ESAP3 – Next steps (from Barcelona presentation – Sept 2016)

"Informal consultation", particularly with those MAs who responded to the consultation on the previous ED (until late October)

Finalisation of new ED for formal consultation (by late November)

Approval of formal consultation under Due Process (by end November)

Formal consultation on new ED (December – March)

Consultation responses worked through and, if necessary, an amended ESAP3 produced

Agree ESAP3 at "spring 2017" meetings

Draft EAN will accompany the ED (but not be subject to the formal consultation)

ESAP3 – Recap of issues from first consultation

1. Scope is not clear; there is confusion about when / to whom / to what work various parts apply; in particular, it was felt that the ED does not address well enough its application in the case of an additional actuary acting as a member of a multi-disciplinary team, possibly in a minor role.
2. Too much material on non-core and too little on core actuarial work for some respondents
3. Not sufficiently principles-based – too burdensome and detailed; difficult to apply in a proportionate way (although there are comments requesting more details as well)
4. Contains a mixture of hard requirements (“should”s, or mandatory provisions) and soft guidance (“may”s)
5. Difficult to enforce – it may be better to have more of a distinction between requirements and guidance

ESAP3 – Informal consultation (October 2016)

- 9 responses received – 8 member associations and the FRC
- 6 of the 8 member associations had responded to ED1
- Responses were generally supportive of the changes made
- **Suggested changes adopted concerning:**
  - **Clarity over when to agree scope with principal**
  - **Add reference to expected changes in business practices as a factor that might influence the length of ORSA projections**
  - **Minor improvements to phrasing in various places.**
- Suggested changes not adopted concerning:
  - Use of “guidance” to describe both “must” and “should” text
  - Requiring remediation activity as well as communication of concerns
  - Non-compliance wording
  - Requests for more detail in the ESAP

ESAP3 – Formal consultation (Dec 2016 – March 2017)

- 7 responses received – 6 member associations and the FRC
  - 4 of the 6 member associations had responded to both ED1 and the informal consultation
  - Of the other 2, one had responded to ED1, while the other was responding for the first time
- All but 1 of the responses were generally supportive of the changes made
- One member association repeated their concerns that ED2 did not include sufficient detail to help their members actually do the work required
- We have since met with representatives of the Royal Dutch Association to better understand each other's viewpoints, with the following results:
  - Some re-working of the ED2 text carried out to improve clarity
  - Recognition that adoption of a model standard does not prevent any member association from producing additional/education material
  - Further emphasis on importance of the intended EAN

ESAP3 – changes made to ED2 following consultation

- Addition of text to limit the application to “the extent relevant to the actuary’s involvement and responsibilities”
- Addition of text to avoid implication that ORSA activities must be new and not re-use existing processes etc
- Update of compliance wording to reflect the latest thinking from IAA
- Removal of reference to “assessment” when we meant judgement or “consideration”
- Replacement of reference to “expected changes” in the economic environment with reference to “changes … which are considered possible and plausible”, and the equivalent for “unexpected changes”
- Addition of reference to “quantitative risk assessment” alongside “financial projections” in order to mirror reference in related section to “qualitative risk assessment”

ESAP3 – changes NOT made to ED2 following consultation

- Use of “guidance” to describe both “must” and “should” text
- Merging considerations around the design of the ORSA process with consideration around its execution
- Addition of new text to encourage re-use of existing processes and documentation in the design of the ORSA process
- Weakening of requirement to consider if “any aspect” of the ORSA balance sheet differs from that used for Solvency II, pillar 1 purposes; also weakening the emphasis put on using the SII balance sheet in the ORSA
- Requiring remediation activity as well as communication of any concerns
- Requiring additional actions to explain why others might be drawing different conclusions on certain issues to those of the actuary
- Requiring escalation of issues through the undertaking’s risk governance processes even if this was not part of the actuary’s responsibilities

ESAP3 – Expected next steps

- Consideration of (near final) draft at Insurance Committee today and at the Standards, Freedoms and Professionalism Committee (SFPC) tomorrow
- If no significant issue arises at SFPC meeting then, after incorporating any non-significant changes requested by the SFPC, the final draft will be 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, the draft will be sent to the General Assembly for an electronic vote within 4 weeks (mid July)
- If, however, significant issues arise that cannot be resolved at the SFPC meeting tomorrow, then the SPT and ESAP3 Task Force will revise the draft and present a new draft before the AAE meetings in Copenhagen in September 2017

EAN on ESAP3 – in drafting phase

As a part of the ESAP3 work, the working group are also producing an EAN on this standard, which will be the first EAN of the AAE.

The draft has taken longer to produce than we had originally envisaged, as we have concentrated on getting the ESAP itself finished.

The aim of the EAN is to help individual actuaries when following ESAP3 in their ORSA work once their Member Association has adopted the standard, or requirements that are substantially consistent.

It is also hoped that it may be of help to non-actuaries too.

EAN is still in a draft version and the WG would welcome additional support in completing it, particularly the educational material that forms part of it.

The EAN consists of following chapters:

Preface & introduction. EAN is explained, what it is and how actuaries should deal with it.

Notes to ESAP text. This is the main body of the EAN, going through one-by-one all the articles from ESAP3 (3.1 to 3.2.2), giving additional explanations and providing examples of good/best practice in order to help better understanding and application of the standard. Not all articles are covered, particularly where they are self-evident. There is also some linking into Solvency II regulation, where we have chosen not to add to it in the ESAP itself.

Other subjects relating ORSA work. In the ESAP3 revisions, a considerable amount of material was removed from the previous ED. As well as re-using this, as appropriate, the WG has also produced extensive additional material, with the aim of providing help to actuaries when completing the ORSA.

Appendix. We anticipate ending up with several Appendices that set out the educational material that covers the “how to” detail of carrying out the ORSA-related work. We expect that these will be subject to review and updating from time to time as more best practice examples emerge across the insurance industry in various member states.