

**SURVIVE THRIVE**



# Natural Selection

**Financial Services Forum**

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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

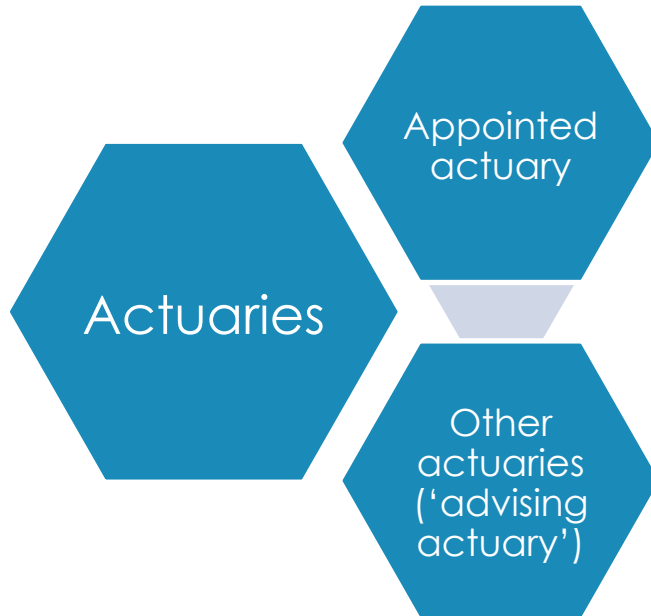
Provision of  
advice

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  
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## **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

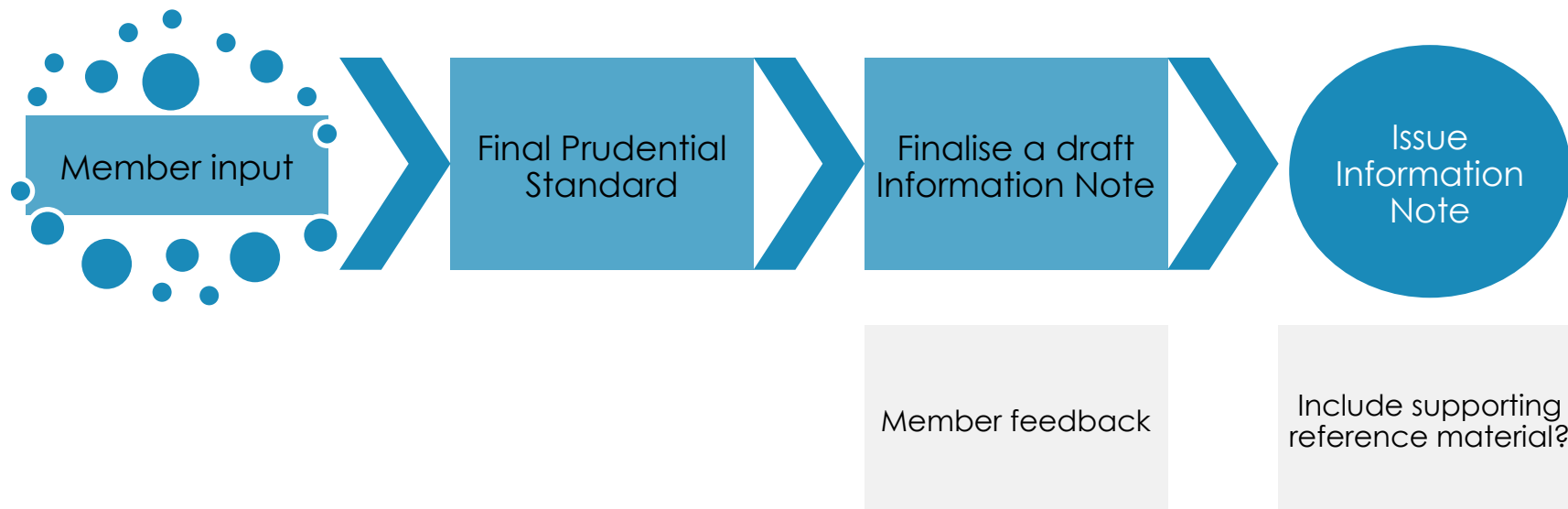
# Assessing the effectiveness of an AAF

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**