AAE Pensions Committee
Task Force on model standards for actuarial function reporting and risk reporting for IORPs

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Introduction

- Our purpose
  - Consider whether or not to recommend model standards be developed on actuarial function and/or risk reporting
- TF focused on the actuarial function initially
- **NB: IORP directive not finalised yet**
- Agenda today
  - Task Force members
  - Terms of reference
  - IORP directive
  - Work to date
  - Advantage and disadvantages of a model standard
  - Views, discussion & next steps

Task Force members

- Huw Evans – UK
- Cathal Fleming, Ireland (Chair)
- Alfred Gohdes – Germany
- Pieter Heesterbeek – Netherlands
- Tibor Parniczky - Hungary

Terms of reference

1. Explore whether a model standard could be beneficial to the public and actuarial profession in Europe
2. Demonstrate (if applicable) how such standards would meet the criteria established by the AAE and whether the context of IORPs justifies the development of European model standards
3. Consider standards issued/developed by other actuarial standard setters on these or similar topics (ESAP2 - actuarial function under Solvency II)
4. Consult with full member associations and stakeholders about demand for such IORP model standards
5. Have regard to maintaining consistency with ESAP1 (General Actuarial Practice)

IORP directive

- TF reviewed European Parliament version published on 28 January 2016
- Recital 25 – includes the following:
  - ‘..technical provisions should be calculated on recognised actuarial methods and certified by an actuary or another specialist in that field..’
  - ‘The actuarial function should be carried out by persons who have knowledge of actuarial and financial mathematics.....and who are able to demonstrate their relevant experience with applicable professional and other standards..’
- Relevant articles from the directive
  - Article 14 – Technical provisions
  - Article 26 – Risk management
  - Article 28 – Actuarial function
  - Article 40 – Pension benefit statement

Work to date
Item 5 – consistency with ESAP1

- TF reviewed ESAP1
- Recap - purpose is to provide guidance to actuaries when performing actuarial services to give intended users confidence that
  - Actuarial services are carried out professionally and with due care
  - Results are relevant, presented clearly & understandably and complete
  - Assumptions and methodology are disclosed appropriately
- Evident that member associations are taking different approaches and at various stages of implementation
  - Some intend to adopt ESAP1/ISAP1
  - Some are modifying existing standards to be largely consistent

Work to date
Item 3 – consider similar standards including ESAP2

- TF carried out high level review of ESAP2
  - Purpose of ESAP2 is to provide guidance to actuaries when reporting requirements of Solvency II directive and contribute to consistent practices across insurance/reinsurance business in EU
  - Sections
    - General & Definitions
    - Appropriate practices
      - General principles
      - Technical provisions (Data, Methods & Models, Assumptions)
      - Opinion on underwriting
      - Opinion on reinsurance
      - Contribution to risk management
- All very relevant for actuaries of IORPs, however....

Work to date
Item 3 – consider similar standards including ESAP2

- IORPs are different to insurance/reinsurance companies
  - Legal environment in various countries (trust based, separate entity/foundation – all non profit)
  - Local Social and Labour laws
  - Risk
    - Who carries it – employer/employee v shareholders
    - Reinsurance: insurers might be fully reinsured whereas pension schemes generally carry risk
    - Difference between premiums/contributions
  - Scale: smallest insurance company much larger than smallest IORP
  - Products: insurance products differ from pensions
  - Actuarial Function role: internal/external
  - Proportionality
  - Practicalities

Work to date
Item 3 – consider similar standards including ESAP2

- Current standards/practices vary a lot between countries for IORPs
- UK
  - Actuarial role set out in legislation and practicing certificate from IFoA
  - Formal triennial actuarial valuation covers funding but funding levels of IORPs are monitored regularly (annually/quarterly/daily)
- Netherlands
  - Actuarial association maintains register of actuaries for IORP work and a seperate register for certifying actuaries & Regulator maintains register of companies who can certify work
  - Annual valuation of technical provisions and solvency capital with monthly reporting to regulator
  - Actuary contributes to work on investment policy (prudent person principle)

Work to date
Item 3 – consider similar standards including ESAP2

- Germany
  - Actuarial association maintains register of actuaries for IORP work
  - Annual or triennial valuation on largely set assumptions for IORPs
- Ireland
  - Actuarial role set out in legislation and practising certificate from Society
  - Formal triennial actuarial valuation & IORPs report annually to regulator
- Hungary
  - Actuary could be employee or outsourced, role set out in legislation
  - Report for supervisory purposes, part of annual report, similar to small insurers under insurance regulation
  - Non IORP schemes similar but without explicit reference to solvency regulation
- **Conclusion**
  - **Actuarial roles can be set out in legislation, monitored by regulators or local actuarial associations**
  - **Work is largely dictated by legislation and local actuarial standards**

Work to date

Item 1-2 – standards beneficial to the public, enhance standing of AAE and whether standards are justified in context of IORPs

- Standards are beneficial to the public and actuarial profession
  - Also to regulators & Trustees/Boards of Directors/Scheme managers
- Standards enhance the reputation of AAE
  - Assuming they are widely used and enforced
- Does the context of IORPs justify the development of standards?
  - As opposed to Solvency II, IORP II contains no quantitative rules for computing balance sheet items (technical reserves, risk margins, etc.) Thus: no “actuarial consistency“ goal to achieve for actuaries
  - Difficult to know given variety of practices in place by:
    - National legislation & regulators
    - Local actuarial associations
  - However standard would be of assistance to member association/actuaries with no local standards/national legislation

Advantages and Disadvantages of a model standard

Advantages	Disadvantages
Minimum standard for actuaries across Europe (qualification and work standard) – also needs to be policed/enforced	Interaction with local standards/legislation
Provides framework for actuaries in member states with no standards	Unnecessary when greater requirements in national legislation
Helps relations with EIOPA and consistency with Solvency II approach	Limited use when focused on technical provisions only – since these are not subject to IORP II (i.e. holistic balance sheet not required for IORPs)

Views of the task force

- ‘Preparing a model standard will be a challenge’
- ‘Model standard will have to be general and principles based given national standards which will mean it will not be very useful in a number of countries’
- ‘With no common method of calculating technical provisions (i.e. holistic balance sheet), there is no need for a model standard at this time – however if this changed in the future, a model standard would be useful’
- ‘Need to be sure that there is a problem that needs solving before proposing a model standard as the solution’
- ‘Model standard would need to be appropriate for IORPs with as few as 100 members as well as for IORPs with many thousands of members’

Discussion and next steps

- Views of members of the Pensions Committee/Member Associations
- TF will consider feedback
- Report to Standards Projects Team in September 2016