



**Actuaries
Summit**

**get involved,
get ahead**

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Hilton Sydney



The Appointed Actuary, ICAAP, and the Three lines of Defense

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Agenda

- Issues Last Year
- The role of the Appointed Actuary - a Recap
- Role of the Risk Function and CRO
- Three lines of defense and the AA role
- Interaction of CRO and AA
- AA in ICAAP
- What should the AA do beyond compliance?
- Can the AA be a business advisor in this framework?

What is the role of the Appointed Actuary today? How should the AA interact with the Risk and Finance functions?



Issues last year (Horizons Panel Discussion)

Should the profession:

- Be content with the framework [of risk management and actuarial roles] as it is evolving and focus on our traditional competencies, and/or
- Position the profession as one of a number of professions capable of delivering ICAAP and broader risk management and capital advice, and/or
- Work further with regulators to look to integrate the role of the CRO and Appointed Actuary, similarly integrating the FCR and ICAAP, as an alternative option.

View last year was that Appointed Actuaries were generally declining in influence, towards compliance.

Role of the Appointed actuary - a recap

- In the Financial Condition Report (inter alia)
 - a valuation of liabilities,
 - assessment of the profitability of existing and new business,
 - assessment of the capital position
 - Assessment of the suitability and adequacy of the risk management framework
 - Assessment of the insurer's ICAAP
- For Life Insurers:
 - Advise on pricing and reinsurance
 - Advise on distribution of Profits and allocation of revenue items

Advice and
assessment

Role of the CRO

- APRA is proposing to standardise the role of the CRO for all regulated institutions:
 - Involved in, and effectively challenge , activities and decisions that may materially affect the institution's risk profile.
 - Independent from business lines, the finance function and other revenue-generating responsibilities.
 - The CRO must not be the Chief Executive Officer, Chief Financial Officer, Appointed Actuary or Head of Internal Audit.

The CRO must be involved in decision making, but independent of it.



Three Lines of Defense

First Line

Embedded in
Business
Operations

Includes production
of financials



Second Line

Risk and control
functions

Design of
frameworks



Third Line

Risk assurance/
internal audit

Independent review
and challenge

Operating in Practice for Appointed Actuaries

First Line

- Experience Investigation
- Calculation of Policy liabilities
- Calculation of Capital
- Pricing Calculations
- Financial Condition Investigation

Second Line

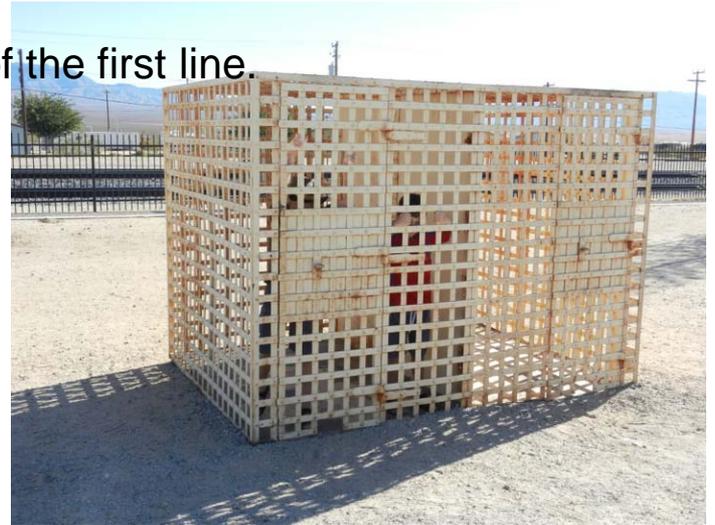
- Advice on assumptions
- Advice on methodology
- Advice on Pricing

Third Line

- Review of Risk Management Framework
- Review of Pricing Framework
- Oversight of First Line

Appointed Actuary in lines of defense

- Appointed Actuary is in all three lines
- Most important role, arguably, is first line
- Other two lines makes it difficult to be fully part of the first line.



Interaction of the CRO and AA

- CRO is basically second line
- Best way for interaction is to occur is for AA to emphasise first and third line roles
- First line on calculation of financial condition
- Third line on review of frameworks
- Collaboration is key



FCRs and ICAAP Reports

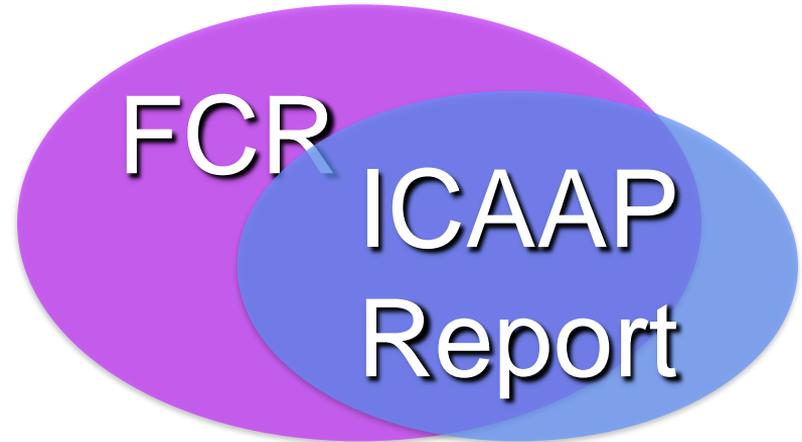
- FCRs are to the Board from the AA
 - A point in time view of liabilities, capital and financial condition
 - Assessment of recent experience and profitability
 - Assessment of the adequacy of pricing and current premiums
 - Review of suitability and adequacy of risk management framework, including reinsurance and asset liability management.
- ICAAP Reports are from the Board to APRA
 - Projections of capital
 - Analysis of capital and ICAAP experience
 - Details of stress and scenario testing
 - Changes to risk profiles





Similarities between reports

- Financial Condition reports are more comprehensive
- ICAAP reports required to look at interaction between risk and capital management
- FCR provides advice and conclusions
- ICAAP Report is more of a report card





Beyond the Compliance Role

- Actuaries can add enormous value beyond their statutory role
- But can the Appointed Actuary?
- Can the Appointed Actuary decide on capital strategy?
- Can the Appointed Actuary manage the ALM risk?
- Can the Appointed Actuary decide on reinsurance strategy?
- Or can the Appointed Actuary provide advice to other members of the management team (who may well be actuaries) on all of these things?

In some areas, the regulations are not prescriptive, but generally, the Appointed Actuary can only advise.

Questions for Discussion

- Can the Appointed Actuary be the CFO?
- Does the Appointed Actuary advise the Board or senior management or both?
- Should the Appointed Actuary be part of the management team, the finance team or the risk team?
- Has ICAAP changed the emphasis of the AA?
- Should the AA become a compliance role? If so, what kind of role should replace the former influence?



Appendix

The thoughts behind this presentation can be found at my blog

www.actuarialey.com



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The opinions expressed in this presentation, and accompanying blog post are my own, and do not necessarily reflect those of my employer, NAB Wealth.