

14 December 2017

Ms Heidi Richards
General Manager
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Australian Prudential Regulation Authority
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via email: insurance.policy@apra.gov.au

Dear Ms Richards

Consultation on the role of the Appointed Actuary

The Australian Institute of Company Directors (**AICD**) welcomes the opportunity to comment on draft Prudential Standard CPS 320 (**CPS 320**), draft Prudential Practice Guide, and the Response to Submissions.

The AICD is committed to excellence in governance. We make a positive impact on society and the economy through governance education, director development and advocacy. Our membership of over 41,000 includes directors and senior leaders from business, government and the not-for-profit sectors.

This submission addresses the matters raised in CPS 320 and the accompanying materials. It was developed in consultation with a sub-committee of the AICD's APRA-Regulated Entities Forum, which includes non-executive directors from the general and life insurance sectors.

1. Introduction

The Appointed Actuary performs an important role in safeguarding the financial soundness of insurers. For this reason, the AICD supports APRA's efforts in improving the regulatory framework supporting the work of the Appointed Actuary, to ensure that the board and senior management have access to a high standard of actuarial advice and analysis.

The AICD does not have specific expertise in the prudential regulation of insurers or the role of the Appointed Actuary. However, as we expressed in our previous submission to APRA on this issue dated 28 September 2017, we remain keenly interested in ways and means to help the board to carry out its responsibilities as effectively as possible.

2. Introducing a purpose statement for Appointed Actuaries

As noted in our previous submission, the AICD supports the move by APRA to clarify and re-orient the role of the Appointed Actuary through the development of a purpose statement, and supports the approach taken by APRA in draft CPS 320.

However, the AICD recommends that s 25(j) of the draft CPS 320 be amended to require the Appointed Actuary to comment on the equitable treatment of all policy holders, not just participating policy holders. This change would align the requirements under CPS 320 with the draft purpose statement, where the Appointed Actuary is expected to give "appropriate

consideration to the protection of policy holder interests”, as well as provide consistency with the objective of the Life Insurance Act “to protect the interests of the owners and prospective owners of life insurance policies”.

We have received feedback that one of the benefits of this change will be a more explicit discussion around an acceptable level of cross subsidisation between product groupings, ultimately leading to more sustainable product pricing.

3. Actuarial Advice Framework

The AICD is generally supportive of the introduction of an advice framework to the extent it will reduce the compliance burden placed on the Appointed Actuary, and enable the Appointed Actuary to focus on providing strategic advice to the insurer. In particular, the AICD welcomes the inclusion of the requirement for a materiality policy to be included in the Actuarial Advice Framework, along with the insurer’s approach to conflicts of interest or duty in the Appointed Actuary role and in the operation of the Actuarial Advice Framework.

Attachment B to the draft CPS 320 refers to the Actuarial Advice Framework needing to cover changes to policy terms and conditions (see 1(c)(i) of Attachment B). We have received feedback that it is not clear, in the current draft, whether this refers to changes to company policies (including underwriting policies etc), as well as changes to the terms and conditions of the life policy itself.

We therefore recommend that the Actuarial Advice Framework also explicitly cover changes to a company’s policies and procedures which can reasonably be expected to have an impact on the profit signature or risk profile of the portfolio.

As changes to these internal policies can have a material impact on the risk profile of a portfolio, it is entirely appropriate for the Appointed Actuary to be required to provide advice on these changes.

4. Improving reporting requirements

As stated in our previous submission, the AICD supports measures that will ensure Appointed Actuaries are given sufficient flexibility to provide clear and appropriate information, unencumbered by detailed information where this is not necessary for the board to properly carry out its responsibilities. For this reason, the AICD supports the approach taken in draft CPS 320 of leaving the receipt of the Actuarial Valuation Report (AVR) to the board’s discretion.

5. Conclusion

In summary, the AICD supports the approach taken by APRA in draft CPS 320. We hope this submission will be of assistance. If you would like to discuss our views, please contact Matt McGirr, Policy Adviser, on (02) 8248 8499.

Yours sincerely



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