

Report of the Standards Project Team to the Standards, Freedoms and Professionalism Committee meeting in Copenhagen, 21 September 2017

Since the meeting of the Standards, Freedoms and Professionalism Committee (SFPC) in Reykjavík, 12 May 2017, the Standards Project Team¹ (SPT) and its ESAP3 Task Force finalized ESAP3 (ORSA) and its ESAP5 Task Force progressed work on ESAP5 (Independent review).

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

At the Reykjavík meeting of the SFPC it was decided to carry out an electronic vote of the General Assembly.

On 22 May 2017 members of the SFPC were asked to vote electronically on no objection of a four weeks exposure period and recommending the final text of ESAP3 to the General Assembly for adoption electronically. There was no objection to the four week exposure period and the SFPC also approved recommending the final text of ESAP3 to the General Assembly for adoption electronically. On 21 June 2017 Membres titulaires of Full Member Associations (i.e. the General Assembly of the AAE) were asked to vote electronically on no objection of a four week exposure period and approving the final text of ESAP3. There was no objection to the four weeks exposure period and the General Assembly of the AAE approved the final text of ESAP3 with effect of 2 August 2017.

ESAP3 then was promulgated to Full Member Associations and interested stakeholders (including the European Commission, EIOPA and the IAA) on 10 August 2017 by Kristoffer Bork, Chairperson and Ad Kok, Chief Executive of the AAE. The final text of ESAP 3 has been uploaded to the website of the AAE.

It is recommended to the SFPC that [subject to preparing a digest of the full report of the TF/SPT on the 2nd ED of ESAP3 and posting it to the website] the ESAP3 Task Force is disbanded while passing to all members of the Task Force and in particular to its Chairperson, David Hare, a high level of appreciation for their outstanding work in developing ESAP3.

Task Force³ on Independent review by actuaries in the context of S II (ESAP5)

A Task Force has been set up to evaluate whether a model standard for independent review by actuaries in the context of S II (ESAP5) is beneficial for the actuarial profession in the AAE Member Associations.

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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

³ Wolfgang Deichl, Germany, Chair; James Tuley, UK; Tony O'Riordan, Ireland; Yanick Bonnet, France

The Task Force conducted between 4 January and 5 March 2017 a survey to obtain more insight into the requirements, existing guidance and individual needs of each Member Association and to establish views on whether a model standard would be helpful for actuaries in carrying out reviews. 36 member associations of AAE have been invited to participate and responses from 17 FMAs have been received. These 17 responses represent a rather heterogeneous picture: 6 out of 17 FMAs responding voted against development of such a model standard, while the other 11 FMAs, who consider the development of a model standard helpful, pointed out that ESAP5 should cover a broad variety of items of actuarial work. Although the number of responses represent 53% of the AAE's FMAs, those responses represent 86% of the fully qualified members across Europe. When it comes to the responses expressing the need for such a model standard, the number of FMAs supporting the development of that model standard is 34% of the FMAs (65% of those responded) while in terms of fully qualified members across Europe this proportion is 24% (29% of those responded).

The survey results were presented at the SFPC meeting on 12 May 2017 in Reykjavík and the committee was asked for a decision whether to take the development of ESAP5 forward or not. As there were arguments pro (EIOPA would welcome such a model standard) and con (no evidence for a need based on the survey results, heterogeneous local environment leading to potential conflicts between a new ESAP5 and locally existing legal requirements for audits/reviews) ESAP5, the SFPC asked the Task Force to present further details at the SFPC meeting in Copenhagen, in particular:

- feedback from the associations that did not respond to the survey;
- further clarification on the needs/wishes from FMAs responding; and
- a set of principles upon which this standard would be based.

The Task Force has meanwhile

- tried to get in contact with a sample of 5 FMAs out of those FMAs not responding to the survey: Austria, Belgium, Czech Republic, Poland and Spain;
- tried to get in contact with a sample of 6 larger FMAs the did respond to the survey, in order to learn more about their individual needs: France, Germany, Ireland, Italy, Netherland and the UK;
- organized a communication with EIOPA; and
- drafted a list of principles that would define the scope of a potential model standard.

Unfortunately it was not possible to get in contact with any of the 5 selected organizations that had not responded to the initial survey (no reply to an invitation to a ConCall and no reply to a reminder, either) and also only 3 out of the 6 selected larger associations reacted to the invitation: Ireland, the Netherlands and the UK. Those two of these three calls will be held in the following days, one has been made with the Netherlands.

A discussion with EIOPA on the need of ESAP5 has been started via email by the TF member Tony O-Riordan, who is also member of EIOPA's Insurance and Reinsurance Stakeholder Group. Results from this discussion are expected by 15 September, i.e. just before the upcoming SFPC meeting.

Recommendation:

Different feedback indicates that there is no majority within the European actuarial community that is supporting the development of a model standard for independent review by actuaries in the context of S II (ESAP5):

- Nearly half of AAE's FMAs did not respond to the ESAP5 survey and the 5 FMAs out of those Associations not responding did not accept invitations to follow-up telephone calls, either;

- Majority of qualified members represented by the responding FMAs voted against development of a model standard;
- < feedback from ConCalls still pending with Ireland and the UK >
- < feedback from EIOPA still pending >

Unless there is fundamental new insight from the currently missing feedback from ConCalls with Ireland and the UK and from the consultation with EIOPA, the SPT and its Task Force propose, based the feedback above, to waive introduction of ESAP5 at the moment (although this matter can be revisited at a later stage). However, if the message, especially coming from EIOPA, encourages the development of ESAP5 then further analysis and assessment is needed. The SPT and its Task Force would be happy to provide any late development on this matter orally at the SFPC meeting in Copenhagen.

Updated work-plan

An updated work-plan for the SPT is in Annex 3.1b. This update reflects the past and expected future developments on ESAP3 and the work in progress of ESAP5 which is subject to change (see above).

Standard setting activity in the IAA

The Actuarial Standards Committee (ASC) of the IAA has released an Exposure Draft (ED) of proposed revisions to ISAP 1 *General Actuarial Practice*, related amendments to the Glossary associated with ISAPs, and a minor conformance change to ISAP 2 *Financial Analysis of Social Security Programs* with deadline of 31 October 2017. This ED addresses a collection of suggestions the ASC received over the five years since ISAP 1 was adopted; and the proposed merge of the guidance from ISAP 1A *Governance of Models* into ISAP 1.

The ASC and its related task forces have been working on two ISAPs: ISAP 4 *IFRS 17 Insurance Contracts* and ISAP 6 *Enterprise Risk Management Programs and IAIS Insurance Core Principles*. The EDs of ISAP 4 and ISAP 6 are expected early next year and later this year, respectively.

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

Change in the leadership of the SPT

The current Chairperson of the SPT has decided to step down due to his upcoming enhanced role in the IAA. Hillevi Mannonen has been asked to lead the SPT and having endorsement of the Board she accepted this position, subject to confirmation from the SFPC at the Copenhagen meeting.

Gábor Hanák

Chairperson, Standards Project Team

13 September 2017