EFFICAX | CONSULTING
Efficient Effective Transparent

Efficax Consulting Pty Ltd
42 Fitzroy Street
Abbotsford NSW 2046

ABN: 15611769807

Mobile: 0401 714 690
Email: edward.fabrizio@efficaxconsulting.com.au
Web: www.efficaxconsulting.com.au

18th August 2016

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

Dear Pat

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

I would like to thank APRA for starting a serious discussion around the role of the appointed actuary and where it fits within the operation of a life insurance company. I have been a former appointed actuary as well as in a senior management role within a life reinsurer in Australia, and over the 25 years I have worked in the life insurance industry have generally observed a relative downgrading of the seniority of the AA role within life insurers over time.

Although I welcome the proposed changes to better clarify the role of the appointed actuary, I do not believe that these in isolation will lead to making the appointed actuary seen as a strategic advisor of the company. If APRA desires that AA's be strategic advisors, and for companies to recruit/develop people with those skills into the AA role, then the issue of reporting lines needs to be addressed to reinforce the seniority position of the AA within the company.

Reporting lines

It is very clear that in many life insurers the role of the appointed actuary has been demoted to reporting to the chief financial officer. This means that the AA does not have a seat at the executive level and in many cases their role becomes much more limited than what it had been in the past. Overall, AA's are not as strongly involved in providing input into overall strategy of the company as it is developed, but reporting after the strategy has been set. As a result of reporting to the CFO, potential conflicts may also arise given differing priorities between role of the CFO and role of the AA, and in addition the AA role can be seen as not being on par with other senior roles within the company, e.g. CRO.

The impact of this is that the type of person that companies are looking for to fill the AA role are generally more compliance focused rather than strategic advisors. "Executive" type actuaries are unlikely to want to position themselves into an AA role as it is not the career path they are seeking, i.e. a seat at the executive table, and/or provide the rewards that executive positions generally provide. Alternatively, they will only see the position as a short term step into a larger role, which contributes to the constant turnover of AA's. This is not in any way meant to undermine the capability of those actuaries that accept the AA role. However, if APRA have a desire for AA's to be more strategically focused then the seniority position of the AA within the company's organisational structure does need to be addressed.

The above is a generalisation of the state of the life insurance industry, and there are of course exceptions to this and in several cases where the CFO is also an actuary, although generally not the AA.

When APRA introduced the role of Chief Risk Officer they mandated that this role required a direct reporting line to the CEO of the organisation. I can only assume that this was done as APRA believe, and rightly so, that the management of risk is of the utmost importance to the long term stability of the company and therefore deserved a seat at the executive level (it would have been interesting to see what would have occurred with the CRO role if APRA had not mandated a direct reporting line to the CEO). In a similar vein, I also believe that the role of the appointed actuary is of the utmost importance to the long term stability of the company – for shareholders, policyholders and employees, and therefore should also deserve a seat at the executive level.

As CEO's of life companies already have a multitude of direct reports, it is unlikely that they will voluntarily want to have another direct report from the AA role. Therefore, similar to the CRO role, **I would suggest that APRA give serious consideration to mandating that the AA role have a direct reporting line to the CEO**. If the direct reporting line is not mandated then companies will most likely continue to have the seniority level of AA's below that of the CFO / CRO roles, which, irrespective of other changes proposed by APRA, will mean that the AA role will continue to have similar issues as of today with respect to high turnover and seen as a compliance type function.

Purpose Statement

APRA has proposed the following principles and attributes to guide the Appointed Actuary role:

> *"The purpose of the Appointed Actuary role is to ensure that the board has unfettered access to expert and impartial actuarial advice and review, to assist with the sound and prudent management of an insurer and that the insurer gives adequate consideration to the protection of policyholder interests.*
>
> *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 plays a key role in, and provides effective challenge to, the activities and decisions that may materially affect the insurer's financial condition as well as its treatment of policyholders."*

With respect to the above, clarity should be made with differentiating between the "board" and the "company". My view is that the AA role is an advisor to the company, but also has access to the board as allowed under the Life Act. It is important that the role is seen as providing advice to the company and therefore is better positioned if the word "board" was replaced by "company" in the purpose statement. This would also provide greater alignment with LPS320 and the Life Act which refers to advice being provided to the company.

The second paragraph of the purpose statement would appear to reinforce that in order for the AA to fulfil the role they do require a seat at the executive level. My view is that this should be mandated to ensure that the AA has the authority/seniority in order to challenge company executives.

Overall, my belief is that if the AA role had a mandated direct reporting line to the CEO that this would encourage companies to recruit/develop AA's that can provide a wider range of views/advice to the company and that this in turn would be to the benefit of the company and in the best interest of policyholders. It will also reinstate the AA role into being a position that would attract senior experienced actuaries and provide more long term stability in people staying in the role.

Yours sincerely

Edward Fabrizio
Consulting Actuary & Director
Efficax Consulting Pty Ltd