

## **Report of the Standards Project Team to the Standards, Freedoms and Professionalism Committee meeting in Reykjavík, 12 May 2017**

Since the meeting of the Standards, Freedoms and Professionalism Committee (SFPC) in Barcelona, 22 September 2016, the Standards Project Team<sup>1</sup> (SPT) and its task forces have progressed work on ESAP3 (ORSA) and ESAP5 (Independent review).

### **Task Force<sup>2</sup> on ESAP3 – Actuarial Practice in relation to the ORSA Process under Solvency II**

At the Barcelona meeting of the SFPC it was agreed that a second exposure draft would be issued and consulted on. The 2<sup>nd</sup> ED was issued on 5 December 2016 and the comment period ended on 5 March 2017.

The TF has considered the comments received, had discussions with some of the stakeholders and drafted a new version of the ESAP and compiled a report on the consultation. The SPT has considered the new draft and the report and hereby submits them to the SFPC for consideration and discussion at the Reykjavík meeting on 12 May 2017 (see **Annex 2b\_i clean copy of the draft ESAP; 2b\_ii mark up against the 2<sup>nd</sup> ED; and 2b\_iii the Report**).

The main changes compared to the 2<sup>nd</sup> ED are the following:

- Additional text in 1.2, 3.1.1 and 3.2.2 to limit the requirements “to the extent relevant to the actuary’s involvement and responsibilities” (This is particularly relevant to 3.1 where, previously, if the ESAP applied to an actuary because he/she had a material involvement in the design of some sections of the ORSA process, the ESAP placed requirements on them to consider the sufficiency of the other aspects of the ORSA process too, even though their client had not given them such responsibility.);
- As a consequence of this change, the “preamble” text at the start of Section 3 has been moved to within 3.1;
- Addition of text (“or amended”) in 1.2 (which now talks of “activities specifically developed or amended to constitute the ORSA process”) to avoid an unintended implication that re-use of existing processes and reports was somehow not considered appropriate by the AAE;
- Refinement of the wording in 1.3.3 (re Compliance) to keep the draft in line with the latest text from IAA;
- Replacement of references to “assessing” with “considering” in a number of practices in Section 3, to avoid an unintended implication that the ESAP was addressing a 2<sup>nd</sup> line review role rather than setting guidance for “the doing role”;
- Refinement of some of the bullets in 3.1.3 to better explain what had previously been referred to as “expected changes” and “unexpected changes” in the economic environment; and

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<sup>2</sup> David Hare, UK, Chair; Ana Martins Pereira, Portugal; Colin Murray, Ireland; Dieter Koehnlein, Germany; Kirsten Sasady, Denmark; Matthias Pillaudin, France; Paola Scarabotto, Italy; Sam Achord, UK

- Addition of a specific reference to “quantitative risk assessment” in 3.2.1, which previously just referred to “financial projections”.

The Actuarial Standards Committee of the IAA (ASC) is developing a model standard on *Enterprise Risk Management Programs and IAIS Insurance Core Principles (ISAP6)*. The relevant task force of the ASC developed a draft discussion paper for the IAA Meetings in Budapest in April 2017. There are some common parts of ESAP3 and ISAP6. ISAP6 is intended to apply to actuaries who are responsible for performing actuarial services involving enterprise risk management programs that are within the scope of regulations consistent with ICP 8 and ICP 16; one of the envisaged chapters of ISAP6 deals with ORSA (as it is described in ICP16). The content of that ISAP may change considerably during its further development by the ASC and the consultation of the exposure draft. According to the work plan of the ASC, ISAP6 is expected to be approved at the end of 2018. Thus the SPT believes that due to its different legal background, scope and timing the AAE should not wait and rely on ISAP6 but proceed with the adoption process of ESAP3. After the adoption of ISAP6 a review of ESAP3 may be practicable but action to make any correction is needed only if there is any substantial contradiction between the guidance in ESAP3 and ISAP6.

Note that Section 1 of ESAP3, especially 1.3, has been aligned with the most recent draft amendment of ISAP 1 as it appeared in the agenda of the ASC’s Budapest meeting.

It is repeatedly highlighted that ESAPs are model standards and, as such, are not directly applicable to actuaries who are members of the Member Associations of the AAE. An individual actuary is obliged to comply only with those standards that are promulgated by his or her Member Association(s) (or other relevant standard-setter(s)) as obligatory for membership or the performance of work. Member Associations are encouraged to act as described in the Preface of ESAP3 but they are free to adopt standard(s), or not, as they wish, and even if substantial consistency with the ESAP3 is pursued, local standards may well include guidance beyond the guidance included in ESAP3.

The SPT proposes to the SFPC the following process subject to endorsement by the Officers of the AAE:

- Members of the SFPC present in Reykjavík discuss the draft model standard at the meeting.
- If no significant issue arises at the meeting, then, after incorporating any non-significant changes requested by the SFPC, the final draft is issued to all SFPC members for an electronic vote within 4 weeks (mid June).
- If the SFPC approves the draft, then (subject to any requirements of the Statutes) it is sent to the General Assembly of the AEE for an electronic vote within 4 weeks (mid July).
- If, however, significant issues arise that cannot be resolved at the SFPC meeting in Reykjavík, then the SPT and the ESAP3 Task Force will revise the draft and present a new draft before the Copenhagen meetings in September 2017.

### **Task Force<sup>3</sup> on Independent review by actuaries in the context of S II (ESAP5)**

After providing its first considerations on the independent actuarial reviews in the context of Solvency II during the 1<sup>st</sup> half of 2016 and the change in the leadership of the ESAP5 Task Force, the Task Force newly took up its work in November 2016. The Task Force immediately started developing a new and comprehensive survey to obtain more insight into the requirements, existing guidance and individual needs of each Member Association and to establish views on whether a model standard would be helpful for actuaries in carrying out reviews. This survey has been conducted between 4 January and 5 March. 36 member associations of AAE have been invited to participate and responses from 17 FMAs have been received. 11 out of 17 FMAs who responded consider the development of a

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<sup>3</sup> Wolfgang Deichl, Germany, Chair; James Tuley, UK; Tony O’Riordan, Ireland; Yanick Bonnet, France

model standard for independent review by actuaries in the context of Solvency II by the AAE helpful. Their responses indicate that a model standard should cover a broad variety of items of actuarial work. A summary report on the survey can be found in **Annex 2c**.

Although the number of responses represent 53% of the AAE's FMAs, those responses represent 86% of the fully qualified members across Europe. When it comes to the responses **expressing the need for such a model standard**, the number of FMAs supporting the development of that model standard is 34% of the FMAs (65% of those responded) while in terms of fully qualified members across Europe this proportion is 24% (29% of those responded).

As a next step, **the Task Force and the SPT request feedback from the SFPC**, following discussion of the results of the survey at the Reykjavík meeting, as to **whether the Task Force should continue its work**.

### **Updated work-plan**

An updated work-plan for the SPT is at **Annex 2d**. This update reflects the past and expected future pace of development on the work in progress of ESAP3 and ESAP5.

### **Standard setting activity in the IAA**

The IAA Council adopted ISAP 1A (Governance of Models) and ISAP 5 (Insurer Enterprise Risk Models) on 21 November 2016.

The IAA Council adopted conformance changes to ISAPs 1, 2 and 3 and the associated Glossary on 22 April 2017.

The ASC is considering the merge of ISAP 1A into ISAP 1 and at the same time amending ISAP 1 by implementing some clarifications to reflect experience accumulated since the initial adoption of ISAP 1 in 2012.

See the development of ISAP6 above.

At the SFPC meeting on 22 September 2016 in Barcelona it was agreed to endorse ISAP 1A and then review the position (in particular in respect of an inconsistency in the definition of "model" between ISAP 1A and ESAP 2) when and if ISAP 1A is absorbed into ISAP 1.

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28 April 2017