

ESAP3 Taskforce

Update report for SPT call on 1st March 2016

Introduction:

The ESAP3 consultation closed on 31st January 2016. So far we have received 10 responses, from 8 member associations, the IAA and the Financial Reporting Council in the UK.

The responses have been mixed. While some of the respondents to the ED were happy with it, the majority did not think it was appropriate and suggested major changes. The ESAP3 TF feel that we can address the major concerns of the respondents but it will need time and discussion. Therefore it is not reasonable to expect to produce a final draft for the SFPC and IC meetings in Cyprus.

The purpose of this note is to briefly summarise the feedback we have received from the consultation and outline how the ESAP3 Taskforce (TF) proposes the AAE takes things forward from here. The first Appendix to this papers presents a fuller summary of the consultation responses, with the detail of the feedback from each respondent attached in a second Appendix to this report [to be inserted in due course]. The working papers of the TF, in which we present the responses grouped by the question they are answering or the ED text they are commenting on, along with the current state of our proposed responses, are available on request.

Responses in a nutshell

Out of the 10 respondents 4 answered positively and 6 answered negatively to Question 1 (Do you think that the ED achieves the goal of the drafting team in reaching a balance between the desire for high-quality actuarial work and ensuring the guidance is neither inefficient nor unduly burdensome). For Question 2 (Do you think that the guidance in the ED achieves the right level of detail (not too detailed, not too general)) the split is 3 – 7. There are a number of important suggestions received to Question 3 and 4 (to remove items from the standard, to include items into the standard).

The most important issues to be addressed are as follows:

- The scope is not clear in terms of whom it will apply, in what role of the actuary it will apply and concerning to what kind of activity it will apply. It was felt that the ED did not address well enough the individual actuary as member of a team of all kinds of experts. One actuary in a minor role cannot “run” the whole ORSA process.
- There is too much on non-core and too little on core actuarial stuff for some respondents.
- The ED is too burdensome to apply; it is too detailed (although there are comments requesting more details as well)
- Most of the standard would be very difficult to enforce and it may be better to have more of a distinction between requirements and guidance.

Obviously there are other comments as well but those seem relatively easy to handle.

Where do we go from here?

The ESAP3 TF feel that the original aims for this standard are still appropriate. We see these as being:

- To strengthen the confidence of users of actuarial services (in relation to ORSA) that actuaries subject to ESAPs (ESAP3) will deliver high quality services;
- To help actuaries in their work;
- To promote the actuarial profession; and
- To support a consistent approach to quality actuarial input across Europe.

We are therefore committed to continuing our work in order to achieve an ED that will command widespread support when it is next issued for formal consultation.

While a number of criticisms have been made of the current ED, we do not believe that we need to go back to the drawing board. Rather, we can see how we might revise the text within the existing ED structure in order to respond to the points made by respondents to the consultation.

In particular, we accept the importance of distinguishing between requirements (i.e. things that actuaries either “must” do or “should” do, to use ESAP 1 terminology) and guidance (i.e. things that actuaries “may” consider, to use the ESAP 1 terminology) and are open to the possibility that some material from the current ED might be better placed in the accompanying EAN (and perhaps vice versa). To that end, we propose to combine the ESAP3 TF and the EAN drafting group and proceed on both documents in parallel. (It is worth noting that 4 of the 8 members of the TF are also members of the six-strong EAN drafting group.)

We propose to build on the work already done to develop an overarching principle at the start of each sub-section of the ED that encapsulates what is expected of an actuary with significant responsibility for or involvement with that aspect of the ORSA work. This will be written using the appropriate verb from ESAP 1 (i.e. “must”, “should” or “may”). We will then seek to distinguish between what other text should support that principle (either in terms of “should” or “may” verbs) and what would be better placed in the EAN as supplementary guidance. At this stage, however, we do not envisage removing all guidance from the ESAP.

We also propose to strengthen the links between ESAP 3 and ESAP 1. In particular, where the ED currently requires something that is already required by ESAP 1, we propose including a reference to the latter in the former – perhaps using language along the lines of “... the actuary should take particular account of the [communication/documentation/ ...] requirements in section [] of ESAP 1 in order that”

Potential timetable

The ESAP3 TF believes that, before another ED is issued for formal consultation, it is important that sufficient informal consultation has taken place with member associations in order that there is a shared view across Europe of what the ESAP should be requiring.

To that end, we propose the following provisional timetable:

March – mid June: TF revises ESAP 3 ED and completes accompanying EAN, taking informal soundings from those organisations who responded to the formal consultation

Mid June – mid August: revised ESAP 3 pack (both ED and EAN) is circulated informally to all member associations and any other interested parties, with a request to feed back comments and suggestions

Late August: TF reviews the results of the informal consultation exercise and revises the ESAP 3 pack as appropriate

September: AAE autumn meetings review the ESAP 3 pack and, hopefully, agree that the ED is ready to be issued for formal consultation

October – January 2017: Formal consultation period for ESAP 3 ED

February 2017: TF reviews the results of the formal consultation exercise and revises the ESAP 3 pack as appropriate

March/April 2017: FSP Committee recommends adoption of the ESAP 3 ED to the AAE General Assembly by email voting.

While this timetable is longer than we might like, given that the Solvency 2 requirements are already in force, the TF believes that it is better to be realistic about how long will be needed to get sufficient engagement and buy-in across Europe. It should also be noted, of course, that the above proposed timetable will result in revised draft guidance being available to actuaries and others across the member states by the summer of this year.

Concluding comments

The TF recognises that it is not for us to decide how the AAE should proceed on this important topic. We recognise the role and responsibility of the SPT and also the SFP Committee.

We are grateful for the invitation to propose a way forward and look forward to hearing your views on what we have set out above.

David Hare, Chair of the ESAP3 Taskforce

28th February 2016

Appendix 1

Summary of consultation responses

Introduction:

The 10 responses received so far were from:

- Česká společnost aktuárů (Czech society of actuaries)
- Croatian Actuarial Association
- Deutsche Aktuarvereinigung e. V.
- Financial Reporting Council
- Hungarian Actuarial Society
- Istituto Italiano degli Attuari & Consiglio Nazionale Attuari (ISOA)
- Institute and Faculty of Actuaries
- International Actuarial Association
- Royal Dutch Actuarial Association
- Society of Actuaries in Ireland

The responses have been mixed. While some of the respondents to the ED were happy with it, the majority did not think it was appropriate and suggested major changes.

Question 1:

Do you think that the ED achieves the goal of the drafting team in reaching a balance between the desire for high-quality actuarial work and ensuring the guidance is neither inefficient nor unduly burdensome?

Of the 10 respondents, 3 answered yes to this, but 6 answered no, with 1 respondent apparently in two minds, answering both yes and no.

Only one of the 3 who answered only yes submitted comments, voicing concern over the potential impact of the ED on an actuary who is part of the team working on the ORSA, but not in a position of sufficient influence over the process. While they recognised that the issue was touched upon in the transmittal letter accompanying the ED, they felt that the issue should have more coverage within the ESAP itself.

Several of the “no” respondents made a similar point, with one feeling that the “... or contribute to ... whichever is appropriate” form of words that the ED had proposed in this regard would not really work in practice, particularly when it was applied to tasks that were required of firms by the

Solvency 2 regulations. Another respondent encouraged us to consider how we might limit the requirements of the ESAP to apply only to those actuaries who have a material involvement or responsibility with the activity in question, and also encouraged us to narrow the requirements to what might be considered reasonable and proportionate for an individual actuary.

In total, five of those who answered no to this question raised issues over application. Concerns were expressed that, where more than one actuary was involved in a particular task, it wasn't clear if each should separately comply with the appropriate documentation requirements, or how it should be decided who that part of the ESAP applied to. Concern was also expressed that it wasn't clear if the requirements of section 3 of the ED were intended to apply at the level of sections (e.g. 3.x) or sub-sections (3.x.y).

Concerns were raised by several of the "no" respondents about the coverage of the ED, with some feeling it went too far into "non-core actuarial" tasks and, in some cases, did not give sufficient guidance over how some of the "core actuarial" work should be carried out. One respondent suggested that the drafters of the ED should be clearer on what "actuarial services" they envisaged being performed in connection with the ORSA. Another respondent felt that we should not be aiming to cover the actuary who is a CRO with this ESAP.

One of the "no" respondents felt that it would be difficult to enforce the ED, partly because of the breadth of the apparent requirements and partly because some of the requirements were not capable of precise definition (e.g. requiring that an actuary "aim to" do something). Another "no" respondent felt that the ED was repetitive in places and gave examples of where the same topic was covered in a number of different sub-sections of the ED.

Several of the respondents raised the issue of documentation, feeling that, despite the intentions set out in the transmittal letter, the ED would prove burdensome in practice in this regard.

The respondent who answered both "yes" and "no" praised the thoroughness of the ED but was concerned that the ED did not allow sufficiently for a proportionate approach to its implementation.

Answers to question 2:

Do you think that the guidance in the ED achieves the right level of detail (not too detailed, not too general)?

Of the 10 respondents, 3 answered yes to this and 7 answered no.

Only one of the 3 who answered yes submitted comments, indicating that they felt that the guidance in the ED was sufficiently detailed and achieved the right balance, and giving some specific feedback on the wording in a number of places.

All of the 7 respondents who answered no submitted comments. Some repeated concerns already voiced in answer to question 1 regarding the scope of the ED and whether it was covering non-core actuarial work too much and not covering core actuarial work sufficiently.

Some respondents felt that, in places, the ED more or less just repeated the Solvency 2 requirements without adding much additional value. A number of topics were suggested on which additional material would have been helpful (including, for example, risk identification, risk and capital assessment, stress and scenario testing).

Other respondents felt that the ED should have a clearer split between what are mandatory obligations (linking that also to the issue of enforceability mentioned in the responses to question 1) and what is supporting guidance, with one respondent suggesting that some of the more detailed material in the ED might be better presented as non-mandatory guidance and another arguing that a shorter, more punchy, standard might prove more effective in practice. Another respondent highlighted that the ED referred to its contents in one place as a “standard” but in another as “guidance” and encouraged us to have a clearer distinction between the two.

Answers to question 3:

Is any of the proposed guidance inappropriate for inclusion in ESAP3? If so, please indicate which one(s) and explain why the particular topic(s) should not be included.

Seven respondents submitted comments in answer to this question, with the messages given being consistent with the answers to the previous questions.

One respondent repeated their concerns that the ED required too much outside of core actuarial work and gave too little guidance on the core actuarial tasks involved in the ORSA process. Another respondent suggested that the requirements relating to non-core actuarial work should be excluded from the ESAP and presented more as guidance. Areas given as examples of this included the ORSA policy, seeking the involvement of the business and the AMSB in the ORSA process, demonstrating use of the ORSA in wider business decisions, and ensuring consistency with the business plan.

One respondent repeated their view that the ED should not just re-state regulatory requirements and suggested some text that could be removed from the ED where this was the case. Another respondent suggested that, where the ED was requiring something that was already covered by ESAP 1, the text should be removed from ESAP 3.

Two of the respondents felt that the coverage was broadly fine, but one encouraged us to remove any duplication between sub-sections, while the other highlighted areas they had mentioned in previous answers where more clarity would be helpful.

Answers to question 4:

What other topics should be included in ESAP3? Please indicate which one(s) and explain why you wish guidance in the area(s).

Five respondents submitted comments in answer to this question, with a number of areas suggested where the ED could say more including:

- Examining the appropriateness of the standard formula;
- Testing and back-testing of technical provisions, models and assumptions;
- Dealing with model risk and model limitations;
- Data quality and credibility of information;
- Scenario-testing and reverse stress testing;
- Outputs from the ORSA and drawing conclusions from them;
- Communication;
- Dealing with the situation where the ORSA uses a different capital measure to the SCR;
- Risk mitigation techniques; and
- Co-operation with key functions.

It was recognised that some of this additional detail may fit better with non-mandatory guidance.

Answers to question 5:

Any additional comments

Five respondents submitted additional comments in response to this question. In some cases, the comments were reiterating points already made. In other cases, various points of detail were commented on concerning specific aspects of the ED text.

David Hare, Chair of the ESAP3 Taskforce

28th February 2016

Appendix 2
Consultation responses

The following pages contain the actual consultation responses received so far, in the following order:

- Česká společnost aktuárů (Czech society of actuaries) p9
- Croatian Actuarial Association p11
- Deutsche Aktuarvereinigung e. V. p12
- Financial Reporting Council p14
- Hungarian Actuarial Society p17
- Istituto Italiano degli Attuari & Consiglio Nazionale Attuari (ISOA) p21
- Institute and Faculty of Actuaries p23
- International Actuarial Association p27
- Royal Dutch Actuarial Association p31
- Society of Actuaries in Ireland p33

Name	Jan Šváb
Name of the organization	Česká společnost aktuárů (Czech society of actuaries)
E-mail address	jsvab@koop.cz

1. Do you think that the ED achieves the goal of the drafting team in reaching a balance between the desire for high-quality actuarial work and ensuring the guidance is neither inefficient nor unduly burdensome?

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Yes

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No

If not then please indicate your concerns:

We think that it is not completely clear who is intended subject of the standard and how the standard is supposed to be used.

We identified two potential types of subjects of the standard and we believe that the standard in its current form doesn't fully satisfy needs of any of those:

1. Actuary in a role of CRO or risk manager: We think the standard doesn't provide additional guidance to SII Level 3 dealing with ORSA, and even though L3 works on "comply or explain" basis it gives broad instructions on how the ORSA process should look like. Therefore we believe the standard has little added value for an actuary with a role in risk management function. The general requirements are covered by ESAP 1. If we want to bring additional value by this standard in this situation we will need far more detail.
2. Actuary (working as an actuary) and participating on actuarial tasks in the ORSA process: We believe that standard in its current form requires too much outside of actuary's role and gives too little guidance in core actuarial tasks involved in ORSA process

In our opinion the second type is the one which should be served by the standard and the standard should help actuaries to deliver quality work in specific actuarial tasks involved in the ORSA process.

2. Do you think that the guidance in the ED achieves the right level of detail (not too detailed, not too general)?

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Yes

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No

If not then please indicate the topic(s) where the standard should be more/less detailed:

As described in our previous comment we think the level of detail is overall insufficient for the first situation while for the second situation it is sometimes insufficient and sometimes irrelevant.

3. Is any of the proposed guidance inappropriate for inclusion in ESAP3? If so, please indicate which one(s) and explain why the particular topic(s) should not be included.

To comment on this question we take the point of view of the second situation as defined in our first comment. Mostly we propose to exclude points which are in our opinion more related to risk management function as such.

We suggest removing: 3.1.2, 3.1.3, 3.1.5, 3.1.6, 3.3.1, 3.4.2 (covered by ESAP1)

We suggest rewriting to more reflect actuarial responsibilities: 3.1.4, 3.2.1, 3.2.3, 3.2.6, 3.3.2, 3.4.1, 3.4.3, 3.4.4

4. What other topics should be included in ESAP3? Please indicate which one(s) and explain why you wish guidance in the area(s).

Examining the appropriateness of SF
Testing and back testing of TP, models and assumptions
Dealing with model risk and limits of models' use
Data quality and credibility of information
Important scenario tests and reverse scenario tests

5. Any additional comments

We didn't write down detailed comments to the individual articles as we believe that it is not relevant at current stage.

Name	Mirjana Cesarec
Name of the organization	Hrvatsko aktuarsko društvo (Croatian Actuarial Association)
E-mail address	cesarec.mirjana@gmail.com

1. Do you think that the ED achieves the goal of the drafting team in reaching a balance between the desire for high-quality actuarial work and ensuring the guidance is neither inefficient nor unduly burdensome?

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Yes

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No

If not then please indicate your concerns:

2. Do you think that the guidance in the ED achieves the right level of detail (not too detailed, not too general)?

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Yes

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No

If not then please indicate the topic(s) where the standard should be more/less detailed:

3. Is any of the proposed guidance inappropriate for inclusion in ESAP3? If so, please indicate which one(s) and explain why the particular topic(s) should not be included.

4. What other topics should be included in ESAP3? Please indicate which one(s) and explain why you wish guidance in the area(s).

5. Any additional comments

Name	Birgit Kaiser
Name of the organization	Deutsche Aktuarvereinigung e. V.
E-mail address	international@aktuar.de

1. Do you think that the ED achieves the goal of the drafting team in reaching a balance between the desire for high-quality actuarial work and ensuring the guidance is neither inefficient nor unduly burdensome?

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Yes

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No

If not then please indicate your concerns:

*To our mind this ESAP might end in being much too burdensome for the actuary. This ESAP refers to nearly every part of the ORSA requirements and gives tasks that should / must / may be fulfilled by the actuary. This involvement spans from fulfilling the ORSA requirements in total up to some actuarial details. It would be very helpful to get an insight in the role of the actuary in which the actuary should fulfill the given requirement. As an example, we would like to set the attention to article 3.1.2., where the actuary **should** judge the ORSA process in context of the Solvency 2 requirements. We would welcome a definition of the situation, in which the actuary has the role of contributing these considerations. In the current status the actuary always has to document why he / she did not fulfill these requirements.*

2. Do you think that the guidance in the ED achieves the right level of detail (not too detailed, not too general)?

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Yes

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No

If not then please indicate the topic(s) where the standard should be more/less detailed:

Especially concerning the quantitative topics we think that this ESAP more or less repeats the requirements of the ORSA, refers to some statistical requirements and states that everything must be documented. In an article like 3.2.4. the given considerations do not go into detail to be helpful for an actuary and only give detailed requirements that should be clear to every actuary like: "In determining the stresses and scenarios to be considered, the actuary should be aware that: "risk measures exhibit non-linear behaviour, especially when various individual risks are aggregated; and the value-at-risk measure required for calculating the SCR is not sub-additive."

3. Is any of the proposed guidance inappropriate for inclusion in ESAP3? If so, please indicate which one(s) and explain why the particular topic(s) should not be included.

4. What other topics should be included in ESAP3? Please indicate which one(s) and explain why you wish guidance in the area(s).

We observe that the ED of ESAP 3 as it is now is focused on the design and governance of the ORSA process rather than on related analyses performed, its outputs, conclusion drawn from its outcomes and related communication.

5. Any additional comments

Name	Natasha Regan
Name of the organization	Financial Reporting Council
E-mail address	n.regan@frc.org.uk

1. Do you think that the ED achieves the goal of the drafting team in reaching a balance between the desire for high-quality actuarial work and ensuring the guidance is neither inefficient nor unduly burdensome?

☐

Yes

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No

If not then please indicate your concerns:

The scope of actuary's requirements under ESAP 3 are potentially burdensome

The Exposure draft appears to be a very helpful guide to all parties with some involvement in the ORSA from those who are responsible for contributing information that will be used in its development up to the Board of Directors that is ultimately responsible for it. However, we are concerned that it is insufficiently targeted on ensuring that the actuarial work components are of a good quality and the risks to quality are appropriately mitigated.

The broad scope of the standard exemplifies this – all actuarial services performed by an actuary in relation to ORSA processes without attempting to define what these services might be. We suggest that the drafting team might like to consider in more detail the work that they wish the standard to focus on.

We consider that this paper is an improvement over the previous draft as it acknowledges that an individual actuary may not be responsible for the ORSA in its entirety and thus allows the extent of the actuary's compliance to be limited by the scope of his or her responsibility.

However we find the mechanism of the approach adopted to do this confusing.

The initial sentence of 'Section 3. Appropriate Practices' appears to require that the scope of the actuary's work should be determined in line with the sections of the ESAP, which we consider would be overly restrictive.

We also found it not clear whether if a sub-heading applies then whether all the sub-headings in the section need to apply. For example it may be that the actuary is performing an exercise relating to the consistency with Solvency II requirement (3.1.2), and it would seem onerous for all of 3.1 to apply.

2. Do you think that the guidance in the ED achieves the right level of detail (not too detailed, not too general)?

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Yes

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No

If not then please indicate the topic(s) where the standard should be more/less detailed:

The requirements are overly detailed; and it would be helpful to split out what are rules and what is guidance

We welcome the drafting improvements over the previous version to introduce requirements on the actuary rather than the previous, more implicit formulations (eg- “the actuary should bear in mind”)

In common with the previous draft of ESAP 3 we consider the requirements are quite detailed (under our UK regulation this level of detail would typically be a mixture of standards and guidance). The Exposure draft describes itself as a standard in the Preface but refers to “this guidance” in the Introduction, and the Purpose section states “This ESAP provides guidance to actuaries..”.

It would be helpful to us if the distinction between regulation and guidance were more explicit.

3. Is any of the proposed guidance inappropriate for inclusion in ESAP3? If so, please indicate which one(s) and explain why the particular topic(s) should not be included.

We support many of the topics that have been selected for inclusion for example Considerations for the business planning period and the interactions among risk, capital and value. We welcome the considerations for stress-testing, reverse stress-testing and scenario testing and the recognition that interactions between risks may be non-linear.

We consider that some topics may be inappropriate for standards because they are repeating the Solvency II requirements, or because the work is not technical actuarial work. We have outlined some examples below.

We consider the scope of actuarial standards should be limited to the technical actuarial work as part of the ORSA. Whilst it may be appropriate to issue guidance for the work where actuarial techniques are not central, we consider it should not be subject to actuarial standards.

Examples of topics that we suggest are excluded from standards (or limited to guidance) because actuarial work is not central to them are:

- Involvement of the business in the ORSA process (3.1.4)
- Review of the ORSA policy (3.4.3)
- Ensuring the AMSB take an active part in the ORSA process (3.3.1)

Examples of topics that we suggest are excluded from standards because they are repeating Solvency II ORSA requirements are:

- Assessment of compliance, on a continuous basis, with capital requirements (3.2.1)

4. What other topics should be included in ESAP3? Please indicate which one(s) and explain why you wish guidance in the area(s).

5. Any additional comments

To expand on our comments above about the distinction between rules and guidance, and formulation of the guidance.

In some places it is not clear what the requirement on the actuary is. For example (3.1.3) requires the actuary to “ensure, or contribute to ensuring, whichever is appropriate, that the business planning takes account of” ... and gives a list of considerations.

We suggest a formulation with a clearer distinction between rules and guidance, such as:

“The actuary should document the projection period used in the ORSA and the rationale for its selection given the risk profile of the entity and any other relevant considerations. In determining the appropriateness of the projection period the actuary may consider:” and follow with the guidance that gives the list of items that could be considered.

Name	Board of Hungarian Actuarial Society
Name of the organization	Hungarian Actuarial Society
E-mail address	<u>ugyvez@actuary.hu</u>

1. Do you think that the ED achieves the goal of the drafting team in reaching a balance between the desire for high-quality actuarial work and ensuring the guidance is neither inefficient nor unduly burdensome?

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Yes

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No

If not then please indicate your concerns:

Based on transmittal letter it is not the intent of the ESAP to require extensive, additional documentation. But we found more parts what are unrealistic and unnecessary in a standard. More points in the ED are also required by SII regulations/supervisors/auditors without further detail instructions, but also added the “whichever is appropriate” expression. Therefore it is not clear when or how should be applied. A standard should avoid such type of sentences.

2. Do you think that the guidance in the ED achieves the right level of detail (not too detailed, not too general)?

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Yes

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No

If not then please indicate the topic(s) where the standard should be more/less detailed:

Maybe it is too late in this phase but in our opinion the scope of ED is not clear. In one respect it intends supporting actuaries who work in ORSA processes (SCR calculations, models, assumptions, scenarios). On the other hand also intends covering the whole ORSA process which is clearly responsibility of risk managers (ORSA policy, ORSA report, qualitative risk management, group capital/tax management). In our opinion an actuarial standard should not regulate these issues. Notwithstanding often actuaries work on these issues but usually not using actuarial methodologies. Therefore those colleagues who have to fulfil this standard will have disadvantage comparing other colleagues who will work on the same issues but are not actuaries. The “whichever is appropriate” exemption naturally again attached to the sentences. But it raises again the question: Really

necessary to put them in actuarial standard? In our opinion the less but more punctual standard would be more.

3. Is any of the proposed guidance inappropriate for inclusion in ESAP3? If so, please indicate which one(s) and explain why the particular topic(s) should not be included.

3.1.7 „*The actuary should consider and document or contribute to documenting, whichever is appropriate: how the ORSA provides useful information to decision-making*”.

This point cannot be appropriate. Actuaries naturally can document it. But this is typically responsibility of a decision maker to have opinion whether something useful or not for supporting decisions. The way of documentation is also questionable: The point does not mention the ORSA Report but the ORSA itself. We suggest deleting this requirement from the standard.

3.3.1, at the end: „*The actuary should document his or her interactions with the business units and business processes. He or she should note the areas where interactions could be improved and where further information would be helpful.*” In our opinion this is unnecessary administration requirement. With this the standard requires that all actuaries have to write minutes of all discussions. Naturally it is useful but an ORSA specific standard should not contain it. A similar requirement can be found in point 3.1.4: „*The actuary should record their interactions with these other business units and recommend how these interactions could be improved.*”. We suggest deletion of these sentences.

3.4.4 „*Throughout the ORSA cycles, the actuary should evidence that he or she has considered: [...] to what extent the results of the ORSA have been used in decision-making,*” This is responsibility of decision maker. It is useless to document anything about it by an actuary. This should be a requirement for decision makers but not in an actuarial standard. We suggest deleting it.

3.2.3, „*The actuary should ensure or contribute to ensuring, whichever is appropriate, that these scenarios are coherent and can allow for management actions. These scenario tests should include scenarios the entity can survive and which it cannot.*”

We think that the expression of non-survivable scenarios in the above sentence is hard to interpret. If the intent was to consider in the ORSA process scenarios, which can endanger the survival of a company, than we would suggest the use of “reverse stress test scenarios” expression. “These scenario tests should include scenarios the entity can survive and reverse stress test scenarios as well.”

4. What other topics should be included in ESAP3? Please indicate which one(s) and explain why you wish guidance in the area(s).

a.) Our main problem with the ED is that it does not contribute clearing the role of actuarial function.

EIOPA guidelines:

- (14/259, 11) appropriateness of technical provision
- (14/254, 46) conflict of interest + opinion of reinsurance programs
- (14/254, 47) consistency of calculation of technical provision
- (14/254, 48) data quality of calculation of technical provision
- (14/254, 49) best estimate back testing
- (14/254, 50) underwriting policy and opinion of reinsurance programs (again) in viewpoint of technical provision
- (14/254, 50) actuarial contribution in internal model

ESAP 3 admits that requirement above not enough. If actuaries contributed only tasks above in preparation phase of SII insurance companies would have significant backlog. In the beginning of ESAP 3 (purpose) would be useful clearly state the relation of ESAP 3 and SII regulation. Or maybe in an appendix or a separate document would be useful which lists each EIOPA points with the clear descriptions of the additional requirements of this ESAP 3.

b.) The Transmittal Letter highlights two areas where the wording of ESAP should be explicit: the responsibilities of actuaries within a larger team and documentation. Therefore we suggest to add further points to 3.1.1:

„enables the identification and definition of different responsibilities of the parties included in the ORSA process“

and

„facilitates the preparation and continuous maintenance of the documentation related to development and execution of different ORSA runs“

c.) As point 3.4.2 states the main intended users of ORSA is the AMSB. Therefore in point 3.2.1 could be useful to highlight the appropriateness of the structure and methodology of ORSA for support prognosticate exceed of risk tolerance limits. In this point we suggest to modify the following sentence:

„The methods applied should show an assessment of the compliance, on a continuous basis, with the capital requirements along the entire time horizon used for the ORSA projections.“

to

„The methods and structure applied should show an assessment of the compliance, on a continuous basis, with the capital requirements and with the

company's risk appetite along the entire time horizon used for the ORSA projections."

- d.) The title of point 3.2.5 is not in accordance with the content of the point. The point does not tell us requirements only about time horizons and time frames. Proposal for title:

"Consistency of business plan and base scenario"

Or if this point intends to tell a consistency requirement only for the time frame, the following starting in the point would be better:

"Normally, the timeframe of the base scenario should be consistent with the timeframe of the business plan,"

But we believe that the wider requirement (not only for timeframe) would be better.

- e.) Based on current wording of point 3.2.5 documentation is required only in case the base scenario not consistent with the business plan. We suggest different wording:

Instead of sentence:

„If this is the case, the reasons should be documented."

We suggest:

„The appropriateness of the use of the business plan in the base scenario or any divergences from the business plan regarding the base scenario should be documented."

- f.) In point 3.3.2 we suggest to extend the list of ORSA Report elements with the following element:

„material limitations of the models used"

We think this info is essential for understanding that results of ORSA what can be used for. With this extension we can support point 3.2.6 explicit way.

5. Any additional comments

Name	Prof. Giampaolo Crenca Prof.ssa Carla Angela Mormino Prof. Riccardo Ottaviani
Name of the organization	Istituto Italiano degli Attuari & Consiglio Nazionale Attuari (ISOA)
E-mail address	presidenza@consigionazionaleattuari.it carla.angela@italian-actuaries.org ottaviani@ottavianiepartners.com

1. Do you think that the ED achieves the goal of the drafting team in reaching a balance between the desire for high-quality actuarial work and ensuring the guidance is neither inefficient nor unduly burdensome?

Yes

☒

No

☒

If not then please indicate your concerns:

YES - The ED describes a best practice, accurate and compete, which reflects all the principles and guidelines relating to the ORSA process. It is a worthy effort, a complete and precious guidance for Actuaries involved with different roles in an ORSA evaluation.

NO – Unfortunately the approach described in the ED is significantly different from the insurance industry practice/situation. Bearing in mind this gap, in the ED seems to be no allowance for a proportionate level of analysis in relation to the nature, scale and complexity of the risk profile of the business. Whatever is the entity/group risk profile, the assessment to be performed by the actuary seems to be very complete, detailed, but time (and resources) consuming.

Politically speaking, in our opinion, declining a complete and detailed approach with few degrees of flexibility in a standard, that should represent a minimal common level of analysis, could be risky, especially if we consider that actuaries are frequently seen too technical, too demanding and detailed in their analysis, by the market.

2. Do you think that the guidance in the ED achieves the right level of detail (not too detailed, not too general)?

Yes

☐

No

☒

If not then please indicate the topic(s) where the standard should be more/less detailed:

As per our previous comment, the ED in some parts seems to be too detailed considering its purpose.

The topic(s) too detailed or politically too risky, considering its purpose, in our opinion, are the following:

3.1.3 Considerations for the business-planning period and the interactions among risks, capital and value.

3.1.5 Risk management and the ORSA.

3.2.3 Combining quantitative and qualitative risks coherently.

3. Is any of the proposed guidance inappropriate for inclusion in ESAP3? If so, please indicate which one(s) and explain why the particular topic(s) should not be included.

No

4. What other topics should be included in ESAP3? Please indicate which one(s) and explain why you wish guidance in the area(s).

No

5. Any additional comments

In our opinion, even if the use of a gender specific wording in the text ("he or she") is understandable in the light of the "non discrimination principle", it results as an undue burden for a non English mother tongue reader, especially if we consider that the gender of an Actuary is not relevant for the purpose of the present document.

To achieve the original goal of the authors, in our opinion, could be sufficient to extend the definition of Actuary in the section 2: "ACTUARY: an individual member, male or female, of one of the member Associations of the AAE."

Name	Matthew Levine
Name of the organization	Institute and Faculty of Actuaries
E-mail address	Matthew.levine@actuaries.org.uk

1. Do you think that the ED achieves the goal of the drafting team in reaching a balance between the desire for high-quality actuarial work and ensuring the guidance is neither inefficient nor unduly burdensome?

☐

Yes

☒

No

If not then please indicate your concerns:

The Exposure Draft in its current form is drafted in very wide terms. This gives rise to concerns that (1) it would be difficult to enforce this as a mandatory standard; and (2) it will be difficult for actuaries to understand what is expected of them in terms of the ESAP's requirements.

For example, in 3.1.4. it provides that: "The actuary should seek to work with relevant business units to identify..." (our emphasis added) and it is difficult to see how it would be possible to enforce an obligation to 'seek to work with'.

Similarly, a number of the other requirements are either so broadly defined that we believe it will be difficult for individuals to identify what it is that they must appropriately do, or, otherwise, impose, in our view, a disproportionate and unrealistic recording burden.

A number of the provisions, including, for example, 3.1.2, appear to impose a very wide obligation on an actuary (without qualification as to the actuary's role/involvement) to document matters such as 'to what extent the ORSA process is consistent with or deviates from the principles and the rules of Solvency II and the consequences of any deviations'. That appears to impose an extensive recording burden on an individual actuary to document the extent to which the ORSA process is consistent with Solvency II requirements when it may not be something that is their responsibility or which is necessary in the circumstances.

Similarly, 3.1.6 requires the actuary to consider and document if the ORSA process is adequate to identify ORSA-triggering events. We consider this to be potentially burdensome because the definition of such events (in 2.11) is not clearly specified, referring only to a 'material change' in the uncertainties or exposures or how they are understood (although 3.3.2 suggests that the actuary would actually be involved in defining the triggering event).

We would suggest that further consideration might be given to what would be reasonable and proportionate requirements for an individual actuary, having regard to the public interest, and whether there is scope to qualify those obligations so that they only apply to those actuaries who have a material involvement or responsibility.

It would be helpful to distinguish between specific responsibilities that the actuary (if any) who heads up the Actuarial Function might have, and the responsibilities that other actuaries might have, e.g. those working in the Risk Management Function responsible for implementing the ORSA (if different). We note that the ORSA is quite commonly the responsibility of someone other than the head of the actuarial function. However, the Directive includes requirements for the Actuarial Function to contribute to the risk management process (including the ORSA), so it would be useful if the standard could explain how the European actuarial profession considers these particular Directive requirements should be applied (or include a reference if this is covered in a different model standard).

In situations where multiple individuals are in aggregate responsible for a particular activity, it would be helpful to clarify if the requirements may be met collectively across the actuarial function or relevant grouping of actuaries. However, in such circumstances we believe it is usually helpful to specify who is responsible for what. The model standard as currently drafted seems to expect in many cases that every actuary specifically involved in any way with the ORSA will take personal responsibility that a wide range of activities has been undertaken. The standard might instead focus more on requiring the individual actuary to indicate what he or she had or hadn't done. There might then be a model list of some activities actuaries might typically get involved with and guidance on how to do them if within scope of what the actuary had done.

2. Do you think that the guidance in the ED achieves the right level of detail (not too detailed, not too general)?

☐

Yes

☒

No

If not then please indicate the topic(s) where the standard should be more/less detailed:

In general, much of the material may be better suited to non mandatory guidance. If it is to be retained in the form of a standard, it would be important in our view to distinguish more clearly between material which is intended to create a mandatory (and enforceable) obligation, and material which is more appropriately seen as supporting guidance (and therefore non mandatory). We would be happy to suggest ways in which this might be done.

Against that context, we suggest that more detail would be helpful on:

- 3.2.1 and 3.3.2- Expectations for documentation of continuous solvency assessment.

- 3.2.4 - Stress and scenario testing- e.g. the types of projections that could be applied for stress and scenario testing.

There could perhaps be less detail on:

- 3.3.1- Entity interactions. This may be construed as too specific and extends beyond where the actuary may be able to influence, e.g. level of involvement of AMSB, control over business planning

3. Is any of the proposed guidance inappropriate for inclusion in ESAP3? If so, please indicate which one(s) and explain why the particular topic(s) should not be included.

3.3.1 requires the ORSA to be consistent with the group Business Plan, which is reasonable. It also lists some items that the Business Plan should include, such as risk appetite, risk profile and cost of capital. While these items are also sensible, we would question whether the actuary responsible for this aspect of the ORSA would necessarily be able to influence the content of the group Business Plan. This is an example of several areas where the Standard requires the actuary to assure certain things which may be beyond their control or authority and thus not possible. In some cases the actuary may need to document an opinion that may not be accepted or implemented by the entity.

4. What other topics should be included in ESAP3? Please indicate which one(s) and explain why you wish guidance in the area(s).

Other topics that may also be helpful to include in ESAP3 – or in non-mandatory guidance, which might be more appropriate for detail such as this:

- *3.2.1 covers the ORSA methodology and how it connects with the Solvency Capital Requirement. The actuary is asked to “assess the significance with which the risk profile of the undertaking or group concerned deviates from the assumptions underlying the Solvency Capital Requirement”. The ED could go further in guiding the actuary in how to respond when there is such a difference between the ORSA and the SCR. We would also note that this assessment may not necessarily fall to the actuary, and that it is presumably relevant only to Standard Formula companies.*
- *3.4.3 describes the actuary’s review of all aspects of the ORSA process, but it would be helpful to include guidance on the frequency of such reviews.*
- *What should be considered if the entity process or ORSA has material deficiencies, in the actuary’s opinion.*
- *The level of detail expected in the documentation of the ORSA record.*
- *Expectations for documentation of risk mitigation techniques, as required by the EIOPA guidelines.*
- *Guidance relating to documentation of continuous compliance with technical provisions (in addition to solvency) as required by the EIOPA guidelines.*

5. Any additional comments

We would suggest that the material in this standard should be aligned with any relevant draft ISAPs, such as ISAP5 on Insurer Enterprise Risk Models.

We believe that the standard should avoid any implication that a stand-alone ORSA policy is required. For example, paragraph 3.3.2 may suggest this. However, the EIOPA Level 3 guidelines (CP No 14/017, 2.14) suggest that reference to other material containing relevant information may be appropriate. A stand-alone ORSA policy is therefore not necessary, but can instead be covered by other policy documentation that exists within an organisation.

Documentation is relevant to all aspects of the actuary's activity, therefore we would recommend making a single overarching comment rather than references in some but not all paragraphs.

In 2.15 the definition of 'uncertainties' could be amended to read 'Things which could happen in the larger world ...', so that it covers potential as well as actual events.

Name	Actuarial Standards Committee
Name of the organization	International Actuarial Association
E-mail address	technical.activities@actuaries.org

NOTE: The Actuarial Standards Committee (ASC) of the International Actuarial Association (IAA) is pleased to have an opportunity to provide comments on the exposure draft of ESAP 3. Please note that this response has not been through the full IAA due process for making formal statements and, as such, represents the views of the ASC only.

1. Do you think that the ED achieves the goal of the drafting team in reaching a balance between the desire for high-quality actuarial work and ensuring the guidance is neither inefficient nor unduly burdensome?

☒

Yes

☐

No

If not then please indicate your concerns:

2. Do you think that the guidance in the ED achieves the right level of detail (not too detailed, not too general)?

☒

Yes

☐

No

If not then please indicate the topic(s) where the standard should be more/less detailed:

3. Is any of the proposed guidance inappropriate for inclusion in ESAP3? If so, please indicate which one(s) and explain why the particular topic(s) should not be included.

4. What other topics should be included in ESAP3? Please indicate which one(s) and explain why you wish guidance in the area(s).

5. Any additional comments

Paragraph reference	Comment/ Change proposed
General Comment	<p>The terms “uncertainties” and “risks” are used interchangeably throughout the ESAP. “Uncertainties” is a defined term and is defined as what we commonly refer to as “risks”. For many ERM practitioners, “uncertainty” is commonly regarded as broader than "risk" in that an "uncertainty" is not quantifiable because it is so unknown.</p> <p>We recommend consistent use of terminology throughout the ESAP and suggest that the ESAP use "risk" rather than "uncertainty".</p>
1.1	<p>There appears to be a wording problem (should the “or” in the second line of the stem be deleted?). It would be clearer if it read:</p> <p style="padding-left: 40px;">This ESAP provides guidance to actuaries when performing actuarial services in relation to any Own Risk and Solvency Assessment (ORSA) as required under the Solvency II framework, in order to give intended users confidence that:</p>
1.2.	<p>Sentences 2 - 4:</p> <p style="padding-left: 40px;">An actuary who is performing these actuarial services may be acting in one of several capacities, such as an employee, management, director, external adviser, auditor, or supervisory authority of the entity. Regardless of the role the actuary has within the group or the undertaking (e.g. a member of the actuarial function, the risk management function, any other key functions or any other roles), the guidance in this ESAP applies to the actuary in so far as the actuary provides actuarial services in relation to the ORSA process. When a team is performing certain tasks in relation to the ORSA process and the actuary has a certain role in performing actuarial services within that team then the actuary should identify which member of the team is responsible for those tasks and consider that member of the team to be the principal. In most cases, it is expected that this person will be the team leader.</p> <p>are generally similar to, but differ from, paragraph 1.4 of ESAP1. If the guidance is intended to be different that fact should be clearly stated.</p> <p>We obviously prefer the wording of ESAP1 paragraph 1.4 as it is identical to ISAP 1, and struggle with the ESAP 3 articulation. 1.2 and 2.12 seem slightly contradictory. 2.12 says the principal “will usually be the client or employer”; 1.2 on the other hand identifies the team leader as the principal in the common situation where the actuary is part of a team. This doesn’t seem consistent with 2.12’s “client or employer”, which are entities, not persons.</p> <p>We think the guidance in ESAP1 paragraph 1.4 is clearer and more straightforward, and we recommend ESAP3 reference it, rather than restating it in a conflicting manner.</p>

1.6.	Unnecessary space after 23 in 1.6
2.14.	Does not need to refer to “actuary’s communication”, since communication is defined as being that of the actuary
Section 3 Opening paragraph	Not sure it’s necessary; somewhat confusing at first.
3.1.2.	Second bullet is unclear, particularly regarding “the limitations”. Limitation of what? It also seems to combine two things: supporting business uses and differences from Solvency II modeling, which should be in separate bullets.
3.1.4.	In the last sentence replace “record” with “document” so that the revised sentence reads as: <i>The actuary should document his interactions with these other business units and recommend how these interactions could be improved.</i> Such documentation should be subject to materiality.
3.1.7.	2nd bullet seems to partially duplicate 2nd last bullet of 3.1.5.
3.2.2.	<ul style="list-style-type: none"> In this wording, delete “to”: For all risks to which the underlying group or the entity has or could have In last line, change “re(insurer)’s” to “entity’s”
3.2.3.	<p>This para comes across a bit ambiguously: Subject to 3.2.2, the actuary should quantify risks to the extent possible, taking account of the precision required for the intended purposes. Where the required precision is not possible, risks should be handled qualitatively. The qualitative measurement thereof should consider the nature of the remaining uncertainty as well as the need for precision (proportionality).</p> <p>We say something is required, then we say “well then, don’t do it.” Precision then couldn’t really have been “required” in the first place, since the solution is to bypass the whole calculation. This should be expressed better.</p>
3.2.5.	<p>Normally we’ve preferred the active voice “the actuary should document the reasons” to the passive “reasons should be documented” used here: are so inconsistent or unrealistic that the resulting ORSA report would be misleading. If this is the case, the reasons should be documented.</p> <p>In this paragraph (and in 3.3.2) the ORSA report is referred to as if it is a “report” as defined, which happens to be on the subject of ORSA. The “ORSA report” is different, for which the actuary is often not responsible.</p>

3.3.1.	<p>Here the ED requires the Business Plan to actively do something (“the Business Plan should consider”). The actuary is not necessarily the one writing an entity’s Business Plan, and cannot make it do anything.</p> <p><u>The implementation of ORSA should be consistent with the Business Plan used by the group or undertaking and the Business Plan should consider the risk appetite, the expected and stressed risk profile and the cost of capital generated as elements for the strategy definition process.</u></p>
3.3.2.	Heading of 3.3.2 should have ORSA run marked as a defined term.
3.4.1.	3.4.1 (and 3.4.4) 1st line: “evidence” is usually considered as a noun. So consider re-wording as “The actuary should provide evidence”
3.4.2.	<p>A true statement, but there’s no “should” or anything else in there that states what impact this has.</p> <p>Communication needs to be in blue and underlined, as it is defined.</p> <p>This paragraph creates the impression that the ORSA report is a report by the actuary. In the Republic of South Africa the ORSA report is a report by the Board (AMSB in terms of this ESAP), so the AMSB would not be an intended user, but the owner (accepting it may be different in the EU).</p>
Definitions	<ul style="list-style-type: none"> • A number of items related to ORSA are defined, e.g. ORSA run, ORSA cycle etc., yet terms like ORSA methodology, ORSA process ORSA policy are not defined. Are the last three so much clearer than the first two? • Consider defining AMSB in the definition section rather than in introductory paragraph. Similarly ESAP and ORSA.

Name	Monique Schuilenburg
Name of the organization	Royal Dutch Actuarial Association
E-mail address	Monique.schuilenburg@ag-ai.nl

1. Do you think that the ED achieves the goal of the drafting team in reaching a balance between the desire for high-quality actuarial work and ensuring the guidance is neither inefficient nor unduly burdensome?

☐

Yes

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No

If not then please indicate your concerns:

- It is often not clear when an actuary involved in the ORSA process should comply with these requirements. An actuary can have many different roles in the ORSA; should each actuary involved in ORSA comply with these requirements, or the actuary responsible for a specific task of the ORSA process or the actuary involved in the review of the ORSA. We suggest to make more clear at the beginning of each section when a specific section is relevant, e.g. When performing actuarial services on ... the actuary should ...” and to align the content of the paragraph with that task.
- Overall the content is not easy to read and not in balance as some paragraphs deal with the same topic, e.g. alignment of the ORSA with the business planning in paragraph 3.1.3, 3.2.1, 3.2.5, 3.3.1 and 3.4.1. We suggest to change the order in the standard by first recording the general governance requirements and next to add separate sections for each step of the ORSA process.

2. Do you think that the guidance in the ED achieves the right level of detail (not too detailed, not too general)?

☐

Yes

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No

If not then please indicate the topic(s) where the standard should be more/less detailed:

- Many paragraphs repeat Solvency II requirements without any further interpretation and guidance. We believe that the standard is more useful when more specific guidance is recorded on some topics, especially the topics on appropriateness assessment, risk identification, risk and capital assessment methods including scenario- and stress testing and ORSA reporting

3. Is any of the proposed guidance inappropriate for inclusion in ESAP3? If so, please indicate which one(s) and explain why the particular topic(s) should not be included.
 - We believe that no topics should be omitted. Although, we believe that, as some topics are addressed more than one time in the standard, restructuring of the standard will improve the readability and will reduce the amount of text.

4. What other topics should be included in ESAP3? Please indicate which one(s) and explain why you wish guidance in the area(s).
 - We believe that guidance on the following topics should be added to the standard: data quality, risk mitigation techniques and cooperation with the key functions.

5. Any additional comments
 - The preface of each ESAP (1, 2 and 3) is written differently. We suggest to seek for consistency.
 - Paragraph 1.3: It is not clear why paragraph 1.3 of ESAP3 should replace paragraph 1.3 of ESAP1. It seems that both paragraphs are relevant and should be applicable to all ESAPs.
 - Documentation:
 - It is written several times that the actuary should document his or her findings, but it is not clear how and where this should be documented.
 - We suggest to write consistently that the actuary should document or contribute to documenting, whichever is appropriate.
 - Paragraph 3.1.2, second bullet:
 - This bullet can be omitted as it is not relevant for considerations for consistency with or deviation from Solvency II requirements as mentioned in the first sentence of paragraph 3.1.2. In Solvency II there are much more requirements and it goes too far to mention all of them in this paragraph.
 - Specific for the requirement recorded here, the ORSA should provide insight to what extent the entity's risks are appropriately measured by the Standard Formula.
 - Paragraph 3.1.5, fourth bullet with respect to the review of the ORSA process for appropriateness': this sounds more like something Internal Audit or Internal control should do.
 - Paragraph 3.3.1: The consistency of the ORSA with the business plan is not to be achieved by the actuary and therefore he is dependent on the quality of the business plan. It is suggested to provide more guidance, for example by adding suggestions what the actuary should do in case of a poor alignment.
 - Paragraph 3.3.2: Suggest to add to the third bullet: "including what risk mitigating measures are considered."

Name	Emily O'Gara
Name of the organization	Society of Actuaries in Ireland
E-mail address	info@actuaries.ie

1. Do you think that the ED achieves the goal of the drafting team in reaching a balance between the desire for high-quality actuarial work and ensuring the guidance is neither inefficient nor unduly burdensome?

☒

Yes subject to the comments below

☐

No

If not then please indicate your concerns:

Response/Comments

- Will the actuary always have the power or decision making capacity to implement ESAP3 within the ORSA process? Will a conflict exist for an actuary who is part of the ORSA process but is not in a position to influence the way the process is conducted? How can such an actuary be expected to fulfill the requirements of ESAP3? The ESAP should address these issues. The Transmittal Letter accompanying the ED does touch on these points but visibility on the content of such a letter may be lost over time.

2. Do you think that the guidance in the ED achieves the right level of detail (not too detailed, not too general)?

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Yes

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No

If not then please indicate the topic(s) where the standard should be more/less detailed:

Response/Comments

The guidance is sufficiently detailed and achieves the right balance. Some specific comments / observations / points of note are outlined here.

Section 3.1.3

In considering the structure and process of the ORSA, the actuary should ensure or contribute to ensuring, whichever is appropriate, that the business-planning period takes account of ...

Comment

The business planning period maybe outside of the control or remit of the actuary working on the ORSA within an organisation. While the points raised in Section 3.1.3 of ESAP 3 are valid the actuary involved in the ORSA may not always be able to influence the business planning process.

Section 3.2.1

The actuary should consider how the ORSA time horizon and risk measure is consistent with that used in the SCR to ensure multi-year projections are coherent

Comment

Should the SCR time horizon not be independent from the time horizon of the business plan/ORSA.

Section 3.2.1

“The actuary must assess the significance with which the risk profile of the undertaking or group concerned deviates from the assumptions underlying the Solvency Capital Requirement.”

Comment

Why is “must” used here when “should” is used throughout the rest of the ESAP? Why would responsibility for carrying out this assessment necessarily fall to the actuary?

Presumably, in any event, this requirement would apply only in the case of Standard Formula companies - ?

Section 3.3.1

The actuary should seek to ensure or contribute to ensuring, whichever is appropriate, that the AMSB takes an active part in the ORSA process by, for example, steering how the assessment is to be performed and challenging its results.

Comment

Will the actuary have the control or the ability to ensure this happens?

Section 3.4.1

‘the need for the ORSA process to be aligned with the business-planning process including the consistency of the risk profiles considered’

‘the need for the scenarios that are developed, applied and updated to be appropriately adverse but realistic;

Comment

The language used in this section potentially indicates that the business planning process and ORSA process are two separate, distinct and independent processes. The business planning process should be seen as part of the overall ORSA process.

Should more extreme scenarios not also be considered within the ORSA? Are extreme scenarios not key to the ORSA process?

3. Is any of the proposed guidance inappropriate for inclusion in ESAP3? If so, please indicate which one(s) and explain why the particular topic(s) should not be included.

We do not see anything within the guidance as inappropriate. Clarity on some of the points above would be of value.

4. What other topics should be included in ESAP3? Please indicate which one(s) and explain why you wish guidance in the area(s).

5. Any additional comments