RESERVE BANK
OF NEW ZEALAND
TE PŪTEA MATUA

Reserve Bank's Expectations of Insurers and Appointed Actuaries

Following the Thematic Review on Appointed Actuaries, this note sets out some of the Reserve Bank's key expectations for insurers and Appointed Actuaries. This note should be read in conjunction with the thematic review and will be followed up with formal guidance following a public consultation. In the interim, the expectations set out below are intended to provide additional guidance to existing requirements. This note does not override existing legislation, standards, or professional obligations.

Many of these matters are good practice that we expect can be implemented now, in the absence of formal guidance. We believe the matters set out in this note can be implemented by insurers and appointed actuaries with little additional resource and in many respects are emphasising matters that we think should already be in practice.

The review of the Insurance (Prudential Supervision) Act 2010 (IPSA) will begin again later this year. This will provide an opportunity to address any recommendations from the thematic review that require legislative change.

Role of Appointed Actuary

While we have yet to issue formal guidance on objectives and expectations of the Appointed Actuary role, we intend to do so following the thematic review. The Reserve Bank has a wide view of the Appointed Actuary role, in accordance with the intention of the legislation. One key purpose of this note is to alert industry to this framing, as represented by some of the expectations set out below. These expectations give more context to the scope of the appointed actuary role as we see it. This wider scope includes being engaged on the insurer's strategy, increased engagement with the board and the Reserve Bank, and giving consideration to policyholder interests when providing advice.

In due course, we will likely issue a purpose statement to further clarify the Reserve Bank's expectations and objectives of the Appointed Actuary role. We will consult with relevant stakeholders at that time.

Appointment of Appointed Actuaries

The Appointed Actuary is a relevant officer as defined by IPSA. The appointment of the Appointed Actuary must follow the insurer's fit and proper process as set out in its fit and proper policy. In some instances, insurers have not had a change of Appointed Actuary since the IPSA regime began, and boards may not have had to put into practice the appointment of a new appointed actuary. However, boards must be satisfied that they have a robust fit and proper process to be able to appoint an appropriate candidate. Regulation 6 of the Insurance (Prudential Supervision) Regulations 2010 also requires fit and proper reassessments of relevant officers to be conducted at least once every three years. This ensures the ongoing suitability of the Appointed Actuary.

We expect an incoming Appointed Actuary to meet with the Chair of the Board and/or the Chair of the Audit and Risk Committee (or equivalent), as well as meeting with the outgoing Appointed Actuary, before accepting the role of Appointed Actuary. We also expect insurers to have a formalised and comprehensive handover process in place for the transition between Appointed Actuaries to ensure sufficient continuity.

Similarly, we expect insurers to have formal processes in place for absences and replacement of the Appointed Actuary. Insurers could consider having an Alternate Appointed Actuary as a way of managing the risks associated with absences and replacements of the Appointed Actuary. This is allowed for under section 76(2) of IPSA, and would provide for a more seamless transition to a new Appointed Actuary if the current Appointed Actuary is unable to act (e.g. due to an unforeseen absence or incapacity).

Conflicts of Interest

Insurers should have in place robust policies and processes to identify, disclose, and manage potential or apparent conflicts of interest as per paragraph 35 of the Reserve Bank Governance Guidelines.

Appointed Actuaries should be aware of and pro-actively identify their conflicts and follow the Code of Conduct of their professional body. Appointed Actuaries should also consider and manage any potential conflicts of interest created as a result of other actuarial work they do outside of their statutory role, including Appointed Actuary roles at other insurers.

Dual roles can create unmanageable conflicts

While some conflicts can be managed, the Appointed Actuary should not hold dual roles that will create conflicts of interest and undermine their ability to provide impartial advice. It is best practice for the Appointed Actuary not to take on dual roles in any key executive or directorship positions (i.e. any other relevant officer role) at the same insurer.

Some respondents in the thematic review were prepared to allow some flexibility for Appointed Actuaries to take on the CRO (or equivalent) role at smaller insurers. While the Reserve Bank would consider this on a case by case basis, we expect it to be rare.

Engagement with Board and the Reserve Bank

The need for an Appointed Actuary to be independent, robust and free to raise issues with the Board and the Reserve Bank is paramount and underlies the expectations of this section.

We expect that the Appointed Actuary will have interaction with all levels of an insurer as well as relevant external parties. Section 80(1) of IPSA requires insurers to ensure that any specified actuary (which includes the Appointed Actuary) has reasonable access to the accounting records and documents of the insurer. Section 80(3) also states that a specified actuary is entitled to require from a director or an employee of the insurer such information and explanations necessary for the performance of their duties as an actuary.

As such, we expect the Appointed Actuary to have direct and unfettered access to the Board and the Board Audit and Risk Committee (or equivalent). When the Board asks for advice or opinions from the Appointed Actuary this should be communicated or presented directly to the Board. The Board should also request regular updates on agreed recommendations.

In addition, we expect the Board, Chair of the Board, or Chair of the Audit and Risk Committee to have regular meetings with the Appointed Actuary without management present. This reduces the risk of circumstances where the Appointed Actuary might be being pressured, influenced or ignored by senior management; and helps to mitigate poor outcomes if these circumstances occur.

We expect that where the insurer is part of a wider insurance group or is a branch, the Appointed Actuary will engage with the wider group and its actuaries. Appointed Actuaries should also have access to and engage with the insurer's auditors and/or the auditor's actuaries.

There should also be increased engagement between the Reserve Bank and Appointed Actuaries. Regular one on one meetings will be held between the Reserve Bank and the Appointed Actuary of Designated insurers, without management or board members present. Appointed Actuaries will be expected to attend prudential consultation meetings. Appointed Actuaries who leave an insurer will be expected to attend an exit interview with the Reserve Bank and these will be open, free and frank confidential discussions.

We also note a formal requirement in IPSA section 127 whereby Appointed Actuaries have an obligation to disclose to the Reserve Bank information where the licensed insurer is failing to, or is likely to fail to, maintain a solvency margin or is in serious financial difficulties or is (or has been) operating fraudulently or recklessly. The Reserve Bank expects Appointed Actuaries to err on the side of caution and to proactively notify the Reserve Bank as soon as possible. This would start an open dialogue with the Reserve Bank and planning of appropriate supervisory responses could commence earlier.

Actuarial Reports

Appointed Actuaries are required to prepare a Financial Condition Report for the insurer. There was widespread acknowledgement during the thematic review that the Financial Condition Reports is a useful document and highly regarded. Given the importance of this document, we believe that the Appointed Actuary should present the Financial Condition Report to the Board. If this is not practical (e.g. a branch of an insurer domiciled outside of Australia) the Appointed Actuary should present the Financial Condition Report to the New Zealand CEO or New Zealand CFO. The insurer should have a formal process to follow up on recommendations in the Financial Condition Report.

There is a current responsibility on Appointed Actuaries to comment on all material risks facing the insurer within the Financial Condition Report that, in their opinion, pose a threat to the insurer's financial condition and solvency position. The NZSA Professional Standards also have specific requirements for material operational risks and premium adequacy. We will consider adding a similar requirement in the Solvency Standards that requires operational risks and premium adequacy to be commented on. However in the absence of specific regulation, we consider that Appointed Actuaries should always comment on operational risk and premium adequacy in the Financial Condition Report, as these factors can have a significant impact on the financial condition of an insurer.

Expectations in a Crisis

In a crisis we expect the Appointed Actuary to be heavily involved and engaged with senior management and the Board of the insurer, and the Reserve Bank. The insurer should have discussed this with its Appointed Actuary and have appropriate plans in place to mitigate key risks and manage issues in a time of crisis.

The majority of the Appointed Actuary's time and effort can quickly become absorbed by a crisis, reducing their capacity for other work. Insurers should carefully consider the potential implications to their business and Appointed Actuaries should consider their capacity in a time of crisis, including where relevant if the crisis may impact multiple insurers in cases where the Appointed Actuary holds multiple roles. Appointed Actuaries are expected to consider their capacity to effectively discharge their actuarial obligations when taking multiple Appointed Actuary roles. Insurers should already be learning lessons from dealing with Covid-19 and should take the opportunity to consider how effective and appropriate their engagement with their Appointed Actuary has been. These lessons should be used to improve processes for future crisis management.