



SOCIETY OF ACTUARIES

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# An Update from Australia

by Jules Gribble

In an earlier article in the February 2004 edition of *International News*, some topical issues and the background to the Australian actuarial profession were discussed. This article provides an update on the current “state of play.” Therefore, the focus is mostly on topical issues, as much of the background already provided remains relevant.

## The Australian Actuarial Profession

The Institute of Actuaries of Australia (IAAust) has an active program of updating professional guidance.

Recently, a draft of the proposed guidance note regarding independent actuarial peer review of statutory actuarial work was distributed to members, and may well be the subject of lively discussion in coming IAAust Horizons meetings around the country.

In summary, the IAAust is proposing that “*as best practice that the Independent peer review of statutory reserving or liability valuation reports for life and general insurance, prepared by the Primary Actuary, and the practice of the Superannuation Actuary in relation to advice on the financial status of superannuation funds,*” with “*The Reviewing Actuary should be appointed by the entity (usually a company, firm or board) receiving the advice that is to be peer reviewed.*” Drivers behind this effort to increase public confidence in the actuarial profession and the quality of its work include making proactive responses following the HIH failure (2001) and the United Kingdom’s Penrose Report.

The IAAust has also published a number of other new Guidance Notes, which are available from the IAAust Web site (<http://www.actuaries.asn.au>). These include:

- GN 670: Financial Condition Reports for Health Insurers
- GN 552: Economic Valuations
- GN 252: Economic Valuations for Life Business

Work continues on the development of guidance for financial condition reports for general insurers. Annual Financial Condition Reports are becoming mandatory for general and health insurers in Australia matching, from a statutory point of view, the mandatory annual Life Financial Condition Report and triennial Defined Benefit Review.

The IAAust Biennial Convention was held in Cairns, in north Queensland, May 8-11, 2005. The theme was “Sustain...Ability-



Actuaries and the Future.” Approximately 900 attended the event.

## 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, this provides opportunities for the actuarial profession in Australia. Some are specific to Australia, and some are part of international trends:

### Risk Management

As part of an ongoing increase in awareness, heightened by the February 2004 National Australia Bank foreign exchange blow out (estimated to have incurred losses of the order of \$AUS400m), there has been an increase in focus on risk management, both by industry and by regulators.

In the superannuation area, 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 the banking arena, the introduction of the Basel II requirements and the increased awareness of operational risk provide scope for actuarial input.

### Unit Pricing

In the wake of the major scandals in the United States regarding unit pricing, regulatory attention in unit pricing practices in Australia was piqued. Several recent significant unit pricing issues (with headline remediation costs between \$AUS50m and \$AUS100m) have also focused attention on unit pricing practices. A joint APRA and ASIC

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On the question of competition, the Review concluded that sufficient competition and choice is in general available in the market for actuarial services, but that there is an “understanding gap” between users and actuarial advisers, which inhibits the exercise of choice. The Review suggests the need for more formal review and market testing of actuarial services and for measures to reduce some obstacles to a more effective market emerging.

In particular, the Review recommends that trustees of pension plans should invite tenders separately for 1) actuarial advice, 2) strategic investment advice and 3) fund manager selection advice. It also recommends that pension plan trustees should:

- Informally evaluate their actuarial advisers on an annual basis

- Undertake a more formal evaluation every three years
- Undertake a formal market-test of their actuarial advisers every six years

The Review was concerned that users of actuarial advice are not well-placed to challenge and question the advice they get and recommended that the pensions regulator should develop information and case study material to help pension plan trustees to challenge their actuarial advice and to be able to recognize conflicts of interest. There should also be education and training for non-executive directors of insurance companies to assist them in challenging advice from their actuaries.

On the regulation of the profession, the Review recommended that there should be independent oversight of the profession by the

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(national prudential and market regulators respectively) consultative paper regarding unit pricing practices is expected to be finalized soon.

### Choice in Superannuation

As of July 1, 2005, many superannuants (of the order of half of all current superannuation contributors) will be required by law to be given choice as to the superannuation fund in which their compulsory superannuation contributions (the 9 percent of salary so-called Super Guarantee Contribution) will be placed. This is generating a lot of market issues for the superannuation industry, with some suggesting that it may spark a wave of consolidation amongst smaller superannuation funds.

### General Insurance

In November 2003, APRA published a discussion paper “Prudential Supervision of General Insurance – Stage 2,” to initiate the second round of discussions on the ongoing general insurance reform process.

### 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 continues to evolve in Australia.

Starting in 2005, Part I of the education process will change inline with the syllabus as prescribed by the UK Institute of Actuaries. The vast majority of Part I actuarial education continues to be provided through the four universities accredited by the IAAust.

The new Part III subjects come online in 2005 as well. Part III, and the associated professionalism course, are required in order to qualify as a Fellow of the IAAust. The new Part III structure consists of four modules, each representing a half-year course with all modules intended to be offered each half year. Modules are:

- **Module 1:** Investment Management and is compulsory
- **Module 2 and 3:** Students choose one practice area from Life Insurance, General Insurance, Superannuation & Planned Savings, and Investments & Finance and then complete two modules in that area
- **Module 4:** Business Applications, and this is also compulsory

## Further Information

A number of sources of further information regarding financial services and the actuarial profession in Australia were provided in the February 2004 article. □



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