Ms Heidi Richards
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Dear Ms Richards

ROLE OF THE APPOINTED ACTUARY AND ACTUARIAL ADVICE

The Insurance Council of Australia[1] (Insurance Council) appreciates the opportunity to comment on the Australian Prudential Regulation Authority's (APRA) Discussion Paper, '*The role of the Appointed Actuary and actuarial advice within insurers*', which explores proposals aimed at improving the role of the Appointed Actuary within insurers and ensuring that it remains fit for purpose.

We are pleased that APRA recognises the important role that appointed actuaries play within insurers. We note APRA's observation that the role of the Appointed Actuary has become increasingly compliance-focused, and that this has contributed to difficulties in recruiting for Appointed Actuary roles and a perceived reduction in influence for the role, particularly within the life insurance sector.

The Insurance Council is broadly supportive of APRA's proposals. We recognise that they are aimed at addressing material concerns and providing appointed actuaries a greater opportunity to play a strategic role within insurers. This submission sets out the feedback that the Insurance Council has received from members on APRA's proposals concerning the purpose statement, advice framework, managing conflicts of interest and actuarial reports.

Purpose Statement for the Appointed Actuary

The Insurance Council agrees that the Appointed Actuary plays a key role in providing independent advice to boards and senior management on key financial risks. However, APRA's proposal suggests a broader strategic role for the Appointed Actuary, rather than one focussed on its core areas of actuarial expertise. In this regard, we consider that the purpose statement should provide sufficient flexibility for an Appointed Actuary and an

[1] The Insurance Council of Australia is the representative body of the general insurance industry in Australia. Our members represent more than 90 percent of total premium income written by private sector general insurers. Insurance Council members, both insurers and reinsurers, are a significant part of the financial services system. June 2016 Australian Prudential Regulation Authority statistics show that the private sector insurance industry generates gross written premium of $43.9 billion per annum and has total assets of $122.6 billion. The industry employs approximately 60,000 people and on average pays out about $124.0 million in claims each working day.

Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

insurer to appropriately balance the role of the Appointed Actuary against other equally important strategic roles, such as in accounting and finance, risk and strategy.

APRA's proposal also appears to suggest that an Appointed Actuary must be part of an insurer's executive team. While this may not be intended, we suggest that APRA make clear that an Appointed Actuary is able, but not required, to be part of an executive team.

Furthermore, we note that APRA's proposal, if meant to encompass a broad strategic role, does not take into account that the Appointed Actuary may not be an in-house role (i.e. they may be an external consultant). If the role were outsourced, it would be difficult for the Appointed Actuary to be across all material activities and decisions of the insurer.

The Actuarial Advice Framework

The Insurance Council notes that this proposal is chiefly aimed at addressing issues for life insurers, where, as we understand, various minor pricing and policy-related changes require formal approval by an Appointed Actuary. We recognise that APRA's proposal may assist general insurers in clarifying, where required, the use of actuarial advice and the involvement of the Appointed Actuary.

In general terms, we suggest that final approval of an advice framework should rest with the Chief Executive Officer (or equivalent) of an insurer. Similar to the point made above, it appears that the framing of this proposal assumes that the Appointed Actuary and delegates are in-house. We note that an outsourced Appointed Actuary may not be in a position to provide advice in relation to some of the areas proposed by APRA. For example, we suggest that it would be more appropriate for an insurer's board to comment on whether a materiality policy has worked effectively and recommend any changes, rather than the Appointed Actuary.

The Insurance Council would appreciate guidance from APRA on areas that insurers would need to incorporate, as a minimum, as part of an actuarial advice framework. In particular, this includes guidance on APRA's proposed materiality policy (e.g. whether materiality would be aligned to that adopted by an external financial statements auditor, or in accordance with an insurer's internal assessment of risk appetite). As APRA would appreciate, it would be important to appropriately clarify materiality to avoid any uncertainty.

As part of the proposed advice framework, we note that an Appointed Actuary would be expected to comment in the Financial Condition Report (FCR) on how the insurer has used other actuaries and whether the delegations framework has worked effectively. However, there does not appear to be a clear benefit from having an Appointed Actuary comment on this, as it would appear to be non-material.

In relation to delegations, we would welcome clarity from APRA on what would constitute 'temporary' and therefore trigger the notification requirements to APRA. It would be unnecessary and burdensome if, for instance, an insurer had to notify APRA of a temporary delegation for one week, where the nominated individual was already assessed as fit and proper and not required to sign-off on any actuarial reports during that week.

We would welcome an opportunity to work with APRA on settling the detail underpinning the proposed actuarial advice framework for general insurers, particularly as the implications of the proposal cannot be appropriately assessed in the absence of further information.

However, we are pleased that APRA recognises that the areas requiring actuarial advice would need to be considered on a case-by-case basis, and agree that insurers would require an appropriate level of flexibility to determine a framework that is suitable for their individual circumstances.

Management of Conflicts of Interest

The Insurance Council notes that under *Prudential Standard CPS 220 Risk Management*[2], general insurers and other APRA-regulated institutions are already required to maintain a risk management strategy that addresses, among other matters, policies and procedures dealing with risk management. The latter includes the process for identifying, monitoring and managing potential and actual conflicts of interest. Given these existing requirements, we would welcome clarification from APRA on the benefits of having specific conflict management requirements with respect to the Appointed Actuary.

If APRA continues to see merit in pursuing this proposal, an appropriate level of flexibility should be provided to insurers to determine an approach that takes into account existing conflict management frameworks and is suitable for their individual circumstances. For example, any existing dual hatting between the Chief Financial Officer and the Appointed Actuary is subject to appropriate controls being in place to ensure that the objectivity of each role is maintained and that any conflicts are identified and managed.

Actuarial Reports

The Insurance Council supports the proposal to leave the receipt of the Insurance Liability Valuation Report (ILVR) to a board's discretion. We are pleased that APRA sees it appropriate that the board have the flexibility to control the information flow it considers it needs to efficiently perform its role.

We note that APRA "*considers that greater discretion should be given to the Appointed Actuary to focus on the risks and issues that are material to the financial condition of the insurer*". However, as APRA would appreciate, it is important to recognise that the responsibility for dealing with material risks and issues does not only rest with an Appointed Actuary; other senior staff (e.g. Chief Risk Officer) are also accountable in this regard.

The first part' of APRA's proposed two-limbed approach to actuarial involvement in the risk-management framework and ICAAP concerns prospective actuarial advice. Unfortunately, it is not clear whether APRA is proposing to assess an actuarial advice framework and whether the framework needs to be presented to APRA before it is approved. Consequently, we would welcome clarification from APRA on this point.

We suggest that the proposal to allow APRA to request a peer review of 'specified' actuarial reports only be used in exceptional circumstances – general insurers should not have to assume that a peer review will be required. In this regard, we suggest that APRA clarifies the circumstances under which it would request a peer review and the type of actuarial reports (e.g. pricing, life expectancy or otherwise) that would be captured.

Additionally, in considering the need for a peer review, there should be recognition of the difference between externally Appointed Actuaries and in-house Appointed Actuaries. The additional benefit of the former is that external firms already undertake peer reviews as part

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[2] Under *CPS 220 Risk Management* (effective until 1 July 2017) and *CPS 220 Risk Management* (effective from 1 July 2017).

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of their quality assurance processes. (As a side comment, in a similar vein, it is not clear that APRA has taken into account the current role of external auditors and the benefit they bring to the peer review process for general insurers).

In regards to APRA's proposed 3 month submission timeframe for the FCR and ILVR, we submit that this is likely to compromise the quality of the reports and hinder full consideration by a board of any information presented to it. If APRA required more timely access to information from a particular general insurer, it could (at any time) make a formal request.

We note APRA's proposal to make GPS 320 *Actuarial and Related Matters* less prescriptive and create a new Prudential Standard GPS 340 *Valuation of Insurance Liabilities*. While we support the simplification of prudential standards where required, we consider that it is important to ensure that an appropriate level of detail is retained in the standards to avoid compromising clarity and creating regulatory uncertainty.

If you have any questions or comments in relation to our submission, please contact John Anning, the Insurance Council's General Manager Policy, Regulation Directorate, on (02) 9253 5121 or janning@insurancecouncil.com.au.

Yours sincerely

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