

SURVIVE THRIVE



Natural Selection

Financial Services Forum

21-22 May 2018 • Hilton Sydney



**Actuaries
Institute**



Actuarial Advice Framework

Cross-Practice AAF Working Group

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Introduction

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Status of regulatory process

Background on Working Group

Deliverables

- Member education
- Information Note

Purpose of Information Note

Support actuaries:

- drafting an insurer's AAF
- providing advice to the Board on the AAF
- reviewing the effectiveness of the operation of the AAF

AAF overview

AAF

Roles and
responsibilities

Areas where
advice may
be required

Materiality
policy

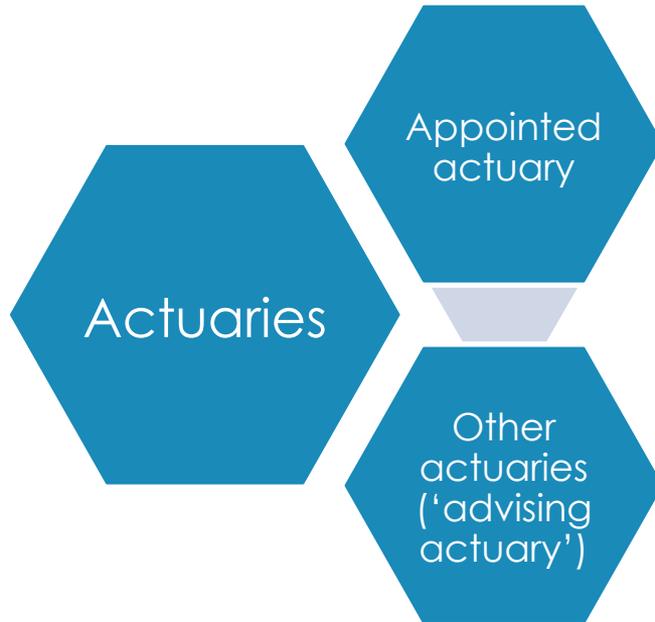
Provision of
advice

Conflicts of
interest

The overall effectiveness of the AAF needs to be assessed

Roles and responsibilities

Decision makers



- Decision-makers need to seek advice
- AAF should define responsibility for provision of advice, but could also allow AA or other advising actuaries to delegate or rely on the work of another actuary
- Role of recipients of advice – consider advice and recommendations, and on material matters, document response (or reasons for not adopting recommendations)

Areas where advice may be required

1

Each insurer should make its own decisions about where actuarial advice adds value

No two AAFs should be the same

2

Mandatory areas listed in CPS320 are only a minimum

- do not start there!
- look cross-industry
- seek “best of breed” from Life/General/Health
- consider any item that could impact the insurer’s stakeholders

3

Communication

The primary audience for the AAF is not actuaries

Areas where advice may be required

Examples

- Liability evaluation
- Prudential capital evaluation
- Financial reporting and budgeting (accounting)
- Capital management
- Pricing & premiums
- Product/proposition design & management
- Reinsurance
- Business strategy
- Investment policy
- Risk profile of the insurer

Examples

- Data: adequacy, strategy, usage, analytics
- Events that invalidate or modify previous actuarial advice
- Any other event or matter significantly affecting conduct of the insurance business (e.g. customer expectations / operational issues / M&A / etc)
- Appointed Actuary role
- Regulatory compliance

Materiality policy

Considerations for the Materiality Policy

- Is the issue material? If so, which actuary should provide advice?
- Who should receive the advice?
 - Board?
 - Senior management?
- Policy should reflect size, structure, operational complexity & risk appetite of company

Assessing the Materiality Policy

- Alignment of thresholds for advice provision/receipt & decision making
- Financial impacts, regulatory & community expectations
- Ease of interpretation & implementation versus “accuracy” of criteria
- Achieves right balance and level of involvement of AA
- Appropriate documentation & reporting; enable AA to assess AAF
- Implementation & other issues - availability of actuaries; “grey areas” such as accumulation of small issues

Provision of advice

1
2
3
4

Process for determining whether advice is required

- allow for escalation if in doubt

Should actuarial advice under AAF follow a consistent structure? Include suggested metrics?

However, important not to be constrained

- judgement is always required

Oral vs written advice?

- efficiency vs governance/documentation
- documentation helps when reviewing effectiveness of AAF

Conflicts of interest

1

Does all actuarial advice required under CPS320 need to be impartial? What does this mean?

2

The AAF should recognise that there may be perceived or actual conflicts of interest or duty in the role of the actuary - this may relate to the actuary holding dual roles (e.g. AA/CFO)

3

Delivery of impartial advice is dependent on the identification and management of any such conflicts

4

Management mechanisms may include: disclosure, separation of roles, internal/external peer review

5

For significant conflicts, the AAF may require the recipient to document their acknowledgement and consideration of the conflict

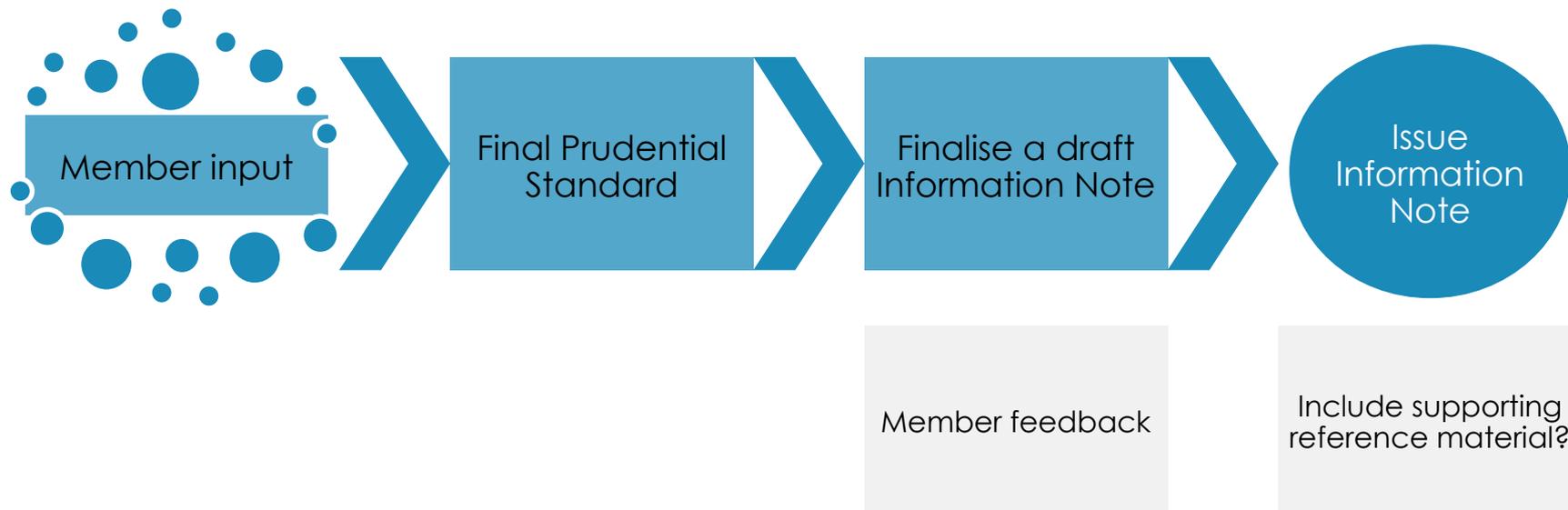
Assessing the effectiveness of an AAF

A Professional Standard will address specific issues for the AA to consider

The Information Note will include a series of questions that could help form a basis for the overall assessment, e.g.:

- Have decision-makers clearly understood when actuarial advice should be sought?
- Was the actuary provided, in a timely manner, with all necessary data and information to formulate appropriate advice?
- Have any conflicts (perceived or actual) arisen related to the provision of actuarial advice?
- Have any recommendations given in the actuarial advice been appropriately followed up?
- Were there instances of decisions being made that were not covered by the AAF where actuarial advice could have been valuable?

Next steps





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THANK YOU