



Friendly Societies of Australia

19 September 2016

Mr Pat Brennan
General Manager
Policy Development
Australian Prudential Regulation Authority
GPO Box 9836
Sydney NSW 2001

By email: insurance.policy@apra.gov.au

Dear Mr Brennan

The role of the Appointed Actuary and actuarial advice within insurers – Discussion Paper

The Friendly Societies of Australia (FSA) welcomes the opportunity to comment on APRA's Discussion Paper *The role of the Appointed Actuary and actuarial advice within insurers*.

As you would be aware, the FSA is the industry association representing Australia's friendly societies regulated by APRA, the majority of which are member-owned mutual organisations.

FSA members provide financial services and products (e.g. investment bonds and funeral bonds), health care, retirement living, aged and home care services to some 800,000 members. Collectively, our sector manages around \$7 billion in funds, and in 2015, paid out more than \$675 million in benefits. Australia's largest friendly society is Lifeplan Australia Friendly Society with funds under management of almost \$2 billion and 169,000 customers. The smallest is NobleOak Life Limited with about \$25 million funds under management, serving approximately 40,000 customers.

As friendly societies are regulated under the *Life Insurance Act 1995* they are required to appoint an actuary to provide impartial advice in relation to their operations. *Prudential Standard LPS 320 Actuarial and Related Matters* (LPS 320) sets out the roles and responsibilities of an Appointed Actuary in performing their duties and what advice they should provide a life company.

The FSA supports APRA's proposals to strengthen and focus the role of the Appointed Actuary. The proposals will ensure that Appointed Actuary role provides meaningful and strategic advice to boards and senior management of friendly societies.

The current requirements under LPS 320 mean that the role of the Appointed Actuary is task based and compliance focused. This results in high compliance costs and limits the ability of the Appointed Actuary to provide strategic advice to the life insurer. The FSA would also like to see any proposals adopted by APRA to reduce compliance costs for friendly societies. The FSA provides the following specific comments.

The FSA supports the proposed purpose statement of the role of the Appointed Actuary. It will provide a framework for the other amendments to ensure the role is 'fit for purpose' and advice is meaningful to boards and senior management. The FSA would like to see the proposed purpose statement include a reference that advice should focus on materiality to the business so as to minimise compliance costs.

The current approach under LPS 320 on when actuarial advice should be sought is overly prescriptive. The proposal to require insurers to establish an actuarial advice framework will mean individual insurers can ensure that their actuarial advice is targeted and relevant to their business. This will avoid the current situation where actuarial advice is being given on issues that are immaterial to the business of a friendly society.

The FSA supports the proposed changes to the Financial Condition Report (FCR) noting that the changes will bring compliance cost reductions. The FSA believes smaller and less complex life insurers should be able to adopt simpler processes relating to their FCR and the Internal Capital Adequacy Assessment Process (ICAAP). More simple regulations would better match the operations of a smaller life insurer or friendly society.

The FSA would like to better understand the rationale for APRA's proposal for a requirement on life insurers to complete an Insurance Liability Valuation Report. This proposal will likely increase compliance costs for life insurers and friendly societies without providing any additional benefits.

The proposed streamlining of requirements for an Appointed Actuary to review compliance with certain prudential standards will reduce compliance costs for insurers. The FSA would welcome further steps by APRA to streamline actuarial review of a life insurer's compliance with prudential standards as this will mean actuaries can focus more on providing strategic advice rather than assessing compliance.

If you have any questions please contact Alex Thrift on (02) 8035 8447 or by email, athrift@coba.asn.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M Walsh', written in a cursive style.

Matt Walsh
FSA President