



6 June 2018

TO: ALL GENERAL INSURERS, LIFE INSURERS AND PRIVATE HEALTH INSURERS

RELEASE OF PRUDENTIAL STANDARDS TO IMPROVE THE EFFECTIVENESS OF THE APPOINTED ACTUARY AND ACTUARIAL ADVICE WITHIN INSURERS

APRA has released final prudential standards on actuarial and related matters that aim to assist Appointed Actuaries to place greater focus on the most material matters relevant to their important role, thereby better protecting the interests of the insurer they work for and its policyholders. The final standards increase flexibility, streamline requirements and clarify the seniority of the Appointed Actuary role within insurers.

The single cross-industry prudential standard on actuarial and related matters aligns good practice across insurers and allows for consistent wording of common concepts across the insurance sector, while continuing to accommodate industry-specific differences.

The new prudential standards and prudential practice guide released today are:

- *Prudential Standard CPS 320 Actuarial and Related Matters (CPS 320);*
- *Prudential Standard GPS 340 Insurance Liability Valuation (GPS 340); and*
- *Prudential Practice Guide Actuarial and Related Matters (CPG 320).*

In September 2017, APRA released for consultation drafts of CPS 320, GPS 340 and CPG 320. APRA received ten submissions in response to the consultation, nine of which were non-confidential. The non-confidential submissions have been released on the APRA website.

Respondents were broadly supportive of APRA's proposals but sought some minor amendments. APRA's responses to the key matters raised are set out in Attachment A.

Next steps and timing of implementation

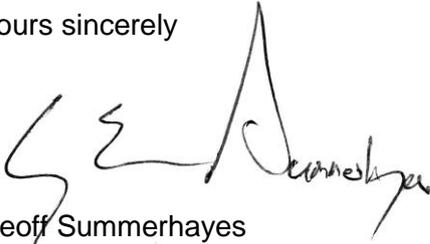
The revised prudential standards are expected to improve prudential outcomes by focusing the Appointed Actuary on key decisions that impact the financial condition of the insurer. The extent of that impact will depend on the efforts of industry to engage with the opportunity afforded by these changes. Insurers and their boards must now reflect on how the Appointed Actuary is used and supported within their organisation.

The standards and prudential guidance will come into effect from 1 July 2019 rather than the planned 1 January 2019 start date. This longer transition period should provide Appointed Actuaries and insurers with the time to carefully consider how they can best implement changes and establish structures to ensure that the objectives of these reforms are realised.

General insurers should note that the requirement to submit the Financial Condition Report (FCR) within 3 months will apply to all FCRs, the first to be submitted being those with a 30 June 2019 balance end.

If you have any questions regarding this letter, please contact Peter Kohlhagen (peter.kohlhagen@apra.gov.au or 02 9210 3363) or your responsible supervisor.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Geoff Summerhayes', written over a light blue horizontal line.

Geoff Summerhayes
Member
Australian Prudential Regulation Authority

Attachment A – APRA response to issues raised in submissions

Timing of implementation

APRA notes the feedback in submissions that a longer implementation time than the proposed 1 January 2019 start date is preferred. Submissions outlined that some insurers, particularly those in the private health insurance industry, require further transition time due to other concurrent regulatory changes. APRA also notes that a later implementation date will allow adequate time for the Institute of Actuaries of Australia (Actuaries Institute) to prepare its new guidance on the role of the Appointed Actuary.

APRA is committed to facilitating an orderly transition and has determined that CPS 320 and GPS 340 will come into effect from 1 July 2019.

Financial Condition Report

Submissions suggested amending the section on the Financial Condition Report to reflect that projections consider profitability as well as current and future capital adequacy. On review, APRA agreed that it is important to take this into account and accordingly, CPS 320 now clarifies that Appointed Actuaries are required to provide a summary of an assessment of the insurer's current and future profitability, in addition to capital adequacy.

Reporting to APRA

Submissions suggested that the draft CPS 320 should be amended to reflect the practice that the insurer, rather than the Appointed Actuary, provides the Financial Condition Report and Actuarial Valuation Report to APRA. Acknowledging that this is the current accepted practice, APRA has revised the standard to clarify this point.

Departures from actuarial advice

Submissions sought greater clarity on the notification requirements that apply in cases where the Appointed Actuary provides advice on insurance liabilities outside of the Financial Condition Report or the Actuarial Valuation Report and the insurer does not accept that advice in a material respect. APRA agreed that it was important for a consistent understanding on notification requirements and has amended CPS 320 to clarify that in these cases, the insurer must notify APRA within ten business days.

Consequential amendments

APRA has made consequential amendments to GPS 001 and LPS 001. This includes an amendment to GPS 001 to clarify that the definition of the term 'insurer' differs under CPS 320. Further consequential amendments to other relevant standards will be made over time as these standards are reviewed.

Seniority of the Appointed Actuary

Submissions argued that allowing the flexibility to use either the Appointed Actuary or another actuary diminishes the authority and seniority of the Appointed Actuary. APRA's view is that the reforms aim to allow the Appointed Actuary to create an effective framework to allocate responsibilities and delegate less material matters - thereby allowing the Appointed Actuary to focus on the most material matters. This should elevate the role of the Appointed Actuary rather than diminish it – many affected stakeholders support this view (including the Actuaries Institute).

Materiality

Submissions outlined concerns that CPS 320 transfers the assessment of materiality to the insurer, rather than the Appointed Actuary and thereby weakens the existing notifiable circumstances regime. Relatedly, submissions argued that materiality is difficult to define in the context of private health insurance.

APRA notes that the Actuarial Advice Framework is intended to document the insurer's approach to materiality and is required to be approved by the board after taking advice from the Appointed Actuary. Accordingly, it should document the agreed view of the board and the Appointed Actuary on materiality, rather than transfer the responsibility for assessing materiality.

APRA does not agree that the private health insurance industry warrants a different treatment in relation to materiality. Assessment of materiality will require insurers and Appointed Actuaries to exercise their judgment.

Actuarial Advice Framework

Submissions suggested that the Actuarial Advice Framework should explicitly cover changes to a company's policies and procedures which can reasonably be expected to have an impact on the profit signature or risk profile of the portfolio.

Although this may be good practice, APRA does not see the need to make this a minimum requirement mandated through a prudential standard. Adding too much detail into the standards goes against the aim of streamlining APRA's prudential requirements for actuaries.