



Institute of Actuaries of Australia

2004 Financial Services Forum ...The New Environment

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Financial Services Forum

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Superannuation Licensing and Safety

Helen Martin BA, FIAA

General Manager

Industry Technical Services APRA

Key points

- **New licensing regime commenced July 2004**
- **All APRA regulated trustee entities to be licensed and all funds to be registered by July 2006**
- **Trustee licensing and fund registration - barriers to entry consistent with other sectors**
- **Does not affect self managed superannuation funds regulated by ATO**

Relationship between RSE & ASFL Licences

- **RSE licence permits Trustee to operate an APRA regulated superannuation entity.**
- **Most APRA regulated funds do not currently have an Australian Financial Services Licence.**
- **ASIC exempted APRA regulated funds in respect of capital, adequacy of resources and risk management proofs, limiting opportunities for APRA to rely on AFSL licence applications.**
- **APRA must consult ASIC on certain matters where an RSE licence also holds an ASFL licence, eg imposing extra conditions or cancelling the licence.**

Licensing process

- **APRA has to decide licence applications :**
 - **for trustees at 1 July 2004 – anytime during the transition period (July 2004 to June 2006)**
 - **otherwise within 90 days (can be extended to 120 days)**
- **APRA will endeavour to link licensing to its prudential review process where possible**
- **APRA is encouraging trustees and funds to prepare and apply early**
- **Substantial progress has been made in developing assessment guidance material**

Fit & Proper Operating Standard

- **Overall standard of educational and technical qualifications, knowledge, skills, experience, competence, diligence, judgement, character, honesty and integrity**
- **Disqualified persons and persons banned from being a Director automatically not fit and proper**
- **Technical superannuation expertise not required but Trustee must have sufficient knowledge to make informed decisions based on the advice of experts**
- **Standard extends to responsible officers of corporate trustee**

Risk Management Strategy & Plans

- **RMS is a written document that identifies and analyses all material risks to the licensee including:**
 - **Governance and decision making risks**
 - **Legal risks arising from changes to the licensee law**
 - **Risks arising out of outsourcing arrangements**
 - **The potential risk of fraud and theft**
- **RMS describes the proposed treatment of those risks and the arrangements for implementing and reporting appropriate risk management**

Risk Management Strategy & Plans - continued

RMP details the measures that the licensee will apply to measure, monitor and manage the risks that arise in operating the RSE, including risks related to:

- **the investment strategy of the RSE**
- **the financial position of the RSE**
- **outsourcing arrangements applicable to the RSE**

Risk Management Strategy & Plans - continued

- **Universal licence condition that RMS and RMP must be kept up to date, complied with and reviewed at least annually**
- **Compliance with RMS and RMP to be audited as part of the annual return**
- **The licensee can modify the RMS or RMP at any time but must notify APRA within 14 days (APRA can also direct licensee to modify an RMS or RMP)**
- **RMS not required to be a public document but RMP must be available to members and other parties**

Impact on Trustees

- **Trustee cannot operate without a licence**
- **All funds operated by trustee must be registered - only a licensed trustee can register a fund**
- **Documentation and audit requirements for risk management strategy and plans**
- **Documentation requirements for outsourcing arrangements**
- **Tight timeframes for advising APRA of breaches of licence conditions and changes to risk management strategies and plans**
- **Some consolidation of trustee entities may occur as a consequence of licensing requirements**

Impact on APRA

- **Greater flexibility in supervisory responses, eg through imposing specific licence conditions**
- **Greater enforcement powers supported by new penalty provisions**
- **More extensive annual returns and ongoing information from trustees will assist prudential supervision**
- **Timely advice from auditors and actuaries about non compliance, funding recommendations or unsatisfactory financial position**
- **New powers to obtain replacement actuarial reports and funding and solvency certifications**

Impact on Actuaries

- **Role in risk management framework:**
 - **structured process needed to identify, assess and monitor trustee and fund risks**
 - **risks relate to entity's business plan and include financial and non financial risks**
 - **advisers, including actuaries, may assist Trustees in risk assessment and provide on-going assistance in risk management**
- **Actuarial services could represent a material business activity for some defined benefit funds and therefore be subject to outsourcing operating standard**

Impact on Actuaries continued

- **New compliance and solvency reporting obligations from 1 July 2004 - actuaries and auditors to inform APRA as well as trustee where:**
 - **contraventions of legislation may affect interests of members**
 - **non-compliance with funding recommendations may affect interests of members**
 - **a fund's financial position may be or may become unsatisfactory**
- **Strict liability penalties apply to these provisions**

Risk Management Plans – Areas for actuarial input

Risk Management strategies

- **Acceptance of the risk**
- **Mitigating controls – implement new controls or strengthen existing controls**
- **Transference of risk**
- **Avoidance of risk**

General risk management framework

	Low Severity	High Severity
Low Frequency	Acceptance	Transference / mitigation
High Frequency	Mitigating controls	Avoidance

Areas where actuaries can add value

- **Identification of material risks**
- **Assessment of frequency and severity of identified risks**
- **Recommendation of methods for treatment of risks**

Selection of Superannuation fund risks

Investment

- **Asset/liability mis-match**
 - **DB Fund: Liabilities salary-related, assets market-related**
 - **DC Fund: Investment objectives consistent with investment options?**

Members' reasonable expectations being met?

- **Lack of liquidity**
 - **Choice of fund and portability environment**
 - **Could there be a 'run on the fund'?**

Operational

- **Errors in unit-pricing**
- **Differences between crediting rates and investment returns**
- **Inadequate reserves eg. for tax, expenses, self-insurances**
- **Cross-subsidies in hybrid funds**

Demographic

- **Longevity of pensioners**
- **Rates of mortality/morbidity**
- **Resignation**
- **Redundancies**

Sponsor

- **Funding risks**
- **Sponsor credit risk**

Further Assistance

- **Licensing Forms and FAQs on website**
- **Guidance notes on APRA website**
 - **Fit and Proper**
 - **Adequacy of resources**
 - **Outsourcing**
 - **Risk Management Plans and Strategies**
 - **Net Tangible Assets**
- **Licensing and annual reporting seminars being conducted around Australia from August to October**
- **Contact APRA on 02 9210 3344 or by email at superannuationlicensing@apra.gov.au**