Actuaries Institute

The Role of the Appointed Actuary in Life Insurance in Australia

Life Appointed Actuary Task Force

20 February 2015

Table of Contents

Executive Summary		1
1	Introduction and Terms of Reference	3
2	History & Current AA Role	5
3	Results of Life AA Survey	9
4	Other Collected Observations on Life AA Role	11
5	Task Force Observations	13
6	Recommendations	19
Appendix A – Detailed Results of Life AA Survey & Interviews		22

Executive Summary

Introduction and Terms of Reference

In response to APRA's concerns with the quality and effectiveness of the management of Australian Life Insurers, and in particular their interaction with the Appointed Actuary (AA) role, a Task Force has been established by the Actuaries Institute. Its terms of reference are to develop an action plan to protect and enhance the reputation of the life AA, and resolve the following questions:

- What does the current life AA role involve and what are current limitations or weaknesses in the construct, within the context of the modern environment?
- What would a preferred or enhanced AA role look like?
- What are the opportunities for improving the status and influence of life AAs?
- What constructive and practical steps can the Institute take to support positive changes to, and perceptions of, the AA role?

The Current AA Role

Section 2 of this report outlines the history of the life AA role, and outlines the responsibilities of the life AA, noting the wide range of tasks. We also review some recent developments in the industry impacting the life AA role:

- Recent industry consolidation, and conglomerate ownership;
- Significant change in the risk profile of the industry in Australia, to larger, longer tail risks subject to greater economic cycle influence, product complexity and unbundling of risks; and
- A general increase in pace of change within industry.

AA & Industry Feedback

Sections 3 and 4 outline the feedback from current and former AAs, as well as senior executives and Board members, and other stakeholders. In general, the role of life AA is well respected by both AAs (past and present) and CEOs and Boards, however a number of issues with common themes have emerged:

- Heavy compliance focus – forcing the AA out of business roles;
- Extensive demands restricting time spent on value-adding activities (such as advising business);
- The required technical details make it difficult to communicate the bigger picture and tends to "pigeon-hole" the AA role as a technician and/or a compliance type role;
- Substantial demands, which have grown over time, on the individual that make it difficult for one person to perform the role; and
- Lack of an ability to delegate or split responsibility for some requirements.

Task Force Observations

At a high level, the task forces' observations and conclusions (section 5) are:

A) Need for the life AA role

Given the current environment of Australian life insurance, the need for the AA role has if anything increased not reduced. All stakeholders should be looking to support the AA role and provide it greater capacity to provide valuable advice, rather than down playing the role and the need.

B) A positive statement of the role of the Appointed Actuary is needed

The role of the AA in life insurance is currently largely defined by a list of tasks, rather than via a purpose. A purpose statement should be articulated by APRA, which may help promote the role, make it clear to stakeholders why the AA exists and what they should be focused on. The role has also become less clear with the advent of the CRO requirement in CPS 220. A draft along the following lines could be considered.

The purpose of the role of the Appointed Actuary is to ensure that Board and senior management of a life insurer has ready access to, and make appropriate

use of, professional actuarial advice with respect to the key financial management aspects of the life insurer.

The Appointed Actuary must as a minimum:

- *Be responsible for advising the Board, Board Committees and senior management on the sound financial management of the life insurer, including product pricing and design, financial and insurance risk and capital adequacy management, liability best estimate assumptions and measurement , and the sound financial operation of the life insurer;*
- *Have the necessary authority and reporting lines to the Board, Board committees and senior management to ensure the advice is considered;*
- *Be resourced with staff who possess appropriate experience; and*
- *Have access to all relevant aspects of the life insurer.*

C) A number of deficiencies and limitations

The imposition of excessive "compliance" type requirements represents a significant impediment to the effective provision of quality, clear and timely AA advice. Areas noted where this arises include some pricing advice, reinsurance advice and now redundant requirements. Delegation limitations are also noted as an issue.

D) CPD, Institute and APRA

We question whether the Institute's CPD, education and knowledge base have kept up with the modern environment and are adequately supporting life AAs, including the form of that support. We ask if the way APRA engages with AAs remains the most effective also.

Recommendations

Section 6 sets out our recommendations. Key items are:

- Define the AA role, including as specialist insurance risk adviser, as above.
- AA to advise on the pricing and reinsurance frameworks with specific pricing advice from suitably qualified actuaries (AA in very material cases).
- Policy liabilities, statutory capital and ICAAP – advice on assumptions before used and advice on ICAAP before it is approved / adopted.
- Financial Condition Report (FCR) requirements should be less detailed and more strategic with now redundant requirements omitted. A comprehensive review of PS200 is required.
- Include temporary delegation framework and consideration of multiple roles.
- Retain special participating business provisions and whistleblowing. Make some changes to expense apportionment advice requirements.
- Institute to review the knowledge base, training and CPD for life insurance actuaries, and consider particular needs of life AAs.
- Institute promotion of actuaries in Life Insurance and the AA role to ensure this practice area is seen as remaining attractive.

Life AAs Versus General Insurance, Health and Friendly Society AAs

Readers of this report are cautioned that it specifically addresses issues with the current life AA role in response to the LAATF specific terms of reference.

Life, Friendly Society, general insurance and health AA roles have a number of similarities, but also significant differences. Many differences relate to actual differences in the liabilities and risks concerned and the different construct of the industries (e.g. sizes, ownership, products and legal frameworks). These should result in differences in the focus of different roles and their frameworks.

Some generic observations in this report may have some applicability to these other AA roles (e.g. excessive compliance and duplications, improving strategic AA engagement). Others will not. Any application of this report's proposals, directly or indirectly, to these other AA roles should only be based on direct and specific engagement with the profession's experts in these other roles.

1 Introduction and Terms of Reference

1.1 Background

Over recent months the Australian Prudential Regulation Authority (APRA) has raised issues and concerns surrounding the quality and effectiveness of the management of Australian life insurers, and within this the role of the life Appointed Actuary. The key concerns raised with respect to life Appointed Actuaries have included:

- The recent rate of turnover of actuaries in the role;
- The perceived reduced level of seniority and/or executive standing of actuaries in some life Appointed Actuary roles;
- An apparent deficit in suitable candidates willing to take up the role;
- The level of influence life Appointed Actuaries are exercising, or are able to exercise, in the role in some cases;
- The performance and quality of advice provided by some actuaries as reflected in the losses parts of the life insurance industry have incurred over recent years.

In contrast, the standing, performance and development of the Appointed Actuary in General Insurance in Australia is perceived by APRA to be travelling in the opposite direction.

In responding to the issues and concerns raised, the Actuaries Institute has appointed a task-force, the Life Appointed Actuary Task Force (the **Task Force**) to investigate the matters raised by APRA and provide a response and recommendations to address the issues and concerns. This report provides the Task Force's conclusions and recommendations.

1.2 Terms of Reference & Membership

1.2.1 Objective

The Task Force has been established to protect and enhance the reputation of the Life Appointed Actuary (AA) by developing an action plan that will resolve the following questions:

- What does the current life AA role involve and what are current limitations or weaknesses in the construct, within the context of the modern environment?
- What would a preferred or enhanced life AA role look like?
- What are the opportunities for improving the status and influence of the life AA?
- What constructive/practical steps can the Institute take to support positive changes to, and perceptions of, the life AA role?

1.2.2 Responsibilities

- Engage with relevant stakeholders (APRA, CEOs or FSC, AAs, other Members) on all the objectives listed above;
- Formulate an action plan that meets the 4 key objectives;
- Liaise with the LIWMPC, GIPC and PPCC to keep relevant committees informed about the Task Force's activities;
- Submit a progress report to the September meeting of Council; and
- Communicate with members (and APRA) about Task Force progress.

1.2.3 Reporting lines

The Task Force will liaise with the LIWMPC, GIPC and report to Council, through the PPCC. The Institute HQ will provide public policy input and act as conduit between the stakeholder committees and Council.

1.2.4 Members

- Greg Martin (Convener)
- Jennifer Lang
- Hoa Bui
- Rob Desoisa
- Lindsay Smartt
- Elizabeth Baker
- Jaimie Sach
- Tim Clark (GIPC representative)

1.3 Approach to the Review & this Report

The general approach of the Task Force to its work has included:

- Conducting a survey of current life AAs and recent, former life AAs;
- Conducting interviews with a sample of survey respondents to elicit further commentary and nuances of the thinking of life AAs;
- Conducting discussions and liaison with the Financial Services Council (FSC);
- Holding two meetings with Ian Laughlin of APRA on the work of the Task Force to receive first hand input and discuss our thinking;
- Interviewing various CEOs and Chairs of Boards of life insurers to collect stakeholder input to our work and considerations;
- Presenting at an Institute Insights session and gathered further feedback and thoughts via this means;
- Engaging in various other stakeholder discussions and interactions on the subject matter (for example, Camel Club discussions, discussion with EY consultants undertaking similar work for the FSC);
- Considering other factors, to the extent meaningful or relevant, such as the role of general insurance AAs in Australia, and the approach to actuarial advice and statutory actuarial roles in other jurisdictions;
- Holding a number of in person meetings of the Task Force to discuss and share thoughts, data, information and collect views and potential solutions, proposals and thoughts on the matter;
- Liaising with other Institute stakeholders including the Institute Executive, LIWMPC and GIPC.

Based on this work program, we produced a draft of this report that was provided for feedback and discussed with the LIWMPC, GIPC, PPCC and our proposals were discussed with APRA. This report reflects the result of the above process and the feedback provided.

1.4 Out of Scope

In considering this report, please note the following items that have not been considered or addressed in this report:

- The Task Force and this report address the role of the Appointed Actuary of registered life insurers in Australia, which are not Friendly Societies. The role of Appointed Actuary in the context of Friendly Societies has not been directly considered or addressed by the Task Force or in this report. The comments and conclusions in this report may or may not apply to Friendly Society Appointed Actuaries.
- The Task Force has not been provided with any details or examples relating to the performance or quality of advice provided by any specific or individual actuaries, nor any analysis of such advice in general. We have therefore not made any assessment of the performance or quality of advice provided by life insurance Appointed Actuaries in this report.

2 History & Current AA Role

2.1 Background & History of Life Appointed Actuary

The history of the life insurance industry out of the UK and globally, and the history of the actuarial profession, are closely intertwined. The first developers and promoters of life insurance, managed on a sound and scientific basis, were the early actuaries.

> *"The second quarter of the nineteenth century was a period of turmoil in the life insurance industry of Great Britain. For example, in 1845, no less than 47 companies were provisionally registered to transact life insurance business and of these, not one existed in 1887…..In this chaotic situation, some actuaries, as public-spirited citizens, persistently pushed for a scientific basis for the organization and management of life insurance companies……"*[1]

Over the history of life insurance in the English speaking world, the actuary has typically been seen as the end-to-end expert in the business and financial management of life insurers, with expertise and understanding ranging over product pricing, underwriting concepts and standards, claims management objectives, financial performance assessment, liability valuation, solvency and capital management, asset-liability management, financial risk management and the requirements and expectations of regulators. An important role has also been as an expert and adviser in the equitable treatment of policyholders.

While the exact standing and level of influence of the actuary in life insurance in the non-English speaking world has been somewhat more variable, the general picture of the actuary as expert in pricing and valuation, and overall business end-to-end understanding and expertise, is a recurrent theme.

The role of the actuary in terms of the core elements of pricing and valuation (solvency), has been a fundamental feature of the regulatory regime for life insurers in Australia since at least the introduction of the Life Insurance Act 1945 (esp: S48, S78). Since then, the role has evolved, including the introduction of the concept of the Appointed Actuary and the significant change (from "approver" to "adviser") with the Life Insurance Act 1995 (the 1995 Act). The success of the role, the quality and professionalism of the actuarial advice and the engagement of actuaries has, over time, seen the role of "the actuary" continually expand, including with the evolution of APRA Prudential Standards.

Other than two life insurers wound up largely as a result of the introduction of the 1945 Act, and two associated life insurers that failed in 1990 in unusual circumstances (noting few of their policy owners ultimately suffered any material loss), there has been no other life insurer that has failed in Australia since 1945 including during the recent Global Financial Crisis (GFC).

In 2001, following the historic success of the AA role in life insurance, the role of Appointed Actuary was introduced in to General Insurance in Australia, soon after the failure of HIH. While the initial focus in the regulatory framework was on valuation of liabilities, that role has expanded since 2001 to include a comprehensive financial condition report as well as advice on capital requirements.

Nonetheless, the central focus and objective of "the actuary" in life insurance in Australia since at least 1945 has been to ensure that Boards and senior management of life insurers have ready access to, and make appropriate use of, professional actuarial advice with respect to the key financial management aspects of life insurers.

[1] Reproduced from the Encyclopedia of Actuarial Science. John Wiley & Sons, Ltd, 2004.

2.2 *Recent Industry Developments*

Notwithstanding the 200+ year history of life insurance (150+ years in Australia) and the related role of the actuary (or AA), the industry in Australia has undergone significant change over the last three decades that would seem pertinent to the issues at hand and the subject of this paper:

- There has been significant industry consolidation, from over 50 life insurers 30 years ago to only 18 groups now (excluding reinsurers);
  - 15 of these are owned by large conglomerates: 7 by banking groups, 4 by large multi-national insurers, 4 by other non-bank conglomerates (general insurers, health insurers, financers).
  - Only 3 remain domestic, predominantly life insurer dominated.
- Products and administration have changed

  From:
  - largely simpler, slow pace of change, bundled products;
  - with shorter term, "predictable" mortality insurance risk;
  - But larger ALM risk, "guarantees", with profits (high margins);

  To:
  - more complex, faster pace of change, largely "unbundled" products;
  - with less "guarantees", lower "unhedged" ALM risks;
  - but longer tailed, economic cycle driven and volatile insurance risks with a greater emphasis on morbidity than mortality (behaving more like many general insurance liability risks);
  - administered on more complex and open technology and systems.
- With the gross revenues passing through the life industry having reduced in % of GDP terms, but the actual quantum of insurance risk held (however measured) increasing faster than GDP growth.

The Task Force notes that this raises some obvious initial questions to consider:

- To what extent many life insurance executives and experts, let alone life AAs, are experiencing reduced influence within their larger non-life, non-insurance and/or multinational businesses;
- To what extent the current ownership structures in place is leading to less Australian life industry experienced management within life insurers, and even to less understanding of what the role of the AA is;
- To what extent the Institute's education, CPD and knowledge base, e.g. its standards and guidance notes, have sufficiently kept up with, and address, the current environment of the life insurance actuary, including the life AA.

It is interesting to compare the current life insurance industry profile with the quite different profile of the Australian general insurance industry which is dominated by Australian domestic/general insurance specialists, and contrast that with APRA observations on AAs in the two industries.

2.3 Overview of the Current Life AA Role

2.3.1 Requirements of Life AA Role

The role of the life AA as at the date of this report includes the following "day-to-day" functions and requirements around the life AA[2]. A comparison against general insurance AA requirements is included for information. The following is not necessarily exhaustive:

Refer	Description/Function	GI AA
LIA S93,S95	Life insurer must appoint an AA. Details of AA to be provided to APRA within 14 days.	**Y**
LIA S98	AA to advise life insurer of any matter that the AA thinks requires action to be taken to (a) avoid a contravention of LIA or FSCD or to (b) avoid prejudice to the interests of policy-owners. AA to whistleblow to APRA on lack of action by life insurer or life insurer contravention of law.	**Y**
LIA S62,S63	Distributions from Statutory Funds only after the directors receive the AA's written advice as to the likely consequences of the proposed distribution.	**N/A**
LIA S80	Expense and other apportionments between funds etc only after directors obtain the AA's written advice that the apportionment basis is appropriate.	**N**
LPS320	AA is responsible for providing impartial advice on the life insurer's operations, financial condition, capital base, prescribed capital amount and policy liabilities.	**Y**
LPS320 Par11	Annual Financial Condition Report to be provided: (a) the valuation of the policy liabilities; (b) capital base and prescribed capital amounts; (c) if surrender values and PUPs > LPS 360 basis; (d) value of investment guarantees per LPS 370; (e) compliance with capital adequacy over the year; (f) compliance with APRA directions/conditions; (g) assessment of the life insurer's ICAAP; (h) assessment of the suitability and adequacy of the risk management framework.	 **Y** **Y** **N/A** **N/A** **N/A** **N/A** **Y** **Y**
LPS320 Par24	Advice on new/modified products (policies): (i) proposed terms and conditions; (ii) proposed surrender value basis; (iii) unit pricing basis/means; Advice not needed for non-material modifications if the AA advises that the modifications are not material. In practice AA advice is needed on all large group policies (tendered, written, etc).	**N**
LPS320 Par26	AA advice before entering, modifying or terminating a reinsurance arrangement (no materiality test).	**N**
LPS230 Att.A	Annual opinion on reinsurance arrangements, their administration and accounting treatment.	**N**
LPS115	Various insurance stress margins for capital requirements are to be as determined by AA.	**Y**
LPS340	Advice on policy liability assumptions.	**Y**
APRA	Various forms and returns to APRA require AA sign-off (data, results, information, analysis).	**Y**
PS200	Requires significant specified detail to be included in the FCR.	**Y**
APRA	Various APRA "expectations" of AAs, and of life insurers that impact on AAs, have accumulated over the years, for example: (i) Review, update and commentary on experience within LPS320 reports; (ii) Extent of sensitivity testing and other content in LPS320 reports; (iii) The content of ICAAP and RMF reviews in FCRs; (iv)Various other content and analysis in the FCR; (v) Extent of documentation of all actuarial work.	**Y**

LIA = Life Insurance Act 1995

FSCD = Financial Sector (Collection of Data) Act 2001

[2] Excludes unusual tasks such as those around new statutory funds, Part 9 Transfers, etc

2.3.2 Restrictions and limitations on the Life AA Role

The following restrictions on the role of AA are noted:

Refer	Description/Function	GI AA
CPS220 ParS40	AA may not be the CRO.	**Y**
CPS510 Par102	AA may not be employed by Auditor.	**Y**
CPS520 S29	AA may not be CEO, director of the life insurer or a director of an associate company of the life insurer.	**Y**

2.3.3 Comparison with GI AAs

From the above analysis it is clear that there are a number of similarities between the life AA and general insurance AA roles.

Equally, there are a number of differences, and it is noted that general insurance AAs do have some other requirements, and some requirements expressed in different forms, relative to life AA's. For example, the requirement for an Insurance Liability Valuation Report which life AAs do not have.

Nonetheless it is clear that life AAs have a number of areas of requirements that go beyond those of the GI AAs (in terms of outright additional areas, frequency of requirement, and/or depth/extent of requirement), most notably:

- Extent of product and pricing advice and reporting;
- Extent of reinsurance advice and reporting;
- Extent of expense appointment sign-off;

3 Results of Life AA Survey

3.1 Overview

As part of its work program, the Task Force conducted a survey of current and recent life AAs to collect various facts and details on the current life AA population, recent turnover and views on a number of issues related to the work of the Task Force. This was supplemented by a number of individual interviews between life AAs and Task Force members.

The section provides a high level summary of the key outcomes and our interpretation of the key results of the survey. Further detail is set out in Appendix A.

3.2 Summary of Factual Results

There were 34 responses to the survey of current and former life AAs. Of the 34 responses, 21 completed all parts of the survey. 19 responses were from current AAs. In addition 11 individual interviews were conducted.

There has been high turnover of AAs over the past 2-3 years but this does not appear to have been a result of the role becoming "undesirable". Over a quarter of the turnover was due the AA being promoted, and a further quarter was due to AAs moving to AA roles with other companies. Additionally, the professional experience of the new AA appointments appeared to be significant with all indicating that they have over 15 years' experience in life insurance prior to becoming an AA.

3.3 Summary of Views of Life AAs

3.3.1 Views on Current Life AA Role

Most AAs believe that the Appointed Actuary role remains an influential role within organisations although most also noted that they believe there is an issue with the role today.

There are differences in views on where the current AA role fits into the APRA "Three Lines of Defence" model. There is a substantial split between those who see the role as defined as more 1st line and those who see it as defined as more 2nd line. There is also a view that there is significant overlap between the AA and Chief Risk Officer (CRO) role – although the view on the degree of overlap ranged from "appropriate" to "virtual duplication" on some aspects.

Only a minority of the AAs believe that the 1995 Act and APRA Prudential Standards (the regulations) required them to act primarily as an adviser to the business with a substantial number believing that the regulations had a more "audit" or "assurance" focus.

Common themes around the regulations were:

- Heavy compliance focus – forcing the life AA out of business roles;
- Demands restricting time spent on value-adding activities, such as advising business;
- The required technical details make it difficult to communicate the bigger picture and tends to "pigeon-hole" the AA as a technician;
- Substantial demands, which have grown over time, on the individual that make it difficult for one person to perform the role; and
- Lack of an ability to delegate or split responsibility for some requirements.

3.3.2 Views by AAs on Boards

Views on the role of the Board were also sought. Most actuaries felt that the focus of their Board was more compliance and governance rather than full business management. This was supported by the responses to whether the Board developed or endorsed the life insurer's strategy.

3.3.3 Views by AAs on Future AA Role

In line with these views, changes to the AA role proposed by respondents included:

- Remove some regulatory requirements, for example detailed assessment of Risk Management Framework and ICAAP, assessment of adherence to surrender value standard, expense apportionment;
- Clarify where the AA role fitted in the Three Lines of Defence model;
- Permit the AA to also be CRO; and
- Allow delegation of some sign-off responsibilities to other roles or a deputy.

More detail from the survey responses is contained in Appendix A.

4 Other Collected Observations on Life AA Role

4.1 APRA Observations

The key observations of APRA are as reflected in Section 1.1 of this report.

APRA continues to support the role of the AA as a key element of the regulatory and management regime of Australian life insurers. However, APRA has noted that some financial sector commentators have questioned the role (e.g. there is no equivalent to the AA in banking), and the issues noted in Section 1.1 are not conducive to the role of AA performing the function APRA desires.

4.2 CEO and Board Chair Views

Various Task Force members interviewed CEOs and Board Chairs from a selected number of life insurance and reinsurance companies, including several companies that are part of larger financial institutions such as banks.

The key common themes which emerged from these discussions included:

- The Statutory role of the life AA is important and is also useful in that it gives a certain "weight" to the AA's advice and involvement;
- The role of the life AA extends beyond the statutory responsibilities. The AA is seen as an adviser to the Board and the Management. This includes advice on how a company can avoid potential issues and providing an objective view to the company Management and Board;
- There is value to Boards in having an objective view from the AA;
- In some cases the AA gave the Board Chair the capacity to "sleep better at night" and was seen as complementing the role of the Board;
- The role of the life AA, for these stakeholders, is seen to include providing advice on:
  - Pricing;
  - Risk Management;
  - Balance Sheet Management; and
  - Capital Management;
- The AA provides valuable insight explaining the financials and the life company financial performance in addition to the CFO;
- There is an important role for life AAs to play in the current product improvement (remediation) issues facing the life insurance industry. While not an exclusive domain, life AAs have the necessary depth of knowledge and insights needed to help companies make the decisions;
- The ideal AA role should be broad and high level and the AA should ideally be part of the company's leadership team;
- It is necessary to have someone who is able to understand the detail of the insurance business and also perform a number of "non-advice" functions (liabilities, capital calculations, bonus and credit rate determinations); and
- The AA Role should be sufficiently senior to give it enough gravitas to influence discussions at the Executive level.

Overall the AA role was seen as very important to a life company in terms of:

- Giving relevant feedback and support, especially to management and directors who may not have an insurance background; and
- Contributing much more than the pure statutory responsibilities including in business decision making and being aligned and engaged in strategy development.

There were varied views on the interaction of the life AA and the CRO roles including:

- There should definitely be an AA but the role should be clearly defined in relation to the CRO role. There is some confusion with each now reviewing parts of the work of the other; and
- In some cases the AA role has narrowed as the CRO role has come into play. This is seen as the wrong outcome and that instead the role of the AA should be broadened.

4.3 FSC & EY Review of AA Role

At the same time as the Task Force has been completing its work, Ernst and Young (EY) has been undertaking similar work for the Financial Service Council (FSC). This has involved EY also gathering feedback from a number of insurance company CFOs, CEOs and Board Audit Committee Chairs to gauge their views on the role of the life Appointed Actuary in their organization. Based on our discussion with EY we believe the key common themes which have emerged from their work are similar to those above:

- The contribution of the life AA is valued by Board members particularly in terms of providing an objective viewpoint;
- The specific discipline and experience brought by the AA (as distinct to that of the CFO and/or CRO) is valued at Board level;
- That a senior actuarial role should exist among life company leadership teams and that the actuary should contribute to strategic issues and be integrated within the business (rather than more narrow and/or second line of defense role);
- Giving appropriate seniority to each of the CFO, CRO and AA/Chief Actuary within an organization can be challenging for some companies, especially given the requirements for the CRO to be independent of the AA and to report directly to the CEO;
- The perceived compliance burden and pressure on the AA role has increased over recent years in response to industry developments and the increasing regulatory responsibilities and demands placed on the AA; and
- The lack of ability to delegate AA responsibilities is a concern and practical solutions are desired to manage this situation. This is particularly the case given the volume of advice required from the AA regarding product, pricing and reinsurance changes.

4.4 Other Views Provided

In addition, views have been informally expressed by other senior members of the profession that include those acting as former AAs and current and former Board members. Some particular observations included:

- Some concern that while Institute promotion of newer areas of actuarial work (general insurance, risk management, banking, big data) is great for the wider profession, this can imply a negative view for older traditional areas. These members argue this happened previously with the profession surrendering its strong position in superannuation when defined benefit funds began to decline in relevance.
- The clarity of actuarial advice provided to Boards has not always been as understandable as some would like, especially to non-actuaries. The Institute should look to find a way to help less experienced AAs develop their skills and effectiveness in this area.

4.5 Input from LWMPC and GIPC

Feedback from LIWMPC and GIPC has been considered in framing the observations and recommendations in this report.

5 Task Force Observations

5.1 Need for Life AA Role

Reflecting on the discussion set out in section 2 to 4 of this report, it appears to the Task Force that the recent issues and concerns with the role of the life AA have arisen concurrently with:

- The level of industry consolidation and non-life ownership;
- Arguable some hollowing out of experienced life insurance leadership across the industry generally, possibly driven in part by the above;
- A substantial change in the nature of the risks and products the industry has issued over recent years, with generally increased levels of insurance risk and inherent experience volatility and exposure to "surprises"; and
- A number of other challenges facing the industry's future sustainability and success (e.g. lapse rates) partly arising with the dramatic economic environment change that has occurred most recently.

In this environment, the Task Force believes this calls for:

- More actuarial engagement and leadership, not less;
- Better support for the AA role to drive recognition within large conglomerates of the particular issues the Australian life insurance industry needs to address and overcome, not less support; and
- Actuaries generally (not AAs alone) to have the time and capacity to consider and advise on the challenges and issues at hand, rather than focusing on compliance tasks and documentation.

In response to comments from some quarters that "…well banks don't have an AA or similar…", the Task Force would note this is not an accurate representation. Most industries or undertakings usually have some industry expert that is the "right hand of the CEO". In traditional banking that may be the "Head of Credit", in mining that may be the "Chief Geologist", in general insurance at one time it may have been the Chief Underwriter (increasingly it is becoming "the Actuary").

In life insurance it is the Actuary.

The life AA role remains as relevant today as it has been in the past, the comments by experienced leadership in the industry as reflected in Section 4 amply support that view.

5.2 CRO Role and Relevance of AA Role

Nonetheless, some have asked if, given the introduction of the mandatory CRO role from 1 January 2015, if that person was an actuary, or even if that person could be mandated to be an actuary, would the role of AA still have the same relevance?

Based on the feedback received and the considerations of the Task Force, we have concluded the life AA role has substantial standalone value (notwithstanding that an actuary acting as CRO may well add to the overall quality and extent of actuarial advice to the business).

Our reasons for this conclusion include:

- The CRO role is a broad based role that extends well beyond core actuarial management and advice concerns;
- At this stage, the CRO may well not be an actuary and may even link outside the life insurer to a broader conglomerate CRO role. This will not aid the provision of quality, relevant actuarial advice to the Australian life insurance operations; and
- The CRO as defined by APRA is a "second line of defence" role. The core value added by the AA is more first line of defence – the actual active engagement in the business, management of the business and first line identification and treatment of risks, drivers of change and response.

The highly valued AA (life or GI) is not performing a review only role. We explore this issue further in 5.3.2.below.

5.3 Current Deficiencies, Limitations and Impediments

Based on the feedback to the Task Force, there are a number of key impediments and limitations on actuaries performing the life AA role to the maximum value for Australian life insurers, and some deficiencies in the current AA role construct. A number of these are set out below.

5.3.1 No Clear Articulation of Role and Purpose

The life AA role is currently defined by APRA and in the 1995 Act in terms of a series of tasks and activities. There is no clear, general statement given by APRA as to the core purpose of the AA. This compares with the requirements of the CRO as set out in S38 and S39 of CPS220 which has much clearer articulation of the objectives of the CRO role and to whom the CRO must report.

The life AA role is defined more in terms of the AA "must have access to…", "be given certain data…", "do certain activities…" and "produce certain advice…". Such an approach does little to explain the role outside the industry, attract attention of would be AAs or indeed help APRA itself to be clear on exactly what it wants AAs to be, what they should not be, and where their time would best be spent.

As an example only, it is suggested that at the start of LPS320, APRA could set out something like:

"7A. The purpose of the role of the Appointed Actuary is to ensure that Board and senior management of a life insurer have ready access to, and make appropriate use of, professional actuarial advice with respect to the key financial management aspects of the life insurer. The Appointed Actuary must as a minimum:

(a) be responsible for advising the Board, board committees and senior management on the sound financial management of the life insurer, including product pricing and design, financial and insurance risk and capital adequacy management, liability best estimate assumptions and measurement, and the sound financial operation of the life insurer;

(b) have the necessary authority and reporting lines to the Board, board committees and senior management to ensure his/her advice is considered;

(c) be resourced with staff who possess appropriate experience and qualifications to support the Appointed Actuary;

(d) have access to all relevant aspects of the institution…."

In providing such a role outline, it should be apparent that:

- The role is a advice role involved in the actual management, and risk management, of the business (see further below under 5.3.2);
- In particular, the role of AA in advising on and assisting management of (life) insurance and related specialist risks is made clear (where this is currently only implied).
- In the context of CPS 220 paragraph 28(d), the AA is then seen as the key business adviser to the company on insurance and other relevant specialist risks. The CRO can then provide the effective (general) challenge.
- A key role for the AA is to advise on actuarial assumptions from time to time. An appropriate role outline would make it clear that this is a key requirement without limiting it to the annual valuation. For example, assumptions for year-end would be advised well before year end.

5.3.2 Actuarial Advice and APRA's "Three Lines of Defence"

The above role outline would seem to primarily reflect a "first line of defence" role under APRA's model. That is, the AA role as an adviser to the company (even when not necessarily making decisions), is part of the first line of defence role of management of the company.

Under APRA's model, the second line of defence risk function is articulated in CPS 220 as

> *"The CRO must be involved in, and have the authority to provide effective challenge to, activities and decisions that may materially affect the institutions' risk profile."*

The AA's role is to provide advice, and the CRO is to provide challenge.

Furthermore, the Task Force notes:

- Under APRA's model, the second line of defence is fundamentally an **independent** risk and compliance **framework** line of defence, based on review, challenge and monitoring, albeit able to provide risk "education". The third line of defence is independent audit/assurance. Importantly, the first line of defence essentially comprises the universe of roles that are not second or third line of defence.
- A consequence of this is that a role that includes direct decision input advice, actuarial interpretation and determinations would seem to fall into the first line of defence. AA specification of capital adequacy margins and factors, and best estimation assumptions, are examples of these.
- A role that involves review and advice is not in anyway excluded from the first line of defence. Indeed, under APRA's model, actual day-to-day risk management is the first line of defence, and the first line of defence includes many review processes (e.g. countersigning payments, reconciliations, checking processes). Advice, review and challenge is a key aspect of the first line of defence.
- Many have asked the question "Can the AA be CRO". Perhaps the reverse question is the more critical, "Can the CRO be AA". The answer to that would seem to be "no". Not only because APRA have categorically said "no" owing to role conflict, because the AA has first line of defence obligations. Given the "independence" requirements of APRA's second and third line of defence, it would seem difficult for a role (or an individual who has a role) to ordinarily be materially operating in more than one line of defence.
- An individual performing an APRA defined role (e.g. CRO, AA), is not restricted to performing only the specified aspects of that role. An individual can have other responsibilities beyond the defined role, subject to conflict considerations. Any decision about defining the AA role as first or second line of defence needs to consider how that action may impact the attractiveness of the role to individuals by limiting the range of functions the individuals taking on the role could also perform.

In weighing these considerations, the Task Force has concluded that while it may be possible to refine and narrow the AA roles (life and GI) to allow the CRO and AA to "dual hat" and/or the AA role to sit logically within APRA's second line of defence (as an "independent" review only role), this would do nothing to address the issues with the current life AA role – i.e. supporting the status of the life AA role, attracting best talent, reducing compliance aspects (these would almost certainly increase) and insurers would need another individual to provide the advice and functions deducted from the AA role to achieve this outcome (the various role determinations, assumptions specification, etc).

Alternatively, recognising the role within the first line of defence does not require any narrowing of the role, helps distinguish the role from the CRO,

does not prevent any of the recommendations of this report being implemented. Nor does it make the role, via restriction, less attractive. Importantly, it would arguably provide role clarity to management, the board and the incumbent.

The Task Force has considered feedback from the LIWMPC and GIPC that positioning the AA as first line of defence may limit the review work or roles currently performed by AAs which are seen as adding value. It is the view of the Task Force that such first line of defence positioning of the AA functions should not limit the ability of the AA to undertake such review work or roles, or the value that it provides.

5.3.3 Excessive Compliance and Redundant Requirements

There is a natural regulatory tendency to add new requirements and ideas to regulation of institutions and roles, with less of a tendency to identify and remove redundant requirements. This is true of regulators such as APRA and quasi regulators such as the Institute (e.g. via PS200).

An oft quoted example by AAs has been the current requirement for the AA to opine at length on a life insurers Risk Management Framework in the annual FCR, with a long check list of APRA suggested inclusions. This may well have been appropriate pre CPS220, however whether it still makes sense and adds material value post 1 January 2015 is less clear. It may well now just make FCRs longer and core messages harder to get across.

A similar matter is noted in respect of the ICAAP, where the FCR is now required to include an “assessment” of the ICAAP - which covers specific requirements for the amount of capital to hold and consequential actions to be taken. In the Task Force’s view:

- It is preferable for companies to receive AA advice on the ICAAP before the ICAAP is approved rather than receiving AA review advice after the fact;
- If the company receives AA advice on its ICAAP before approval it would seem less necessary for the company to receive AA advice before implementing movements in capital / retained earnings, except possibly to confirm that the company still meets regulatory capital/target surplus requirements at the point of payment and considering participating policyholder issues.

It is not the intention of the Task Force to suggest that value adding reviews by the AA in these areas simply be discontinued. Rather that certain extensive mandated reviews or functions which have been overtaken by the introduction of other detailed requirements could now be scaled back or omitted, as appropriate, from AA requirements.

5.3.4 Pricing & Reinsurance

The current AA role requires advice on every piece of pricing (unless defined by the pricing framework, or the AA, as immaterial). This places a significant compliance burden on the AA role.

Replacing the requirement for the AA to provide advice on every piece of material pricing with a requirement to advise instead on the overall pricing framework would improve overall governance and:

- Reduce the current compliance burden; while
- Ensuring that the company still receives suitable actuarial advice if the specific advice requirement is replaced by a more general actuarial advice requirement (from a suitably qualified and experienced professional, generally an actuary) in respect of relevant, material pricing; and
- In this construct, the pricing framework, on which the AA would advise, should be specific, clear and detailed enough for the company to be suitably safeguarded in respect of pricing matters, and would fit the requirements of each individual company.

A requirement for provision of AA advice in specific very large cases may still be retained on grounds of materiality to company's financial position. However, this advice should be able to fully leverage other actuarial advice as appropriate.

The criteria for escalation to the AA should be included within the pricing framework to avoid the AA reviewing all pricing to assess whether it is material. The existence of a pricing framework would permit an AA, if they wish, to review specific pricing even if beneath the materiality level.

The LIWMPC has questioned the proposal that each material pricing need not be advised by the AA. The Task Force believes that providing advice from a suitably qualified actuary within the pricing framework, with appropriate escalation to the AA, should not weaken pricing governance. Importantly it should provide better scope for the AA to provide clear, targeted advice in those key instances of risk, need and uncertainty.

In terms of reinsurance, in the Task Force's view, the current requirements are overly detailed and excessive, with no materiality consideration. A similar approach to that for pricing, including materiality, should be adopted to better address governance aspects and remove unnecessary compliance distraction from the AA remit:

- The AA should advise the company on its reinsurance strategy, which will consider inter alia risk appetite and risk management strategy;
- Material reinsurance arrangements (defined similar to the pricing materiality, according to the reinsurance strategy) may require AA advice, but leveraging other actuarial advice as appropriate; and
- For material arrangements the requirement for actuarial advice is best focused on key issues, not minor compliance details.

5.3.5 Delegation, Documentation

The Life Act and/or the Prudential Standards should allow the appropriate appointment of a delegate for situations when the AA is not available (e.g. planned or unplanned leave). This should not require the incumbent AA's formal resignation or reappointment.

5.3.6 Quality of Actuarial Advice Provided

As set out in Section 1.4, the Task Force has not been provided with any details or examples relating to the performance or quality of advice provided by any specific actuaries, nor any analysis of such advice in general.

However, we note some factors and issues that should be taken into account in any consideration of such matters.

- The compliance burden on AAs including the demands on the contents of the reports they provide. As noted in prior discussion above, this can have a number of impacts:
  - Obscure the delivery of key, important messages in reports;
  - The AA role being seen as increasingly "compliance" impacting willingness of management to resource it and attract the best talent; and
  - Distracting the AA from focusing on the genuinely important issues.

    It is hope that the recommendations and proposals in this report would help ameliorate this factor to the extent it has impacted past AA advice.
- The confluence of a number of risk factors, circumstances and some unforeseen environmental changes that have come together to cause somewhat of a perfect storm for the life insurance industry in recent years.

- The potential for misunderstanding and/or overstatement of aspects of the recent problems by some. As noted in Section 2, the nature of the insurance risks written by Australian life insurers has changed substantially over recent decades to be far more long tailed, volatile and economic cycle driven. Pricing and experience should be more volatile, more like some general insurance lines. The recent events should not be benchmarked against historic stable mortality claims experience and trends.

Nonetheless, these points do also raise the questions:

- To what extent these factors, particularly the final point above, are fully understood by AAs, and indeed by many of others, including other actuaries, commenting on the performance of the industry and AAs;
- To what extent the Institute CPD programs, education and knowledge base has kept up with and reflects this changing profile;
- To what extent past Institute approaches to "wide spread, open" CPD forums (Insights etc) to discuss and react to industry issues and changes, are sufficient in the current, faster changing environment. Is there a need for more targeted support and development for AAs in the modern world?

5.4 APRA actions and behaviours

Within the feedback from AAs and general stakeholder commentary, including the experiences of members of the Task Force themselves, two APRA interaction points were noted as relevant to the subject matter of this report:

- Whether the current regular APRA-AA Liaison forum is working effectively as it might. It would seem to be operating well as an information dissemination forum (from APRA to AAs), including communication from APRA to AAs on what is on APRA's mind. It is not clear how well it is working the other direction, if at all materially, for AAs to share issues with APRA and amongst themselves. The current APRA-AA Liaison meeting may not be the best forum for that purpose, in which case APRA could consider if some other frum for such a purpose would be useful and helpful.
- Notwithstanding that, in many cases, what is required by legislation or prudential standards may not involve extensive requirements or excessive "compliance" work, that is not always the way APRA supervises institutions and AAs in practice. Form over substance demands are not uncommon. Such a behavioural approach will add to the related issues noted in this report and result is less value adding focus and advice coming from AAs.

6 Recommendations

The following recommendations are made by the Task Force based on the observations and proposals of Section 5.

6.1 The New Look Role

Based on the observations and views, the Task force proposes a reconstruction of the life AA role along the lines set out below.

It is noted that relative to the general insurance AA role, our proposals:

- Involve some closer alignment between the two roles; and
- Some proposals are probably equally applicable to the GI AA Role (e.g. discontinuing the detailed RMF review requirements of the FCR in light of the new CRO role and CPS220 post 1 January 2015).

6.2 Define the AA Role

For the reasons presented in Section 5.3.1, a definition or articulation of the AA role should be included in LPS320.

An approach along the lines of that set out in Section 5.3.1 is suggested for consideration.

6.3 Specialist Risk Adviser

Within the definition or articulation of the AA role (as per 6.2), it should be made clear that the AA should be a source of specialist advice on insurance risk and insurance risk management, as well as other specialist risks within the (life) insurance context such as asset-liability mismatch risks.

6.4 Pricing

The AA role should require advice to be provided on the suitability and adequacy of the pricing framework. Such advice may be included within the FCR or as special advice when the pricing framework is adopted or materially changed.

- The current LPS320 pricing requirements could be retained as minimum requirements for the pricing framework;
- However, any "actuarial" advice requirements should not demand specific AA advice, but rather advice "from a suitably qualified person as described in the pricing framework".
- It would be appropriate for the AA to be required to advise on pricing and product design in very material cases, and this may (as envisaged by PS200) rely on the work of other actuaries.

6.5 Reinsurance

The reinsurance requirements should follow pricing structures as above, using framework advised on by the AA, and with specific actuarial advice dependent on materiality:

- AA to advise on the suitability of reinsurance strategy and framework (could be within the FCR or separately if decisions are made separately);
- Discontinue the detailed reporting about individual arrangements under LPS230 or make this a clear standalone obligation of life insurers without attaching AA opinion;
- As outlined above for the pricing framework, the reinsurance strategy and framework should outline when advice from the AA is required, and when other advice is required for changes to the terms of reinsurance arrangements; and
- The requirement should mirror the materiality requirement in pricing as above.

6.6 Policy Liabilities & Statutory Capital

The key focus (requirement) should be the AA advising (before decisions are made) on appropriate best estimate assumptions and methodologies:

- Before "year-end" (reporting) for valuation and capital; and

- Before "commitment" for material pricing/product development per 5.4.3.

The AA to advise on policy liabilities and statutory capital.

6.7 ICAAP

The AA should advise on ICAAP before it is adopted / approved.

A detailed review in the FCR should not be mandated or expected, although the AA should be expected to comment on any deficiencies noted during the course of the general review of the financial condition of the company.

6.8 FCR

AA to continue to prepare the FCR for the company with copy to APRA.

Make FCR more strategic and focused, and remove redundancies and duplication:

- Remove the detailed annual RMF review requirement/expectation from FCR (AA should still provide some high level observations on the overall RMF, and more on the specific financial risks including insurance and specialist risks);
- Likewise, remove any detailed annual ICAAP review requirement from FCR;
- Remove reinsurance report from FCR (it is noted that this is not actually required in the FCR, but the annual report and opinion of the AA is typically included in the FCR. This adds to the compliance feel of the FCR. The practice should be discontinued. See also 6.5); and
- Remove the requirement for review of adequacy of surrender values (but retain it as a company requirement if necessary).

6.9 Participating Business & whistleblowing

- Retain the current AA requirements for participating business.
- Retain current whistleblowing.

6.10 Multiple roles

The role as envisaged above would require the AA to be a different person from the CRO. In our view, it remains inappropriate for the AA to be the CEO, or a Director of the Life insurer. However, it would not require the AA to be different from the CFO.

In addition, the requirement for the AA to be ineligible to be a director of an associate company of the life insurer seems too severe. Senior executives of large financial organisations serve on the Boards of wholly owned subsidiaries. It is generally regarded as good professional development, helping those executives to be more effective. While there may be specific conflicts in particular associated companies that would preclude such a role, in our view the Professional Standards of the Actuaries Institute or APRA standards could allow appropriate identification and management of such conflicts.

6.11 Delegation

Provide for suitable temporary AA delegation arrangements approved by company and notified to APRA. This is required to avoid the key person risk associated with a single person filling a role requiring specific actions which cannot be delegated.

6.12 Other AA role elements

AA to advise on expense apportionment framework, however only review and opine on actual expense allocation to participating business, and any other expense assumptions required for the valuation of liabilities.

6.13 Recommendation for review of training and knowledge base

The Task Force has concluded that the Institute should review its training, CPD and knowledge base for life AAs to assess to what extent life actuaries need assistance to better understand the changed nature of some of the risks their industry now faces and how they can be better managed.

Consideration of some general insurance approaches and techniques may be suitable in this case.

Consideration should also be given as to how to better support AAs (life and general) in communicating what are often complex matters and dissuade the tendency of some to follow professional standard implied structure of advice (and or improve the professional standard structure to better assist actuaries in their communication). The Institute should look to find a way to help less experienced AAs develop their skills and effectiveness in this area. Ideas such as closed forums where AAs can more openly share experiences and approaches and discuss issues should be considered.

6.14 Review of PS 200

Apart from a necessary review of PS200 on account of the recommendations above, it is recommended that a full review of PS 200 is conducted to ensure it is current, relevant and appropriate for the proposed role of the Appointed Actuary.

6.15 Institute Promotion of Actuaries in Life Insurance and AA role

The Recommendations set out above should assist in:

- improving the standing and understanding of the AA Role;
- reducing low value and unattractive "compliance only" aspects of the AA role;
- helping AAs better focus on the more critical and value adding parts of the role, that will make it a more attractive and more valued role; and
- helping AAs be more effective in helping life insurers address their current and future challenges.

Nonetheless, the comments of Section 4.4 remain and there are suggestions that life insurance is seen as a declining area of actuarial practice by the Institute and within the universities.

The task force recommends that the Institute consider how best to support and promote actuarial work in life insurance and the role of AA.

6.16 APRA actions and behaviours

Reflecting the comments of Section 5.4, the Task Force notes two areas that APRA could consider within its interaction with AAs:

- Whether the current regular APRA-AA Liaison forum is working as effectively as APRA world like, and whether some change in approach, or additional forum should be considered.
- How to best contain or limit "compliance scope creep" on the AA role via the supervisory process.

Appendix A – Detailed Results of Life AA Survey & Interviews

Results of Life AA Survey

There were 34 responses to the survey of current and past life AAs and we conducted 11 face to face interviews. Of the 34 responses, 21 completed all parts of the survey. 19 responses were from current life AAs.

When looking at the duration of life AAs in their current role it is evident that there has been substantial turnover of life AA positions in the last 3 years and, in particular, in the last 2 years.

Duration in current role	Internal	External
<6 months	4	2
1-2 years	3	3
2-3 years	3	
3-4 years	0	1
4-5 years	1	
5+ years	2	
Total	**13**	**6**

However, of the 15 life AAs that took up their role in the last 3 years, they all indicated that they have over 15+ years' experience in life insurance.

The reasons for the previous incumbents leaving do not indicate that there is a systematic exit of AAs from the role: -

- 4 roles became vacant because the previous AA was promoted internally (one to CEO, one to CFO, one to Head of Capital of a bank, one to a regional role).
- 7 roles became vacant because the previous AA resigned (4 moved to AA roles in other companies, 1 went overseas, 1 took a career break, and 1 started consulting).
- 4 roles became vacant for other reasons (1 retirement, 1 stepped down and took another role in the same company, 1 was CRO and could not be both AA and CRO under new regulations, 1 was an external AA and the company wanted to appoint a full time employee to the role).

Most life AAs believe that the Appointed Actuary role remains an influential role within organisations.

Influential Role	Current	Previous
Strongly Agree	3	4
Agree	7	3
Neither Agree nor Disagree	4	0
Disagree	0	1
Strongly disagree	1	1
No response	4	6
	19	**15**

However, most life AAs believe that there is an issue with the current role. This was the same across both current and previous AAs.

Issue with current AA role?	Current	Previous
Yes	14	7
No	1	2
No response	4	6
	19	**15**

The majority of life AAs also noted the overlap between the CRO and AA role. In fact, the only AAs who did not believe there was overlap were the ones who indicated that the Appointed Actuary role remained influential.

Overlap CRO/AA	Current	Previous
Yes	12	7
No	3	2
No response	4	6
	19	**15**

However, respondents had different views on how much overlap there was with most indicating the overlap was not substantial whilst others indicated that it was almost duplication. Common points made were that actuaries focused on financial risks (market, credit and insurance risk and the quantification of risk) whilst CROs also cover non-financial risks. However, concerns were raised around potentially duplicating expensive specialist resources (especially in small companies).

Of relevance is the view on the position of the life AA role in the APRA "Three Lines of Defence" model. The majority though that it is a first line role, however 10 responses indicated they felt it is more second line.

What Line of Defence is AA role?	Current	Previous
Line 1	8	3
Line 2	5	5
Line 3	1	0
No response	5	7
	19	**15**

A number of respondents indicated that the AA role was difficult to fit into the model, with many indicating that it spanned all 3 lines (driven by the regulatory requirements) or operating somewhere between the first and second line. Overwhelmingly, life AAs indicated that they should operate in first line.

Looking at the overall regulatory framework a minority (only 8) of the AA's thought that the regulations require AAs to act as advisers to the business. Most AAs (13 in total) thought the regulations required them to act more as an "auditor" and 3 thought (perhaps a cynical comment) they were acting as a whistleblower to APRA.

Regulations require AA to act	Current	Previous
Adviser to the business	4	4
Auditor of the business	9	4
Whistleblower to APRA	2	1
No response	4	6
	19	**15**

A higher proportion of current AAs selected the 'Auditor' response, perhaps indicating the thrust of more recent regulations.

Common themes around regulations were:

- Too compliance focused – forcing the AA out of management roles;
- Regulations focus on specific elements rather than the overall position;
- Growing technical elements of the regulations make it hard for the AA to be seen as anything other than a technician;
- Detailed technical requirements are making documents harder for non-technical Board members to read;
- Assessment of the Risk Management Framework and ICAAP are not seen as appropriate responsibilities;
- Responsibilities are too onerous and complex to be performed by one person – lack of appropriate delegation models was mentioned several times;

- Regulations have evolved, without previous requirements being removed, and a holistic review is required.

The role that the Board plays in managing a business will also influence the role of the AA in the company. 13 AAs indicated that the Board was more compliance/governance focused than full business management.

Focus of Life Board	Current	Previous
Compliance/governance	6	7
Full business management	9	1
No response	4	7
	19	**15**

A much higher proportion of current AAs indicated that the Board was involved in full business management than previous AAs.

However, this involvement does not extend to developing the strategy of the company with most AAs indicating that their Board endorsed Management's recommendations.

Strategy Development	Current	Previous
Management develops - Board endorses	13	8
Board actively involved	4	3
blank	2	4
	19	**15**

Most respondents had a similar view on the main components of the AA role today.

Main component of AA's work	Current	Previous
Advise on pricing	13	9
Set policy liability	14	6
Risk management	12	6
Independent view on financial condition	12	9
Policyholders' advocate	6	7
Long (vs short) term financial stability	14	7
Capital management - determine PCA	14	8
Quantify uncertainty	8	5
Add value to the business	12	7
Compliance to Life Act and APRA regs	12	7
Unit pricing policy and U/l fin control	8	3

Three areas that stand out with low scores are Policyholder's Advocate, Unit Pricing and Quantify Uncertainty. The first two could be a function of the focus of modern life insurers. However, Quantifying Uncertainty receiving a low score is interesting and should be considered by the Institute.

Common responses when asked what the ideal life AA role should included:

- Being an adviser to the business providing a view on the implications of decisions (this was almost universal);
- Reduction in governance and less detailed/prescriptive requirements; and
- Ability to delegate some responsibilities.

Specific suggestions for change that were proposed included:

- Hold AAs to account – a number of respondents indicated that it is up to the AA to demonstrate the value they bring to the leadership table.
- Emphasise to CEOs the importance of the AA role and having an adequately resourced actuarial department.
- Remove some of the more compliance requirements (such as assessing the Risk Management Framework and ICAAP) and have less detailed and prescriptive regulatory and professional requirements.
- Clarify whether the role should function in terms of the 1st, 2nd or 3rd line of defence and more clearly delineate the responsibilities of AA and CRO.
- Make it possible for the AA to be CRO.
- Allow delegation of some sign-off responsibilities to other roles or a deputy.