
Practice Guideline 6B Actuarial Advice Regarding Risk Management Explanatory Memorandum

June 2023

1. About this Explanatory Memorandum

This Explanatory Memorandum has been prepared by a working group of the Risk Management Practice Committee (RMPC) to assist Members in understanding the proposed Practice Guideline “Actuarial Advice regarding Risk Management” (PG 6B). This PG replaces the Risk Management Information Note (issued in August 2019).

PG 6B applies to any Member working in the general, life and health insurance (collectively “insurance” or “insurers”) and superannuation industries in their roles of providing advice in relation to Risk Management Frameworks (RMFs) as required under relevant APRA Prudential Standards. PG 6B is intended to assist Members by identifying matters they should consider when providing advice on their institutions’ RMFs and to assist those Members who perform Chief Risk Officer or equivalent senior risk management roles in effectively discharging their duties. It is also intended to assist Members on risk management practice areas including risk identification, risk controls and risk assessments.

2. Background

The key drivers of the need for this PG include:

- The previous Risk Management Information Note for insurers needed review and has been restructured and enhanced to improve usability for Members.
- This PG now applies to consideration of the Risk Management Frameworks of APRA regulated superannuation fund trustees (RSE Licensees) under SPS 220 (Risk Management) which were not covered by the Information Note in 2019. SPS 220 was updated from 1 January 2020 and has similar content to CPS 220 for insurers on which the 2019 Information Note was based.
- In December 2018, the International Actuarial Association (IAA) Council adopted International Standard of Actuarial Practice (ISAP) 6, covering Enterprise Risk Management and IAIS Insurance Core Principles. PG 6B reflects the requirements of Section 2.3 (Identification, Assessment and Management of Insurer Risks for an ERM Program) and Section 2.4 (Enterprise Level Risk Management) of ISAP 6.

- PG 6A Target Capital (Life, General and Health Insurance) was issued on 1 April 2022 and covers the remaining parts of ISAP 6 for insurers not covered by PG 6B. Neither ISAP 6 nor PG 6A apply to superannuation fund trustees.
- PG 6B reflects industry learnings from recent events such as consideration of non-financial risks, risk culture and considerations of emerging risks.

The previous Information Note has been strengthened into a Practice Guideline for the following reasons:

- The need to reflect the approaches in Sections 2.3 and 2.4 of ISAP 6, given the Institute's intention to adopt these ISAPs to the extent applicable.
- Whilst effective risk management for insurers and superannuation fund trustees by its nature cannot be prescriptive and needs to be 'fit for purpose', there are areas where guidelines are useful (e.g., reviews of Risk Management Frameworks).

3. Key items covered in PG 6B.

The key items covered in the PG include:

- Identification, assessment and management of institution risks for an Enterprise Risk Management (ERM) Program.
- Considerations in advising on Risk Management Frameworks for APRA regulated institutions, principally insurers under CPS 220 and superannuation fund trustees under SPS 220.
- Managing conflicts of interest that might arise in connection with the above activities.

4. Degree of Convergence between Sections 2.3 and 2.4 of ISAP 6 and PG 6B

Section 3 of PG 6B incorporates the material from Section 2.3 and Section 2.4 of ISAP 6. The material from Section 2.5 of ISAP 6 has already been included in PG 6A, which applies to insurers only.

Section 2.3 of ISAP 6 applies to an "actuary who is responsible for, or significantly involved in, identifying insurer risks, or who is responsible for, or significantly involved in, assessing the probability and impact of the insurer's risks or who is responsible for, or significantly involved in, implementing or maintaining risk management controls, mitigation, monitoring or communication and reporting of the insurer's risks."

ISAP 6 applies to insurers only but other than the points on groups, similar considerations are also applicable to superannuation funds since they are relatively generic.

The extent of convergence between PG 6B and Section 2.3 and Section 2.4 of ISAP 6 can be classed as “medium” convergence (the local standard covers the same essential scope and content as the international model standard).

It should be noted that compliance with PG 6B will not necessarily result in compliance with Sections 2.3 and 2.4 of ISAP 6. Therefore, where a Member is required to perform work in conformity with ISAP 6 (e.g., as the work is being undertaken in an overseas jurisdiction where ERM Framework Development and/or Reviews are required for insurers), the Member should refer to the specific requirements of ISAP 6.

5. Relationship to Practice Guideline 1 (PG 1)

Compliance with PG 1 (General Actuarial Practice) (the Australian adaptation of ISAP 1) is necessary to comply with PG 6B. This is appropriate given that the preface of ISAP 6 states that “If an actuarial standard-setting body wishes to adopt or endorse this ISAP, it is essential to ensure that existing standards are substantially consistent with ISAP 1 as this ISAP relies upon ISAP 1 in many respects. Likewise, any customisation of this ISAP, or modification of existing standards to obtain substantial consistency with this ISAP, should recognise the important fact that this ISAP relies upon ISAP 1 in many respects”. In addition, Section 1.4 of ISAP 6 states that “Compliance with ISAP 1 is a prerequisite for compliance with this ISAP”.

Whilst the nature of effective risk management means that it needs to consider the views from multiple stakeholders, as opposed to solely being determined under advice from a Member, it is appropriate that PG 1 apply to the portion of the work carried out by the Member.

6. Consultation Process

PG 6B was drafted by a working group of the Risk Management Practice Committee and reviewed by the relevant Practice Committees and the Professional Practice Committee. The draft was exposed to the membership for comment, leading to a small number of non-substantive changes. The final version was then approved by the Professional Practice Committee and by Council.

7. Commencement Date

PG 6B will be effective for relevant services provided on or after 1 July 2023.

End of Explanatory Memorandum