Stuart Rodger, 2 Edward St, Gordon, NSW 2072
srodger@deloitte.com.au

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

12 January 2017

Dear Mr Brennan,

APRA Discussion Paper – The Role of the Appointed Actuary

I know that the time for responses has long since passed, and I have already taken the chance to discuss this paper with APRA both through the Actuaries Institute session and in a subsequent meeting with Adrian Rees, Stuart Bingham, Ann Dobinson and Peter Kohlhagen. However one issue is still nagging at me, and I have decided to write a short letter anyway.

While I have had experience as a life insurance AA many years ago, my experience over the last decade or more has been in the Australian health insurance (PHI) sector.

The main point I wish to make is that it is better for both policyholders and shareholders for an Appointed Actuary to be able to *influence* the Financial Condition of an insurer, rather than simply *measure* it.

Accurately and professionally measuring the financial condition and reporting in the FCR that it has deteriorated badly due to decisions made in the year is not really helpful. Actuarial advice given to the right forum(s) at the time of the decision-making is far more helpful in avoiding the inappropriate risks and properly managing the others.

In PHI we (PHIAC and the Actuaries Institute Health Practice Committee) dealt with this by creating the "Notifiable Circumstances" regime, which ensures that when an insurer is considering decisions or facing circumstances that will affect its Financial Condition, it must inform the AA and take advice from the AA *if the AA considers it necessary* (italics for emphasis). The types of decisions and/or circumstances that can affect the financial condition are in reality scattered across a very wide spectrum, and the PHI regime fully embraces this.

There are organisational consequences of this e.g.:

- The AA must be in a position to handle highly confidential and commercially difficult information and plans, before they come to fruition
- The AA must be able to advise directly the appropriate decision-making level in the company (The requirement is that the AA advise "the company" – so if the advice has been deliberately kept to a level in the company that cannot act on it, the company is at risk of being found negligent)
- The AA must have sufficient resources and seniority that his/her decisions on what issues require actuarial advice are respected and implemented
- The AA must therefore be of sufficient experience and gravitas to fulfil these functions

A further result is that the AA can be judged by his/her insurer on the basis of the combined prudence, commerciality, and impact of not only the advice given but the decisions about which situations required that advice. This produces a more explicit basis on which to assess an AA's performance.

I wrote an article on how this regime works, and the obligations it lays on an AA. I've previously shared this with Peter Kohlhagen and other APRA people, but it can be access here:

Stuart Rodger, 2 Edward St, Gordon, NSW 2072
srodger@deloitte.com.au

https://www2.deloitte.com/au/en/pages/human-capital/articles/notifiable-circumstance-private-health-insurance.html (I can also supply copies if required.)

I know that several of the other responses to the consultation paper dealt with the position of the AA in the organisation. I don't think that regulating the reporting line is a practical solution given the wide range of organisation structures. Instead an expectation of how and where the role will be fulfilled, including for example the organisation consequences listed above, could be used to regulate the AA role. APRA's proposed Actuarial Advice Framework creates a potential "umbrella" under which these requirements could exist; but I think they do need to be more explicit than is currently in the discussion paper.

With this background, I suggest that APRA in its next round regarding the AA role:

1. Continue to assert that the role of the AA is to *influence* the financial condition, not just *measure* it;
2. Be explicit about its expectations regarding what situations (issues, forums, timing, etc) it expects an AA to influence
3. Empower the AA to achieve this through introducing a Notifiable Circumstances regime similar to PHI, where the AA *must* be given all information ahead of time, and *must* in practice make the decision about what actuarial advice will be received by the insurer (such a regime is consistent with APRA's actuarial advice framework; but goes further toward *"influence"* instead of just *"measure"*; I can discuss this in more detail if needed)
4. Assert its intention to include in its periodical visits an assessment about whether in practice the AA role is operating in this way with appropriate consequences where it is not.

* * * * * * * * * * *

I hope that this late submission is still useful for you. I would be happy to discuss it further with any APRA staff if you would like.

Finally, although I am the leader of Deloitte's health actuarial practice in Australia, I have written this submission in my personal capacity, and all responsibility for the opinions is mine.

Yours sincerely

Stuart Rodger

Stuart Rodger FIAA (Australia), FIA (UK), FSAS (Singapore)