointed Actuary in development and review of the Risk Management Framework (RMF), to the extent actuarial matters are impacted and the ICAAP. Too often the board is only advised by the Appointed Actuary in retrospect, via the FCR.

We recommend that the development and material amendment of the RMF in particular, should be clarified to apply only when actuarial matters are impacted. An organisation's RMF applies to all aspects of business decision making and is much broader than actuarial concerns. This should be reflected in the requirements.

For any further information, please contact Lorin Lytras, General Manager Risk & Compliance on (03) 8682 6811 or llytras@australianunity.com.au

Yours sincerely



Mel Honig
General Counsel, Company Secretary and Chief Risk Officer

