



# Discussion Paper

The role of the Appointed Actuary and  
actuarial advice within insurers

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# Role of the Appointed Actuary

Current review

Specific proposals



## Role of the Appointed Actuary

Availability of appropriate actuarial advice to insurers is a key component of the prudential framework

- “ Appointed Actuary is a statutory role for both life and general insurers
  - “ Section 39 of the *Insurance Act 1973*
  - “ Section 93 of the *Life Insurance Act 1995*
  
- “ Responsibilities and roles of Appointed Actuaries are set out in:
  - “ *Prudential Standards GPS 320 Actuarial and Related Matters*
  - “ *Prudential Standards LPS 320 Actuarial and Related Matters*

Appointed Actuaries are also subject to professional standards and practice guidelines maintained and enforced by the Actuaries Institute



## Current review

- “ APRA is reviewing the requirements applying to actuarial advice and the Appointed Actuary for both general insurers and life insurers
  - “ Proposals in this review are not addressed to private health insurers (PHI) at this stage.

### Review is driven by:

1. Increased turnover and decreased seniority in the Appointed Actuary role, especially in the life insurance sector.
2. Effectiveness of the Appointed Actuary compromised by heavy compliance focus and inability to delegate tasks.
3. APRA, the profession and industry identified opportunities to streamline and simplify existing requirements, without compromising prudential outcomes.

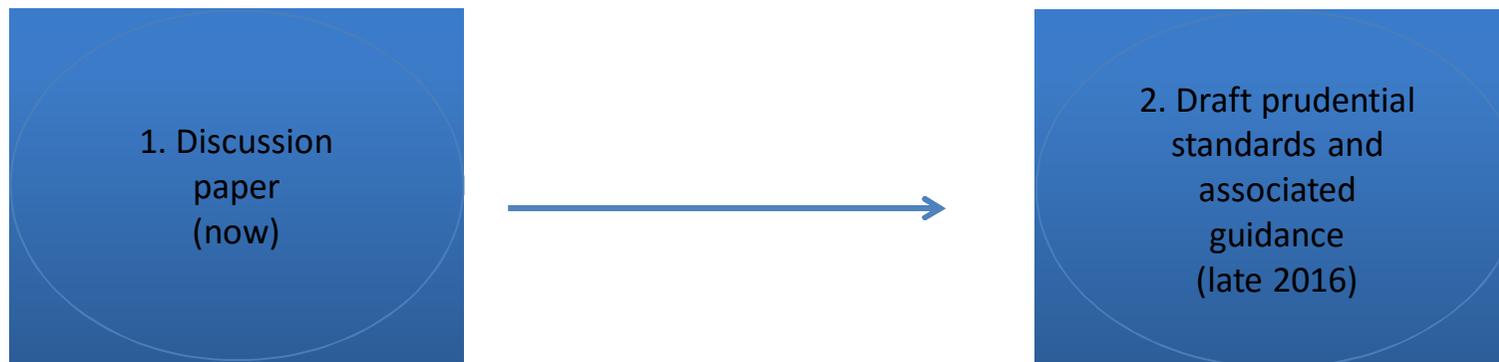


# Current review

” Key objectives

1. Examine existing responsibilities of the Appointed Actuary.
2. Clarify the role to be performed by Appointed Actuaries.
3. Harmonise requirements between the insurance industries, where appropriate.

” Consulting in two stages





## Specific proposals

1. Introducing a purpose statement for actuaries
2. Implementing a clear actuarial advice framework
3. Improving the management of potential conflicts of interest
4. Improving reporting requirements
5. Simplifying prudential standards



# 1. Introducing a purpose statement for actuaries

*“The purpose of the Appointed Actuary role is to ensure that the board has unfettered access to expert and impartial actuarial advice and review, to assist with the sound and prudent management of an insurer and that the insurer gives adequate consideration to the protection of policyholder interests.*”

*The Appointed Actuary must have the necessary authority, seniority and adequate support to ensure their views are considered seriously by the board and they are able to make a significant contribution to the debate of strategic issues at the executive level. The Appointed Actuary plays a key role in, and provides effective challenge to, the activities and decisions that may materially affect the insurer’s financial condition as well as its treatment of policyholders.”*



## 2. Implement a clear actuarial advice framework

The actuarial advice framework would include:

- a) identification of areas where actuarial advice is required;
- b) a policy for identifying and measuring materiality;
- c) a framework for identification of matters that are the responsibility of the Appointed Actuary and those that can be undertaken by other actuaries; and
- d) a temporary delegation model for when the Appointed Actuary is absent.



## 3. Managing potential conflicts of interest

### Conflict management with respect to the Appointed Actuary

- “ APRA is considering introducing specific conflict management requirements or guidance.
- “ Insurers approach to managing conflict of interest is expected to be documented as part of its actuarial advice framework.

### Dual-hatting

- “ APRA maintains that any dual hatting between the roles of the Appointed Actuary, Chief Risk Officer, Chief Executive Officer and a director of the insurer would give rise to unmanageable conflicts.
- “ APRA advises caution but does not prohibit dual-hatting between the roles of Appointed Actuary and Chief Financial Officer.



## 4. Improving reporting requirements

### The Financial Condition Report (FCR)

- “ Greater discretion given to the Appointed Actuary in deciding relevant content to be included in the FCR.
- “ Actuarial advice be sought to assess both RMF and ICAAP on a prospective basis, and when material changes are made, with a reduced level of assessment in the FCR
- “ Include advice on insurance policy liabilities in the FCR – a current practice in the life industry.



## 4. Improving reporting requirements

### The Insurance Liability Valuation Report (ILVR)

- ” Remove the requirement that the Board receive the ILVR.
- ” Require Level 2 insurers to include an executive summary in their ILVR for board review instead of requiring the full ILVR to be received by the Board.
- ” Require life insurers to produce a technically focused ILVR and introducing a power for APRA to request a peer review of a specified actuarial report.
- ” Confirm that the submission date for both the FCR and ILVR will be within three months of financial year end for both general and life insurers.



## 4. Improving reporting requirements (life insurance specific)

### Regulatory requirements being reduced

- ” Remove or reduce regulatory requirements specified in section 12 of LPS 320.
- ” Only require appointed actuaries to include comments on any material guarantees in investment-linked funds in the FCR.

### Regulatory requirements retained without change

- ” Distribution of retained profits or shareholder capital of a statutory fund (section 62-63 of the Life Act).
- ” Restructure, establishment, transfer or amalgamation of life insurance business (section 191-192 of the Life Act).
- ” Actuarial advice must still be sought in relation to the restructure of approved benefits funds for friendly societies.
- ” Appropriation of income and outgoings (section 80 of the Life Act).



## 5. Simplifying prudential standards

### Create a new Prudential Standard GPS 340 Valuation of Insurance Liabilities

- “ Create a separate GPS 340 *Valuation of Insurance Liabilities* prudential standard. The Standard will capture all the liability valuation requirements that are the responsibility of the insurer, keeping the requirements that are the responsibility of the Appointed Actuary in GPS 320.

### Wording alignment

- “ Increase consistency in wording and broad structure across insurer prudential standards.



# Questions?