

Appendix 2 – Actuarial practice standards in Europe to serve the fit part of the Fit & Proper principles

What is the AAE’s recommendation on actuarial practice standards in Europe?

All persons who provide key actuarial services should be subject to some minimum practice standards as part of their Fit&Proper requirements.

Scope of the actuarial practice standards we propose

The envisaged minimum common actuarial practice standards set by the local regulator based on EIOPA’s model standards in form of EIOPA guidance would be very similar to what is included in ESAP 1 (or, after the revision of ISAP 1 / ESAP 1, the revised ESAP 1). That means that the vision is to encourage EIOPA to develop the minimum common actuarial practice standards as substantially consistent with ESAP 1 and there would be no further minimum common actuarial practice standard requirements.

The rest of Appendix 2 describes the proposed details.

What do we mean by key actuarial services?

In the context of this paper, key actuarial services mean any Actuarial Public Interest Role (APIR). See the Glossary for the definition.

What is meant by a Person in an Actuarial Public Interest Role (PAPIR)?

See the Glossary for the definition.

Who should set actuarial practice standards?

The thoughts below in Appendix 2 refer to jurisdictions where the regulator has not delegated the task of setting actuarial practice standards to an AAE member association. If that delegation and to the extent it has taken place, the AAE member association would continue to set actuarial practice standards.

Although APIRs are broader than roles actuaries provide in insurance and pensions, an effective approach could be to pursue a step-by-step process and start with insurance and pensions related actuarial services and hence the right European institution would be EIOPA. The AAE Board would like to strengthen the relationships between the AAE and EIOPA, and raising this matter with EIOPA would be appropriate in this process.

(In the longer term though we could approach the EC which could delegate this function to a special body. We may think even in more broader terms and more strategically than considering just the actuarial profession itself: practice standards would serve the public interest for all professionals who act in the Public Interest Role and for whom such practice standards are not already part of their fit and proper requirements (for example for accountants, auditors, medical doctors, lawyers, architects and probably for some others do already have their practice standards or “protocols”). So looking at the issue from a higher level, we could identify (and even liaise with) some other professions that are in a similar situation as we are.)

EIOPA could develop the actuarial practice standards as guidelines recommended to the national competent authorities (i.e. national supervisors) who could issue them in the Member States (and in other countries in Europe that are not Member States but have close ties with the EU). Note that there could be a conflict between EIOPA and the national competent authorities as well as AAE members who have an international footprint and/or where the regulatory power and authority rests directly with that AAE member body and is not delegated by a national competent authority – that needs attention. In this regard, it is important to emphasize that the practice standards should be high level, principles-based, serving basic minimum level of practice standards PAPIRs should be expected to comply with.

One model might be that the role of the actuarial profession would be to support/advise the standard

setter in developing actuarial practice standards. In this circumstance, actuaries (i.e. members of the profession) or a body of actuaries do not set the standards. Instead, these standards would apply to all persons (i.e. to non-actuaries as well) who provide APIRs. It is recognised that this approach would involve a change to transition for some AAE member bodies (who are currently recognized as standard setters by the authorities).

It should be noted that if the proposed approach were followed (i.e. if minimum common actuarial practice standards were set by the local regulator based on EIOPA's model standards in form of EIOPA guidance) then, on the one hand, the AAE Full Member Associations (FMAs) would give up some of their sovereignty in terms of their discretion in respect of their own standard setting concerning the minimum common actuarial practice standards, while, on the other hand, the public interest would be better served, actuaries would gain a higher level of recognition by the public and the authorities; and the risk coming from a perceived advantage of non-members for allowing non-compliance with and a perceived disadvantage of members for requiring compliance with certain practice standards would be mitigated. **Important question: Is every AAE FMA happy with this approach?**

Who should monitor/enforce the adherence to these actuarial practice standards?

The institution that sets the practice standards could provide the monitoring/enforcing function; i.e. as we start the step-by-step process: the national competent authorities based on EIOPA's guidelines.

What could we propose as APIR?

APIR should be defined as in the Glossary.

Following the step-by-step process, at the beginning, the roles may be limited to Solvency II, IORP II, the roles provided by the chief/responsible actuary – but leave the door open to broadening. For example, the IFoA listed several such roles in its Practising Certificates Regime¹.

Scope of the actuarial practice standards we propose

The envisaged minimum common actuarial practice standards set by the local regulator based on EIOPA's model standards in form of EIOPA guidance would be very similar to what is included in ESAP 1 (or, after the revision of ISAP 1 / ESAP 1, the revised ESAP 1). That means that the vision is to encourage EIOPA to develop the minimum common actuarial practice standards as substantially consistent with ESAP 1 and there would be no further minimum common actuarial practice standard requirements. This approach would serve several purposes:

- 1) The minimum common actuarial practice standards (i.e. the one set by the local regulator based on EIOPA's model standard) would apply to all PAPIRs – actuaries (i.e. members of AAE FMAs) and non-actuaries creating a level playing field for all PAPIRs in terms of level of quality and thereby serving the public interest while mitigating the risk coming from a perceived advantage of non-members for allowing non-compliance and a perceived disadvantage of members for requiring compliance with certain practice standards;
- 2) AAE FMAs who are recognized as regulatory standard setters would continue this practice;
- 3) AAE FMAs who are not recognized as regulatory standard setters may need to adapt their actuarial practice standards that serve compliance with practice standards set by the local regulator based on EIOPA's model standards; however, they would maintain their standard setters status in terms of actuarial practice standards other than the ones that serve the compliance with ESAP 1 (such as, for example, an actuarial practice standard for insurance accounting).

¹ <https://actuaries.org.uk/media/i4end2mx/practising-certificates-pc-scheme.pdf>

Glossary

AAE: Actuarial Association of Europe

Actuarial Public Interest Role (APIR): a role in which a person assumes responsibility for an actuarial service that materially contributes to the public interest. This comprises the actuarial function holder role and roles that assume responsibility for material actuarial contributions to other key or critical or important functions (e.g., attesting, by a sign-off, the appropriateness of documents that will become part of the public domain or submitted to a public authority).

Person in an Actuarial Public Interest Role (PAPIR): a person who provides service in an Actuarial Public Interest Role.

“Fit and Proper”: a notion used by European regulation, notably the Solvency II and IORP II directives and related regulations, to characterise requirements on persons that effectively run a subject undertaking or institution. These requirements also extend to persons who hold key functions therein.

Institution: institution for occupational retirement provision as per IORP II.

Key Function: a notion used by European regulation, notably the Solvency II and IORP II directives and related regulations, to characterise function that are key for the financial soundness of an undertaking or institution. In Solvency II and IORP II, this comprises at least the Actuarial Function, the Risk Management function, and Internal Audit. The undertaking may define more key functions.

Critical or Important Functions or activities: a notion for a function or an activity within an insurance or reinsurance undertaking that is deemed critical or important by the undertaking for its operations, compliance, or performance. For these functions or activities, specific governance requirements apply. EIOPA's Final Report on Public Consultation No. 14/017 on Guidelines on system of governance gives examples of critical or importance functions or activities in paragraph 2.291.

Undertaking: insurance or reinsurance undertaking as per the Solvency II directive

Full Member Association (FMA): a full member of AAE as per AAE's statutes

AAE Fully Qualified Actuary (FQA): a fully qualified member of one of AAE's Full Member Association.