



**Actuaries
Institute**

Update from Life Appointed Actuaries Task Force

21 October 2014

1. Background, Terms of Reference & Approach
2. AA Survey Results
3. CEO / Board Chair views
4. Key Questions LAATF discussed
5. Working Recommendations
6. Your Input?

Terms of Reference - Questions

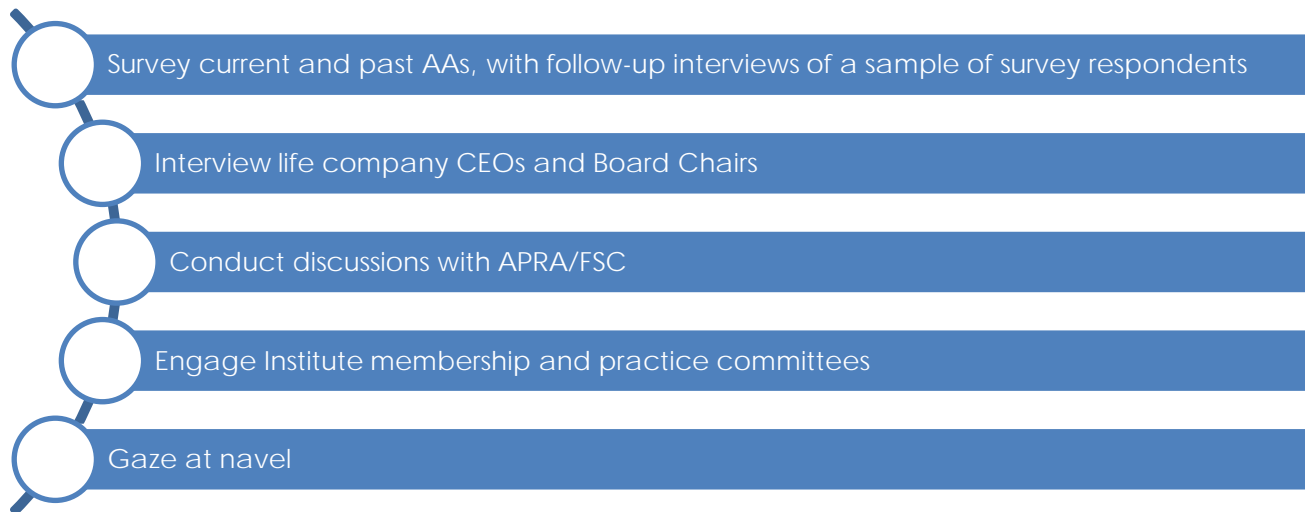
What does the current life AA role involve and what are current limitations or weaknesses in the construct, within the context of the modern environment?

What would a preferred or enhanced AA role look like?

What are the opportunities for improving the status and influence of the life AA?

What constructive/practical steps can the Institute take to support positive changes to, and perceptions of, the AA role?

Approach



AA Survey Results - 34 responses received & 11 individual interviews.

Key themes

- ❑ AA role remains influential – but has become more junior
- ❑ Differences in views as to where AA should or does sit in Three Lines of Defence model – almost equally split between 1st and 2nd
- ❑ Most AAs believe that APRA Prudential Standards have a more audit and assurance focus than adviser to the business
- ❑ Common themes around the regulations were: -
 - ❑ Regulatory demands restrict time spent on value adding activities
 - ❑ Heavy compliance focus and required technical details made it harder to communicate the bigger picture and 'pigeon-holes' AA as technician
 - ❑ Incremental development of regulatory requirements has made it difficult for one person to perform the role and lack of ability to delegate or split some responsibilities

CEO & Board Chair Views

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- AA role was seen as very important to a life company
 - Statutory nature of role gives weight to AA's advice and involvement
 - Boards value having an objective view from AA – helps Board Chair 'sleep better at night'
 - Ideal AA should be broad and high level – while still able to understand the detail
 - Role should be sufficiently senior to influence discussions at the Executive level or be part of the leadership team
 - CRO and AA role should be clearly defined in relation to each other
 - As CRO role has grown – so the AA role has narrowed: this was seen as the wrong outcome – it should have broadened

Key Questions discussed (at length) by LAATF



Should we define the AA role positively?




Where should the AA fit in Three Lines of Defence model?



Could (or should) the AA also be CRO?



Should the AA be required to report to the CEO and/or be part of the life company leadership team?



What specific regulatory responsibilities are detracting from (or confusing) the AA role?
• Eg Pricing advice, Expense apportionment, Minimum Surrender Value, RMF, ICAAP



Is it necessary for the AA to sign-off some of the above – or can a suitably qualified person (possibly authorised by the AA)?

Working Recommendations

1. AA role to be positively defined in LPS 320
2. AA is ideally 1st line of defence and part of the business – subsequent recommendations made with this in mind
 - ❑ AA is source of specialist advice on insurance risk and other specialist risks within life insurance (such as asset-liability mismatch)
 - ❑ AA should advise on suitability and adequacy of pricing framework which
 - ❑ Permits actuarial advice to come from a suitably qualified person – but not require it to be from the AA
 - ❑ Requires AA to advise on pricing and product design in material cases
 - ❑ AA responsibilities on reinsurance should follow the recommendations on pricing
3. Remove some of the current requirements from AA role which seem to be 2nd or 3rd line
 - ❑ Risk Management Framework
 - ❑ ICAAP Assessment
 - ❑ Minimum Surrender Value Standard
 - ❑ Expense apportionment (except as it relates to Par business)
4. FCR detailed requirements should be softened to enable focus on key issues for each company
5. AA should have access to decision makers and/or report to CEO
6. Include suitable temporary delegation framework
7. A review of PS200 should also be undertaken



Purpose of the role of the Appointed Actuary

The purpose of the role of the Appointed Actuary is to ensure that Board and senior management of a life insurer has ready access to, and make appropriate use of, professional actuarial advice with respect to the key financial management aspects of the life insurer.

The Appointed Actuary must as a minimum: -

- Be responsible for advising the Board, board committees and senior management on the sound financial management of the life insurer, including product pricing and design, financial risk and capital adequacy management, liability best estimate assumptions and measurement , and the sound financial operation of the life insurer;*
- Have the necessary authority and reporting lines to the Board, board committees and senior management to ensure the advice is considered;*
- Be resourced with staff who possess appropriate experience; and*
- Have access to all relevant aspects of the life insurer.*



Your Input?

- Is there merit in positively defining the AA role?
- Where does the AA fit in Three Lines of Defence model?
- Should the AA report to the CEO and/or be part of the life company leadership team?
- What regulatory responsibilities are detracting from (or confusing) the AA role?
- What level of delegation should be possible?
- Is the answer different for small vs large companies?
- Are there special issues relating to certain product lines that we have not considered?



