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Report of the Standards Project Team to the Standards, Freedoms and Professionalism Committee meeting in Barcelona, 22 September 2016

Since the meeting of the Standards, Freedoms and Professionalism Committee (SFPC) in Nicosia, 10 March 2016, the Standards Project Team¹ (SPT) and its task forces have progressed work on ESAP3 (ORSA) and made assessments whether or not developing ESAPs in other fields meet the requirements set against setting standards by the AAE.

Task Force² on ESAP3 – Actuarial Practice in relation to the ORSA Process under Solvency II

At the Nicosia meeting of the SFPC it was agreed that the TF would redraft the Exposure Draft (ED) of ESAP3 and then an informal consultation would be conducted among FMAs.

The TF had been working on the new draft since the Nicosia meeting of the SFPC, presented it to the SPT at its call on 2 September and the SPT now submits this new draft to the SFPC (see Annex 2b; as a i) clean copy and ii) mark up against the ED) for consideration and decision to dispatch it to FMAs for informal commenting with a comment period until 31 October 2016.

Following that consultation, a formal second exposure will take place. The SFPC would approve publication of the second ED by the end of November 2016 by electronic vote. After a three month exposure period the TF would finalize the standard before the SFPC meeting in May 2017 where the SFPC would approve the standard. Then the General Assembly in Copenhagen would adopt ESAP3 on 22 September 2017.

The main changes compared to the ED are the following:

- The Purpose sub-section has been refined and Scope sub-section has been substantially rewritten to reflect the comments received to the ED
- In order to emphasize the importance of the usage of “must” and “should” in ESAP3, the relevant parts of ESAP1:1.6 are repeated in 1.5 of the draft

¹ Gábor Hanák, Hungary, Chair; Dieter Koehnlein, Germany; Hillevi Mannonen, Finland; Manuel Peraita, Spain; Marianna Anyfanti, Greece; Marianna Papamichail, Greece; Nino Savelli, Italy; Philip Simpson, UK; Pierre Miehe, France; Yvonne Lynch, Ireland

² 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

- Each sub-section has a boldface introduction and conclusion where the most important and compulsory guidance is summarized, i.e. what the actuary must do.
- Substantial material has been removed and the remaining guidance became more principles based than the ED. However, most of the underlying ideas of the removed texts have been transferred to the EAN³ developed concurrently
- Links between ESAP3 and ESAP1 have been strengthened
- The Introduction has been removed

Task Force⁴ on The role of the AF in contributing to the RM system under S II (ESAP4)

The TF considered the various EU/EIOPA texts on contribution to risk management. The TF also considered the various areas where actuaries could usefully assist risk management. Texts issued by other bodies (some of the Australian info was most interesting) were also considered. Given the lack of any specific requirements set down by EIOPA, the TF considered that it would be better not to create an ESAP but that something along the lines of an EAN may be more appropriate. The development of the EAN, however, is the responsibility of the Insurance Committee.

Task Force⁵ on Independent review by actuaries in the context of S II (ESAP5)

There has been not much development of the work of this TF. Preparations for an enhanced survey⁶ on the subject to various stakeholders started. However, due to a change of jobs of the Chairperson of the TF, work has slowed down and eventually stopped by the resignation of the Chairperson. A new suitable chairperson is being searched for.

In the meantime the idea of developing a global standard (i.e. an ISAP) on the independent review by actuaries was raised at the IAA meetings in St. Petersburg but the IAA did not show appetite for this. Still the SPT believes that in the European context and considering the discussions with EIOPA an ESAP in this area confined to Solvency II might be useful and the idea should still be investigated by the TF.

Task Force⁷ on Actuarial Function Reporting for IORPs; Risk Reporting for IORPs (ESAP7-8⁸)

³ The Insurance Committee is responsible for developing an EAN.

⁴ Colin Murray, Ireland, Chair; Bernhard Klinger, UK; Elsa Renouf, France; Paola Scarabotto, Italy; Robert Pusz, Poland; Sam Achord, UK; Volker Goersmeyer, Germany

⁵ Thorsten Seidensticker, Germany, Chair – stepped down; James Tuley, UK; Tony O’Riordan, Ireland; Yanick Bonnet, France

⁶ The TF already conducted a mini-survey among some of the FMAs

⁷ Cathal Fleming, Ireland, Chair; Huw Evans, UK; Pieter Heesterbeek; Tibor Párnitzky, Hungary

⁸ The number 6 for ESAPs is reserved for a potential ESAP on Model Governance although the AAE might chose a similar numbering for that as the IAA; i.e. ESAP1A

The TF has made an initial assessment and after considering the advantages and disadvantages of developing an ESAP for actuarial function reporting under the new IORP directive concluded that there may be no need for an ESAP at this time for a number of reasons including the fact that there is no common method for calculating technical provisions across countries and that it would not be very useful in a number of countries due to national standards. At its spring meeting in London, the Pensions Committee discussed the TF's suggestions, agreeing that it is appropriate to at least be considering a model against the context of a dynamic path towards greater supervisory convergence and that the time to influence is when issues are in their infancy. The AAE certainly could - and should - provide guidance and offer views, but there is no need to rush to a formal standard at this stage. The Committee was comfortable that the TF need not pursue an ESAP and should, instead, consider development of an Educational Note (which later could form the basis of a standard, should this become appropriate). The final IORP directive has passed the risk reporting to national regulators so a similar logic would result in there being no need for an ESAP on risk reporting. However, this could be considered for inclusion in the EAN also. The development of the EAN, however, is the responsibility of the Pensions Committee.

Updated work-plan

An updated work-plan for the SPT is at Annex IIa2. This update reflects the past and expected future pace of development on the work in progress of ESAP3, ESAP5 and ESAP6/ESAP1A. ESAP4 and ESAP7-8 have been put to a halt. No new potential ESAP has been identified.

AAE's approach to dealing with ISAP1A Governance of Models

The IAA had made progress on the development of ISAP1A Governance of Models and it was sent out to stakeholders for a final review consultation on 18 August with a 31 day comment deadline (18 September 2016)⁹. The expectation is that this ISAP will be adopted by the IAA Council on 21 November 2016.

ISAP1A will basically have a similar foundation role as of ISAP1 for the IAA's model standard structure. The reason of not amending ISAP1 was merely not wanting to interfere with the ongoing adoption process by IAA FMAs of ISAP1. Nevertheless there is a view in the IAA that ISAP1 and ISAP1A will be merged in due time. The AAE will have to decide how to deal with this situation. There are a number of options available to consider:

- Option 1. Simply endorse ISAP1A by the AAE as an appropriate model standard to be considered by AAE FMAs.
- Option 2. Adopt the clone of ISAP1A as ESAP1A making the necessary changes only (due to different name, the different geography of the Definitions section)

⁹ The final review documents published by the IAA on ISAP1A, ISAP5 and the Glossary can be found in Annex 2c.i, 2c.ii, and 2c.iii, respectively

Note that this Option 1 and Option 2 would create a slight inconsistency between the definitions of “model”. Model is defined in ESAP2. It was not possible to have this definition accepted by the IAA for the purpose of ISAP1A. The definition in the current draft ISAP1A sent out for the final review consultation is similar but not the same. There seems to be no serious differences between the two definitions though. For a comparison between the two definitions, see the Appendix.

Unlike the IAA model standards for which one single Glossary is maintained for all ISAPs adopted, each ESAP is envisaged to include a Definition section. ESAP2 has this section so does the draft ESAP3 and the potential ESAP1A could also have it.

- Option 3. Same as Option 2 but using the ESAP2 definition of model.
- Option 4. Develop an ESAP that is using ISAP1A as the basis but is different in some aspects (other than the definition of model).
- Option 5. Do nothing

ISAP5 Governance of Models

For information: the IAA had also made progress on the development of ISAP5 Insurer Enterprise Risk Models and it was sent out to stakeholders for a final review consultation on 18 August with a 31 day comment deadline (18 September 2016). The expectation is that this ISAP will also be adopted by the IAA Council on 21 November 2016.

Terms of References of the various task forces

For ease of setting the context, the ToRs of the TFs are attached at Annex IIa3

Gábor Hanák
Chairperson, Standards Project Team
8 September 2016

Appendix: Definitions of “model”

Green background: no material difference

Blue background: AAE text that is not in the IAA text

Yellow background: IAA text that is not in the AAE text

ESAP2 definition of model:

A simplified representation of some aspect of the world. A model is defined by a specification which describes the matters that should be represented and the inputs and the relationships between them, implemented through a set of mathematical formulae and algorithms, and realised by using an implementation to produce a set of outputs from inputs in the form of data and assumptions, usually involving judgement of the actuary.

ISAP1A definition of model:

A simplified representation of relationships among entities or events using statistical, financial, economic, or mathematical concepts. A model has a specification, uses assumptions, data, and methodologies that simplify a more complex system, and produces results that are intended to provide useful information on that system.