

ESAP3 – issues with Exposure Draft (1 of 5)

Scope is not clear; there is confusion about when / to whom / to what work various parts apply; in particular, it was felt that the ED does not address well enough its application in the case of an additional actuary acting as a member of a multi-disciplinary team, possibly in a minor role.

How we have addressed this:

- **ESAP3 only applies to “actuaries who have a material involvement in or responsibility for the design or operation of the ORSA process”**
- **ESAP3 requirements are structured around those aspects of the design and operation of the ORSA process that are felt to warrant additional requirements, over and above what ESAP1 would require**
- **Wider adoption is encouraged amongst support actuaries, as is use by non-actuaries**

ESAP3 – issues with Exposure Draft (2 of 5)

Too much material on non-core and too little on core actuarial work for some respondents

How we have addressed this:

- **Much of the material (mainly non-core) in the ED has been removed from ESAP3 and transferred to the accompanying EAN**
- **“Performance” section now has separate sections on quantitative (projections) and qualitative assessments which should cover much of the core actuarial work in support of the ORSA**

ESAP3 – issues with Exposure Draft (3 of 5)

Not sufficiently principles-based – too burdensome and detailed; difficult to apply in a proportionate way (although there are comments requesting more details as well)

How we have addressed this:

- **ESAP3 is much shorter than the ED, with the requirements covering 3 pages**
- **Key requirements that include “must” are presented in BOLD text, but are carefully phrased to avoid too great a burden – e.g. “actuary must take reasonable steps to ensure that ...”**
- **Documentation requirements from ED considerably reduced and, in many cases, replaced with “The actuary must be in a position to explain and justify ... if reasonably requested to do so”**

ESAP3 – issues with Exposure Draft (4 of 5)

Contains a mixture of hard requirements (“should”s, or mandatory provisions) and soft guidance (“may”s)

How we have addressed this:

- **ESAP3 has almost no “may” statements – mainly a mixture of “must” and “should”**
- **(The four uses of “may” refer to genuine choices/options and do not take the form of soft guidance)**
- **Typically, sub-sections follow the pattern of:**
 - **A “must” statement in bold; followed by**
 - **“In assessing ... the actuary should consider ...”**
- **In some cases, onward communication is specifically required – e.g. “Where the actuary has reasonable grounds for believing that there is a material shortcoming ... then the actuary must ensure that ...”**

ESAP3 – issues with Exposure Draft (5 of 5)

Difficult to enforce – it may be better to have more of a distinction between requirements and guidance

How we have addressed this:

- **ESAP3 only has “must” and “should” statements**
- **“should” is to be interpreted as per ESAP1 as “comply or explain”**
- **Optional “chat” is confined to the EAN**

ESAP3 – Some possible further improvements (1 of 2)

Definition of “Uncertainties” is perhaps too narrow:

Current definition is “Things which happen in the larger world (e.g. movements in the equity markets, lapses, policyholder behavior, natural catastrophes, accidents etc) or within the entity itself (e.g. operational or control issues) which are commonly referred to as “risks”.”

It might be helpful to expand this definition to include the uncertainty that can arise in risk assessments on account of things we don't know:

i.e. add the following text: **“Uncertainties can also arise as a consequence of incomplete understanding of such things, leaving open the possibility that risk assessments and models may prove inadequate in due course.”**

ESAP3 – Some possible further improvements (2 of 2)

Should we have included an explicit mention of “feedback loops”?

Current list of factors to consider in “Establishing a structured approach to uncertainty” includes checking that the ORSA process:

- ensures appropriate back-testing is carried out of past assumptions in light of actual experience and that the results are properly incorporated into assumption-setting for the current ORSA cycle;
- ensures appropriate ongoing review and updating of the ORSA process;

Would it be worth adding the following additional text to the end of the second bullet above: “, **including the effective operation of appropriate feedback loops**” or are such considerations better left to the EAN?

ESAP3 – Next steps

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

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

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

Formal consultation on new ED (December – March)

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

Agree ESAP3 at “spring 2017” meetings

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

EAN on ESAP3 – in drafting phase

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

The idea is to get the draft ready so that it could play a part in the ESAP3 approval process, helping Member Associations to interpret and assimilate the ESAP.

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

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

EAN is still on it draft version and the WG is aiming to get a draft out before mid October.

The EAN is planned to consist of following chapters:

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

Notes to ESAP text. This is the main chapter, going through one-by-one all the articles from ESAP3 (3.1.1 to 3.2.2), giving additional explanations and clarifications in order to help better understanding. Not all articles need to be covered if they are self-evident. Also some linking into Solvency II regulation or other material might be used.

Other subjects relating ORSA work. In the ESAP3 revisions, a considerable amount of material was removed from the previous ED. As well as re-using this, as appropriate, the WG is also investigating whether there are other topics and/or material that should also be covered. The aim is to provide help for actuaries when completing the ORSA.

Appendix. We expect that Appendices will be needed to be able to keep the key information in the main chapters. Then readers can go deeper with some of the topics if needed.