



**Actuaries
Institute**

Information Note on Appointed Actuary Risk Management Advice

Risk Management,
Life Insurance & Wealth Management and
General Insurance Practice Committees
28 June 2012

Appointed Actuaries' role in Risk Management

David Goodsall, President



Prudential requirements

LPS 220 and GPS 220 require the Appointed Actuary to review the suitability and adequacy of the Risk Management Framework in the Financial Condition Report (FCR)

Actuaries value add

A review of the Risk Management Framework, if done well, will demonstrate we can add value and enhance the actuary's reputation on risk management

New Information Note
Mike Thornton, Chair, Working Party



Scope of Information Note

LPS 220:

“The Appointed Actuary must include an assessment of the suitability and adequacy of the risk management framework as part of the Financial Condition Report”

GPS 310:

The Financial Condition report must include a “high-level assessment of the suitability and adequacy of the risk management framework (as defined in GPS 220)”

The Information Note aims to assist the Appointed Actuary in providing a basis for making this assessment

Why is risk management important in an FCR?

- Regulatory capital can provide a level of financial security for policyholders. Sound risk governance processes can provide broader protection for a broader group of stakeholders
- Supports the company, in providing a basis for decision making, allowing companies to capitalise on opportunities in a measured and sustainable manner
- As a profession, we have a sound understanding of the end-to-end business model

Sound risk management is key in maintaining the resilience of companies on an on-going basis

Key points in Information Note

- Large, complex financial institutions will typically require sophisticated risk management frameworks, whilst smaller, simpler organisations might use less sophisticated approaches

One size does not fit all – companies are different

Assessing suitability and adequacy

Section 3.3 outlines areas that Appointed Actuaries are encouraged to consider

- Risk appetite and related concepts
- Risk management processes
- Culture and capability
- Risk management issues and exposures

These areas are outlined in some detail in the Information Note

Forming an objective opinion

Discussed in section 3.4

- Opinions will be based on judgement
- Some parts of the framework may have weakness that should be enhanced – these may be indicative of other issues
- Any opinion of inadequacy or unsuitability should be raised as early as possible with the company

If the Appointed Actuary lacks exposure or interaction with the risk management framework, they are encouraged to seek access, and if necessary, document the potential limitations on the opinion

Communicating the opinion to the Board

- Appointed Actuaries should demonstrate the process used to support the opinion
- Can briefly outline changes in risk management framework, improvements made and further recommended improvements
- Documentation of the review and opinion should be appropriate to the audience
- Conflicts of interest should be disclosed and appropriately managed

If is important that the opinion is clearly articulated and the scope understood, particularly with regard to operating effectiveness

Main areas of discussion on the Working Party

- What is the scope of the review? How does it relate to operating effectiveness?
- What level of comfort is being provided to the Board?
- Is there duplication of work, given the required “operationally independent review”?
- Can we rely on the work of others?
- What level of documentation is required?
- What if we are not familiar with the risk management framework?
- How much additional work is this?
- Is there a potential legal exposure?

The Information Note serves to assist Appointed Actuaries in fulfilling this important responsibility

Opportunities for Actuaries

- Actuaries are experts in risk management
- APRA has asked for our expert opinion to assist Boards
- The Working Party aims to assist AAs in forming their expert opinion

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Panel Discussion



Panel Discussion

David Goodsall, President

Mike Thornton, Chair of Working Group

Kevin Allport, Chair, LIWMPC

Peter McCarthy, Chair, GIPC

Ian Laughlin, Member, APRA

