



SOCIETY OF ACTUARIES

Article from:

International Section News

February 2004 – Issue 32

The Australian Actuarial Profession

by Jules Gribble

The actuarial profession in Australia is represented by the Institute of Actuaries of Australia (IAAust). In order to carry out many statutory actuarial roles, including appointed actuary work, a person needs to be either a fellow or an accredited member of the IAAust. The IAAust is a professional body and is a member of the Australian Council of Professions. The antecedents of the IAAust directly trace back to 1897. The current IAAust was incorporated in Sydney, New South Wales, in May 1963 as a company limited by guarantee.

As of 2002, there were approximately 2,500 members of the IAAust, and about half of these members were fellows. The membership of the IAAust is growing at about 5 percent per annum, with an increasing number of members working outside

The range of activities undertaken by Australian actuaries is steadily growing, with an increasing number of members becoming involved in the general insurance and investment areas over the last few decades. There is also increasing involvement in the banking and health insurance industries and an increasing diversity of further areas such as energy markets, infrastructure funding, ageing populations and the environment. The traditional areas of actuarial involvement—life insurance and superannuation—are still considered by approximately 50 percent of Australian actuaries to be their primary area of interest, although both the absolute number and relative proportion of actuaries in these areas is slowly declining.

With the recent introduction of the approved actuary role in general insurance and the introduction of an appointed actuary role for health insurance, supporting the established appointed actuary roles in life insurance and for defined-benefit superannuation funds, the statutory standing of the profession is well established.

The Australian Financial Services

The financial service industries are fairly concentrated in Australia, with a focus on the provision of investment and superannuation services. There has been a decline in the volume of traditional whole of life and endowment insurances sold, although there remains a significant in-force block of this type of business, as well as a decline in the number of defined-benefit funds remaining in operation.

The introduction of the Superannuation Guarantee Charge, requiring employers to compulsorily place a component of wages (currently 9 percent) into the superannuation system to accumulate for employee retirement has led to a growing superannuation and investment industry, with ongoing growth projected.

The Australian financial services are generally regarded as being very competitive, and often at the forefront of international developments and innovation.

To put the Australian financial services sector into some context, we provide some



Australia (currently an approximate 20 percent).

The IAAust provides professional guidance for its members in the form of professional Guidance Notes and Standards. *The Australian Actuarial Journal* as well as *Actuary Australia* are available via the IAAust Web site.

The IAAust is taking an increasingly active role in public policy debates and makes regular submissions to government.

Sector	Size (Assets) (AUS \$ billion)	Number of Entities	Industry Concentration (by assets)
Banking	\$870b	50	Top 5: 75%
Life Insurance	\$185b	41	Top 3 (10): 60% (93%)
General Insurance	\$93b	161	Top 5 (10): 48% (67%)
Superannuation	\$520b	255,000	n/a
Managed Funds	\$630b	600 Prospectuses	n/a
Funds Management	n/a	n/a	Top 5 (10): 44% (69%)
Health Insurance	\$4b	42	Top 3 (10): 56% (90%)
Other	\$170+b	n/a	n/a

approximate data in terms of assets and number of entities. This data has been taken from a variety of sources, including APRA, IFSA and the Australian Bureau of Statistics.

Some comments may assist in interpreting the above information:

The Australian GDP for the 2001-2002 year was approximately \$700b.

- In some cases there is some “double counting” taking place in the above table. The “Managed Funds” results include approximately \$360b invested in either life insurance or superannuation vehicles.
- A rapidly growing area of the superannuation industry is that of “small” superannuation funds (funds with less than five members, and perhaps akin to 401k plans in the United States, in the sense that the investment strategy and implementation is often done by the fund members). Approximately 99 percent of the superannuation funds are of this type; however, they represent a significant quantum of assets—just over \$100b.
- The ‘General Insurance’ figures include 15 statutory bodies, which typically

enjoy state-wide monopolies in areas such as workers compensation.

- The health insurance industry is the largest “risk insurance” sector in that it has the highest annual risk premium intake.
- Overall, the Australian financial services industry tends to be concentrated amongst small groups of major providers, many of whom are major players in more than one area.

Regulatory Change

The regulatory system in Australia is essentially a commonwealth matter (as opposed to a state matter). As a consequence of the Wallis enquiry, the Australian financial services regulatory structure was changed in 1998 with the establishment of the Australian Prudential Regulation Authority (APRA), the Australian Securities and Investment Commission (ASIC), and other changes. In summary, the primary regulators relevant to the financial services are:

Australian Prudential Regulation

Authority:

The APRA is the prudential regulator of banks, insurance companies (life and general – property and casualty) and super-

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annuation funds, credit unions, building societies and friendly societies, with a consequential emphasis on long-term solvency and capital adequacy, with its primary mandate explicitly being the protection of the interests of policyholders and fund members.

Australian Securities and Investment Commission:

The ASIC enforces company and financial services laws to protect consumers, investors and creditors. The ASIC regulates and informs the public about Australian companies, financial markets, financial services organisations and professionals who deal and advise in investments, superannuation, insurance, deposit taking and credit. In particular, the ASIC deals with matters relating to disclosure and consumer protection.

Australian Competition and Consumer Commission (ACCC):

In broad terms, the ACCC addresses anti-competitive and unfair market practices, mergers or acquisitions of companies, product safety/liability and third party access to facilities of national significance.

Reserve Bank of Australia (RBA):

The RBA's main function is monetary policy. Policy decisions are made by the Board, with the objective of achieving low and stable inflation over the medium term. Other major roles are maintaining financial system stability and promoting the safety and efficiency of the payments system.

In recent years there has been considerable change in the regulatory environment in Australia, including:

General Insurance:

As of July 1, 2002, all general insurers in Australia were required to have completed a re-licensing process as part of the introduction of revised and strengthened prudential standards. This process was accelerated by the demise of the HIH group (primarily a general insurance business) in March 2001, with an excess of liabilities over assets of the between \$5b and \$6b.

Financial Service Reform:

As of March 11, 2004, all distributors of financial services products will be required to be licensed under requirements intended to impose a "level playing field" on all providers. The definition of "financial services" is very broad, and has included traditional providers as well as covering many others in the industry, including actuaries. These reforms are an outworking of the Wallis enquiry.

Current Issues

There are a number of major issues facing the financial services industry, in addition to those implied by the changes in the regulatory environment. Consequently, there are opportunities for the actuaries in Australia in addition to the standard ongoing actuarial work requirements, including:

Consequences of the HIH failure:

A Royal Commission into the failure of HIH has recently concluded and published a three volume report. There are a number of recommendations that directly impact actuaries and their ongoing professional conduct. The IAAust has established a number of taskforces to consider issues, including a Corporate Governance Taskforce and an HIH Royal Commission Taskforce. Reports from these taskforces are available from the IAAust Web site. A particularly lively debate on the issue of independent peer review (of statutory actuarial work) is an outworking of the corporate governance taskforce report.

Unsatisfactory Financial Position of Defined-Benefit Superannuation Funds:

There has been considerable concern recently, driven by poor investment returns over the last few years, that a significant proportion of Australian defined-benefit funds are in an unsatisfactory financial position. That is, they have vested benefit obligations to members in excess of the current realisable value of the fund's assets. Appropriate actuarial input to the identification and management of such situations provides a challenge.

New Approaches to Risk in Banking and Insurance:

International and Australian business leaders and actuaries representing banks, insurers, regulators and consultants will meet to compare and contrast the various approaches taken internationally to measure and model risks and capital requirements of various financial institutions. An international seminar was held in Sydney on Wednesday, May 14, 2003, organized by the IAA in conjunction with the IAAust in discuss these matters. The introduction of the Basel II requirements and the increased awareness of operational risk provides scope for actuarial input.

Licensing of Superannuation Trustees:

Current proposed reforms will require that all APRA regulated superannuation trustees are licensed by APRA. Trustees will be required to prepare a risk management strategy covering their own operations and a risk management plan for each entity that they operate. In addition, they will be required to comply with strategies set out in the risk management strategy and risk management plan and to register all superannuation entities with APRA. Early discussions in this reform package included proposals to impose capital requirements on superannuation funds in order to increase member security. These have not been proceeded with.

Management of Longevity Risk:

With the growing expectation, supported by government policy that individuals will take increasing responsibility for funding their own retirement needs, the current poor investment environment has highlighted risks to both the accumulation and draw-down phases of retirement planning. There is an increasing recognition that longevity risk is a major issue needing to be addressed and that current options are not sufficient.

International Accounting Standards:

In common with many other countries, the impact of IAS is becoming a major issue for, amongst others, the actuarial profession. The current Australian position has been stated to be that IAS will be fully implemented in Australia consistent with international time frames.

Australian Actuarial Education

Actuarial education has developed in Australia since the late 1960s with the introduction of actuarial education through several IAAust accredited universities. Currently there are four Australian universities accredited to provide Part I and Part II actuarial education: the Australian National University, Macquarie University, the University of Melbourne and the University of New South Wales.

Part I of the Australian actuarial education program has the same syllabus as that prescribed by the U.K. Institute of Actuaries. Part II of the actuarial education program is the so-called 'Actuarial Control Cycle.' On completion of Part II, students are eligible to become associates of the IAAust. The completion of Part II is consistent with the completion of the 10 International Actuarial Association (IAA) subjects required for as a condition of membership of the IAA.

To become a fellow of the IAAust, students are required to complete Part III, the subsequent professionalism course, and satisfy a 12-month experience requirement. The provision and content of Part III education is currently undergoing a major review, with the IAAust having recently completed a review of the syllabus and having requested tenders for the provision of Part III education. Until now, the IAAust has undertaken the provision of Part III education itself.

The IAAust has published two actuarial education texts, one covering Part III: General Insurance, and the other, launched in May of 2003, addressing Part II: Understanding Actuarial Management: the actuarial control cycle.

Qualified fellows from some actuarial bodies, including the Society of Actuaries, can obtain membership and professional standing with the IAAust under the terms of mutual recognition agreements between the IAAust and these other societies.

Further Information

There are a number of sources of further information regarding the financial services and the actuarial profession in Australia. These include the following:

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Institute of Actuaries of Australia:

<http://www.actuaries.asn.au>

Regulators:

- APRA: <http://www.apra.gov.au>
This site provides information such as statistical data, actuarial and prudential standards for the valuation of life insurance and general insurance liabilities and solvency requirements, links to relevant current legislation information and the prudential regulation of Approved Deposit Institutions (ADIs – including all banks) and superannuation funds (Pensions).
- ASIC: <http://www.asic.gov.au>
- Private Health Insurance Administration Council (PHIAC):
<http://www.phiac.gov.au>.

PHIAC is an independent statutory authority that regulates the private health insurance industry. Private health insurance policy is set down by the Australian Commonwealth Department of Health and Ageing.

Industry bodies:

- IFSA: Investment and Financial Services Association Limited
<http://www.isfa.com.au>
- ASFA: Association of Superannuation Funds of Australia
<http://www.asfa.asn.au>
- ICA: Insurance Council of Australia:
<http://www.ica.com.au>

Major financial services providers in Australia (Funds Managers):

The largest funds managers, in terms of funds under management, as of March 2003 (according to IFSA data) are:

- Commonwealth Bank of Australia / Colonial First State:
<http://www.commbank.com.au/personal>
- AMP:
<http://www.amp.com.au>

- Macquarie Bank Group Managed Funds:
<http://www.macquarie.com.au>
- National Bank / MLC:
<http://www.national.com.au>
- BT / Westpac:
<http://www.westpac.com.au>

Life Insurers:

The largest life insurers in Australia (in terms of assets at December 31, 2002, according to APRA data) are:

- AMP:
<http://www.amp.com.au>
- National Australia bank / MLC:
<http://www.national.com.au>
- Commonwealth Bank of Australia / Colonial First State (12.1 percent):
<http://www.commbank.com.au/personal>
- ING / ANZ:
<http://www.anz.com.au>
- National Mutual / AXA Asia Pacific Holdings:
<http://www.axa.com.au>

General Insurers:

The largest general insurers in Australia are (in terms of assets as of December 31, 2001, according to APRA data):

- Insurance Australia Group (IAG):
<http://www.iag.com.au>
- Suncorp:
<http://www.suncorp.com.au>
- Promina:
<http://www.promina.com.au>
- Allianz Australia:
<http://www.allianz.com.au>
- QBE:
<http://www.qbe.com.au>

Private Health Insurers:

The largest (by annual premium) private health insurer in Australia:

- Medibank Private:
<http://www.medibank.com.au>

Jules Gribble, FSA, FCIA, FIAA, Ph.D., is director of ASKIT Consulting in Melbourne, Australia. He can be reached at Jules_Gribble@askit.com.au.