



**Actuaries
Institute**

Actuaries Managing Risk - Insights

Enhancing Super Fund Risk and Capital Management – Practical Considerations

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Stronger Super

- Biggest Super regulatory change in 20 years
- Expensive and controversial
- But it does provide a basis for enhanced risk management
- Super Funds can treat it as a compliance project ...
... or seize the opportunity to improve risk management

Upside to Enhanced Risk Management

Risk Management Goals

- Improved **strategy setting**, aligned with risk appetite
- Improved **business opportunity selection** through identification and management of acceptable risk
- Well **prioritised risk management activity**
- Key **risks identified, managed with improved mitigation**

Super Fund Outcomes

- **Fewer**, and better managed, **operational surprises / losses**
- **Enhanced** retirement and insurance **outcomes for members**

Stronger Super and Risk Management - Key Enhancements

Ensuring a Solid Risk Management Framework

- The Trustee Board must understand and manage their risks within a clearly defined framework.

Better Managing Individual Risk Types

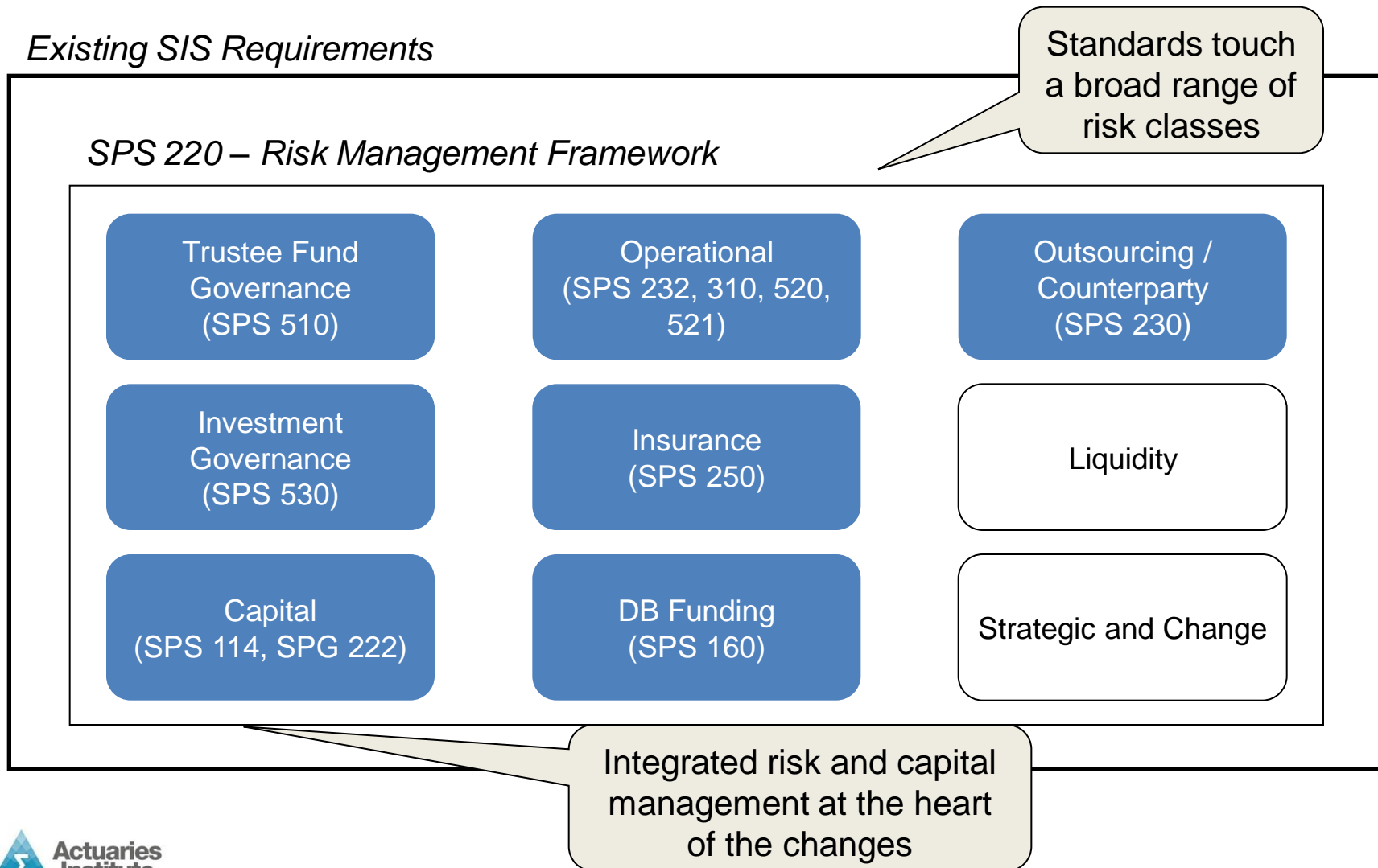
- Key risks to be managed appropriately.

Reserving For Material Risks

- Reserves to be held against material risks (eg operational), and reserves in general to be managed appropriately.

Integrating Super Fund Risk and Capital Management Into Single Framework

Existing SIS Requirements



Enhancing Super Fund Risk and Capital Management – Practical Considerations

To discuss today:

- ORFR and member equity
- ORFR and conglomerate structures
- Risk assessment and super funds
- Role of the actuarial profession as leaders in helping super funds improve their risk management

Practical Considerations

– ORFR and Member Equity

- Equity/transferability if funds move between providers
- Many questions, particularly for multi-employer funds
 - Bring / take existing ORFR with the fund?
 - What is role of commercial terms?
 - What if the ORFRs are different levels or change over time?
 - What if fund membership changes significantly ?
 - Track ORFR at total or sub fund level?
 - What investment strategy?
- ASFA recommending a 5 year transition period to deal with complexity

Practical Considerations

– ORFR and Conglomerates

- These groups already hold capital for wealth businesses
 - Often complex structures with inter-connected entities
 - Harmonisation with ‘Level 3’ requirements
- Not as simple as using existing models. Super Fund modelling
 - At higher level
 - Different treatment for diversification and confidence levels
- Low hanging fruit
 - Leverage existing risk infrastructure to harmonise ORFR with existing capital as much as possible
 - Keep up the dialogue with APRA - potential for APRA in time to put more trust in internal models to inform ORFR position

Practical Considerations

– Risk Assessment

- The prudential requirements (particularly SPS 220 and 114) has helped improve the risk assessment process. However:
 - Often quite high level
 - Not always comprehensive
 - Some events considered ‘extreme’ perhaps not as extreme as we thought
- Highlighted need for Trustee and management workshopping
 - Alignment of management and trustee expertise
 - Understand risks in greater detail
 - Understand extremes

Actuarial Profession Involvement

- Currently involved in many areas
- Opportunity for actuaries to (continue to) play a key role in shaping the industry
- Providing information notes and guidance
 - Risk assessment – DB and DC
 - ORFR and equity
 - Investments and insurance aspects
 - Others ...

Appendix

Prudential Standard (SPS)	Description of Standard
114 - Operational Risk Financial Requirement (ORFR)	This Standard requires an RSE Licensee (RSEL) to maintain adequate financial resources to address any operational loss events. The Operational Risk Financial Requirement Target Amount is the amount of financial resources (reserves) that the RSEL determines is necessary to respond to such losses.
160 - Defined Benefit Matters	This Standard sets out requirements for offering Defined Benefits ensuring that any liabilities to members can be met as they become due.
220 - Risk Management	This Standard requires an RSEL to have a Risk Management Framework. This Framework must have systems for identifying, assessing, managing, mitigating and monitoring material risks, as well as structures, policies and people supporting them.
231 - Outsourcing	Outsourcing arrangements are subject to appropriate due diligence, approval and ongoing monitoring. Risks arising from outsourcing material business activities must be managed so that all obligations to beneficiaries can be met.
232 - Business Continuity Management	This Standard requires an RSEL to take a whole-of-business approach to business continuity management that is appropriate to the size, business mix and complexity of its business operations.
250 - Insurance in Super	A framework must be in place for the prudent management of an RSE's insurance arrangements, including appropriate insurer selection and due diligence processes, complying contractual terms and ongoing monitoring of insurers.
310 - Audit & Related Matters	This Standard requires that RSEs engagement of an appointed auditor must meet the minimum requirements set out in the Standard.
410 - MySuper Transition	MySuper legislation requires that RSEs offering a MySuper arrangement meet certain requirements, one of which is the requirement to transfer Accrued Default Amounts (ADA) to a complying MySuper arrangement by 30 June 2017. The MySuper Transition Standard requires an RSEL to establish and maintain a Transition Plan which describes the intended approach to transition of ADAs, any impediments to transition and plans for addressing those impediments.
510 - Governance	An RSEL Board must have a sound governance framework and conduct its affairs with a high degree of integrity. This Standard sets out requirements for Board membership renewal and performance assessment; remuneration governance and audit arrangements, including a Board Audit Committee.
520 - Fit & Proper	Certain positions connected with an RSEL's business operations are regarded as Responsible Person Positions. Persons holding such positions (Responsible Persons) are required to meet minimum fitness (skills, knowledge, experience) and propriety (honesty, integrity) requirements to hold that position. The Standard requires RSEs to have policies and processes to comply with these requirements.
521 - Conflicts of Interest	RSEs must ensure that there are robust processes in place for the identification, avoidance or management of conflicts of duty and interest. This includes the requirement to maintain a register of relevant interests and relevant duties of Responsible Persons that may conflict with their duties to the RSE.
530 - Investment Governance	An RSEL must establish a sound investment governance framework to implement, manage and monitor investments of an RSE to ensure it meets the reasonable expectations of beneficiaries.

