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# **The Appointed Actuary Working Group**

**A stakeholder assessment of our  
regulatory regime so far**



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## Agenda

- Introduction
- Viewpoints from actuaries
  - Appointed Actuary (AA)
  - Reviewing Actuary (RA)
- Users' views on
  - ILVR
  - EPR
  - FCR
- APRA's comments
- Key observations



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# Introduction



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## Background

- Approved Actuary role introduced on 1 July 2002 (now Appointed Actuary)
- Financial Condition Report (FCR) and External Peer Review (EPR) introduced in 2006
- Objectives
  - To obtain views of all stakeholders of how the regulatory regime is working
  - Identify best practice and any current barriers so that we can optimise the value of our profession



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## Survey

- Web-based
- Wanted variety of points of view
  - Appointed Actuary
  - Reviewing Actuary
  - Appointed Auditor
  - Management
  - Board
  - APRA



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## Survey

- Surveyed a variety of sizes of insurer
- Asked some common questions across groups to get different perspectives
- Anonymous



# Survey

- 21 insurers agreed to participate

<b>Respondent</b>	<b>Number of responses</b>
Companies	21
Appointed Actuary	19
Reviewing Actuary	14
Appointed Auditor	11
Board	11
Management	14



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# Appointed Actuary viewpoint





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## **AA viewpoint - Valuation**

- No specific issues raised
- Timeframe –
  - 90% of AAs said adequate or better
  - only 10% insufficient



## AA viewpoint - EPR

- Issues arising during EPR:
  - 32% of AAs reported that there were differences of opinion
  - In almost all cases, issues were raised early and there was sufficient time for two-way discussion and resolution
  - Issues were resolved in all cases
- The results of EPR:
  - No AA has changed anything significant in response to EPR (many have made minor changes)
  - Most found EPR process positive
  - EPR is perceived as improving quality of valuation reporting



## AA viewpoint - FCR

- FCR process:
  - AAs met with a wide range of people, who were generally very open
  - AAs got help from management/non-actuaries on: Business Overview, Investments, Reinsurance and Risk Management (RM) sections
  - Risk Management was hardest section to write: some AAs co-opted RM experts, others based review on discussions and document review



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## **AA viewpoint - FCR**

- FCR recommendations:
  - Nature of recommendations very variable
  - No significant resistance to recommendations, but they needed to be dealt with/communicated sensitively
  - 42% of AAs reported only **some** of the recommendations had been acted on



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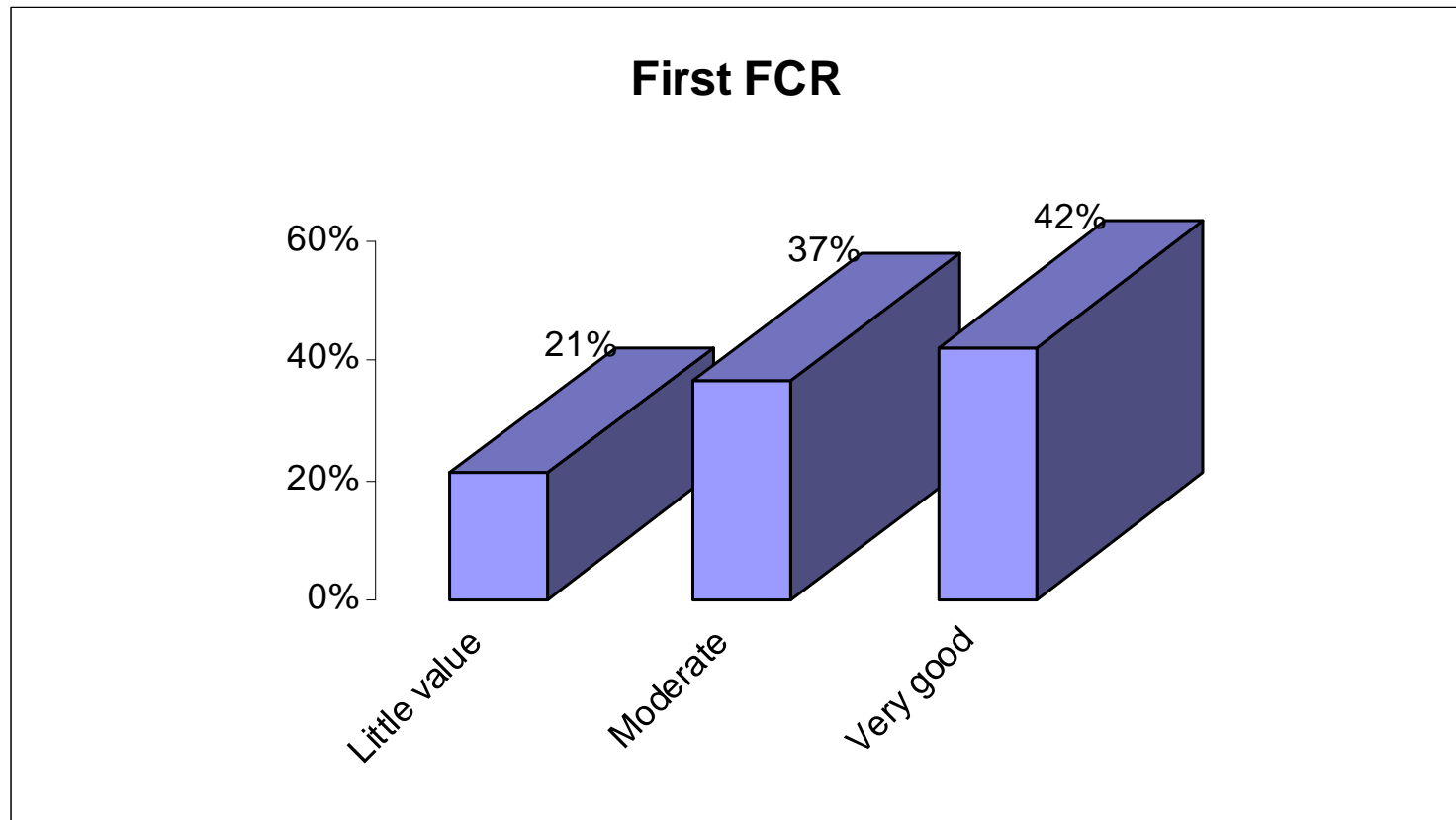
## **AA viewpoint - FCR**

- **Delivery of FCR:**
  - Most (74%) presented to Board
  - Presentations were very favourably received
  - Most (74%) reported providing FCR to auditor



## AA viewpoint - FCR

- AAs assessment of perceived value





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## **AA viewpoint - FCR**

- **Best aspects of preparing FCR:**
  - Broadening of view/understanding/involvement
  - Positive feedback
- **And the worst:**
  - Dealing with areas outside expertise – especially risk management and operations
  - Year-end timing/work involved



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# Reviewing Actuary's viewpoint





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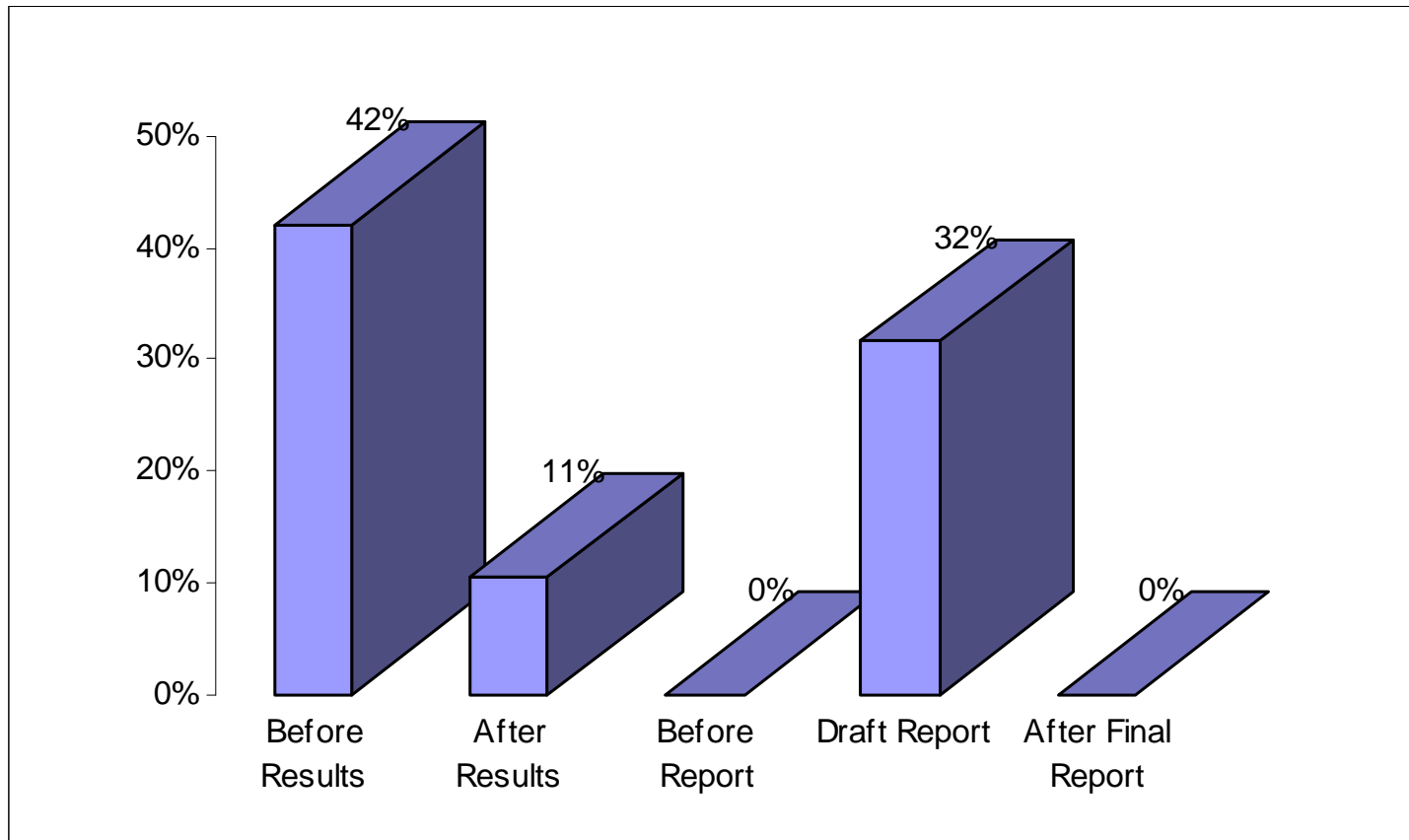
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## **RA viewpoint – EPR scope**

- 68% provide audit assistance as well
- Some overlap, but EPR wider scope
- The EPR goes to a broad range of recipients



# RA viewpoint – EPR timing





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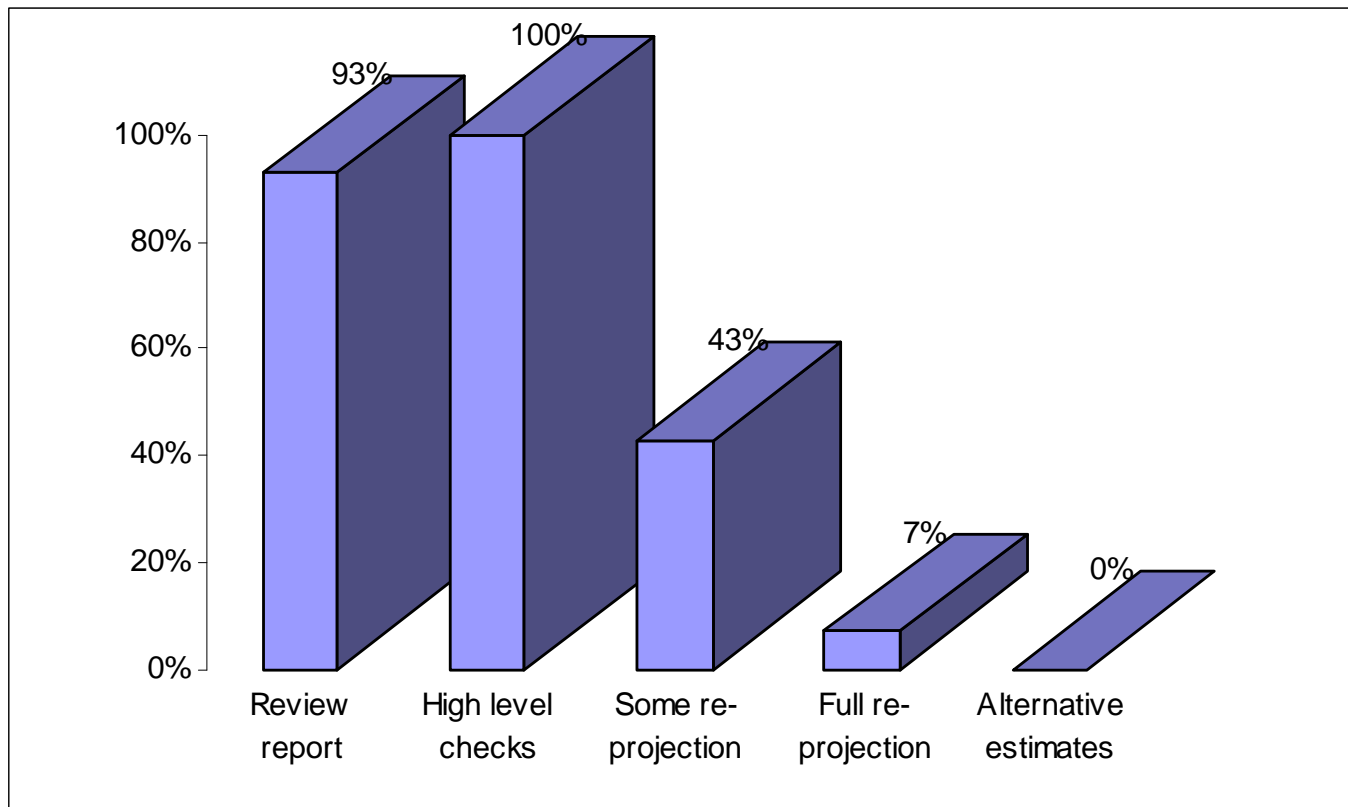
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## RA viewpoint – EPR approach





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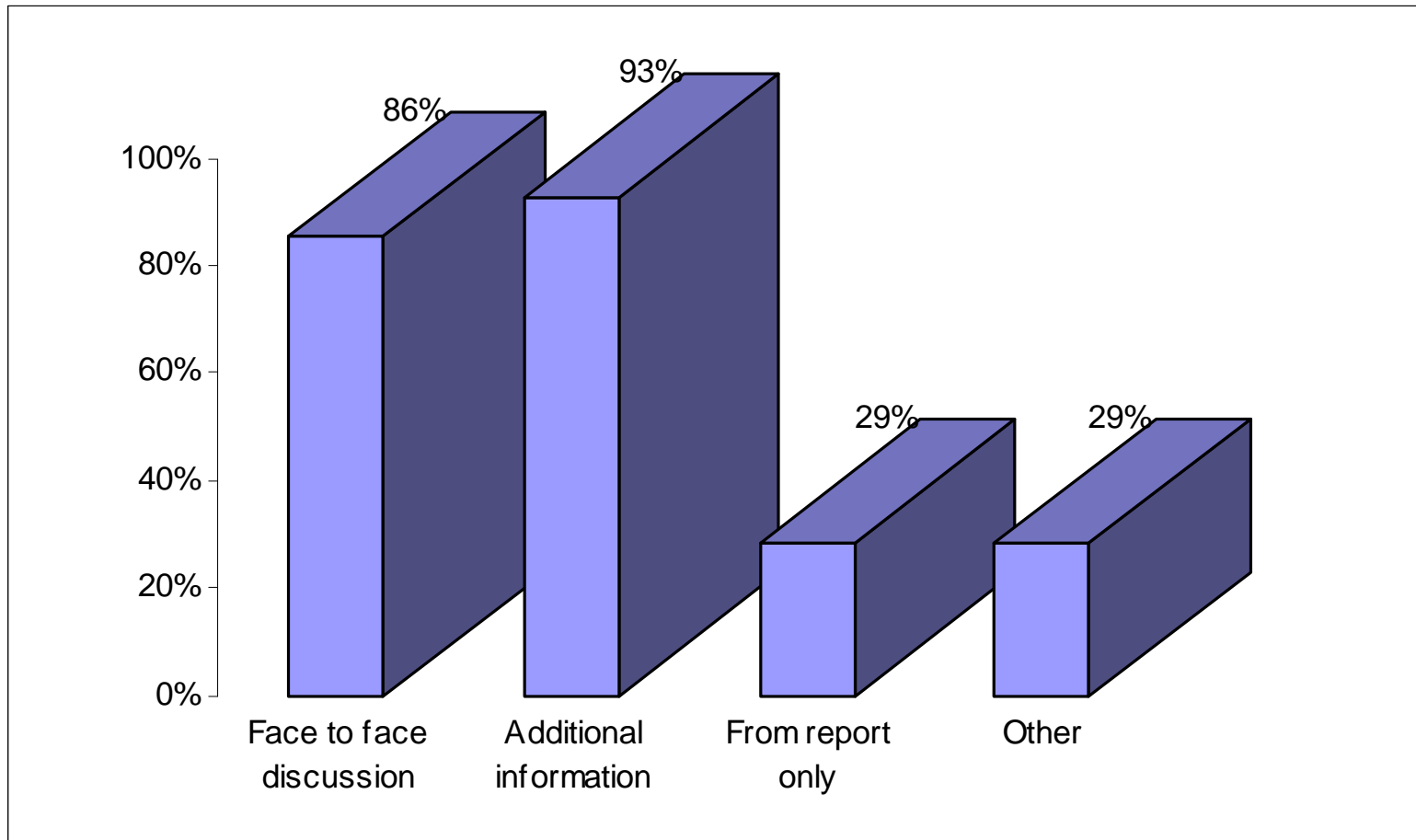
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# RA viewpoint – EPR method





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## **RA viewpoint – differences in opinion**

- Differences in opinion
  - RA and AA had consistent views
  - Differences are raised prior to draft EPR report
  - Differences are resolved prior to final ILVR.



## RA viewpoint - EPR process

- Best aspects of preparing EPR:
  - Improvements to the valuation approach and process
  - Positive feedback from Board/Audit Committee
  - Interaction with the AA – share ideas and exchange information.
- And the hardest:
  - Quickly grasp the “nuances” of each portfolio
  - Not seen as adding value
  - Time pressures, dependent on the delivery of the ILVR



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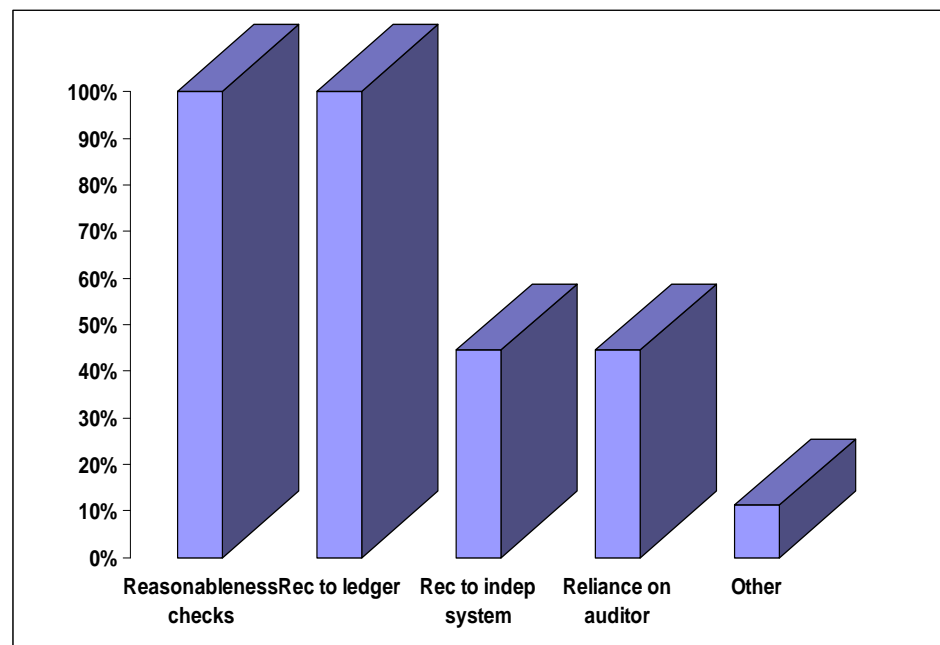
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**ILVR**



## Users' viewpoint - ILVR - data

- AAs use a variety of methods to ensure integrity of data
- Auditors said 73% told them what data checks they need/what data is important
- Only 9% of auditors believed they were responsible for data integrity – 73% thought it was the company







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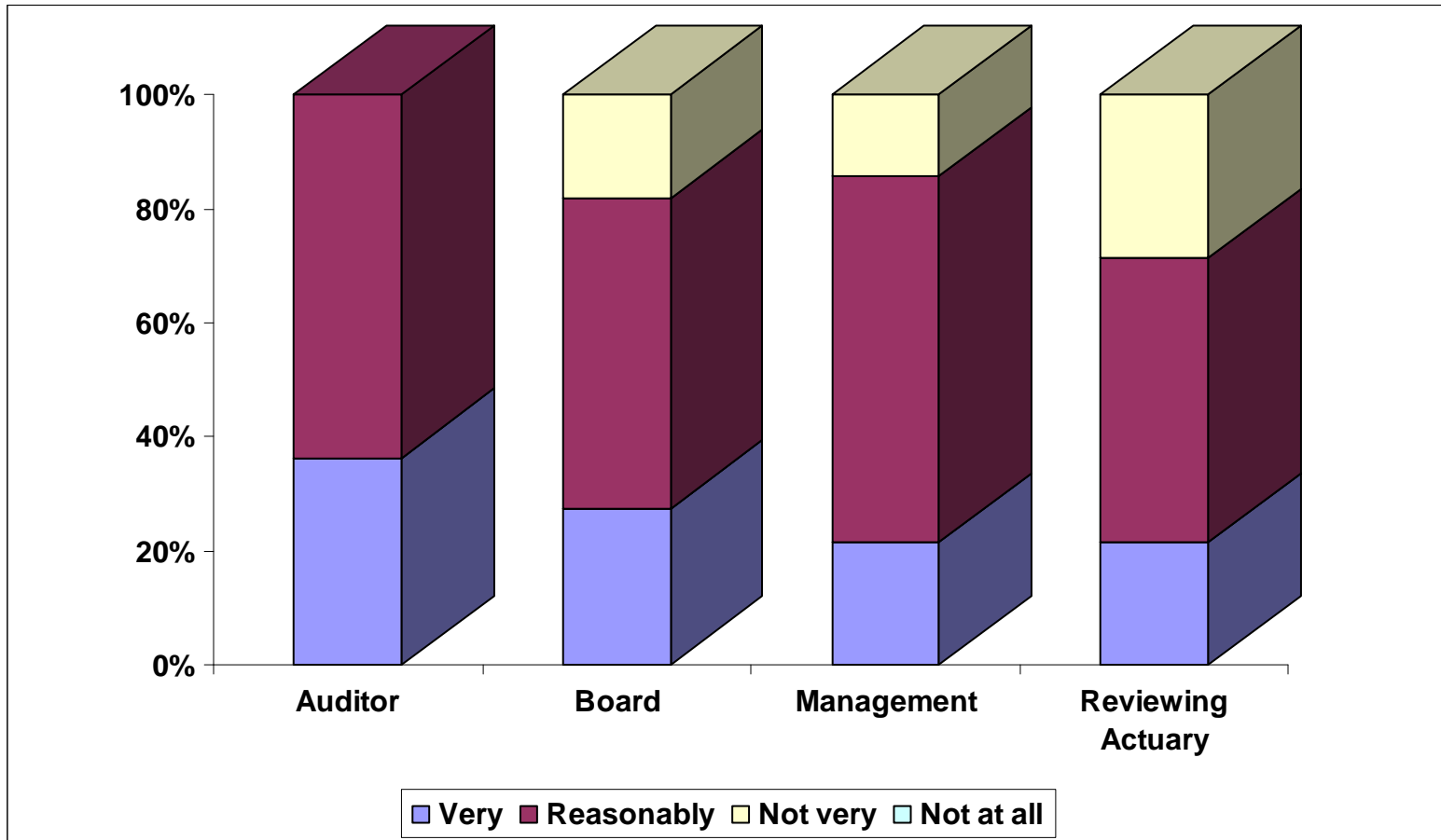
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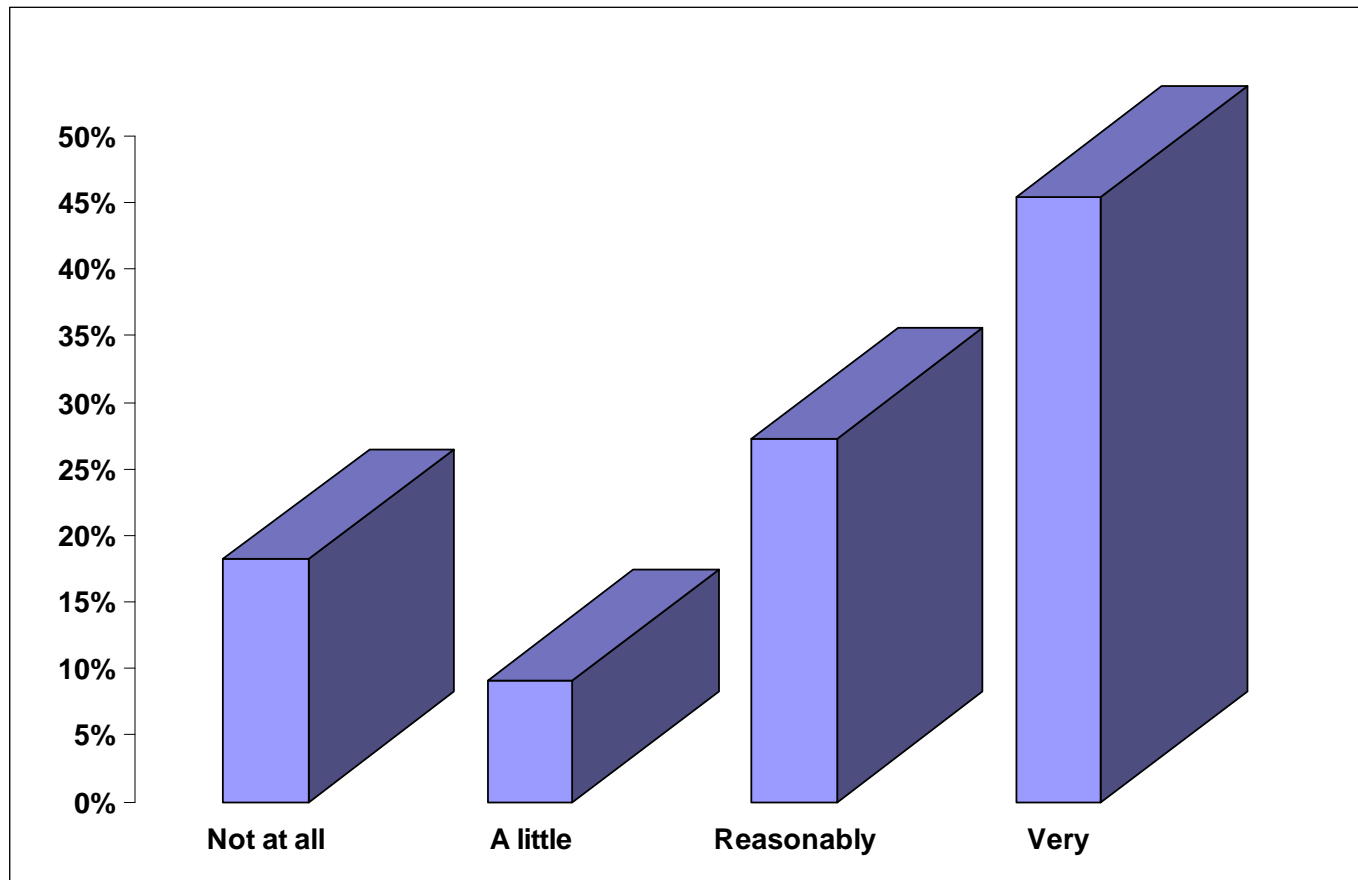
## Users' viewpoint - how user friendly was the ILVR?





# Users' viewpoint - ILVR presentation

## How useful did the Board find it ?





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**EPR**



## **Users' viewpoint - EPR**

- **Positive feedback on the EPR process**
  - Majority of AA and RA found the EPR process constructive
  - Sufficient time to forward views and issues raised in advance
  - A collaborative approach: sharing of information and best practice
  - Each found the other's report reasonably user friendly
- **Suggestions for improvements from survey participants**
  - EPR report too long, too micro focused or too process oriented
  - Valid differences in professional opinion do not need to be resolved
  - A feeling of overkill: less frequent or only require where AA has no strong internal peer support



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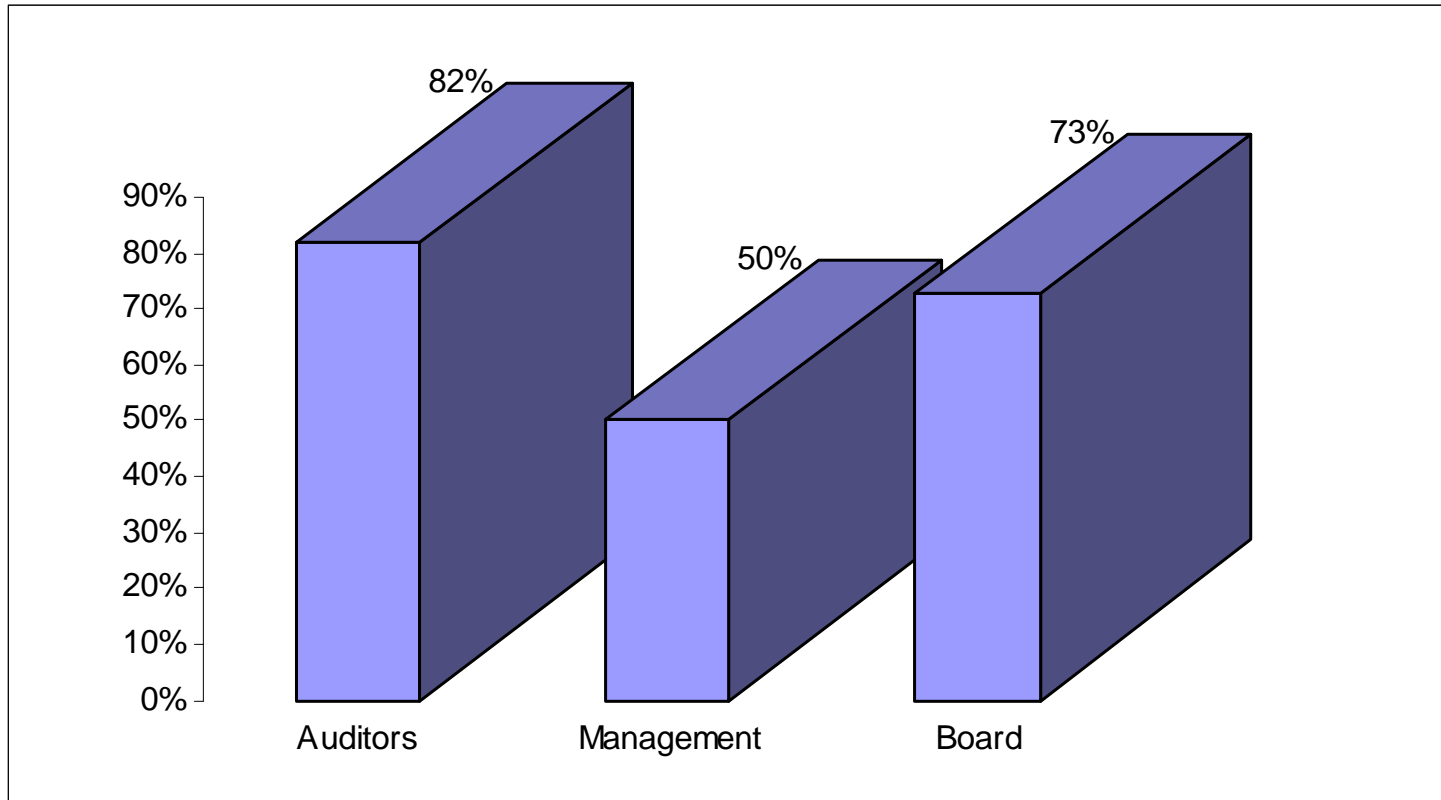
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## Users' viewpoint – proportion who considered the EPR useful





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**FCR**

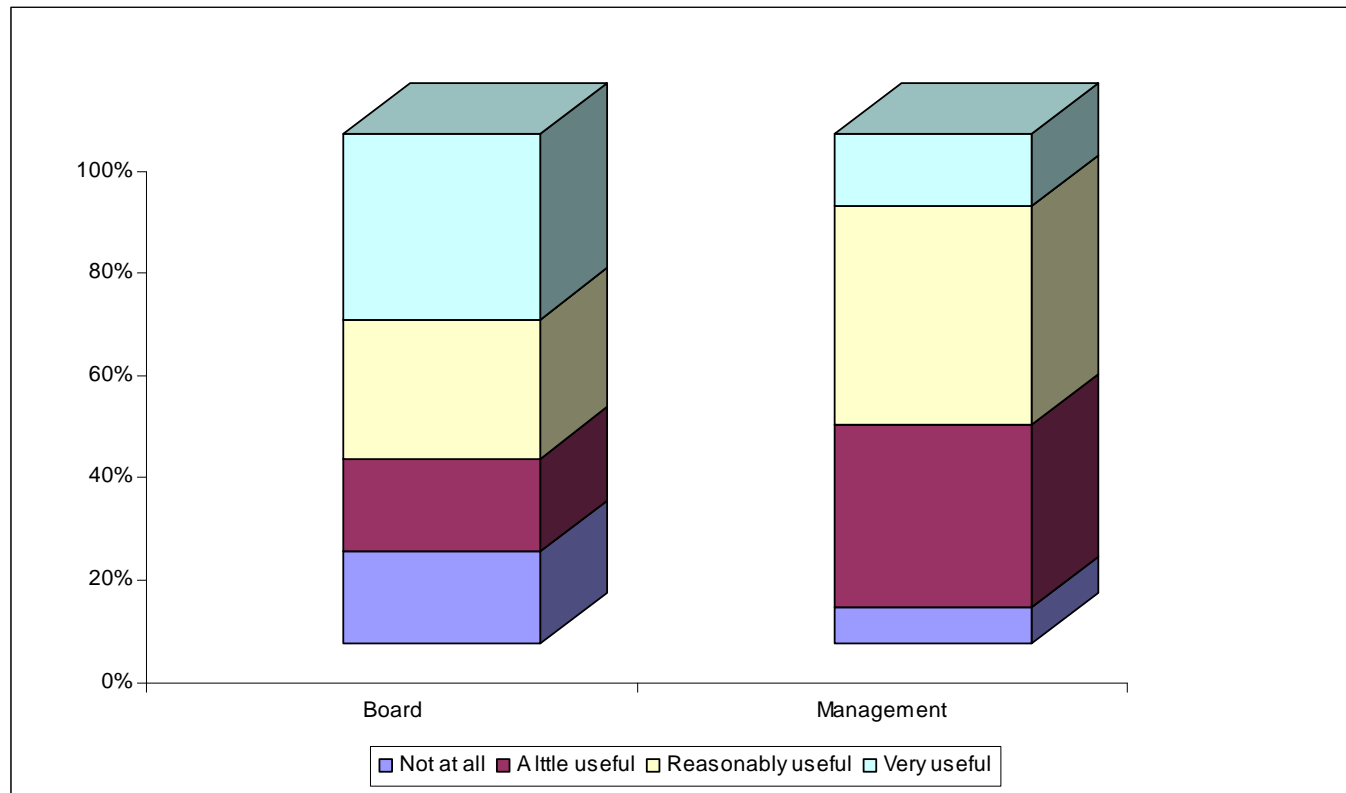


## **Users' viewpoint - FCR**

- Essentially all board members, management and auditors responding said that they had read the FCR
- In one case the AA did not present to the Board
- 73% of Board members found the presentation (reasonably or very) useful
- 65% of management thought that the board only “might have” or “didn’t” find the FCR useful
- 79% of management said that the FCR met their expectations, but 71% said it was too long
- One-third of the auditors received the FCR after the audit sign-off



# FCR- How useful in managing the business



- Auditors find it less useful in forming their opinion





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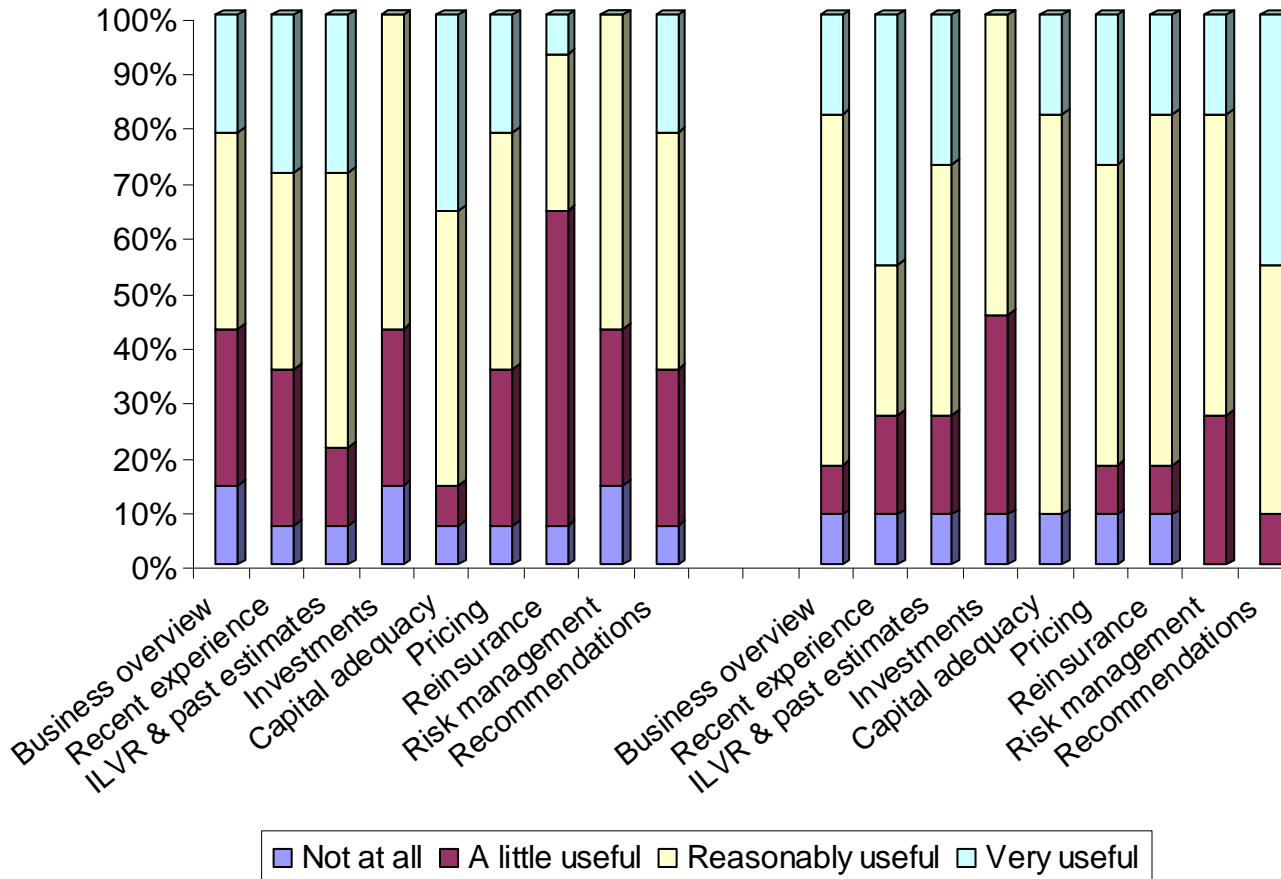
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## FCR - which sections are the most useful?

### Management

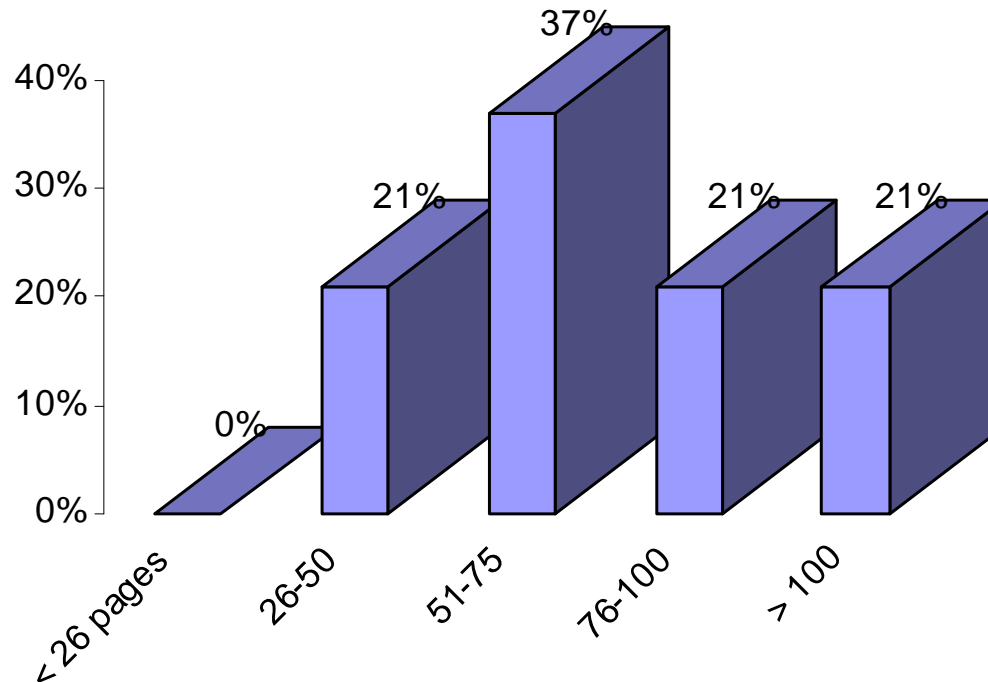
### Board





# FCR - length

**Length of FCR (excl appendices)**





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## **Users' viewpoint - FCR**

Suggestions for improvement from the survey participants:

- Shorter, more focused, less waffle
- More emphasis on business implications.  
Recommendations not always commercially practical
- Include a provision for management responses to the recommendations
- Extend the time-frame to give more time to examine the results



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## **Users' viewpoint - FCR**

Diversity of views from survey participants:

- “Waste of time”, “Skip it completely”
- “It is the most important and valuable document that management and directors could possibly read-no suggestions for improvement”



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**APRA**



## **APRA's comments – quality of reports**

- Less variation in quality of ILVR compared to FCR
- Size of insurer has little impact on quality
- No difference between internal and external AAs
- Quality is a function of the individual AA
- EPR reports often not insightful



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## **APRA's comments - FCRs**

- Better than originally expected
- Pricing section often weak
- APRA see FCR as key tool
- No linkage between size of company and depth of FCR



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## **APRA's comment**

**“Be courageous”**





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# General views



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## **AA viewpoint - general**

- **Comments on current environment:**
  - Some question value of EPR
  - Too much compliance, focus on process
  - How is APRA using FCRs?
- **Help from IAA/APRA:**
  - More feedback on FCRs – best practice, pitfalls, benchmarking, picture of the “typical” FCR
  - Assistance on risk margins



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## **RA viewpoint - general**

- **Comments on current environment:**
  - Mixed views on the value of EPR
  - Questions on the frequency of the EPR – dependent on MCR, economic cycles, insurance cycles?
- **Help from IAA/APRA:**
  - More guidance on “Controls” and “Auditing at source”
  - More guidance on “materiality” definition
  - Feedback from APRA



## **ILVR – general comments**

- **Board**
  - more explanation in business terms for the movements
- **Management respondents**
  - felt the valuation report was reasonably or very relevant to them
  - key points often buried – need better exec summaries
- **Auditors**
  - no common threads



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## Objectives revisited

- To obtain views of all stakeholders of how the regulatory regime is working
- Identify best practice and any current barriers so that we can optimise the value of our profession



## **Key observations – views of stakeholders**

- **Actuaries**
  - are coping OK with the requirements even with the FCR
  - would like some help from APRA and IA
  - some doubts about adding value with EPR
- **Users**
  - generally find all reports useful/helpful, could be made better
  - some differing views on FCR
- **Would comments be different under adverse economic conditions ?**



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## **Key observations – best practice**

- Draw out key observations in reports
- Think of reports from the users viewpoints
- The best reports are those where the actuary is fearless



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## Thank you

- Thank you to everyone who responded or helped out

### The Appointed Actuary Working Group

Chris Latham

Susan Ley

Jim Qin

Gae Robinson

Melissa Yan





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# Discussion