RESERVE BANK OF NEW ZEALAND
TE PŪTEA MATUA

Appointed Actuary Thematic Review

How the role is working in practice and recommendations for improvements.

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EXECUTIVE SUMMARY

Purpose of the review

Appointed Actuaries have an important statutory role in New Zealand's insurance prudential supervision regime under the Insurance (Prudential Supervision Act) 2010 (IPSA).

An important aspect of the Appointed Actuary's role is to measure and report on the material risks that could threaten the financial condition and solvency of an insurer. The Appointed Actuary must also provide support to Boards and senior management with expert, impartial advice and challenge to assist in sound decision making and prudent running of the insurer. This support can greatly strengthen an insurer's risk and capital management and lead to the increased security of policyholders.

An empowered and effective Appointed Actuary can highlight issues and effect change early, for both the insurer and the Reserve Bank.

This is the first review of the role since the enactment of IPSA in 2010 and initial licensing of insurers was completed in September 2013.

The objectives of this review were to:

- better understand how the Appointed Actuary role works in practice for insurers, actuaries and supervisors; and
- identify potential areas for improvement to make the role and regime more effective.

What we did

Our thematic review took place between March 2019 and March 2020.

During March and April 2019 we held a round of initial stakeholder engagement meetings with industry bodies and other stakeholders (including other regulators) to check if there were any obvious gaps that should be included in the review, or alternatively de-emphasised.

We selected fifteen insurers and their Appointed Actuaries to participate in the thematic review covering a range of insurance types and circumstances, and a mix of Appointed Actuary circumstance.

We conducted a desk-based review of the IPSA section 78 Reports, the Financial Condition Reports and responses to short fact based surveys, with some insurers also providing actuarial advice for more in-depth analysis.

This was followed by a significant phase of onsite interviews with the Appointed Actuaries and the key people at each insurer that we expect them to interact with regularly. We interviewed Directors, the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), the Chief Risk Officer or equivalent role (CRO) and other employee actuaries where appropriate.

We analysed more than 2500 responses from interview questions alongside feedback from key stakeholder groups and the desk-based analysis of actuarial reports and documents.

Overall view of the Appointed Actuary role and regime

The Appointed Actuary role was seen as an attractive one in practice, with high standing in insurance organisations. Appointed Actuaries themselves were seen by insurers as effective in their roles.

Most insurers saw the purpose of the Appointed Actuary role as fulfilling the basic statutory requirements. However, many of the larger insurers are able to use the skill of the Appointed Actuary in more strategic areas.

The biggest theme to come out of the review was the need for clarity and guidance around the Reserve Banks expectations of the Appointed Actuary role. The expectations and recommendations that we set out in this report show that our view of the role is much wider than what is perceived in practice.

This identified difference supports the need for the Reserve Bank to clarify expectations of the role.

Appointed Actuaries we surveyed also provided feedback that they would like more engagement with the Reserve Bank and feedback on the work that they submit.

Our overall conclusion is that the regime and the role are largely effective, but there are areas where improvements could be made.

We found weaknesses in the following areas:

- processes for appointments, absences, and reviews to continue with or replace the Appointed Actuary;
- preparedness for the Appointed Actuary's involvement in a crisis;
- identifying and managing conflicts of interest;
- clarity of delegations;
- processes for following up recommendations in the Financial Condition Reports;
- engagement between the Board of Directors (Board) and Appointed Actuaries; and
- engagement between the Reserve Bank and Appointed Actuaries.

There is a risk that the impartiality of the Appointed Actuary could be adversely impacted by factors such as the influence of senior management and reporting lines. Some Appointed Actuaries gave examples of apparent undue influence and pressure that occurred in past roles. Feedback indicated that Appointed Actuaries would be hesitant to come to the Reserve Bank with concerns due to a lack of past engagement and/or worries about the possible reaction of the insurer. Some actuaries indicated that they would opt to resign in such circumstances.

We were encouraged that Appointed Actuaries all had good practices in place to keep up to date with experience and knowledge. Many also had regular peer review of their most important work.

The Appointed Actuaries and insurers interviewed during the review also understood well the conflicts that can arise from performance-related remuneration. The insurers with Appointed Actuaries that have remuneration components linked to financial performance have put in place changes to remuneration structures to mitigate the conflicts.

It was also good to see that the Financial Condition Reports were highly valued by insurers and used in inductions and appointments as an overall view of the business.

Good practice for insurers and Appointed Actuaries

The Appointed Actuary plays an important role in identifying and reporting on the key financial risks faced by insurers and has the skills and expertise that could be utilised at an early stage in the decision making process.

Insurers should consider and discuss with their Appointed Actuary whether the Appointed Actuary could be involved in wider aspects of the business such as strategy and when the Appointed Actuary should be consulted for advice in matters beyond statutory compliance.

Communication and engagement is key to the effectiveness of the Appointed Actuary's advice. We encourage Boards to question and challenge the advice they are receiving to ensure it is understood and to communicate directly with the Appointed Actuary on the Appointed Actuary's advice and reports.

Insurers should also make sure they have documented policies and procedures in place and robust frameworks to support the Appointed Actuary role and that these are clearly communicated and implemented.

During the review we identified some areas of inconsistent or weaker practice. The table below summarises some good practices that were identified within these areas of concern. We expect all insurers and Appointed Actuaries to reflect on these areas and take action where changes need to be made.

Section in the Report	Good Practice
Role Scope *Conduct Risk*	The Appointed Actuary comments on conduct risk and the implications for financial soundness in the Financial Condition Report.
Role Scope *Policyholder Interests*	The Appointed Actuary considers policyholder interests and communicates these when relevant in providing advice.
Appointments	The insurer has a formalised handover process in place for the transition between Appointed Actuaries.
	Before accepting the role of Appointed Actuary, the actuary meets with the Chair of the Board and/or the Chair of the Audit and Risk Committee and the prior Appointed Actuary.
Absences and Replacements	The insurer has formal processes in place for absences and the replacement of the Appointed Actuary.
	The insurer has considered having an Alternate Appointed Actuary as a way of managing the risks associated with absences and replacements of the Appointed Actuary.
Independence *Pressure to change advice*	The Board, Chair of the Board or Chair of the Audit and Risk Committee has regular meetings with the Appointed Actuary without management present. This reduces the risk of circumstances where the Appointed Actuary is being pressured, influenced or ignored by senior management; and helps to mitigate if these occur.
Expectation in a crisis	In a crisis we expect the Appointed Actuary to be heavily involved and engaged with senior management, the Board and the Reserve Bank. We expect the insurer to have discussed this with their Appointed Actuary and ensure there are 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. This may be particularly acute for actuaries who have multiple Appointed Actuary roles, especially when insurers experience stressed scenarios simultaneously. The insurer has carefully considered the potential implications to their business and the Appointed Actuary has considered their capacity in a time of crisis, including, where relevant, if the crisis may impact multiple insurers.
Actuarial Recommendations and advice	The insurer has formal processes to follow up on their Appointed Actuary's recommendations in the Financial Condition Report. The Board requests regular updates on agreed recommendations.
Engagement *with the Board*	The Appointed Actuary should have direct and unfettered access to the Board and the Board Audit and Risk Committee or equivalent committees. When the Board asks for advice or opinions from the Appointed Actuary this is communicated or presented directly to the Board.

Section in the Report	Good Practice
Engagement *with Other Actuaries*	Where the insurer is part of a wider insurance group or is a branch, the Appointed Actuary has regular communication with the Group or Parent Company Actuary.
Engagement *with Auditors*	There is access, and mutually beneficial engagement between the Appointed Actuary and the Auditors' actuaries.
Actuarial Reports *Financial Condition Report*	The Appointed Actuary presents the Financial Condition Report to the Board. If this is not practical (e.g. branch of an insurer domiciled outside Australia), the Appointed Actuary presents the Financial Condition Report to the most senior management in charge of the New Zealand business. The Board requires this from the Appointed Actuary.

Requirements for insurers and Appointed Actuaries

The table below summarises some specific requirements and serves as a reminder to Appointed Actuaries and insurers. These are requirements that received little mention during the review and correspond to identified areas of weaker practice.

A full list of insurer and Appointed Actuary obligations as related to the Appointed Actuary role is set out in Appendix 2.

Section in the Report	Requirement
Role Scope *Operational Risk and Premium Adequacy*	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, poses a threat to the insurer's financial condition and solvency position[1].The NZSA Professional Standards also have specific requirements for material operational risks[2] and premium adequacy[3].
Appointments *Handovers*	Appointed Actuaries should follow the NZ Society of Actuaries Code of Professional Conduct handover process (section 5.5)
Appointments and Independence *Fit and Proper Policies and Reassessments*	Boards should be satisfied that they have a robust fit and proper process in place in accordance with sections 34 to 36 of IPSA. Boards must apply due diligence when undertaking fit and proper reassessments under regulation 6 of the Insurance (Prudential Supervision) Regulations 2010.
Conflicts of Interest	Appointed Actuaries should be aware of and pro-actively identify their conflicts and follow the Code of Conduct of their professional body – for the NZSA this is section 5.3 of their Code of Professional Conduct. Insurers should have in place robust policies and processes to identify, report and manage conflicts as per the Reserve Bank Governance guidelines paragraph 35.
Engagement *With the Reserve Bank*	Appointed Actuaries have an obligation under section 127 of IPSA to disclose to the Reserve Bank information where the licensed insurer is failing to, or is likely to fail to, maintain a solvency margin. We recommend that Appointed Actuaries err on the side of caution, applying a conservative approach to this test and be proactive in notifying the Reserve Bank as soon as possible.

1 Solvency Standards s147(a) for Life insurers and 125(a) for Non-Life insurers and NZSA PS21 and PS31

2 NZSA PS31 s5.5.5 and PS21 s5.5.5

3 NZSA PS21 s5.10.1, PS21 s5.10.2, PS31 s5.7.1 and PS31 s5.7.2 apply to premium adequacy

Recommendations for the Reserve Bank

Some of our policy recommendations are similar to the initiatives the Australian Prudential Regulation Authority (APRA) introduced following their own review of the role of the Appointed Actuary in Australia. Although both the Reserve Bank and APRA have arrived at similar recommendations, the starting points have been very different.

APRA had a regime that was overly prescriptive and placed a large compliance burden on insurers and Appointed Actuaries. They were challenged with increasing turnover rates of Appointed Actuaries, decreasing average tenures in the role, difficulties in attracting new actuaries in the role, and decreasing levels of seniority as the role moved down the organisational structure in some cases[4].

Conversely, the Reserve Bank has a comparatively flexible and light regime, where insurers and Appointed Actuaries believe that the role is an attractive one with a high standing in the business.

Our recommendations in the table below have been made within this context of the New Zealand market environment and we ask readers to keep this in mind when considering them. Some of these recommendations can be addressed in the reviews of IPSA and the Solvency Standards, while others could be addressed through insurance supervision and/or guidance.

RBNZ Team	Section in the Report	Recommendation
1. Policy	**Role Purpose**	1.1 There should be consultation on a purpose statement to clarify the Reserve Bank's expectations and objectives of the Appointed Actuary role.
	Role Scope *Conduct Risk*	1.2 The Reserve Bank should consider expanding the scope of the Financial Condition Report to require the Appointed Actuary to comment on conduct risk and the implications for financial soundness.
	Role Scope *Policyholder Interests*	1.3 The Reserve Bank should consider whether changes in requirements and/or guidance are needed to require explicit advice by Appointed Actuaries on policyholder interests in a wider range of circumstances. Currently this is only required in respect of actuarial reports on transfers.
	Role Scope *Premium Adequacy*	1.4 Consider whether to introduce an explicit Reserve Bank requirement for the Appointed Actuary to comment on premium adequacy in the Financial Condition Report.
	Role Scope and Conflicts of Interest *Operational Risk and Dual Hatting*	1.5 Review the statutory relevant officer roles in IPSA and consider whether there should be a statutory relevant officer role for risk (such as CRO). Clarify the expectations of each role, particularly where there is potential overlap with the Appointed Actuary's role.

4 See www.apra.gov.au/news-and-publications/apra%E2%80%99s-review-of-role-of-appointed-actuary-where-to-from-here

RBNZ Team	Section in the Report	Recommendation
1. Policy (continued)	**Conflicts of Interest** *Dual Hatting*	1.6 The Reserve Bank should clarify its position on the Appointed Actuary holding dual roles (e.g. the Appointed Actuary also being the CFO) and what is best practice for the New Zealand market, through either explicit policy or guidance.
	Expectation in a Crisis	1.7 The Reserve Bank should consider providing guidance on its expectations in a crisis, covering obligations under sections 24 and 127 of IPSA, and increased interactions with the Reserve Bank. Some (anonymised) case studies or hypothetical scenarios may help insurers and Appointed Actuaries plan for crises.
	Delegations *Actuarial Advice Framework*	1.8 There should be consultation on an actuarial advice framework. This could be done in conjunction with the recommendation to consult on a purpose statement (1.1).
	Engagement *Access to People*	1.9 The Reserve Bank should consider making the Appointed Actuary's access to people and committees clearer, either through the IPSA review or guidance.
	Actuarial Reports *IPSA section 78 Report*	1.10 The Reserve Bank should review and clarify the purpose of the section 78 report and determine the usefulness of the report.
		1.11 If the report is deemed useful then the Reserve Bank should consider making changes to improve clarity and provide further guidance[5].
	Actuarial Reports *Financial Condition Report*	1.12 There should be consideration given to the appropriate format of NZ branch and head office information in Financial Condition Reports.

5 Original guidance is on the Reserve Bank website here: www.rbnz.govt.nz/-/media/ReserveBank/Files/regulation-and-supervision/insurers/licensing/financial-statement-actuarial-review.pdf

RBNZ Team	Section in the Report	Recommendation
2. Insurance Supervision	**Independence and Engagement**	2.1 The Reserve Bank should conduct exit interviews for outgoing Appointed Actuaries.
	Engagement *with the Reserve Bank*	2.2 For designated[6] insurers, there should be regular one on one meetings between the Reserve Bank and the Appointed Actuary without management or board members present. These should be scheduled at least as frequently as prudential consultations.
	Engagement *with the Reserve Bank*	2.3 Appointed Actuaries should be involved in prudential consultations.
	Actuarial Reports *Valuation Reports*	2.4 The Reserve Bank should consider requiring insurers to provide a copy of all valuation reports at financial year-end and half-year.
3. Insurance Supervision/ Policy/ Actuarial	**Independence and Engagement**	3.1 The Reserve Bank should consider guidance, workshops, and/or meetings for new or future Appointed Actuaries.
4. Insurance Supervision/ Policy/ Actuarial/ Thematics	**Engagement** *with the Reserve Bank*	4.1 The Reserve Bank should lead topic based workshops under Chatham House rules with all Appointed Actuaries at least annually. These should cover a mixture of actuarial, supervisory, policy and thematic matters and provide an opportunity for feedback and engagement for Appointed Actuaries. 4.2 It is recommended that the Reserve Bank always include the Appointed Actuary on correspondence regarding solvency matters or material risks to the financial condition of the insurer.

6 See www.rbnz.govt.nz/regulation-and-supervision/insurers/supervision for explanation of the Reserve Bank Insurance Supervision approach.

THE CURRENT ENVIRONMENT

The role of the Appointed Actuary

The Appointed Actuary role is a key statutory role under IPSA. For the statutory role to work effectively, there is significant reliance on the Appointed Actuary to provide expert and objective actuarial advice and review to the board and senior management. When this is working effectively it contributes to the sound and prudent running of insurers.

Appointed Actuaries are also obliged to alert the Reserve Bank to insurers' solvency and other matters of concern. In this capacity, Appointed Actuaries provide additional front-line oversight for the regulator. This makes it possible to reduce the degree of direct supervisory oversight by the Reserve Bank, replacing it with a degree of oversight of the fitness, propriety and effectiveness of the Appointed Actuary.

Given the critical nature of the Appointed Actuary role, it is essential that Appointed Actuaries demonstrate a high level of competence, objectivity, integrity, strength of character and judgement.

Under the current regime, there is also a large reliance on the New Zealand Society of Actuaries (NZSA), their Professional Standards and Code of Professional Conduct. As such, the Reserve Bank has regular engagement with the NZSA.

The Appointed Actuary model is similar to the responsible actuary model discussed in "The Use of Actuaries as Part of a Supervisory Model Guidance Paper" published by the International Association of Insurance Supervisors (IAIS) in 2003. The IAIS "Insurance Core Principles and Common Framework for the Supervision of Internationally Active Insurance Groups" November 2019 has guidance on the Appointed Actuary role in a supervision framework[7]. We have considered the conclusions that were drawn in the IAIS 2003 guidance paper and the guidance in the IAIS 2019 principles and framework in our analysis and recommendations where appropriate.

Summary of key NZ regulatory requirements[8]

The main statutory functions and obligations placed on the Appointed Actuary include:

- IPSA section 77 – reviewing actuarial information contained in, or used in the preparation of, the financial statements;
- IPSA section 78 – preparing an Appointed Actuary report, including the Appointed Actuary's opinions on whether actuarial information has been appropriately included and used in the financial statements and whether the solvency margin is being maintained;
- Solvency Standards and IPSA section 59 notices – preparing a Financial Condition Report for the insurer, and for those insurers subject to the Solvency Standards also performing or reviewing all aspects of the solvency margin calculations to ensure the calculations are complete and accurate; and
- IPSA section 127 – reporting to the Reserve Bank any anticipated or actual breach of the solvency margin, serious financial difficulties, fraud or recklessness or other information likely to assist or be relevant to the exercise of the Reserve Bank of its powers under IPSA.

The Insurance (Prudential Supervision) Regulations 2010, and the Solvency Standards place additional requirements and obligations on the Appointed Actuary. The Solvency Standards also require Appointed Actuaries to comply with Professional Standards of the New Zealand Society of Actuaries (NZSA).

7 See Appendix 3 – IAIS guidance

8 See Appendix 2 for a full list of requirements placed on the Appointed Actuary.

Overview of Appointed Actuary roles under IPSA

At the time of the review there were 55 actuaries holding the role of the Appointed Actuary at 87 licensed insurers.

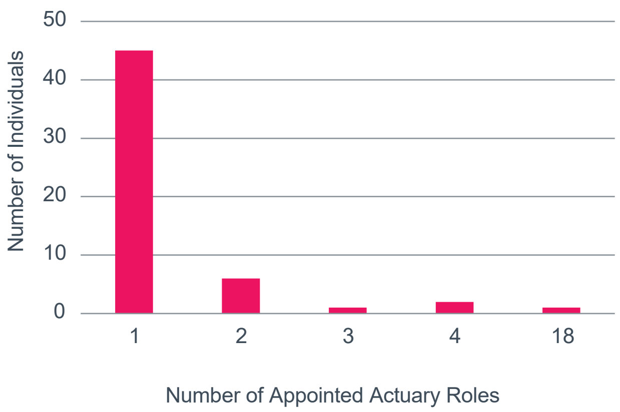
Figure 1 below provides a snapshot of the current Appointed Actuaries for New Zealand licensed insurers broken down by number of roles, type of employment, where they are based and whether they are a Fellow of the NZSA.

Some key notes about these breakdowns:

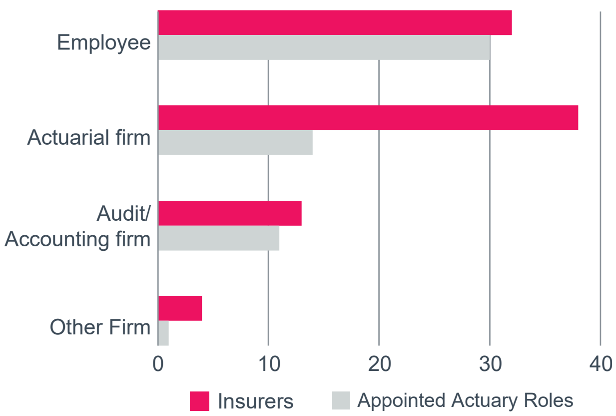
- The majority of Appointed Actuaries only have the one role under IPSA. Some of the Appointed Actuaries may have additional roles in other jurisdictions.
- A few Appointed Actuaries have three or more roles under IPSA.
- There are more Appointed Actuaries based in Australia than in New Zealand, but the roles are not limited to Australia-based or Australia-owned insurers.

FIGURE 1 APPOINTED ACTUARY ROLES IN NEW ZEALAND UNDER IPSA

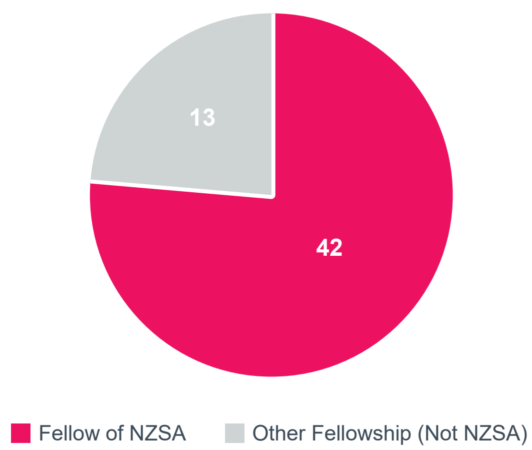
Number of Appointed Actuary Roles per Individual



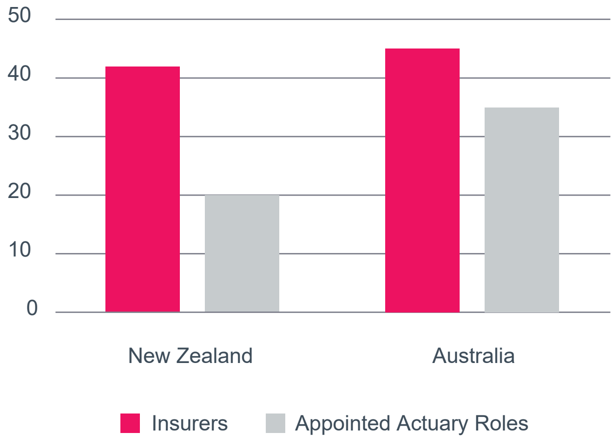
Appointed Actuary Employment Types



Appointed Actuary NZSA Fellowship



Where the Appointed Actuary is Based



Insurer operating models for the role

In practice, there are a variety of operating models that insurers use for the role of the Appointed Actuary, where that person sits within the organisation and the channels for communicating their advice. During the review we observed several different operating models working in practice and the insurers participating in the thematic review all consider the model they use to be appropriate for them.

The Reserve Bank doesn't have a preference for operating models, as long as the nature and level of engagement by the Appointed Actuary is appropriate to the circumstances.

Many of the operating models we have observed in practice can be summarised into five different categories, as shown in Table 1 below.

TABLE 1 – OPERATING MODELS FOR THE APPOINTED ACTUARY ROLE

Operating Model	About the role
Chief Actuary	The Appointed Actuary is part of senior leadership. They are often involved in strategic decision making. Typically they have an actuarial team. They are well informed but a potential issue is managing conflicts.
Senior Advisor	The Appointed Actuary provides advice beyond the statutory role but does not participate in strategic decision-making. If they have an internal actuarial team they are able to do more. They are generally well informed with some risk of conflicts if they get involved in decision-making.
Reviewer and advisor	Most of the work is done by the (non-appointed) Chief Actuary with review and sign off from the Appointed Actuary who is an external consultant.
Internal Statutory Compliance	The Appointed Actuary is an employee limited to statutory roles.
External Statutory Compliance	The Appointed Actuary is an external consultant and largely limited to statutory roles. The extent of involvement varies from limited to financial year-end work to active throughout the year. Generally they tend to be less well informed about all the aspects of the business and are less likely to be involved with issues as they emerge.

DETAILED FINDINGS

Perception of the Appointed Actuary role

A large part of the thematic was to discover how the role of the Appointed Actuary works in practice. One of the keys to understanding this was to find out how the role is perceived in practice and identify where there may need to be more clarity or guidance from the Reserve Bank.

Areas explored in this part of the review were:

- what the purpose of the Appointed Actuary role is viewed as in practice;
- how effective the role is seen in practice;
- whether the role is seen as attractive; and
- if the role should have a purpose statement.

Key findings

Those interviewed largely see the role of the Appointed Actuary as fulfilling the basic statutory requirements, although many of the larger insurers are able to use the skill of the Appointed Actuary in more strategic areas.

The Appointed Actuaries were seen as more effective where communication and engagement with the Board was strong, while the role is seen as an attractive one given its standing and responsibility.

There was a strong message, particularly from the smaller and medium sized insurers, that the Reserve Bank should clarify their expectation of the role and many were supportive of a purpose statement as the way to do this. This sentiment was supported by feedback and submissions from other key stakeholders.

Recommendations for the Reserve Bank

- There should be consultation on a purpose statement to clarify the Reserve Bank's expectations and objectives of the Appointed Actuary role.

Insurers primarily see the role as fulfilling statutory requirements…

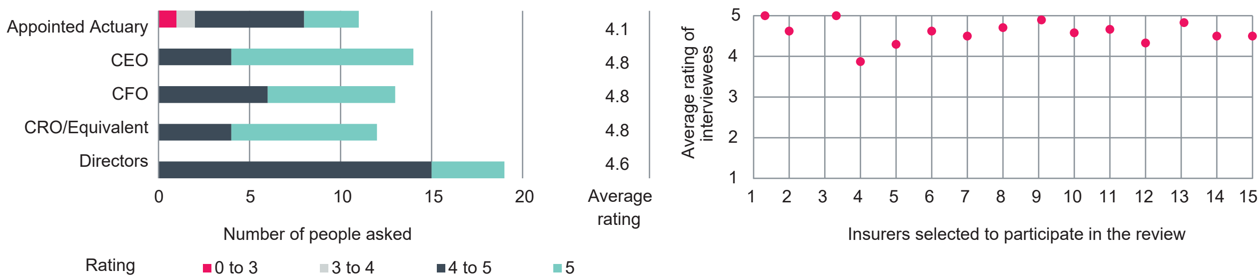
Overall, most of those interviewed saw the main purpose of the Appointed Actuary role as fulfilling statutory requirements. This was followed by technical expertise, the provision of advice and independence. Many of the responses also mentioned the role the Appointed Actuary plays making sure the insurer is solvent and protecting policyholder interests.

In general, the smaller insurers have less capacity and resource and appear more focussed on compliance and technical work as a result. We were surprised that there were also a number of medium and larger sized insurers that held the view that the purpose of the Appointed Actuary was purely compliance with statutory obligations.

Where the Appointed Actuary is Chief Actuary, manages a team or is part of the executive team, they naturally undertake work beyond the statutory obligations and often (but not always) are involved in a more strategic capacity.

FIGURE 2 HOW THE EFFECTIVENESS OF THE APPOINTED ACTUARY WAS VIEWED

On a scale of 1 to 5 how do you rate the effectiveness of the Appointed Actuary? (1 low, 5 fully effective)



...and currently see their Appointed Actuaries as effective in the role

All insurers stated their Appointed Actuary is highly effective in the role. Most of the Appointed Actuaries were praised for their interpersonal skills, knowledge, experience and technical expertise.

Where the Appointed Actuary is embedded within the organisation they are seen as having a good understanding of the organisation and its processes. Those insurers who have Appointed Actuaries on the executive team value the strategic component of their role.

Two Appointed Actuaries did see their effectiveness as low or moderate, one due to a lack of involvement in the organisation and the other due to the level of complexity of the wider group. However, other people at their insurers rated them highly.

When asked what would make the Appointed Actuary be more effective, the most common response was to have more engagement and clearer communication with the Board.

The role is seen as an attractive one...

Actuaries interviewed for the review largely feel that the role of Appointed Actuary is an attractive one, with 85% of Appointed Actuaries and 75% of other actuaries agreeing with this view.

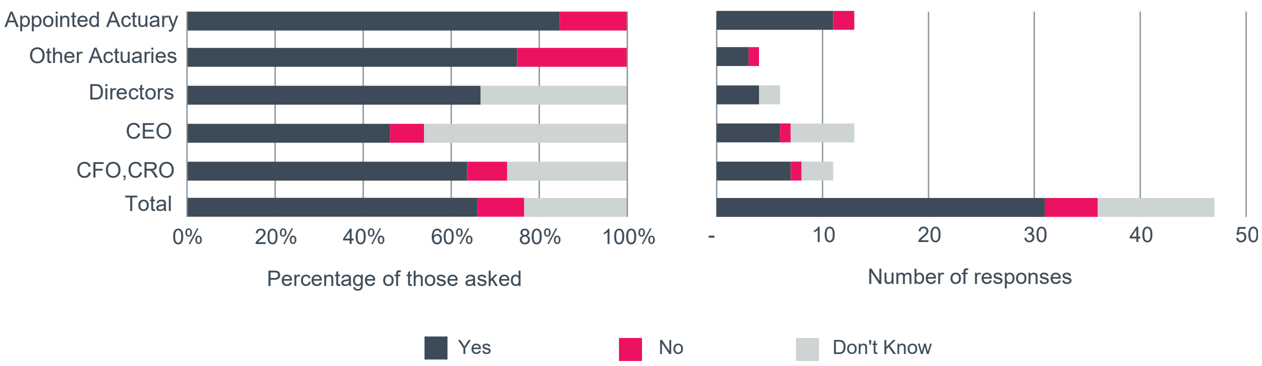
Common views were that it is an important and influential role in an insurance company. Most of the Appointed Actuaries were not afraid of the responsibility but feel they need a range of engagement and support. The role is seen as more attractive if the actuary has a wider variety of work than the statutory requirements and can be involved in the insurer's strategy.

Insurers also felt the Appointed Actuary role is more attractive as a senior role in the business.

Some insurers, where the Appointed Actuary is expected to contribute to strategy, stated it could be difficult to find a good replacement to the incumbent when the need arises. There weren't similar concerns expressed by insurers where the Appointed Actuary is limited to compliance and technical work.

FIGURE 3 ATTRACTIVENESS OF THE APPOINTED ACTUARY ROLE

Do you think the Appointed Actuary role is currently an attractive one for experienced actuaries?



...but a purpose statement could give greater clarity to the role

In July 2019 APRA introduced a purpose statement for the role of the Appointed Actuary as part of CPS 320 Actuarial and Related Matters[9]. Initial feedback from stakeholders suggested we ask the review participants whether there should be a purpose statement in our regime.

The largest theme from the review was that a purpose statement would clarify expectations of the Appointed Actuary and their role.

Smaller insurers who rely on external Appointed Actuaries and have less engagement with the Reserve Bank were generally asking for more clarity and guidance. The larger insurers had more varied responses ranging from the idea that it could create a public level playing field for the expectation of the role, to it wouldn't change anything.

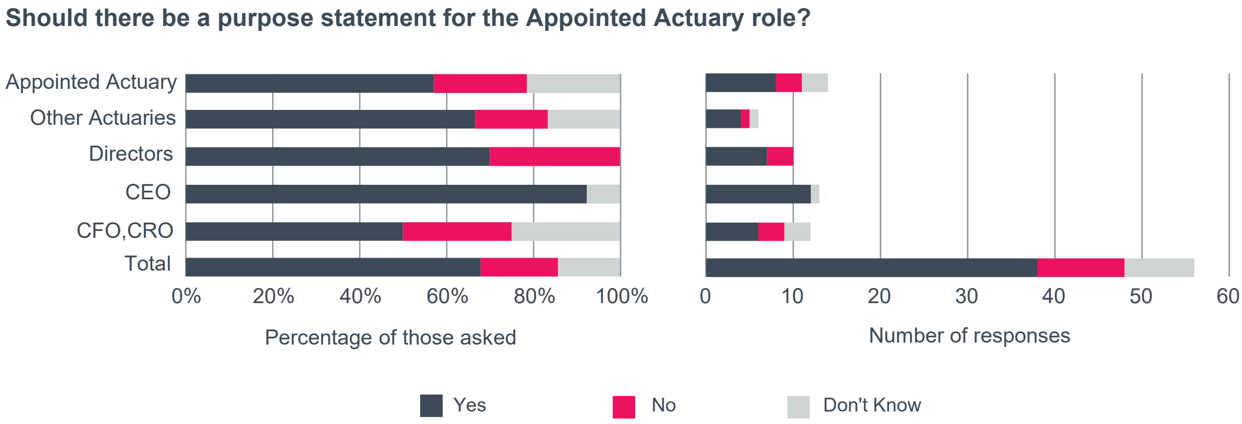
Some were cautious that a purpose statement should be high level, not limiting or too prescriptive and articulated clearly. The CEOs were the most supportive of a purpose statement, the majority of the actuaries interviewed agreed, while the CFO/CRO roles were the least sure it was necessary.

Feedback from other key stakeholders indicated that the Reserve Bank should specify the scope of the Appointed Actuary role and one submission stated specific support for a purpose statement.

A purpose statement could be an effective way for the Reserve Bank to clarify their expectation of the Appointed Actuary role at a high level and address the gap between how the role is perceived in practice and the intention and view of the role by the Reserve Bank.

9 A copy of the opening objectives of CPS 320 including purpose statement can be found in Appendix 5.

FIGURE 4 PURPOSE STATEMENT INTERVIEW RESPONSES



Appointed Actuary role scope of responsibility

Feedback from initial stakeholder workshops included suggestions that we look at the scope of responsibility of the Appointed Actuary role and whether it should be expanded to include conduct risk, policyholder interests, operational risk and premium adequacy.

If the scope is amended, there needs to be a clear distinction between the Appointed Actuary being responsible for reporting on the advice and opinions of others, versus being responsible for providing their own advice and opinions. This is already the case with some aspects of the Appointed Actuary's work, for example there is typically a reliance on other experts for the assessment of catastrophe risks but the Appointed Actuary is required to comment on them in the Financial Condition Report.

Key findings

All four areas had strong responses either in favour of or against the notion. Most believe that the Appointed Actuary is not the right person to be responsible for operational risk or conduct, but should have a view and comment on these areas within reason. In the case of premium adequacy and considering policyholder interests there was large support for responsibility.

There was little mention of the NZSA Professional Standards that apply to these areas in the interviews. However, in practice there are comments in some Financial Condition Reports on material risks relating to these areas.

Feedback from other stakeholders showed apprehension in widening the scope of the role due to a concern (particularly for smaller insurers) that costs would increase, questions over whether the Appointed Actuary is appropriately qualified in these areas, and a perceived risk the role would become more compliance-focussed and less attractive.

Good practice for insurers and Appointed Actuaries

- The Appointed Actuary comments on conduct risk and the implications for financial soundness in the Financial Condition Report.
- The Appointed Actuary considers policyholder interests and communicates these when relevant in providing advice.

Recommendations for the Reserve Bank

- The Reserve Bank should consider expanding the scope of the Financial Condition Report to require the Appointed Actuary to comment on conduct risk and the implications for financial soundness.
- The Reserve Bank should consider whether changes in requirements and/or guidance are needed to have explicit advice by Appointed Actuaries on policyholder interests in a wider range of circumstances. Currently this is only required in respect of actuarial reports on transfers.
- The Reserve Bank should consider whether to introduce an explicit requirement for the Appointed Actuary to comment on premium adequacy in the Financial Condition Report.

Everyone has a part to play in conduct risk

At 65%, the majority of responses believe that the scope of the Appointed Actuary's role should not include being responsible for conduct risk, while 77% say they have a part to play in identifying and reporting conduct risk or should comment on conduct risk.

There is a sentiment that the Appointed Actuary should call out poor behaviour and that conduct is for everyone. However, the responsibility was stated as lying either with the CRO, senior management, the Board or in one concerning response; the broker.

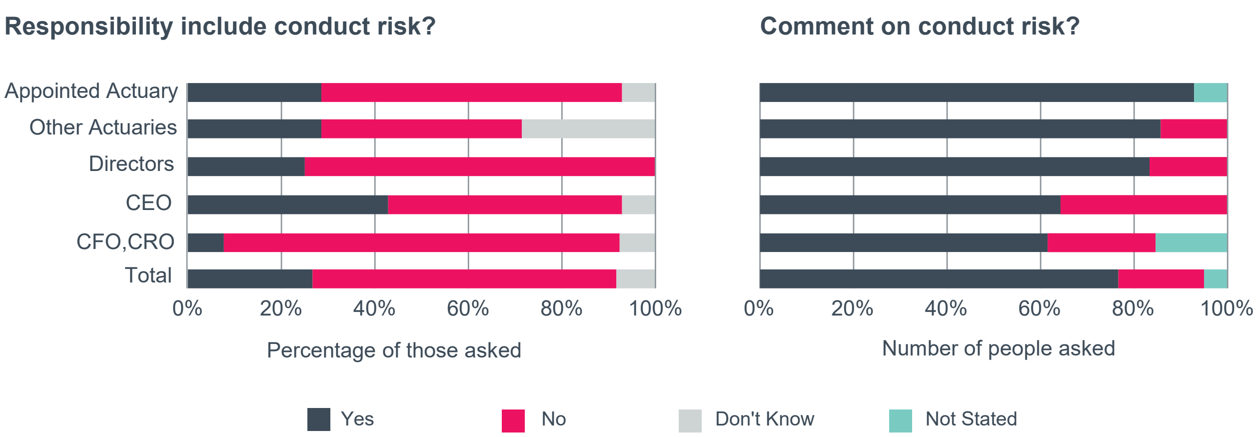
General insurers had the largest number of negative responses to the Appointed Actuary being responsible for conduct risk, with many seeing more of a problem in this area for life insurance. This view may have been influenced by the decision of the Financial Markets Authority (FMA) and the Reserve Bank to prioritise life insurance for their Conduct and Culture Thematic Review[10] published in January 2019.

Many responses indicated that the Appointed Actuary should focus on product suitability and policyholder interests. There were also a number of comments suggesting the Financial Condition Report could be the way to communicate conduct risk.

One submission was against expanding the role of the Appointed Actuary to include responsibility of conduct or culture issues.

Through the conduct and culture review, responsibility for conduct risk was placed with the Board. However, the Appointed Actuaries have the skill and are in a unique position to comment on product suitability and policyholders interests.

FIGURE 5 SHOULD THE APPOINTED ACTUARY ROLE INCLUDE RESPONSIBILITY FOR CONDUCT RISK?



10 www.rbnz.govt.nz/-/media/ReserveBank/Files/regulation-and-supervision/insurers/Life-Insurer-Conduct-and-Culture.pdf

The Appointed Actuary's role in policyholder interests should be explicit

A central question for our current regime is whether the Appointed Actuary should be an advocate for policyholders. In response, 77% said that the Appointed Actuary should be explicitly required to consider policyholder interests in their advice and report on it (e.g. within the Financial Condition Report), with seven out of the fifteen of the insurers that participated in the review saying that they currently do.

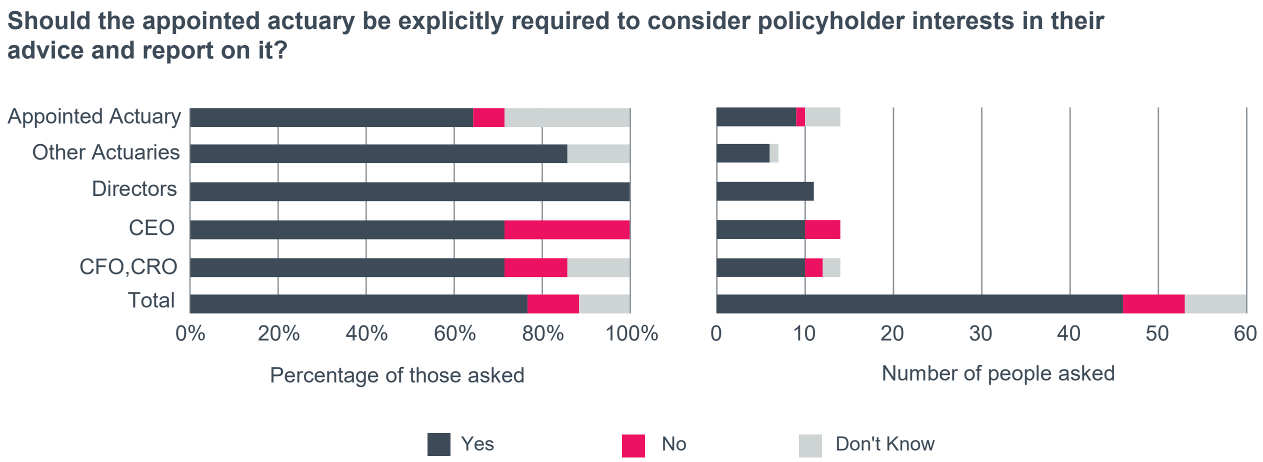
Many of those interviewed were mindful of the recent conduct and culture review and seemed reluctant to say no to the Appointed Actuary having an explicit role in policyholders' interests. The conversations that followed the initial yes or no responses suggested that the interviewees were not as open to the idea as indicated. We believe that Appointed Actuaries should at least consider and communicate policyholder interests to the Board.

It was suggested that policyholder interests should be defined as a collective group, rather than a focus on the individual policyholder and that the Reserve Bank should clearly articulate what we mean by 'policyholder interests'. There were a few concerns about the risk of widening the role of the Appointed Actuary too much outside their skillset (seen as more quantitative and statutory).

Some stated it is clearer and more appropriate for life insurers than general insurers to explicitly consider policyholder interests. Some of the Appointed Actuaries we interviewed said it is implicit in both the work they do and in regulation but explicit for life insurance. However, it is not currently explicit in IPSA.

APRA has introduced the protection of policyholder interests in their purpose statement[11] for Appointed Actuaries.

FIGURE 6 POLICYHOLDER INTERESTS



11 See Appendix 5 – APRA CPS 320

The Appointed Actuary should be commenting on material operational risks...

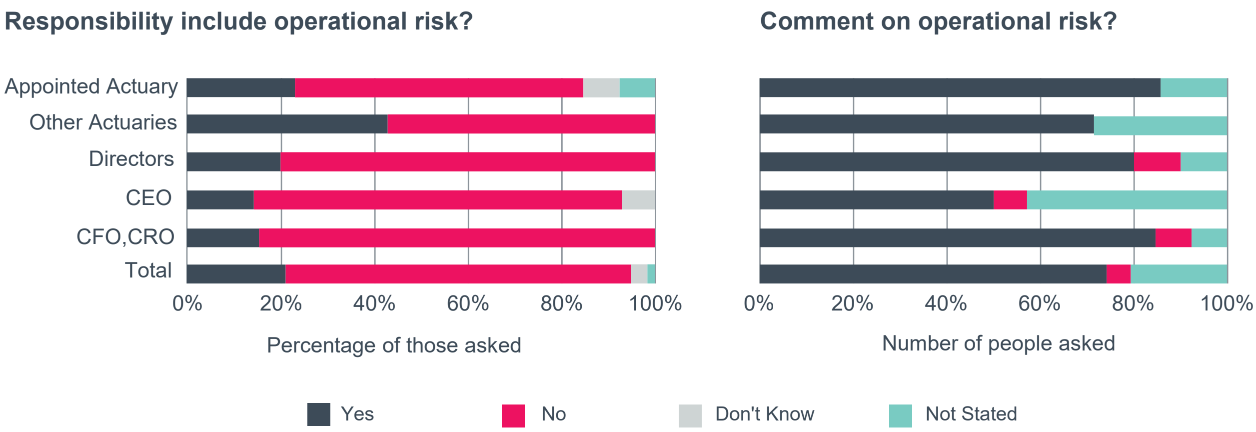
Most of the responses (74%) stated that the Appointed Actuary shouldn't be responsible for operational risk, while 74% said that they should have a view or comment on operational risk. This can be seen in Figure 7 below.

It was noted that the Appointed Actuary may rely on others, in particular the CRO who has the responsibility for monitoring operational risk.

The other key theme is that the Appointed Actuary should be interested in operational risk to the extent that it is material in a financial sense, having a potential impact on solvency or financial soundness.

No one mentioned the applicable Professional Standards[12] in their responses.

FIGURE 7 SHOULD THE APPOINTED ACTUARY BE RESPONSIBLE FOR OPERATIONAL RISK?



...and should have a view on premium adequacy

There was an overwhelming agreement that the Appointed Actuary should have a view on premium adequacy, although there was also negativity and push-back against explicit regulation. Most have said that there should be a comment in the Financial Condition Report on premium adequacy and many of those that commented believe that although an actuary should sign-off pricing it doesn't need to be the Appointed Actuary.

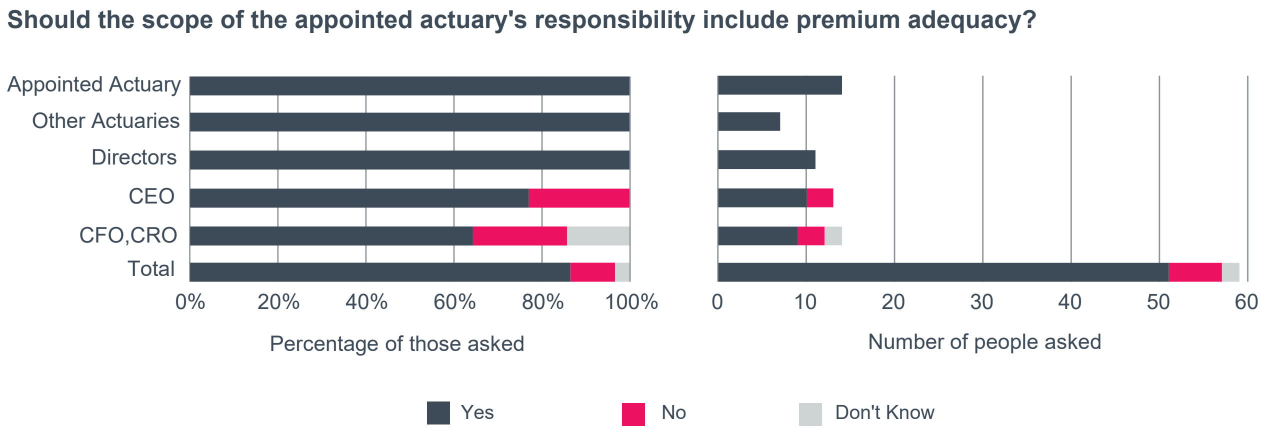
The insurers with ties to Australia, either through the group, parent or actuary mentioned premium adequacy as part of sustainable business practice, which ties into the changes APRA has been making recently.

It is concerning that only two of the Appointed Actuaries interviewed mentioned the NZSA Professional Standards[13] require the Financial Condition Report to include premium adequacy.

12 NZSA Professional Standards PS31 5.5.5 and PS21 5.5.5

13 NZSA PS21 5.10.1, PS21 5.10.2, PS31 5.7.1 and PS31 5.7.2 apply to premium adequacy.

FIGURE 8 ROLE SCOPE - PREMIUM ADEQUACY



Appointments, replacements, experience and knowledge

The Appointed Actuary's appointment process, including fit and proper assessment, hand-over and their skill and experience, will determine their appropriateness and how effective they will be in the role. Appointed Actuaries have continuous obligations, so insurers need to give sufficient thought to their processes for replacement of the Appointed Actuary.

We sought to understand the processes insurers used in the appointment and replacement of Appointed Actuaries, what steps were taken to ensure that they have sufficient knowledge and experience, and how actuaries dealt with any gaps or weaknesses in knowledge.

Areas explored in this part of the review are:

- processes for appointment;
- processes for continuation and replacement;
- whether there should be a relevant experience requirement; and
- how Appointed Actuaries deal with weaknesses in knowledge and experience.

Key findings

Overall, there did not appear to be many formal processes in place for appointments and replacements. There was very little mention of the assessment required under an insurer's fit and proper policy at the time of appointment. There was one mention of engaging with the Reserve Bank for guidance.

Appointed Actuaries are undertaking a wide range of measures to ensure that they have relevant knowledge and experience. Insurers are willing to hire consultants or engage external experts in situations where the Appointed Actuary has identified a gap in appropriate knowledge.

Good practice for Insurers and Appointed Actuaries

- The insurer has a formalised handover process in place for the transition between Appointed Actuaries.
- Before accepting the role of Appointed Actuary, the actuary meets with the Chair of the Board and/or the Chair of the Audit and Risk Committee and the prior Appointed Actuary.
- The insurer has formal processes in place for the replacement of the Appointed Actuary.
- The insurer has given consideration to having an Alternate Appointed Actuary as a way of managing the risks associated with replacements of the Appointed Actuary.

Appointment processes were largely informal...

Most of those interviewed said that the new Appointed Actuary would meet the Board, the prior Appointed Actuary and potentially other key stakeholders before taking the appointment, but very few had a formal handover process.

Under s34[14] of IPSA insurers must have a fit and proper policy which sets out the criteria an Appointed Actuary must fulfil to be appointed. During the interviews there was little mention of the fit and proper policy assessment process for appointments, with only three insurers mentioning their policy. One insurer mentioned they would go to the Reserve Bank for guidance when considering appointing a new Appointed Actuary.

14 See Appendix 2 – Statutory and regulatory requirements

Some internal actuaries shadowed the former Appointed Actuary for a time before taking the role. Larger insurers with employee Appointed Actuaries generally found the on-boarding process easier due to the presence of organisation-wide induction processes.

…and most insurers didn't have a formal process for replacements

The majority of processes described for the resignation and replacement of the Appointed Actuary were relaxed and informal.

The Appointed Actuaries we interviewed had a wide range of notice periods, from no notice period to six months. It would be difficult to dictate what the correct notice period for Appointed Actuaries should be and this is best left to the discretion of the insurer and Appointed Actuary. However, insurers with limited notice periods for the Appointed Actuary may struggle to have an appropriate replacement actuary appointed within the required six weeks after the prior Appointed Actuary has left the role. There might also be difficulties in meeting the insurer's regulatory reporting obligations should a resignation occur shortly after financial year end or in a time of crisis.

Some large insurers mentioned succession planning, where they had been investing in the development of internal actuaries over a number of years.

One insurer has an Alternate Appointed Actuary which gives the organisation a level of comfort that there is an actuary that is ready to step into the role should the Appointed Actuary become unable to act, whether by reason of absence, illness or otherwise.

A relevant experience requirement may be difficult to legislate

Currently the fit and proper policy of an insurer sets out the relevant experience requirements for an insurer's Appointed Actuary. The NZSA Code of Professional Conduct section 5.2 also requires actuarial advice only be given where the member has the relevant professional experience or guidance.

The sentiment is that legislating the requirement may make it difficult to find a new Appointed Actuary. Continuing to have the flexibility to ensure the appropriate fit for the insurer remains invaluable.

Appointed Actuaries and insurers deal well with gaps and weaknesses in knowledge

Appointed Actuaries undertake a wide range of measures to ensure that they have relevant knowledge and experience.

The most common measures noted include:

- self-learning;
- meeting Continuing Professional Development (CPD) requirements;
- engaging with the NZSA;
- engaging with international professional bodies such as the International Actuarial Association;
- reading guidance published by professional actuarial bodies;
- attending seminars and conferences; and
- keeping up-to-date with developments in the market and the wider industry.

Insurers were willing to hire consultants or engage external experts in situations where the Appointed Actuary has identified a gap in appropriate knowledge.

Appointed Actuaries who were employed by the insurer found engaging with other staff and sitting on executive leadership meetings and committees provided them with valuable insights into the insurer's business and enhanced their knowledge of the insurer.

Independence and impartiality

Currently, there is no requirement for the Appointed Actuary to be independent. However, they are expected to maintain professional impartiality and objectivity, providing effective challenge to the board and senior management of the licensed insurer. This need for impartiality is important because the Solvency Standards and financial statements defer to actuarial judgement which require subjectivity in a number of places.

There is a risk that the impartiality of the Appointed Actuary could be adversely impacted by factors such as their relationship to senior management, reporting line and remuneration structure.

We considered how the Appointed Actuary's independence and impartiality is viewed in practice and looked at suggested ways of maintaining impartiality and avoiding capture.

The following areas were explored:

- whether the Appointed Actuary should be independent from senior management and report directly to the Board;
- whether there should be tenure limits on the role;
- whether the Appointed Actuary's work should be peer reviewed; and
- whether the Appointed Actuary has ever been pressured to change their advice or opinion.

Key findings

Overall, insurers like the flexibility their Appointed Actuary operating model affords and do not believe that being part of the executive team would affect their Appointed Actuary's impartiality. Insurers also felt that the Appointed Actuary doesn't need to report directly to the Board, but should have access.

Tenure limits were seen as impractical due to the limited pool of actuaries and the value that is gained from an Appointed Actuary's institutional knowledge, experience and established business relationships.

Having peer review of the Appointed Actuary's work is seen as best practice. However, this is an area that should not be mandated. Encouragingly, many of the Appointed Actuaries interviewed have had some peer review of work in the past year.

Boards should be taking into consideration whether the Appointed Actuary is still impartial during fit and proper reassessments which are conducted at least every 3 years. There was only one mention of this process in the interview responses. Currently there is no requirement for the insurer to confirm this process with the Reserve Bank.

Some undue influence and pressure on Appointed Actuaries has occurred in the past. Comments from Appointed Actuaries have indicated that they would be hesitant to come to the Reserve Bank with concerns due to a lack of past engagement and fear of reprisal by the insurer.

Good practices for Insurers and Appointed Actuaries

- The Board, Chair of the Board, or Chair of the Audit and Risk Committee has regular meetings with the Appointed Actuary without management present. This reduces the risk of circumstances where the Appointed Actuary is being pressured, influenced or ignored by senior management; and helps to mitigate these scenarios if they occur.

Recommendations for the Reserve Bank

- We recommend the Reserve Bank consider and make explicit its expectation regarding the independence or impartiality of the Appointed Actuary. This may be best achieved through a prior recommendation to create a purpose statement for the role.
- The Reserve Bank should consider guidance, workshops, and/or meetings for new or future Appointed Actuaries.
- The Reserve Bank's Insurance Supervision team should conduct exit interviews for outgoing Appointed Actuaries.

Insurers believe their operating models don't affect impartiality

Overall, insurers spoke to how they liked their own operating models and believe the models don't affect the impartiality of their Appointed Actuaries. There are those that believe the Appointed Actuary must be external to be independent, while those that have their Appointed Actuary on the executive team value their strategic involvement. This speaks to the flexibility of the current regime.

Most of the responses indicated that it would be alright for the Appointed Actuary to be on the executive team. Those who already have the Appointed Actuary as a member of the executive team feel they gain from having their strategic advice and that the Appointed Actuaries are highly informed about their business.

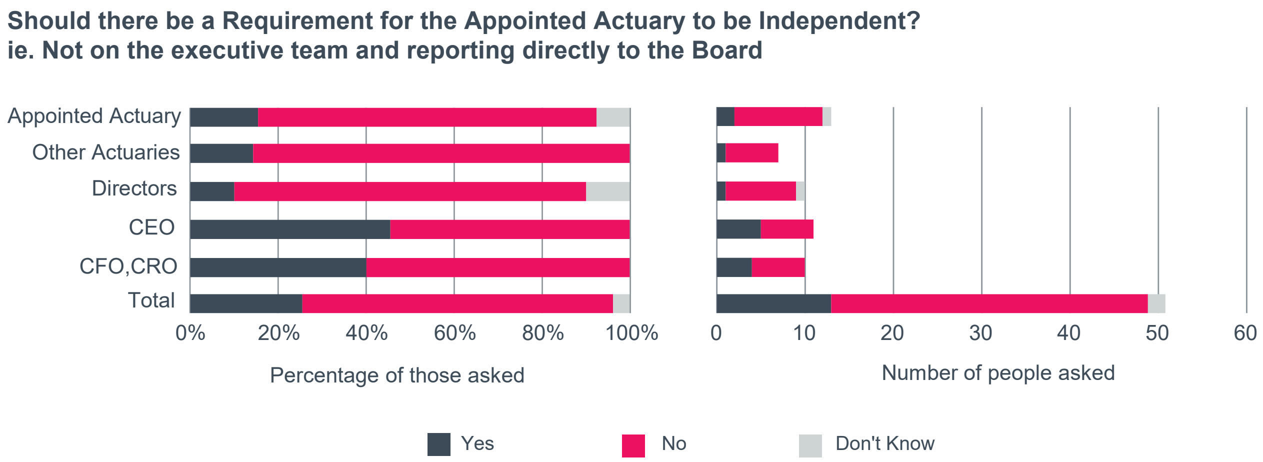
Many stated that the Appointed Actuaries should have direct access to the Board, but did not advocate for them to report directly to the Board.

There were many ideas about the notion of independence, from being independent by training and code of conduct to it being hard to be fully independent; or even not needing to be fully independent to be impartial. The NZSA Code of Professional Conduct requires actuaries to be impartial in their advice, and Professional Standards require an impartial assessment of the financial condition of the insurer in the Financial Condition Report.

One submission did state that there is currently no requirement under IPSA for the Appointed Actuary's advice to be independent.

Another submission stated that the level of independence required depends on the role and that the Reserve Bank should clarify its expectations of the role. We recommend the Reserve Bank consider and make explicit its expectation regarding the independence of the Appointed Actuary. This may be best achieved by creating a purpose statement for the role.

FIGURE 9 INDEPENDENCE OF THE APPOINTED ACTUARY



Tenure limits are seen as impractical….

It was suggested at initial stakeholder meetings that we explore whether tenure limits could be a way of trying to avoid capture by management and maintain the impartiality of the Appointed Actuary's advice.

It was clear that insurers do not want regulated tenure limits. Although in theory they believe it may not be a bad idea, limits would be difficult to implement in practice due to the limited pool of experienced actuaries. The general view was that the cost of losing out on institutional knowledge, experience and established business relationships would outweigh the benefits of a fresh perspective. This view was also supported by some of the other key stakeholders who participated in the review.

Rotating peer review and rotating audit partners were commonly suggested by those interviewed as appropriate alternatives to tenure limits.

During onsite interviews there was only one mention of the requirement to reassess the Appointed Actuary at least every 3 years under the insurer's fit and proper policy. This requirement under section 6 of the Insurance (Prudential Supervision) Regulations 2010 would highlight whether their Appointed Actuary still has the relevant experience and skill and remains impartial.

…while peer reviews should be done as best practice

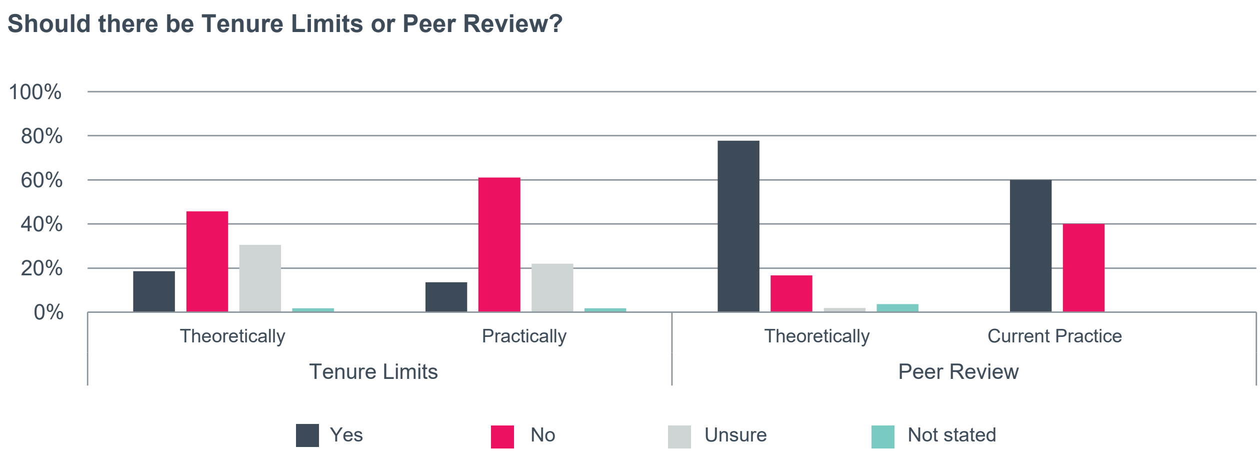
The majority of the responses (78%) believe that the Appointed Actuaries work should be subject to regular peer review, with most responses indicating a preference for external peer review. However, there was a strong view that peer review should not be mandated.

Some insurers raised the fact that APRA recently removed the requirement, and others stated that peer reviews would be hard to regulate, particularly for smaller insurers. Another common suggestion was that the Reserve Bank should be able to request peer reviews on an ad-hoc basis as required.

There were not many opinions on how often peer reviews should be undertaken, but for those that did have a view, there were a variety of answers: yearly, every 2-3 years, every 3-5 years. Those that suggested that longer time periods were appropriate often considered that they had a more robust informal internal review process.

Encouragingly, nine of the fourteen Appointed Actuaries interviewed have had some peer review of work in the past year, with a mix of external, internal or both external and internal peer reviewers.

FIGURE 10: SHOULD THERE BE TENURE LIMITS OR PEER REVIEW FOR THE APPOINTED ACTUARY



Some undue influence and pressure has occurred in the past

None of the Appointed Actuaries interviewed have felt pressured to change their advice or opinions in their current roles. However, on discussion there is clear knowledge of inappropriate pressure being applied in the past which has led to Appointed Actuary resignations or in a particular case the Appointed Actuary being pushed out by the insurer.

Only external actuaries to locally incorporated entities volunteered examples of past pressure. The majority of these instances were described as being associated with difficult management personalities, not being listened to and advice being ignored to the point of a relationship breakdown.

There were some comments made during interviews that the Appointed Actuary would be hesitant to come to the Reserve Bank with concerns due to a lack of past engagement and fear of the insurer's reaction. This suggests exit interviews by the Reserve Bank would be valuable. A known practice of supervisor exit interviews with all departing Appointed Actuaries would eliminate the stigma of being called in to do an interview with the regulator upon departure from the role. Establishing regular dialogue and interaction with Appointed Actuaries by the Reserve Bank, individually or as a group, could also encourage earlier engagement on concerns as they emerge, rather than only after they have become critical.

The findings here and recommendations reinforce the Trowbridge and Scholtens (2019) recommendation 12.2[15] which suggests the Reserve Bank interviews both the departing actuary and the board of the insurer. We note that the Insurance Supervision team has undertaken to interview outgoing Appointed Actuaries.

Some Boards currently have a good practice in place of meeting with their Appointed Actuary one-on-one to check in and ensure that they are not being unduly pressured, influenced or blocked by management.

All current and former employees of a licensed insurer can also report any misconduct to the Reserve Bank under its streamlined whistleblowing policy[16] which was published on the Reserve Bank website on the 10th of February 2020.

15 See Appendix 4 – Trowbridge and Scholtens Recommendations

16 This can be found on the Reserve Bank website: www.rbnz.govt.nz/regulation-and-supervision/whistleblowing

Conflicts of interest

This section considers the conflicts of interest that Appointed Actuaries may experience in their roles, both actual and perceived, and how well these are managed.

The following four areas were explored as part of the review:

- awareness of the range of potential areas that can give rise to conflicts;
- remuneration linked to the insurer's performance;
- Appointed Actuaries taking on multiple internal roles at an insurer (dual hatting).

Key findings

There was good awareness of conflicts of interest for Appointed Actuaries in relation to remuneration structures and dual senior roles. Most of the insurers with performance related bonuses for their Appointed Actuary have been taking measures to manage this conflict.

However, there was lower awareness of potential conflicts associated with being a member of the executive team more generally and limited awareness of potential conflicts in more technical actuarial aspects of their job. Insurers also place a high level of reliance on their Appointed Actuaries to identify, report and self-manage their conflicts.

There was strong agreement that dual hatting the role of Appointed Actuary with the role of Director or CEO would create unmanageable conflicts. It was also indicated that the Appointed Actuary should not also be the CFO or CRO. However, there was significant support for allowing smaller insurers some flexibility in dual hatting the role of Appointed Actuary with the role of CRO.

Good practice for Insurers and Appointed Actuaries

- The Appointed Actuary is aware of and proactively identifies their conflicts of interest.

Recommendations for the Reserve Bank

- The Reserve Bank should clarify its position on the Appointed Actuary holding dual roles (e.g. the Appointed Actuary also being the CFO) and what is best practice for the New Zealand market, through either explicit policy or guidance.
- Review the statutory relevant officer roles in IPSA and consider whether there should be a statutory relevant officer role for risk (such as CRO). Clarify the expectations of each role, particularly where there is potential overlap with the Appointed Actuary's role.

Awareness of potential conflicts was low…

Most of those interviewed were aware of some potential for conflict of interests within the Appointed Actuary role. However, they were usually only able to identify one such potential area of conflict, rather than the potentially wide range of areas.

Some of the areas of potential conflicts include:

- independent versus strategic advice;
- valuation and pricing;
- valuation and solvency/capital management;
- between insurer and parent/group; and
- between Appointed Actuary and their manager (particularly where roles have different objectives, for example CFO versus Appointed Actuary).

Less than 10% of responses stated that the Appointed Actuary had a conflict of interest. Management also placed a strong reliance on the Appointed Actuary to identify and report any potential conflicts. Only a very small proportion of responses indicated having a conflict management process and no detailed references were made to the NZSA Code of Professional Conduct which provides guidance for the Appointed Actuary on dealing with conflicts.

Awareness of potential conflicts could be increased by replicating the formal conflict management processes already in place at some insurers. This would help identify, report, manage, and monitor conflicts of interests and would also reduce the high levels of reliance placed on the Appointed Actuary. Any changes to conflicts should be communicated between the Appointed Actuary and management to help improve awareness of relevant conflicts of interest.

…but conflicts arising from remuneration are well understood

There is an understanding and awareness of the conflicts that can come from having remuneration that is linked to the performance of the insurer.

Just over a third of the Appointed Actuaries in the sample have some component of their remuneration tied to the performance of the insurer and there are practices or controls in place to manage these conflicts. Balanced scorecards are being used with stage/quality/conduct gates in place to mitigate these conflicts and there also appears to be a move away from short-term incentives. In one instance a review had been initiated by the Appointed Actuary, which was very encouraging to see.

Many of the insurers who do not pay performance-related remuneration believe that Appointed Actuaries should not have a performance-related salary or incentive.

Findings from the FMA RBNZ Conduct and Culture Thematic Review[17] and restrictions placed by APRA[18] on remuneration have started to feed through into the remuneration received by Appointed Actuaries. There is a continued need for transparency around performance related remuneration paid to Appointed Actuaries, particularly where they form a material part of their overall remuneration. This is also in line with the NZSA Code of Professional Conduct section 5.4 which requires a member to disclose the nature of conflicted remuneration when giving advice.

Dual hatting certain roles can create unmanageable conflicts

There was a clear view across those interviewed that the Appointed Actuary should not take on a dual role of a Director or the CEO at an insurer. The majority of the non-actuarial officers asked also believed that the Appointed Actuary should be restricted from taking on a dual CFO or CRO role at an insurer.

17 www.rbnz.govt.nz/-/media/ReserveBank/Files/regulation-and-supervision/insurers/Life-Insurer-Conduct-and-Culture.pdf

18 See APRA Prudential Standard CPS 510 and Prudential Practice Guide PPG 511

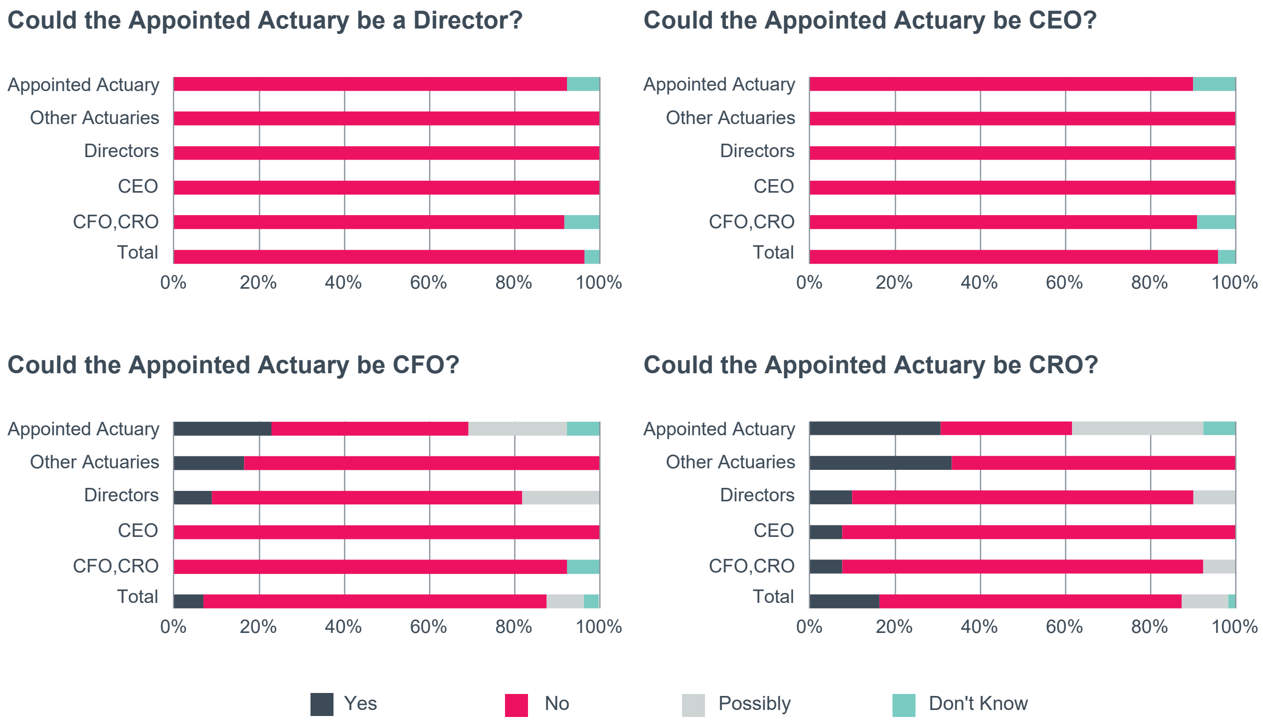
Appointed Actuaries were most open to undertaking multiple roles at an insurer, particularly as the CRO. There were also significant numbers of other respondents who were prepared to allow some flexibility for Appointed Actuaries to take on the CRO role at smaller insurers.

The IAIS (2003) guidance paper noted that some jurisdictions do prohibit the Appointed Actuary from having dual roles with executive positions - in particular with the role of the CEO. Some jurisdictions also prohibit Appointed Actuaries from holding the role of Director due to conflicts with whistle-blowing obligations, while some saw allowing this dual role as a way to elevate the actuarial role in an insurer. These observations resulted in conclusion 10, that consideration should be given to potential conflict of interests and it is preferable that the Appointed Actuary be prohibited from holding a dual role as CEO[19].

Guidance in IAIS (2019) section 8.6.9[20] says that the Appointed Actuary shouldn't hold positions that could create conflicts of interest or compromise their independence.

It is best practice for the Appointed Actuary not to take on dual roles in any of these key executive or directorship positions. Remaining free from dual hatting these positions will enable Appointed Actuaries to avoid the conflicts created by holding such dual roles.

FIGURE 11 CAN THE APPOINTED ACTUARY DUAL HAT IN KEY ROLES



19 See Appendix 3 – IAIS guidance, Table 5

20 See Appendix 3 – IAIS guidance, Table 4

Delegations, absences and expectations in a crisis

In this section we consider delegations and whether insurers are sufficiently prepared for Appointed Actuary absences and pressure during a crisis.

Areas explored in this part of the review are:

- the extent to which Appointed Actuaries should be able to delegate;
- processes for absences;
- expectations of the Appointed Actuary in a crisis; and
- whether the Reserve Bank should institute an actuarial advice framework.

Key findings

Most insurers and actuaries support the Appointed Actuary being able to delegate their work. They also agreed that the Appointed Actuary should not be able to delegate responsibility for their statutory obligations.

Few insurers had any formal processes to deal with absences of the Appointed Actuary. IPSA has a provision for an Alternate Actuary to perform the statutory functions in the absence of the Appointed Actuary, but very few insurers have an Alternate Actuary.

Neither insurers, nor actuaries had a clear expectation of what might be required of the Appointed Actuary that will be different in a crisis or how they would manage it. Over half of the responses indicated that they had no formal plan in place.

Good practice for Insurers and Appointed Actuaries

- The insurer has formal processes in place for absences of the Appointed Actuary.
- The insurer has given consideration to having an Alternate Appointed Actuary as a way of managing the risks associated with absences of the Appointed Actuary.
- In a crisis we expect the Appointed Actuary to be heavily involved and engaged with senior management, the Board and the Reserve Bank. The insurer has discussed this with their Appointed Actuary and ensures there are 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 efforts can quickly become absorbed by a crisis, reducing their capacity for other work. This may be particularly acute for actuaries who have multiple Appointed Actuary roles, especially when insurers experience stressed scenarios simultaneously. The insurer has carefully considered the potential implications to their business and the Appointed Actuary has considered their capacity in a time of crisis, including, where relevant, if the crisis may impact multiple insurers.

Recommendations for the Reserve Bank

- The Reserve Bank should consider providing guidance on its expectations in a crisis, covering obligations under sections 24 and 127 of IPSA, and increased interactions with the Reserve Bank. Some (anonymised) case studies or hypothetical scenarios may help insurers and Appointed Actuaries plan for crises.
- The Reserve Bank should consult on an actuarial advice framework. This could be done in conjunction with the recommendation to consult on a purpose statement.

There is support for the Appointed Actuary delegating work...

The majority of responses said that the Appointed Actuary should be able to delegate, however there was a clear line drawn demarking that the Appointed Actuary cannot delegate their responsibilities for statutory obligations.

There were very few suggestions for controls over delegation, with a couple of mentions of peer review, sign-off and qualified oversight.

The responses given showed a lack of clarity around delegations and supports a need to consider a regulatory delegation framework.

...and most insurers don't have a formal process for absences

Most of the insurers interviewed do not have a formal process for dealing with absences by the Appointed Actuary.

Most Appointed Actuaries work and remain available during their holidays or try and time their holidays outside busy periods. Only one of the insurers interviewed had appointed an Alternate Appointed Actuary. However, the Appointed Actuary has always been available when needed, so the use of the alternate has never been tested. Two insurers mentioned that they had considered having an Alternate Appointed Actuary, but did not go ahead with the appointment.

Some insurers have recently implemented an actuarial advice framework with delegations clearly defined. This has been adopted by Australian owned or Australian branch insurers as it is an APRA requirement. There was also one example of an insurer without an Australian parent intending to implement an actuarial advice framework. We have engaged with APRA, but it is still too early to say how effective the actuarial advice framework is in practice.

Many of the insurers mentioned that in a short-term absence they could use external actuaries that know and understand their business well. Those that have an external Appointed Actuary who works in a consulting firm, whether accounting or actuarial, believe that the firm would be able to help with support if the Appointed Actuary was absent for a period of time.

Expectations of the Appointed Actuary in a crisis are unclear

There are some worrying findings when it comes to the expectations of the Appointed Actuary in a crisis. Some insurers appear to have no plan in place and some have had little thought or discussion on the Appointed Actuary's involvement in a time of crisis.

The role of Appointed Actuaries in a crisis varied from having a key role, to no involvement at all. Many expect the Appointed Actuary to be actively engaged and pro-active, and to prioritise crisis management over other work.

Appointed Actuaries that sit on the executive team were regarded as key people when managing a crisis. However, some of these actuaries felt that they did not necessarily have the capacity and resource available to effectively manage a crisis.

Where the Appointed Actuary is an external consultant with multiple roles, the insurers believe that they will take priority should a crisis occur.

Seven of the fifteen insurers in the sample mentioned having plans in place to deal with a crisis, and worryingly one of those does not have their Appointed Actuary in their plan.

Two insurers mentioned that they would incorporate learnings from past experiences with a crisis in the way they utilise the Appointed Actuary and interact with the Reserve Bank.

Introducing an Actuarial Advice Framework could address some areas of weakness

APRA introduced the requirement to have an actuarial advice framework effective 1 July 2019 as part of CPS 320 Actuarial and Related Matters with guidance given in CPG 320.

The actuarial advice framework sets out when actuarial advice should be sought and who should be giving the advice, whether that needs to be the Appointed Actuary or another actuary. The Board has ownership of the framework with input from the Appointed Actuary during development and review. There are minimum requirements that APRA has set for advice that must be given by the Appointed Actuary and the insurer is expected to review the framework regularly. Within the structure of the framework materiality for the levels of advice is defined as well as processes for conflict management. The objective of the actuarial advice framework is to retain flexibility for the diversity of insurance company structures and operating models, while applying prudential safeguards.

The actuaries interviewed (appointed and other) were generally in favour of an actuarial advice framework in New Zealand, which they stated could give greater clarity over their role and responsibilities.

Those insurers that are required to have an actuarial framework by APRA are trying to have consistent approaches for both Australia and New Zealand, so are open to New Zealand adopting a similar style of framework. The comments around the framework are that it is a useful tool and clarifies responsibilities, however it may not change how things are run in practice.

Those who were against the idea expressed concerns about possible over-compliance and burden on the Appointed Actuary. A couple of responses indicated they were against any delegation.

An actuarial advice framework could be an avenue to partially address the weaknesses seen in the areas of conflicts of interest and controls as well as the concern we have over key person risk (for absences and in a crisis) that have been discussed earlier in the report. This tool would also give clarity around materiality and responsibility.

One insurer suggested that an actuarial advice framework and a purpose statement could be looked at in conjunction. This seems ideal as a purpose statement set by the Reserve Bank would clarify high level expectations of the Appointed Actuary role, while an advice framework set by each insurer's Board deals largely with the responsibilities of the role and where it can be delegated.

Having a purpose statement and an actuarial advice framework would also be in line with IAIS (2019) section 8.6.7 and IAIS (2003) conclusion 4 which state the Appointed Actuary's tasks and responsibilities should be clearly defined. IAIS (2003) conclusion 14 also found that the role should be defined in terms of the types of advice that the Appointed Actuary is required to give the insurer[21].

21 See Appendix 3 – IAIS guidance

Actuarial recommendations and advice

This topic gave us an indication of whether the Appointed Actuary's advice is well understood and whether they are having influence within the organisation.

How the Appointed Actuary's recommendations are being followed up is an indicator of whether there are appropriate controls and processes in the organisation. It would also be very concerning if an insurer didn't understand the Appointed Actuary's advice and didn't take action when they needed to or took action without fully understanding the advice.

Areas explored in this part of the review are:

- whether and how the Appointed Actuary's recommendations in the Financial Condition Report are followed up; and
- whether the Appointed Actuary's advice is well understood.

Key findings

While half of the participating insurers have a process to follow up the Appointed Actuary recommendations in the Financial Condition Report, this is not done by all insurers.

Responses generally indicate a willingness to discuss, question and challenge the Appointed Actuary to understand their advice. However, for some insurers there is no check, either by the Appointed Actuary or by recipients of their advice, that the advice is well understood. Some directors and senior managers rely on others to interpret and accept (or otherwise) the Appointed Actuary's advice.

Good practice for Insurers and Appointed Actuaries

- The insurer has formal processes to follow up on their Appointed Actuary's recommendations in the Financial Condition Report. The Board requests regular updates on agreed recommendations.

Recommendations are not always formally followed up…

There are large inconsistencies in the processes insurers use to follow up recommendations.

Most of those interviewed (45 out of the 49) believe that recommendations in the Financial Condition Report are followed up, but only 27 responses stated a formal process for following up recommendations. Those with formal processes tend to have recommendations tracked through a management committee with progress reported to the Board.

One respondent indicated that recommendations could get lost and not followed up.

Some of the recommendations from Financial Condition Reports were identical over multiple years with little or no progress noted. These recommendations had not been followed either due to complexity, lack of understanding by the Board and management or differences of opinion over priorities between the Appointed Actuary and the insurer.

…and advice is discussed and challenged, but not always understood

Most responses show a willingness to discuss, question and challenge the Appointed Actuary to understand the advice they are given. Most also agreed that the best way to ensure the Appointed Actuary's advice is understood is to ask them questions about their advice. Many of the answers revolved around communication, discussion and challenge.

Some, in particular smaller insurers, use others to help understand the Appointed Actuary's advice. This could be a mixture of using peer review or the auditor to confirm advice where they have the necessary skill and experience, or a member of the executive or senior management more knowledgeable in the matter acting as an interpreter.

A few insurers believe their Appointed Actuary is very good at explaining their advice, whether through one-on-one discussions, or through clear reporting. This was particularly the case where Appointed Actuaries are in a more strategic role and can deliver their advice in a clear and concise manner, and take the recipients on a journey of understanding through explanation and education.

Engagement with the Board, management and auditors

This section considers the Appointed Actuary's interaction with different stakeholders across the insurer and the levels of access they have to each party. Engagement with and access to the Board is a particularly important part of the Appointed Actuary role, from appointment through to providing advice.

As part of the review we looked at the Appointed Actuary's engagement with the following stakeholders:

- the Board of Directors;
- the CEO;
- the CFO/CRO;
- the wider group, where the insurer is part of group structure; and
- the auditor.

Key findings

The Appointed Actuary's interaction with the Board varied widely. There are some insurers where the Appointed Actuary has no or minimal engagement with the Board. Most of the larger and more complex organisations viewed the Appointed Actuary as a key advisor and recognised the need for wider and often strategic input beyond statutory reporting.

Engagement levels with senior management varied from minimal to extensive. For insurers that are part of a wider group, there was generally limited interaction with senior management and actuarial colleagues across the wider group.

A formal actuarial advice framework may provide clearer expectations for the Appointed Actuary's engagement in various areas.

The Appointed Actuaries' interactions with the auditor were generally good, functional and appeared to provide additional value to the audit process and the business. Some insurers commented that they regarded the audit process as a form of peer review of the Appointed Actuary's work.

Good practice for Insurers and Appointed Actuaries

- The Appointed Actuary has direct and unfettered access to the Board and the Board Audit and Risk Committee (or equivalent committee). When the Board asks for advice or opinions from the Appointed Actuary this is communicated or presented directly to the Board.
- Where the insurer is part of a wider insurance group or is a branch, the Appointed Actuary has regular communication with the Group or Parent Company Actuary.
- There is access, and mutually beneficial engagement between the Appointed Actuary and the auditor's actuaries.

Recommendations for the Reserve Bank

- Consideration should be given to making the Appointed Actuary's access to people and committees clearer, either through the IPSA review or guidance.

There is wide variation in Board engagement

There appears to be a wide range in the level of engagement between the Board and Appointed Actuaries, from no interaction at all, limited to statutory reporting, or frequent interaction including management of the insurer.

The key driver in engagement levels appears to be the nature of the Appointed Actuary's role at the insurer. Appointed Actuaries with additional strategic responsibilities and those who are viewed as trusted advisors by the Board appear to enjoy a much higher level of engagement.

There are also some secondary impacts driven by the size of the insurer and the reporting lines of the Appointed Actuary. Appointed Actuaries of larger insurers and those that have direct reporting to the CEO generally have higher levels of engagement with their respective Boards. Where the Appointed Actuary does not report directly to the CEO their interaction with the Board and ability to have strategic influence can become diminished.

One insurer restructured the Appointed Actuary's reporting line directly to the CEO to enable greater actuarial insight at the highest level of the organisation.

Some Appointed Actuaries wanted more involvement in Board level discussions to enable a more effective understanding and the opportunity to influence Board decisions.

In at least one instance, there was informal interaction between the Board and Appointed Actuary, beyond statutory reports, which was useful but would have benefitted from more specific written advice or records.

The engagement between the CEO and Appointed Actuary is also varied

The frequency of contact between Appointed Actuaries and the CEO varies from rare or several times per year, to fortnightly and continuous where they are direct reports.

The responses raise questions as to whether the level of CEO engagement across the industry is sufficient. There appears to be an issue of lack of clarity around the seniority or strategic input expected from an Appointed Actuary. This supports exploring the benefits that a purpose statement and an actuarial advice framework could provide in clearly defining the role and responsibilities of the Appointed Actuary.

There is a high level of interaction with the CFO, but limited engagement with the CRO

There is a lot of reported interaction between the Appointed Actuary and the CFO. There are some instances where the Appointed Actuary reports directly to the CFO, which drives this higher level of interaction. However, there are instances where these reporting lines mean that the ability to consider actuarial matters in executive decision making and strategy formation depends on the willingness and ability of the CFO to represent the Appointed Actuary's perspective.

These problems are not fully captured or solved by IPSA s80, because unlike paragraph 19 of APRA's Prudential Standard: CPS320 Actuarial and Related Matters, there is no clear statement about access to people and committees. IPSA s80 deals with access to information and the entitlement of a specified actuary to require information and explanations from a director or an employee of the insurer. The APRA Standard however, defines the access insurers must provide the Appointed Actuary to committees and specific roles as well as leaving it open to other requests, which implies a higher level of interaction.

Interaction with the CRO is generally quite limited, partly because the CRO role is not formalised in New Zealand as it is in the APRA regime. Some actuaries commented that the CRO was invaluable, as it creates two senior people focused on risk and the roles were complementary. They were also the preferred sounding board for some actuaries.

The level of interaction with the wider group varies between insurers

The Appointed Actuary's level of interaction with the wider group (where there is one) varies between insurers. This may reflect the varying importance of the New Zealand business to the group.

Engagement levels are mainly linked to how the insurer is set up. Appointed Actuaries of insurers that operate as a branch of an overseas entity tend to have fewer interactions with the overseas head office than those who are part of an insurance group with a locally incorporated entity.

Appointed Actuaries working for insurers that are New Zealand and Australia focussed describe much closer interaction than those at multinational insurers. Examples include where the Australian Appointed Actuary is also the New Zealand Appointed Actuary and has a higher profile at group level.

Most auditors are engaging with the Appointed Actuary

The majority of interactions between the Appointed Actuary and auditors are described as good, functional and provide additional value to the business. However, one Appointed Actuary did state they had no interaction with their auditor.

The auditor and the Appointed Actuary should have mutual access and open lines of communication. Given the Appointed Actuary has oversight of actuarial information and the material risks to the business, engagement with the auditor is essential (whether internal or external).

Engagement with the Reserve Bank

This section considers the Appointed Actuaries' interactions with the Reserve Bank.

Currently, the level of interaction between the Reserve Bank and the Appointed Actuaries is low. Many Appointed Actuaries are hesitant to come forward and discuss their concerns as this may signal an issue with the insurer, given there has been no history of an established relationship with the Reserve Bank.

Appointed Actuaries have also highlighted how other regulators, such as APRA in Australia, have considerably more interaction with insurers.

At the same time, the Appointed Actuaries want more feedback from the Reserve Bank on the actuarial reports they produce (particularly the Financial Condition Report), as the Reserve Bank is the only organisation who sees all of the reports across the industry.

Good practice for Insurers and Appointed Actuaries

- We remind Appointed Actuaries of their obligation under section 127 of IPSA. Appointed Actuaries are required to disclose to the Reserve Bank information where the licensed insurer is failing to, or is likely to fail to, maintain a solvency margin.

  We recommend that Appointed Actuaries err on the side of caution, applying a conservative approach to this test and be proactive in notifying the Reserve Bank as soon as possible.

Recommendations for the Reserve Bank

- For designated insurers, there should be regular one-on-one meetings between the Reserve Bank and the Appointed Actuary without management or board members present. These should be scheduled routinely at least as frequently as prudential consultations.
- The Reserve Bank should routinely involve the Appointed Actuaries in prudential consultations.
- The Reserve Bank should lead topic-based workshops under Chatham House rules with all Appointed Actuaries at least annually. These should cover a mixture of actuarial, supervisory, policy and thematic matters and provide an opportunity for feedback and engagement for Appointed Actuaries.
- It is recommended that the Reserve Bank ensure that they are always including the Appointed Actuary on correspondence regarding solvency matters or material risks to the financial condition of the insurer.

Appointed Actuaries want more interaction and feedback from the Reserve Bank

Appointed Actuaries consider interaction with the Reserve Bank is very important, but is generally infrequent or non-existent. Without regular interaction there is a loss of information sharing and individual concerns are less likely to be raised.

Comments suggest there is a missed opportunity for the Reserve Bank to have more regular interaction with actuaries, and potentially get earlier information on problems such as poor governance or restricted access to management or Boards.

If an Appointed Actuary feels isolated they could be limited to resigning their appointment as the only available avenue of exit.

Some of the Appointed Actuaries have suggested that it will take time to build a good relationship and that the Reserve Bank would have to reach out first. There were also comments that it would be helpful to talk to both actuarial and non-actuarial staff at the Reserve Bank.

Some of the respondents shared how APRA have spent considerable amounts of time and effort building relationships with insurers in Australia through workshops and other engagement.

Many Appointed Actuaries indicated that they would like more feedback on their actuarial reports that are sent to the Reserve Bank, particularly the Financial Condition Report and solvency returns. Other key stakeholders also agreed that Appointed Actuaries should receive more feedback from the Reserve Bank on formal actuarial reports.

Communications from the Reserve Bank should include the Appointed Actuary

There have been instances where communication from the Reserve Bank regarding solvency matters or material risks to the financial condition of the insurer have not included the Appointed Actuary. The Reserve Bank had assumed that insurers would share such communications with their Appointed Actuary. This has not always been the case which is why it is recommended that the Reserve Bank always include the Appointed Actuary on correspondence deemed relevant to their role. This is a consistent approach to the Trowbridge and Scholtens (2019) recommendation 13.3.[22]

A reminder of the Appointed Actuary's obligations under section 127

Section 127 of IPSA requires Appointed Actuaries to disclose information where the licensed insurer is failing to, or is likely to fail to, maintain a solvency margin. There have been examples where interaction with the Reserve Bank by the Appointed Actuary has not been as proactive as expected. Note that this is a separate requirement to the obligation of the insurer to notify under s24.

Section 129 of IPSA also has protections afforded to Appointed Actuaries disclosing under section 127.

We recommend that Appointed Actuaries err on the side of caution, applying a conservative approach to this test and be proactive in notifying the Reserve Bank as soon as possible.

22 See Appendix 4 – Trowbridge and Scholtens Recommendations

Actuarial reports

As part of the desk-based review we read through Appointed Actuary reports required under section 78 of IPSA (s78 report) and Financial Condition Reports prepared by Appointed Actuaries in accordance with the Solvency Standards. During onsite reviews we also asked whether the section 78 requirements should be amended.

Key findings

Many of those who responded struggled to understand the purpose of the s78 report.

The Financial Condition Report is a highly valued document, however it is not always being presented to the Board by the Appointed Actuary.

Good practice for Insurers and Appointed Actuaries

- The Appointed Actuary presents the Financial Condition Report to the Board. If this is not practical (e.g. branch of an insurer domiciled outside Australia) the Appointed Actuary presents the Financial Condition Report to the most senior management in charge of the New Zealand business. The Board requires this from the Appointed Actuary.

Recommendations for the Reserve Bank

- The Reserve Bank should review and clarify the purpose of the s78 report and determine the usefulness of the report.
- If the s78 report is deemed useful then the Reserve Bank should consider making changes to improve clarity and provide further guidance.
- The Reserve Bank should give consideration to the appropriate format of NZ branch and head office information in Financial Condition Reports.
- The Reserve Bank should consider requiring insurers to provide a copy of all valuation reports at financial year-end and half-year.

The purpose of the section 78 report is unclear...

The section 78 report is the only public statement from the Appointed Actuary.

When asked about the section 78 report, many of the responses indicated that they struggle to understand the purpose of the report. There were mixed responses as to the value of the report, however most also stated that they don't mind completing it or that it was easy to prepare. A notable exception being a branch of an overseas multi-jurisdictional insurer which felt it was unfair to expect the New Zealand branch Appointed Actuary to comment on the actuarial information included in the whole of company financial statements.

When reviewing the s78 reports clarity was generally poor for many aspects other than the required opinions (which usually were verbatim from IPSA wording). The public may also struggle to understand these reports and their purpose.

...but the Financial Condition Report is a highly valued document

The Financial Condition Report is noted as a highly regarded and valuable document by insurers. The report is a full overview of the organisation and the key risks the insurer faces. Many of the new directors and executives are given a copy of the report on induction, it is read when Appointed Actuaries are considering new appointments and generally is an anticipated document at Board meetings.

Given the importance that is placed on the Financial Condition Report, we were disappointed to find that some Appointed Actuaries were not presenting the document to the Board. In these circumstances, it was tabled for discussion without the Appointed Actuary present.

There was also a question mark on how much attention the New Zealand branches are receiving at the parent entity Board meetings and whether they read any of the New Zealand Branch Financial Condition Report. Some indications were that the New Zealand branches do not always get any time. One Appointed Actuary had the good practice of attaching the entire New Zealand branch report to the appendix of the parent entity's Financial Condition Report.

The desk-based review highlighted large variations in the structure and length of the Financial Condition Reports, but those interviewed were quick to confirm that the Boards are happy with the structures and read the entire Financial Condition Report of their organisation.

Valuation reports would assist insurance supervision.

Additional actuarial reports were requested from the insurers selected for a more in-depth review. The valuation report provided richer detail than the summary included in the Financial Condition Report. Currently, valuation reports are only provided by some insurers. Requiring the valuation report to be provided may assist the Reserve Bank in its supervision.

APPENDIX 1
BACKGROUND

Scope and methodology

The focus of the review was on the role of the Appointed Actuary and how it is working in practice, identifying any ideas for improvement.

The following aspects of the Appointed Actuary role were included in the review:

a. Perception of the Appointed Actuary Role – how the role is seen in practice, whether it is an attractive role to actuaries, what the purpose of the role is seen as, the effectiveness and any clarity that may need to be given.

b. Whether the scope of responsibility of the role should be expanded to include extra areas – including conduct risk, the consideration of policyholder interests, operational risk and premium adequacy.

c. Appointments, Replacements, Experience and Knowledge – including fit and proper assessments and reassessments, capability and relevant experience.

d. Independence and impartiality– whether the Appointed Actuary should be independent, if the operating models that are currently used in practice diminish the Appointed Actuary's impartiality. Looking at measures to maintain impartiality such as tenure limits and peer review. Also exploring if there has been pressure placed on Appointed Actuaries to alter their advice or opinion.

e. Conflicts of Interest – including if Appointed Actuaries and insurers are aware of potential conflicts of interest and managing them. Areas of conflicts with remuneration and dual hatting roles

f. Delegations, Absences and Expectation in a Crisis – should the Appointed Actuary be able to delegate, do they do this in practice, are there processes in place to deal with absences. We also looked at what is expected of the Appointed Actuary in a crisis and whether there is enough capability and resource to cope with this.

g. Actuarial Recommendations and advice.

h. Engagement with the Insurer Board and Management and Auditor.

i. Engagement with the Reserve Bank.

j. Actuarial Reports – for example solvency, section 78 report, Financial Condition Report, reports on transfers and amalgamations, and disclosures under sections 24 and 127 of IPSA.

The review involved discussions with several stakeholder groups:

a. Insurers – Chair of Audit and Risk Committee and another Independent Director, CEO, CFO, Chief Actuary (where this role exists separately from the Appointed Actuary), CRO or equivalent role.

b. Actuaries - Appointed Actuaries, New Zealand Society of Actuaries, Actuaries Institute of Australia.

c. Auditors – the main audit firms, rather than insurer specific audit partners.

d. Others – industry bodies (Financial Services Council, Insurance Council of NZ, Health Funds Association of NZ), FMA and APRA.

Fifteen insurers were selected to participate in the thematic review out of a pool of 87 licensed insurers. The insurers were chosen to represent this pool over a range of factors, including, but not limited to: insurer size, branch or locally incorporated insurers, the predominant type of insurance and whether the Appointed Actuary is an employee or external consultant.

All participating insurers completed two short surveys – one for the insurer and one for their Appointed Actuary. The surveys were short and fact-based, covering the roles they have and the amount of work they do. Insurers selected for an in-depth review were also required to provide formal reports by the Appointed Actuary from the prior 12 months, other than those already provided to the Reserve Bank.

A desk-based review was conducted. Specific questions coming from this analysis were incorporated into interview questions for onsite meetings.

The onsite phase of the review included meetings with the CEO, CFO plus CRO (or equivalent), Appointed Actuary (and Chief Actuary and/or Alternate Actuary where applicable), two independent Directors (Chair of the Audit and Risk Committee and one other Director).

Consideration was given to meeting with the relevant audit partner for each insurer in the review. Given the length of the onsite interviews and the proposed scheduling it was decided to instead have discussions with the main audit firms both before and after the onsite visits.

Follow-up meetings were arranged with key external stakeholder groups, seeking input into the process and any follow-up comments or thoughts.

Following the onsite interviews and additional stakeholder engagement the analysis of all information gathered was collated. Over 2,500 answers to interview questions were analysed alongside responses from stakeholder group input and two formal submissions.

APPENDIX 2

STATUTORY AND REGULATORY REQUIREMENTS

TABLE 3 – RELEVANT OBLIGATIONS UNDER IPSA, INSURANCE PRUDENTIAL SUPERVISION REGULATIONS (IPSR), SOLVENCY STANDARDS AND THE NZSA PROFESSIONAL STANDARDS.

Reference	Obligation
IPSA	Information and a link to the Act and Regulations can be found on the Reserve Bank website www.rbnz.govt.nz/regulation-and-supervision/insurers/regulation
section 34	Licensed insurer must be subject to fit and proper policy for directors and relevant officers. The Appointed Actuary is a relevant officer.
section 36	Refers to the issuance of a fit and proper standard. The fit and proper standard can be found here www.rbnz.govt.nz/regulation-and-supervision/insurers/regulation/fit-and-proper-standard
section 76	Requirement for licensed insurers to have Appointed Actuary
section 77	Review all the actuarial information contained in, or used in the preparation of, the financial statements.
section 78	Prepare an Appointed Actuary report, including the Appointed Actuary's opinions on whether actuarial information has been appropriately included and used in the financial statements and whether the solvency margin is being maintained.
section 80	A licensed insurer must ensure that any specified actuary has reasonable access to the accounting records and other documents of the insurer.
section 127	Report to RBNZ any anticipated or actual breach of the solvency margin, serious financial difficulties, fraud or recklessness or other information likely to assist or be relevant to the exercise of RBNZ of its powers under IPSA.
section 128	Before disclosing any information to RBNZ under section 127, an actuary must take reasonable steps to inform the licensed insurer or associated person of the intention to disclose the information and the nature of the information.
section 129	Protections for actuaries making disclosures under s127.
IPSR	
regulation 6	Fit and proper policies must require reassessments at least every 3 years.
regulation 15	The Appointed Actuary is required to provide a statement on the validity of assumptions and methodology of business projections upon establishment of a statutory fund.
regulation 27	The Appointed Actuary is required to provide written advice to the board on the consequences of proposed distributions from a statutory fund – distribution of retained profits.

Reference	Obligation
regulation 28	The Appointed Actuary is required to provide written advice to the board on the consequences of proposed distributions from a statutory fund – distribution of shareholders' or members' capital.
regulation 33	The Appointed Actuary is required to provide written advice to the board in respect of statutory funds for value of policyholders' retained profits, shareholders' or members' capital, and shareholders' or members' retained profits.
Solvency Standards	The Solvency Standards can be found at www.rbnz.govt.nz/regulation-and-supervision/insurers/regulation/solvency-standards
	The Appointed Actuary of the licensed insurer must be responsible to the board of the licensed insurer for performing or reviewing all aspects of the solvency margin calculations to ensure the calculations are complete and accurate.
	If any simplifying assumptions are made or simplifying methodologies are used in calculating the licensed insurer's solvency margin, the Appointed Actuary must ensure that they result in a more conservative assessment of solvency margin or do not materially alter the result compared to the case without simplification. The Appointed Actuary must also disclose in the Financial Condition Report such simplifying assumptions or methodologies and justify them on the grounds of materiality or that they provide a more conservative outcome.
	(Life) Current termination value also applies where a termination value has not yet been vested at the reporting date, but on wind-up, either legally or in the opinion of the Appointed Actuary, an accrued liability will exist that ought to be paid to the policyholder.
	(Life) The grouping of contracts of insurance into related product groups must be considered by the Appointed Actuary to exhibit benefit characteristics and pricing structures sufficiently similar as to justify grouping for the purposes of profit margin calculation, loss recognition and reporting within the financial statements or alternative financial information of the licensed insurer.
	(Non-life) Premium liabilities are to include a risk margin intended to provide a 75% probability of sufficiency, and are to be assessed by the Appointed Actuary.
	(Non-life) Where an insurer issues a significant volume of contracts with features that may produce significant risk for the licensed insurer for more than one year, then the Appointed Actuary advises on the appropriate basis for settling provisions for unexpired risk and outstanding claims and whether an additional capital charge is appropriate in light of the risks. The Appointed Actuary must consider whether the solvency standard for life insurance business provides additional guidance as to the appropriate treatment of contracts with long term risk and, if appropriate, seek to achieve reasonable consistency with that solvency standard.
	The Appointed Actuary of the licensed insurer must review the basis on which the catastrophe risk capital charge has been calculated.
	(Life) If assets or liabilities are hypothecated in the solvency calculations then the Appointed Actuary must be satisfied that the criteria for hypothecation have been met.

Reference	Obligation
	The Appointed Actuary should consider whether any undisclosed contingent liabilities have the potential to pose a material risk to the ability of the licensed insurer to maintain the required solvency margin now or in the future.
	(Life) When applying discretions the Appointed Actuary must also consider the impacts on discontinuance rates, claims, anti-selection effects, insurance risk capital charge and resilience risk capital charge. The discretion assumed in the calculation of minimum solvency capital should be consistent with a licensed insurer's ability to apply the discretion in practice.
	The Appointed Actuary must prepare a Financial Condition Report (the requirements of which are specified).
	(Non-life) The Appointed Actuary must use professional judgement to determine the extent of work required regarding the liability adequacy test, considering the nature and size of the licensed insurer's business and the materiality of the risks involved.
	The Appointed Actuary must calculate or review all aspects of the solvency margin calculations. The results of the calculation or review must be documented in the Financial Condition Report.
	In preparing the Financial Condition Report, the Appointed Actuary must make due enquiries in order to determine whether the licensed insurer is exposed to any contingent liabilities that have not been disclosed in the licensed insurer's financial statements.
	The Appointed Actuary must advise the licensed insurer on whether, in the Appointed Actuary's opinion, the licensed insurer needs to consider reporting to RBNZ under IPSA section 24, taking account of the licensed insurer's forward looking assessment of the solvency margin and the Appointed Actuary's assessment of the licensed insurer's business plans, its enterprise risk management practices and the external environment.
	The Appointed Actuary may need to deal with issues that are not within the skills and experience of the Appointed Actuary. In this situation the Appointed Actuary will need to utilise the skills and experience of others and may rely on other relevant experts, provided that reliance is appropriate and adequate disclosure is included on the nature of that reliance.
	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 NZSAs' Professional Standards.
Exempt from the Solvency Standards	For insurers not subject to RBNZ solvency standards, an obligation of the Appointed Actuary to prepare a Financial Condition Report, with specified content, is set out in the section 59 exemption notice.
Other obligations	While not a regulatory requirement for transfers and amalgamations, in practice RBNZ usually requests a report by the Appointed Actuaries of the transferee and transferor insurers, in addition to any report by an independent actuary.

Reference	Obligation
NZ Actuarial Professional Standards	RBNZ solvency standards require Appointed Actuaries to comply with Professional Standards of the NZSA. Note members must comply with the NZSA Code of Professional Conduct.
PS 20	Determination of Life Insurance Policy Liabilities.
PS 21	Life Insurers Financial Condition Report.
PS 30	Valuations of General Insurance Claims.
PS 31	Non-Life Insurers Financial Condition Report.
PS 90	General Actuarial Practice.
	For insurers not subject to RBNZ solvency standards, the section 59 exemption notice requires compliance with the relevant actuarial Professional Standards. This is usually the Professional Standards of the NZSA, although the Actuaries Institute (of Australia) applies in some cases.
RBNZ Guidelines	Reserve Bank Guidelines can be found at www.rbnz.govt.nz/regulation-and-supervision/insurers/supervision/guidelines-for-insurers

APPENDIX 3
IAIS GUIDANCE

The Reserve Bank is a member of the IAIS, which currently has voluntary members from over 200 jurisdictions.

The IAIS sets the international standards and is responsible for developing and assisting in the implementation of principles, standards and other supporting material for the supervision of the insurance sector[23].

Tables 4 and 5 below state the guidance given by the IAIS on the use of the Appointed Actuary in a supervisory framework or model.

TABLE 4 – IAIS (2019) PAGE 93 GUIDANCE FOR THE APPOINTED ACTUARY ROLE

Reference	Guidance
Reference Details:	IAIS (2019) 'Insurance Core Principles and Common Framework for the Supervision of Internationally Active Insurance Groups '', Supervisory Material, November, www.iaisweb.org/page/supervisory-material/insurance-core-principles-and-comframe/file/89018/iais-icps-and-comframe-adopted-in-november-2019, accessed 19 March 2020.
8.6.7	Some jurisdictions may require an "Appointed Actuary", "statutory actuary", or "responsible actuary" (referred to here as an "Appointed Actuary") to perform certain functions, such as determining or providing advice on an insurer's compliance with regulatory requirements for certifications or statements of actuarial opinion. The tasks and responsibilities of the Appointed Actuary should be clearly defined and should not limit or restrict the tasks and responsibilities of other individuals performing actuarial functions.
8.6.8	The insurer should be required to report the Appointed Actuary's appointment to the supervisor.
8.6.9	The Appointed Actuary should not hold positions within or outside of the insurer that may create conflicts of interest or compromise his or her independence. If the Appointed Actuary is not an employee of the insurer, the Board should determine whether the external actuary has any potential conflicts of interest, such as if his or her firm also provides auditing or other services to the insurer. If any such conflicts exist, the Board should subject them to appropriate controls or choose another Appointed Actuary
8.6.10	If an Appointed Actuary is replaced, the insurer should notify the supervisor and give the reasons for the replacement. In some jurisdictions, such a notification includes statements from both the insurer and the former Appointed Actuary as to whether there were any disagreements with the former Appointed Actuary over the content of the actuary's opinion on matters of risk management, required disclosures, scopes, procedures, or data quality, and whether or not any such disagreements were resolved to the former Appointed Actuary's satisfaction.

23 See www.iaisweb.org/page/about-the-iais for more information.

Reference	Guidance
8.6.11	In some jurisdictions, the Appointed Actuary also has the obligation to notify the supervisor if he or she resigns for reasons connected with his or her duties as an Appointed Actuary or with the conduct of the insurer's business and give the reasons for resigning. The Appointed Actuary should also notify the supervisor and provide an explanation if his or her appointment is revoked by the insurer.
8.6.12.	The supervisor should have the authority to require an insurer to replace an Appointed Actuary when such person fails to adequately perform required functions or duties, is subject to conflicts of interest or no longer meets the jurisdiction's eligibility requirements.

TABLE 5 – IAIS (2003) CONCLUSIONS

Reference	Conclusion
Reference Details:	IAIS (2003) 'The use of actuaries as part of a supervisory model guidance paper', *Guidance Paper*, October, www.iaisweb.org/page/supervisory-material/archive-supervisorarchive-supervisory-material-superseded-by-icps-standards-guidance-adopted-in-2011/guidance-papers/file/34133/7-the-use-of-actuaries-as-part-of-a-supervisory-model-guidance-paper-october-2003/, accessed 19 March 2020.
Page 4	1. The application of actuarial expertise is a key component in the operation of insurers, insurance markets and insurance supervisory authorities.
Page 6	2. The roles of actuaries and external auditors, and relationships between them, are enhanced by a clear definition of their respective responsibilities.
Page 8	3. The decision on the use of a responsible actuary in an official capacity as part of a supervisory model should give due regard to the need to ensure effective supervisory oversight and management accountability.
Page 8	4. Where a responsible actuary model is adopted, the actuary should have clearly-defined tasks and responsibilities, as well as rights and obligations under the law. These tasks and responsibilities can change over time.
Page 8	5. In the event that the use of a responsible actuary in the supervisory model is not adopted, then the supervisor has to have access to sufficient actuarial resources to perform detailed and quantitative reviews, as required.
Page 9	6. The decision to adopt an official role for actuaries should take account of the availability of suitably qualified actuaries and the extent to which the profession is well organised.

Reference	Conclusion
Page 10	7. Where the use of a responsible actuary model is adopted, the supervisor should not simply accept the work of the actuary without further scrutiny, but should have access to actuarial resources to review and interpret the advice of the responsible actuary.
Page 11	8. The appointment of a particular responsible actuary should be subject to supervisory review and the supervisor should have the capacity to have an unsatisfactory appointee removed from the position.
Page 11	9. Where a responsible actuary model is in place, there should be some criteria regarding who may qualify for appointment as a responsible actuary. These criteria may be based on qualifications, professional experience, membership in a professional association or a combination of these elements. In addition, factors such as the personal and professional ability to function in the position should be considered.
Page 12	10. Where a responsible actuary model is in place, consideration should be given to potential conflict of interest situations. It is preferable that the person appointed as a responsible actuary not be permitted to hold this position at the same time as being a chief executive officer.
Page 13	11. Where a responsible actuary model is in place, there should be some avenue available for a responsible actuary to be removed at the initiative of either the insurer or the supervisor. Removal may be required where the actuary fails to perform adequately the required functions and duties or does not meet eligibility or fit and proper criteria. The supervisor should be promptly informed in cases where the insurer removes the responsible actuary.
Page 14	12. A supervisory model that makes use of an actuary should take into account the extent to which the actuary is subject to professional standards of practice, qualification standards and obligations on professional conduct.
Page 15	13. The nature of the professional associations should influence the supervisor's dependence on a responsible actuary. For instance, where professional codes of conduct, standards of practice and disciplinary procedures are in place, the supervisor may place greater reliance on these persons. The professional associations can also provide a forum for development of technical aspects of the actuarial role. In any event, the supervisor has a role to ensure that practices are adequate and subject to review.
Page 16	14. Where a responsible actuary model is in place, the role of the actuary should be defined in terms of the types of advice that the actuary is required to give the insurer, for various lines of business. The actuary should provide advice on the level of technical provisions. Consideration should also be given to other areas where advice of the actuary will be valuable, such as: levels of premiums; adequacy of risk assessment; reinsurance arrangements; investment policies; statistical inference; and stress testing of the future financial condition of the insurer.

Reference	Conclusion
Page 17	15. Where a responsible actuary model is in place, there should be a requirement for the actuary to prepare a written report on the technical provisions and for that report to be provided to the insurer and made available to the supervisor. Consideration should also be given to requiring the actuary to prepare reports on other areas of advice.
Page 17	16. Where reports or advice on particular aspects are provided, the supervisor should have the ability to act independently of the actuary's advice.
Page 18	17. Where a responsible actuary model is in place, consideration should be given to whether whistleblowing requirements should be imposed on actuaries. The existence of such obligations may both increase the confidence of the supervisor and provide a direct link between supervisors and actuaries. In fulfilling such obligations, the actuary should have protection under the law.

APPENDIX 4

TROWBRIDGE AND SCHOLTENS RECOMMENDATIONS

The following table outlines the recommendations relating to the Appointed Actuary role that came from an independent review the Reserve Bank commissioned of its supervision of CBL Insurance Limited.

John Trowbridge and Mary Scholtens QC conducted the independent review to identify lessons for the Reserve Bank and the insurance regulatory regime, covering the period of time from licencing CBL Insurance Limited in 2013 through to the High Court placing them in liquidation in 2018.

The Reserve Bank released the review on their website on 3 July 2019[24].

TABLE 6 – TROWBRIDGE AND SCHOLTENS RECOMMENDATIONS APPLYING TO APPOINTED ACTUARIES

ID	Recommendations
Reference details:	Trowbridge, J and M Scholtens (2019) 'An Independent Review for the RBNZ of the Supervision of CBL Insurance Ltd', www.rbnz.govt.nz/-/media/ReserveBank/Files/regulation-and-supervision/insurers/CBL-RBNZ-Final-Report.pdf?revision=e7308ab8-6b67-402b-9fd3-11427df713e7&la=en, accessed 4 March 2020.
9.1	The Bank make clear its expectations of Appointed Actuaries, especially in situations where it has doubts about a company's reserves or solvency and, if its expectations are not met when advice or reports are received, it should follow up assiduously and take action according to its assessment of the circumstances at the time.
9.4	We recommend that the perceived barriers to challenging the authority of the Appointed Actuary be reviewed and clarified, and ensure the Bank has the power by amendment to the Solvency Standard or, if necessary, to the Act to impose an alternative opinion of claims reserves or solvency margin on an insurer.
9.6	The higher the Bank's risk assessment of an insurer, the more demanding should the Bank be on the depth of information gathering and analysis contained in the liability valuations and the FCRs.
9.7	For higher risk insurers, the Bank should not only require full compliance from Appointed Actuaries with the Solvency Standard and the Society of Actuaries standards for liability valuations and FCRs but should also consider whether the FCR is complete from the Bank's viewpoint and, if not, to raise questions that will lead to the Bank being satisfied with the information provided.
11.4	We recommend that the Bank monitor as a matter of course each year the preparation by insurers of 3 year business plans and financial projections so as to be satisfied that insurers have prepared the information they need to be satisfied that they are complying with s 24(1), making them available to the Bank on request. These plans and financial projections will provide a valuable adjunct to other capital management tools being used by insurers and assessed by their boards.

24 See www.rbnz.govt.nz/news/2019/07/reserve-bank-release-independent-review-of-its-supervision-of-cbl-insurance-liquidation

ID	Recommendations
12.2	We make the following supervisory recommendations for the Bank in dealing with high risk insurers or insurers under strong surveillance [on engagement with insurers]: Rather than rely on written documentation, engage actively with directors and executives to follow through on the substance behind the documentation. When in doubt about an insurer's financial soundness, take steps, in the interests of policyholders and the public, to investigate the company without delay and to resolve the doubts as quickly as possible. In situations of uncertainty, doubt or concern, as emerged in the CBL case, act with tenacity and persistence to remove doubts and, in the meantime, curtail or even prevent the insurer from increasing its exposures until the doubts are resolved. Be decisive and firm in seeking and obtaining information from the insurer. When an Appointed Actuary's engagement is ceasing, arrange interviews with both the departing actuary and the board of the insurer. In addition to exploring technical actuarial questions where relevant, explore governance issues thoroughly whenever there is evidence of corporate activities that entail high risk. It is imperative that the full supervisory arrangements, including regulatory powers of the Bank, result in the onus being on the insurer to satisfy the Bank.
13.1	Bank interaction: the Bank should ensure that it has and exercises at its discretion the right to meet with selected individuals or groups of executives, directors, the Appointed Actuary and the auditor, as part of the process of understanding the board and management culture of the insurer.
13.3	Bank correspondence: the Bank should require of all licensed insurers that all correspondence from the Bank to the company be disclosed to the board and that all correspondence that has a bearing on reserving, solvency and capital be disclosed to the Appointed Actuary.

APPENDIX 5
APRA CPS 320

Prudential Standards CPS 320 – Actuarial and Related Matters

The objectives and key requirements of APRA's Prudential Standard on Actuarial and Related Matters are presented on pages 1 and 2 of the Standard and includes a purpose statement for the Appointed Actuary role, as presented below. The full standard can be found on APRA's website.[25]

Objectives and key requirements of this Prudential Standard

This Prudential Standard aims to ensure that a general insurer, life company or private health insurer has access to appropriate actuarial advice to assist in the sound and prudent operation of its business. It sets out the requirements for insurers to appoint an Appointed Actuary and to establish a framework for the provision of actuarial advice. It also sets out the functions of the Appointed Actuary role.

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.

The Appointed Actuary must have the necessary authority, seniority and support to contribute to the debate of strategic issues at a senior management level and provide advice that is considered by the board. The Appointed Actuary plays a key role in, and provides effective challenge to, the activities and decisions that may materially affect the insurer's financial condition, as well as policyholder interests.

Some of the key requirements of this Prudential Standard are:

- an insurer must establish an actuarial advice framework;
- an insurer must provide the Appointed Actuary with sufficient information, and access to the board and senior management, to allow the Appointed Actuary to fulfil specified roles and functions;
- an Appointed Actuary must provide advice to the insurer on the valuation of the insurance liabilities, the insurer's financial condition, and matters specified under the insurer's actuarial advice framework, consistent with the insurer's materiality policy;
- the Appointed Actuary must assess the insurer's financial condition and annually prepare a Financial Condition Report;
- an insurer must submit a copy of the Financial Condition Report to APRA;
- the Appointed Actuary must provide advice on the valuation of insurance liabilities, and Appointed Actuaries of general insurers and life companies must annually prepare an Actuarial Valuation Report; and
- a general insurer or life company must submit a copy of the Actuarial Valuation Report to APRA.

25 APRA Prudential Standard CPS320 can be accessed here: www.apra.gov.au/sites/default/files/cps_320_standard_only.pdf