

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

Re: Submission on Proposals – Discussion Paper “The role of the Appointed Actuary and actuarial advice within insurers” (Discussion Paper)

Introduction

Thank you for the opportunity to comment on the proposals contained in the Discussion Paper. We value the opportunity to provide input into any proposed development of new prudential standards and believe that a wide-ranging, open and fully consultative process is essential to achieving an appropriate and balanced outcome from this review.

This submission, which is made on behalf of Challenger Life Company Limited (CLC), includes comments on the Discussion Paper. We are happy to meet with APRA if any of the matters raised in this submission require clarification.

Purpose statement for the Appointed Actuary

CLC supports APRA’s proposal to set out a purpose statement for the Appointed Actuary. A defined purpose for the role will provide a reference point against which to test any task or responsibility which is assigned to the Appointed Actuary.

CLC submits that the purpose statement could be enhanced by acknowledging the role that the Appointed Actuary also plays in providing advice to senior management. This would be achieved by including the words, “and senior management” after “board” in the first sentence of each paragraph.

CLC supports APRA’s proposal that the Appointed Actuary has a role to assist the insurer to give “adequate consideration to the protection of policyholder interests”. However, CLC submits that the reference to the “treatment of policyholders” be removed from the second paragraph of the purpose statement. The reference to “treatment” may be interpreted to mean that Appointed Actuaries are required to give consideration to numerous operational issues outside of their area of expertise, and reduce their capacity to focus on providing strategic advice. CLC submits that the initial reference to policyholders is sufficient to acknowledge the purpose of the Appointed Actuary in relation to policyholders.

Structure of the approach

As APRA has observed, the regulatory role of the Appointed Actuary is defined by a series of tasks that must be performed. This approach has contributed to the role being very compliance-focussed. APRA’s proposals retain this approach, and seek to reduce the compliance burden by allowing a level of delegation of tasks.

An alternative approach would be to define the tasks that must be completed by an actuarial function, and then the Appointed Actuary can be the head of that function. This is similar to the structure which applies for the Chief Risk Officer.

Such an approach would allow authorities to be defined by role and/or delegations and would do away with the need to maintain an actuarial advice framework, which represents a new compliance burden.

Under this approach, the Appointed Actuary would still retain the powers and responsibilities conferred under the Life Insurance Act.

Assessment of risk management framework and ICAAP

APRA acknowledges in the Discussion Paper that they have received industry feedback suggesting that the FCR reviews of the risk management framework and ICAAP are burdensome for the Appointed Actuary, and overlap with existing review requirements.

CLC agrees with this industry view.

We submit, however, that the appropriate way of addressing this is to remove the requirements in their entirety. The Appointed Actuary would still have the opportunity to comment on matters in the FCR if they consider it necessary, however there should be no requirement to do so. We make this submission on the following basis:

- As APRA notes, the assessment by the Appointed Actuary is one of several reviews undertaken into the risk management framework and ICAAP. Under each of CPS220 and LPS110, the company must have a policy for reviewing the risk management framework or ICAAP respectively, and each must be reviewed by operationally independent persons at least every three years. In addition compliance with, and the effectiveness of, the risk management framework must be subject to review by internal and/or external audit at least annually. Having the Appointed Actuary undertake an assessment of the risk management framework and ICAAP therefore results in significant duplication of effort.
- The purpose statement for the Appointed Actuary role sets out that the Appointed Actuary must have the necessary authority, seniority and adequate support to ensure their views are considered seriously by the board and they are able to make a significant contribution to the debate of strategic issues at the executive level. The Appointed Actuary should therefore be involved in any material discussions about the risk management framework and ICAAP, and through this process exert their influence over its design and approach. To the extent that the Appointed Actuary feels that important matters are not addressed, they should use their unfettered access to the Board to raise their concerns. There is no need for the Appointed Actuary to provide formal advice, which could have the effect of the Appointed Actuary being viewed as a “compliance sign-off”, rather than an active participant in the process.
- Further to this, it is vital that the Appointed Actuary is central to the development and implementation of the company’s ICAAP. It is possible that the Appointed Actuary could have responsibility for making proposals to the Board for changes to the ICAAP. Requiring the Appointed Actuary to provide formal advice on their own proposals puts the Appointed Actuary in a conflicted position of reviewing their own work, which is undesirable. The alternative is that the Appointed Actuary does not participate in the development of the ICAAP, which again could have the effect of the Appointed Actuary being viewed as a “compliance sign-off”.
- It is unclear that the proposals would result in any net reduction in workload for the Appointed Actuary. Indeed, the proposal to require high-level observations in the FCR, along with formal actuarial advice when material changes are made, means that such assessments may need to be undertaken several times per year, rather than only once as is currently the case. This could have the result of increasing workload for the Appointed Actuary.

Actuarial Advice Framework

If the current structure is retained under which a series of tasks is assigned to the Appointed Actuary as an individual, CLC supports the proposal to have an actuarial advice framework.

CLC submits that there is no need for the FCR to include high-level observations on the operation and effectiveness of the actuarial advice framework. We make this submission on the following basis:

- The Appointed Actuary should be the owner of the actuarial advice framework. Any observations made in the FCR are effectively the Appointed Actuary reviewing their own work.
- Similarly, if the Appointed Actuary considers that there are deficiencies in the actuarial advice framework, it is incumbent upon them to fix them, rather than report those deficiencies through the FCR.
- It is unlikely that the operation and effectiveness of the actuarial advice framework, or how the organisation has used other actuaries, would be material to the financial condition of the company.

Materiality policy

CLC supports APRA's proposal that the focus of the Appointed Actuary and any actuarial advice framework should be on matters that are material to the financial condition of the insurer or the interests of policyholders.

For the same reasons as set out above regarding the actuarial advice framework, we submit that the Appointed Actuary should not be required to comment in the FCR on whether the materiality policy has worked effectively over the year and recommend any necessary changes.

We also note that the value of a materiality policy will ultimately depend on how it is implemented and APRA's expectations. Little benefit will be gained if APRA expects formal assessments and documentation of determinations that an item is immaterial. Such items should be left to the discretion and professional judgement of the Appointed Actuary. This would not prevent the Appointed Actuary from undertaking an assessment where they consider that an item may be material, but ultimately conclude that it is not.

FCR contents

CLC generally supports the minimum areas upon which the Appointed Actuary should comment in the FCR.

We submit, however, that the Appointed Actuary should not be required to comment on the future capital adequacy of the company. This is a matter for the ICAAP Report, and inclusion in the FCR is simply duplicative.

We also submit that the requirement for the Appointed Actuary to consider the equitable treatment of life insurance policyholders should be limited to participating policyholders.

Items requiring actuarial advice

CLC supports APRA's proposal to reduce the number of areas where actuarial advice is required, while allowing individual companies to seek actuarial advice on matters they deem relevant.

While not mentioned, we assume that the following items will no longer be required, and support the removal of these requirements:

- the Appointed Actuary's advice on the methodology for reporting to APRA under the Financial Sector (Collection of Data) Act 2001, as required by section 21 of LPS320; and
- the Appointed Actuary's opinion on the administration and accounting of reinsurance arrangements, as required under Attachment A to LPS230.

This would be consistent with the proposed removal of other requirements, and would not have a negative impact on prudential outcomes given the controls that companies have in place to satisfy themselves of these outcomes.

Dual-hatting

CLC supports the proposal not to prohibit dual hatting between the CFO and Appointed Actuary.

Independence

The Discussion Paper includes several references to the Appointed Actuary providing "independent advice", while the purpose statement refers to "impartial advice". CLC submits that the Appointed Actuary should be impartial but in many cases would not be independent, and so strongly prefers the use of the term "impartial" when referring to actuarial advice.

If you have any questions, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'C B', with a long, sweeping horizontal stroke extending to the right.

Tony Bofinger

Chief Financial Officer and Appointed Actuary, Life