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Dear Richard

### **Appointed Actuary Thematic Review**

Thank you for the opportunity to provide input to the Reserve Bank's Appointed Actuary Thematic Review.

#### **Introduction**

The New Zealand Society of Actuaries ("NZSA") is the professional body representing actuaries in New Zealand. Our purpose includes establishing, promoting and maintaining high standards of competence and conduct within the actuarial profession and providing a source of reference on actuarial matter for government and various official and interested bodies.

The NZSA supports this review and believes it is timely given the time since the Insurance (Prudential Supervision) Act 2010 ("IPSA") was passed.

The NZSA's interest in this review is two-fold:

1. As the professional body representing actuaries we are interested to provide input that is independent of the views of insurers or individual actuaries, but rather are focused on the professional interests of all members and our duty as a profession to uphold the public interest.
2. The NZSA has a Code of Conduct and professional standards that all actuaries must adhere to when providing actuarial advice. Compliance with NZSA professional standards is a requirement of the Reserve Bank's life and non-life insurer solvency standards.



## The Role of Appointed Actuary

- (a) It is our view that the Appointed Actuary fulfils an important role within an insurer's management and that a strong and robust Appointed Actuary regime supports a strong insurance industry. This view is supported by the review and report on the Appointed Actuary regime in Australia undertaken by the Australian Prudential Regulatory Authority ("APRA")<sup>1</sup>.

The Reserve Bank has made reference on occasion to Appointed Actuaries not meeting the Bank's expectations. In the absence of a clear purpose statement or other guidance, the Reserve Bank's expectations are not always clear. It is our view that such statements are not helpful and can serve to undermine the role of Appointed Actuaries.

Individual actuaries have done their best to understand the requirements of the role but in the absence of clear statements from the Reserve Bank may have developed differing views. Given IPSA is a relatively new piece of legislation it is not surprising that issues such as this have become apparent over time.

- (b) We note that the release on the RBNZ website announcing the thematic review includes the following:

*"The appointed actuary's independent advice to boards on the financial condition and solvency of insurers assists the self-discipline pillar."*

The NZSA agrees strongly with this statement. However, we are not aware that it is a requirement of IPSA for the Appointed Actuary's advice to be independent.

We note that a requirement of our Professional Standards is that Appointed Actuaries provide an impartial assessment of the financial condition of the insurer in the Financial Condition Report (for example), but this is not a requirement currently of IPSA or the Reserve Bank, and we believe it should be.

It is our opinion that the insurance industry and Appointed Actuaries working in the industry would benefit from the Reserve Bank being more explicit about their expectations. This can be achieved by providing guidance regarding the scope and purpose of the Appointed Actuary role.

For this purpose we note the following from the APRA Prudential Standard CPS320 – Actuarial and Related Matters.

*"The purpose of the Appointed Actuary role is to ensure that the board and senior management have unfettered access to expert and impartial actuarial advice and review. The role is intended to assist with the sound and prudent management of an insurer and ensure that the insurer gives appropriate consideration to the protection of policyholder interests."*

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<sup>1</sup> [https://www.apra.gov.au/sites/default/files/AA%2520Response%2520Paper%2520Final%2520Formatting\\_1.pdf](https://www.apra.gov.au/sites/default/files/AA%2520Response%2520Paper%2520Final%2520Formatting_1.pdf)



We note that a number of the requirements of CPS320 are included within IPSA or the Reserve Bank Solvency standards. However a purpose statement similar to that shown above is missing. In particular the references to “impartial actuarial advice” and “protection of policyholder interests” are not included in IPSA or other Reserve Bank standards or guidance currently.

Further we believe that more open and constructive dialogue between Appointed Actuaries and the Reserve Bank will be beneficial to both and to the wider insurance industry. We encourage the Reserve Bank to engage in this way, both through formal structured engagement and on a one-on-one, less formal basis.

**Recommendation 1**

**Introduce a clear purpose statement for the Appointed Actuary role.**

**Reserve Bank Guidance**

Further to the comments above, we believe there is benefit to be gained from the Reserve Bank providing more guidance in other areas. Representatives of the Bank have at times made comment to the effect that meeting statutory minimum requirements is not sufficient. But in the absence of guidance from the Bank, how much more is not clear to actuaries or insurers.

For example: the Reserve Bank has recently made several comments about declining insurer solvency margins (including the Financial Stability Report November 2018). The statutory requirement is for insurers to maintain a solvency margin in excess of 1.0. How much more is left to the Board of an insurer to determine.

Current industry practice is for boards of insurers to determine their risk appetite and to set target surplus based on this. It is not clear to us if this practice is not being followed or if the Reserve Bank’s expectations are that insurers should hold solvency margins in excess of a certain solvency ratio, for example a specified prudential capital buffer. Any such guidance in our view should be formalised to remove ambiguity. We would caution that additional capital requirements may increase the cost of insurance to policyholders, depending on the approach adopted and the size of any additional requirements.

This approach has the advantage of providing the Bank with an additional tool with which to manage insurer behaviour as well as providing Appointed Actuaries and Boards with greater certainty regarding the Bank’s expectations.

**Recommendation 2**

**Publish guidance for insurers regarding the Bank’s expectations where these are greater than the statutory or regulated requirements.**



## Solvency Standard reference to NZSA Professional Standards

The Life and non-Life insurer solvency standards require Appointed Actuaries to comply with NZSA professional standards.

See section 6.4 of the solvency standard for life insurers which states:

### **6.4. New Zealand Society of Actuaries' Professional Standards**

*150. The appointed actuary must ensure that all actuarial work carried out for the purposes of, or supporting, this solvency standard is carried out in accordance with the New Zealand Society of Actuaries' Professional Standards.*

The same words are included within the solvency standard for non-life insurers in section 5.4, paragraph 127.

While there is reference to NZSA professional standards, there is no requirement for Appointed Actuaries to be members of the NZSA.

At a practical level, requiring Appointed Actuaries to be NZSA members will ensure they are notified of changes to Professional Standards. It also ensures they have access to relevant Continuing Professional Development and are kept abreast of issues in the New Zealand market. We believe that there are currently Appointed Actuaries under IPSA with no New Zealand based or qualified actuarial staff reporting to them.

Membership of the NZSA would ensure that the disciplinary scheme is available in the case of misconduct, which would be more difficult to prove to an overseas body when it related to failure to comply with professional standards (or other regulations) which were not their own.

Membership of the NZSA is open to members of any actuarial body that is a full member of the International Actuarial Association. Admission to the class of Fellow is given to any member who is a fellow of the Actuarial Society of South Africa, Canadian Institute of Actuaries, Casualty Actuarial Society (USA), Institute and Faculty of Actuaries (UK), Institute of Actuaries of Australia, Institute of Actuaries of India, Society of Actuaries (USA) and Society of Actuaries in Ireland and who is ordinarily resident in New Zealand or Australia, or who is familiar with New Zealand conditions.

<b>Recommendation 3</b> <b>Require Appointed Actuaries to be Fellows of the NZSA</b>
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If employees of the Reserve Bank become aware of non-compliance with a NZSA professional standard, it is our understanding that the Reserve Bank does not consider it their place to lay a professional complaint with the NZSA. We understand there are concerns regarding the confidentiality of information provided to the Reserve Bank, although we do note section 135 2(e) of IPSA states:



- (2) *The Bank may publish or disclose any information, data, document, or forecast to which this section applies only if—*
- ...
- (e) *the publication or disclosure of the information, data, document, or forecast is to any person that the Bank is satisfied has a proper interest in receiving the information, data, document, or forecast;*

Given the current Reserve Bank concerns regarding confidentiality, we assume you have determined that section 135 2(e) does not apply to the NZSA. We recommend the Reserve Bank investigate other avenues to share relevant information in these circumstances with the NZSA. We note that a Professional Complaint is confidential to the Secretary and Professional Conduct Committee (with a notification to the President). Whilst findings from a professional complaint may be publicised, the Professional Conduct Committee has discretion to not do this if confidentiality is of concern.

If non-compliance is serious enough Section 39 of IPISA enables the Bank to remove an Appointed Actuary and give a direction that they may not be reappointed for a period of time or until specified actions have been undertaken. It is not clear to us if actions taken under section 39 will be made public. If so, such action on its own may prompt the NZSA to initiate an investigation into the actuary's professional conduct.

The NZSA is concerned that Reserve Bank employees may be the only people aware that NZSA professional standards have not been complied with or that an actuary has behaved in an unprofessional manner. In the absence of the Reserve Bank lodging a professional complaint the misconduct will go unpunished and may continue.

At a lower level, we believe there is benefit to be gained from the Reserve Bank providing feedback to individual actuaries regarding any areas where those actuaries may have performed duties in a way that does not meet the Reserve Bank's expectations, and to Appointed Actuaries generally regarding areas where they perceive issues to be more wide spread. A greater degree of communication and engagement will benefit both actuaries and the Reserve Bank and help both to undertake their respective duties.

#### **Recommendation 4**

**Determine a mechanism for the Reserve Bank to communicate with Appointed Actuaries individually and collectively to clarify requirements and expectations.**

**Determine a mechanism for the Reserve Bank to lay Professional Complaints with the NZSA in the event of potential professional misconduct.**

#### **Process of the Thematic Review**

We understand that the thematic review will include interviews with a small number of members of management (CEO, CFO, CRO), Appointed Actuaries and some Board members from 15 insurers and that a report summarising findings will be provided to each insurer along with an industry report summarising the overall findings.



We have two concerns:

1. Individual company reports may include comments that are able to be attributed to specific individuals (including the Appointed Actuary) and that this may inhibit open discussion with representatives from the RBNZ.
2. That the discussions with management or board members becomes focused on the performance, style or personality of the individual Appointed Actuary, rather than the role of the Appointed Actuary and the processes undertaken in fulfilling the role.

**Recommendation 5**

**Ensure that reports do not contain any comments that may be identifiable or attributable to an individual**

**Ensure that this is clear to participants before meetings with the RBNZ commence**

Please contact me if you have any questions regarding our submission or would like to discuss any of the points we have raised.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Smeed', is written over a light blue circular watermark.

John Smeed

**President**

**New Zealand Society of Actuaries**