SFPC Meeting Copenhagen: Update on ESAP5

Update on ESAP5

Results of the ESAP5 task force activities and the SFPC meeting on May 12th, 2017 - Summary

- 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 also not accept invitations to follow-up telephone calls
- Majority of qualified members represented by the responding FMAs voted against development of a model standard

Update on ESAP5

Recap: Presentation at the SFPC meeting on May 12th, 2017

Survey on ESAP5 did not indicate need for / support of a new model standard:

- majority of qualified members represented by the responding FMAs voted against development of a model standard
- Nearly half of AAE's FMAs did not respond to the ESAP5 survey

Because of the heterogeneous structure of the answers SFPC asked the Task Force to present further details at the SFPC meeting at Copenhagen, in particular:

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

Update on ESAP5

Follow-up Tasks conducted and results achieved

- a list of principles was drafted that would define the scope of a potential model standard
- it was 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.
  -> it was not possible to get in contact with any of the 5 selected organizations.
- it was tried to get in contact with a sample of 6 larger FMAs that did respond to the survey, in order to learn more about their individual needs: France, Germany, Ireland, Italy, Netherland, UK
  -> only 3 out of the 6 selected larger associations reacted to the invitation: Ireland, Netherlands, UK
- communication with EIOPA was organized

Update on ESAP5

Summary

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 also not accept invitations to follow-up telephone calls
- Majority of qualified members represented by the responding FMAs voted against development of a model standard

Recommendation

Unless there will be fundamental new insight from the feedback EIOPA, the Task Force proposes, based the feedback above, to waive introduction of ESAP5.

Backup

Survey on ESAP5

- **ESAP5 Task Force**

  AAE has set up a task force to evaluate whether a model standard for ‘independent review by actuaries in the context of Solvency II’ would be beneficial

- **Survey on ESAP5**

  The task force has conducted a survey to obtain more insight into the requirements, existing guidance and individual needs of each member organization and to establish views on whether a model standard would be helpful for actuaries in carrying out reviews

  The survey has been conducted between January 4 and March 5

Participation

- 36 member associations of AAE asked to participate in survey
- Responses from 17 member associations received

  (with a total of 21 reponses due to double answers from some member associations)

Country	Name of association	Name	Function
Croatia	Croatian Actuarial Association	Mirjana Cesarec	Member Standards, Freedoms and Professionalism Committee
Cyprus	Cyprus Association of Actuaries	Christos Patsalides	Council Representative to Standards and Freedoms Committee
Denmark	Den Danske Aktuarforening	Jette Lunding Sandqvist	Deputy Chairman
Finland	Actuarial Society of Finland	Esko Kivisaari	Exponential
France	Institut des actuaires	Canarelli // Y. Bonnet	Actuary // Consulting Actuary
Germany	German Association of Actuaries	Dr. Dieter Köhnlein	Member Standards, Freedoms and Professionalism Committee
Greece	Hellenic Actuarial Society	George D. Kravvaritis	Member of the Board
Hungary	Hungarian Actuarial Society	Gabor Hanak	Board Member
Ireland	Society of Actuaries in Ireland	Yvonne Lynch	Director of Professional Affairs
Italy	ISOA	G. Olivieri // G. Crenca	Board Member // President of CNA on behalf of ISOA
Netherlands	Koninklijk Actuarieel Genootschap	Ernst Visser	Consulting Actuary Milliman
Norway	Den Norske Aktuarforening	S. Gaarder // M. Nilsen	Solvency II Committee // President
Portugal	Instituto dos Actuários Portugueses	Ana Martins Pereira	Vice President
Romania	Romanian Actuarial Association	Octavian Cosenco	Vice President
Slovakia	Slovak Society of Actuaries	J. Ducky // M. Kamenarova	President // Vice Chairman
Switzerland	Swiss Association of Actuaries	Lutz Wilhelmy	Member of the Board
UK	Institute and Faculty of Actuaries	Tim Werkhoven	Head of Public Affairs

- 19 member associations did not participate in survey

  (i.e. Austria, Belgium, Bulgaria, Channel Islands, Czech Republic, Estonia, Iceland, Latvia, Lithuania, Luxembourg, Malta, Poland, Serbia, Slovenia, Spain Col.legi, Spain Instituto, Sweden, Turkey, Ukraine)

Need for a model standard

- **Need for a model standard**

  11 out of 17 member associations who responded consider the **development of a model standard for independent review by actuaries in the context of Solvency II by the AAE helpful**

  Respondents ranked the value of a model standard higher than other tools (e.g. guidance, legal requirements, discussion with peers)

  11 out of 17 member associations who responded specify that the format should be principle-based

- **Existing guidance**

  Responses indicate that hardly any professional guidance which is specific to actuaries to provide support in the completion of the actuarial elements of audits or required independent peer reviews exists

- **Potential scope of a model standard**

  Responses indicate that a model standard should cover a broad variety of items of actuarial work, in particular various items regarding the evaluation of assets and liabilities, the evaluation of SCR and reporting

Next Steps

- **Representativeness of the survey**

  Can the survey be considered representative given a participation rate of less than 50% with large member associations like Spain missing?

  Question to be discussed and decided on at spring meeting!

- **Model standard**

  In case the answer is yes i.e. the survey is considered to be representative the task force suggests to develop a principle-based model standard that meets the following conditions:

  – A new AAE model standard should be based on existing standards in order to avoid introducing contradictions with standards already in place.

  – A new AAE model standard should cover a broad variety of items of actuarial work to meet the individual needs of the member organizations. Proposed scope (cf. results, chapter 4):

Evaluation of assets and liabilities
- Materiality concept
- Evaluation of assets (e.g. assessment of reinsurance receivables, assessment with look through approach, …)
- Evaluation of liabilities (e.g. data quality, risk margin, …)

Reporting
- Actuarial contribution to QRTs, SFCR, RSR and ORSA
- Actuarial function: opinion on underwriting, opinion on reinsurance arrangements

Evaluation of SCR
- Standard vs. internal model assumptions
- Risks (e.g. aggregation techniques, modelled risk type, …)
- USP (undertaking specific parameters)
- Data (e.g. data consistency, data quality, …)
- ESG
- Model simplification
- Requirements for stochastic cash flow models
- Back testing
- Documentation

Survey Results*

1 **Regulatory / legal environment**

2 Existing guidance

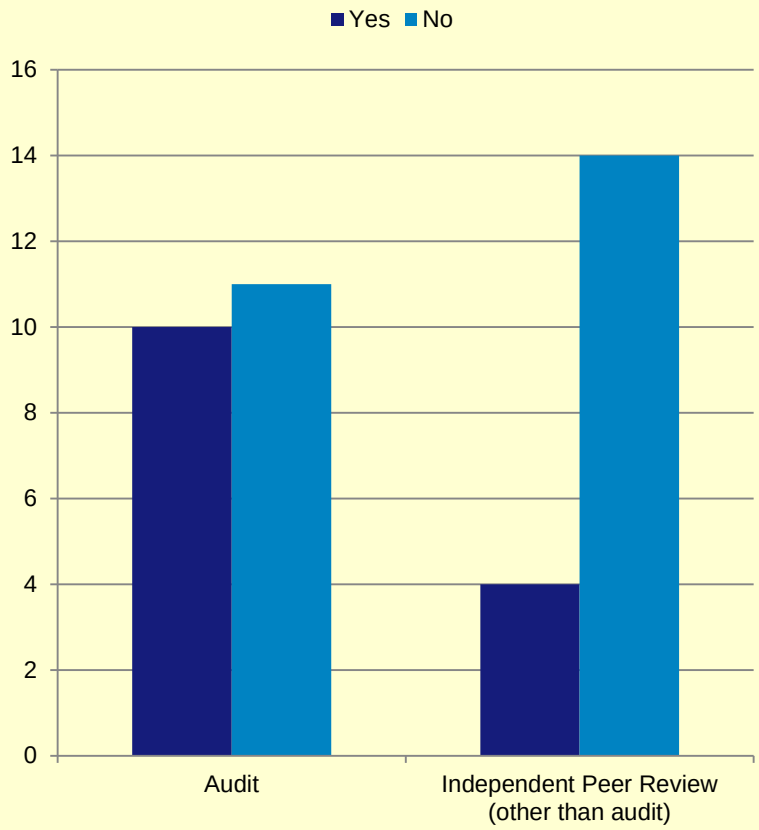
3 Need for a model standard

4 Scope

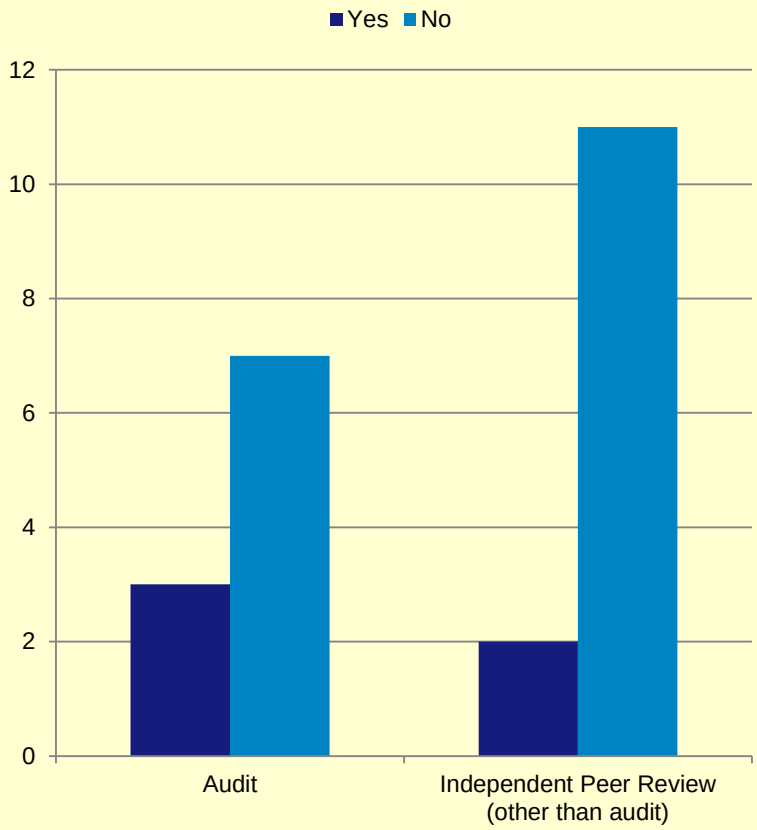
* Note: no adjustment for double answers from some member associations
for questions with multiple answers possible the number of responses is specified

Regulatory / legal environment

Q1
Is there a statutory requirement in your country for review and/or audit of actuarial work contributing to information required to be prepared in compliance with Solvency II?

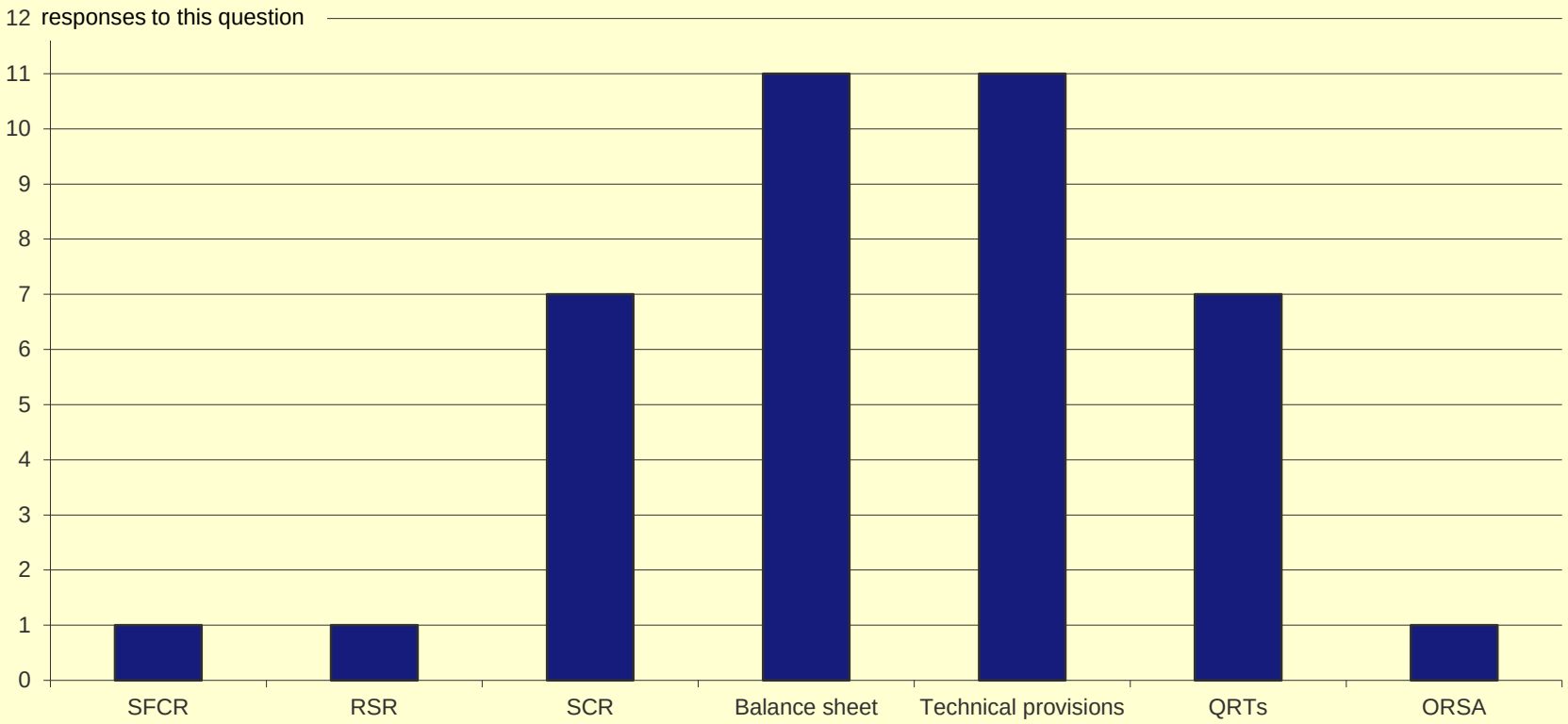


Q2
In case there is no statutory requirement, do you expect that such requirements will be introduced in the future?



Regulatory / legal environment

Q3
Requirement for audit:
If there is a requirement for audit:
Which elements of information required to be prepared in compliance with Solvency II are required to be audited?

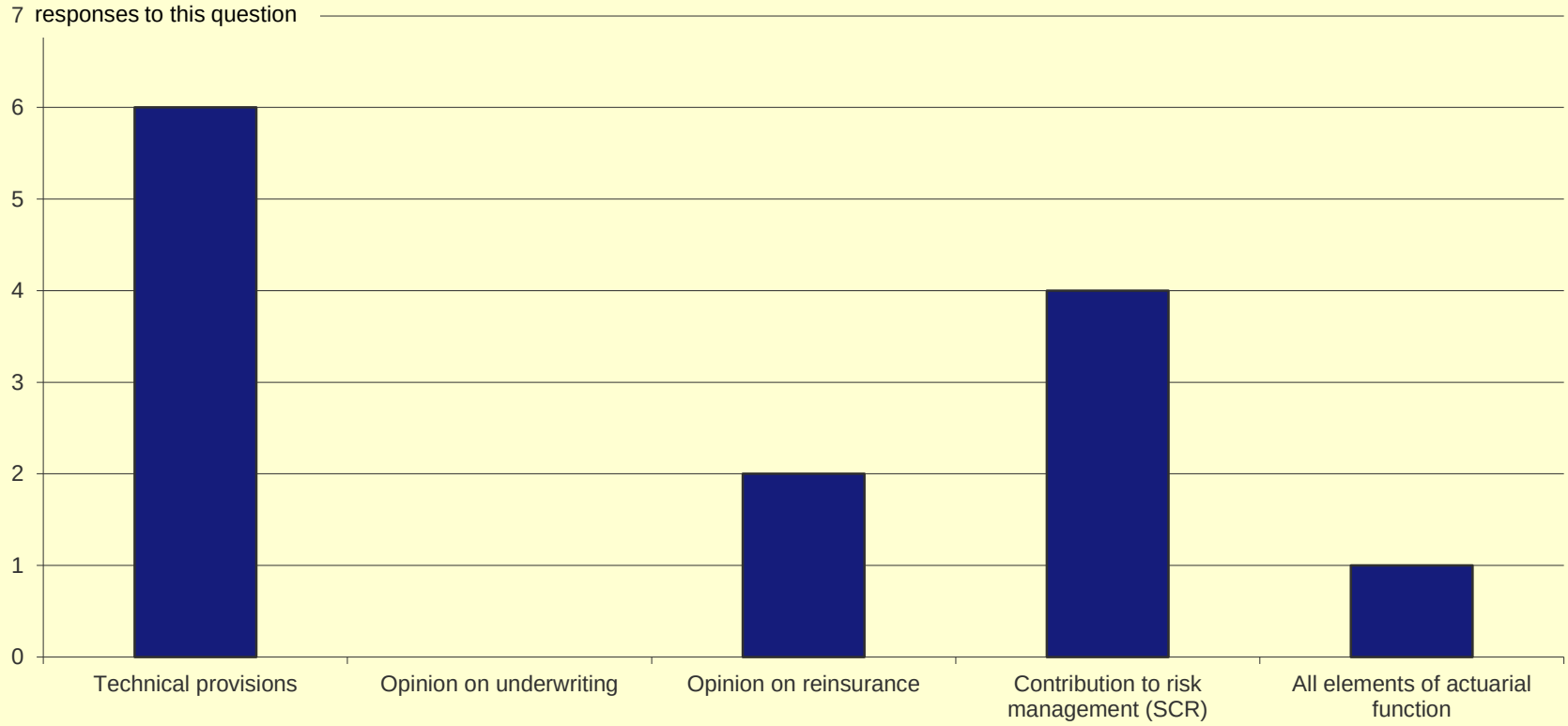


Regulatory / legal environment

Q6

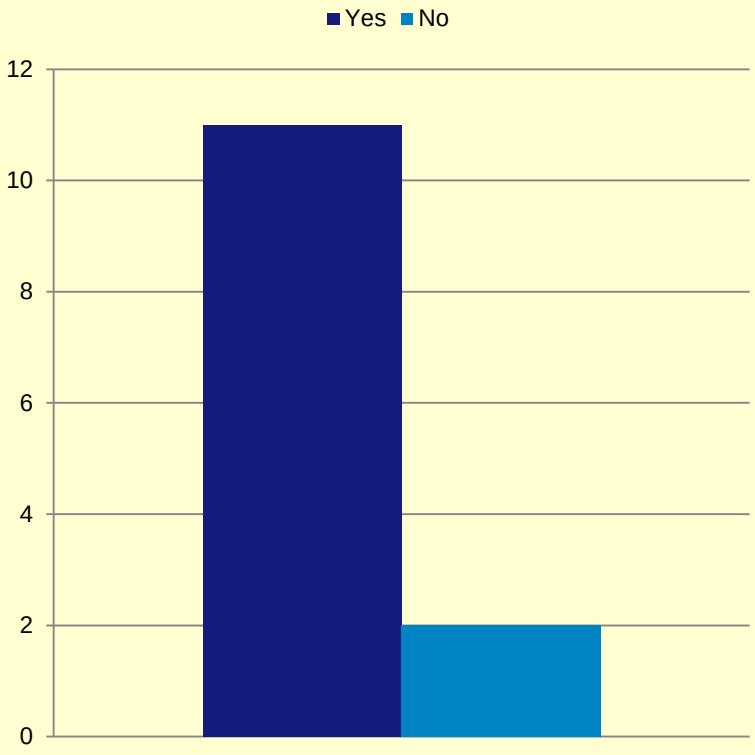
Requirement for independent peer review:

If there is a requirement for independent peer review of actuarial function input to Solvency II information requirements, does it cover:

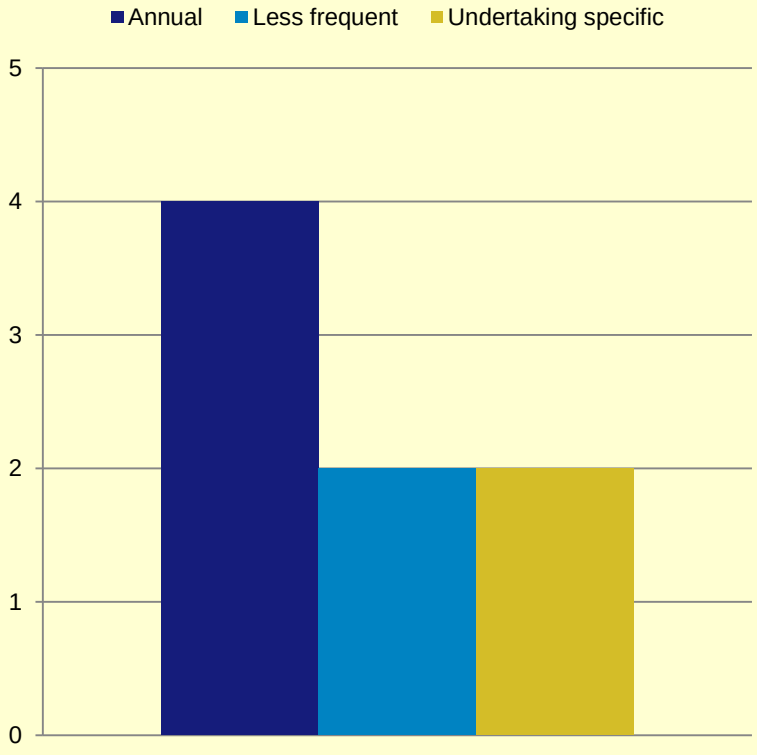


Regulatory / legal environment

Q4
Requirement for audit:
Is the audit opinion a reasonable assurance opinion to be provided by the incumbent auditor?



Q7
Requirement for independent peer review:
How frequent is the requirement for such a review?



Survey Results*

1 Regulatory / legal environment

2 **Existing guidance**

3 Need for a model standard

4 Scope

* Note: no adjustment for double answers from some member associations
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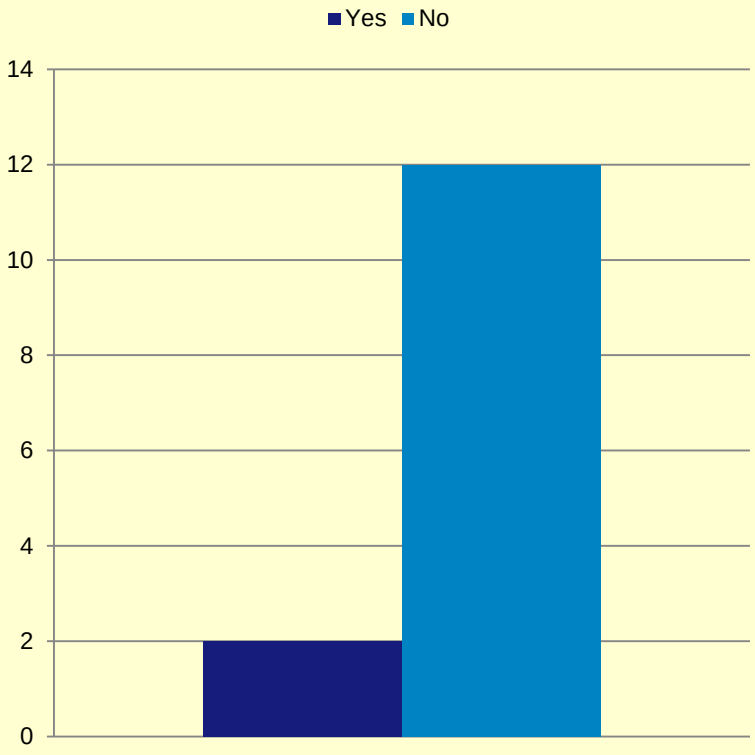
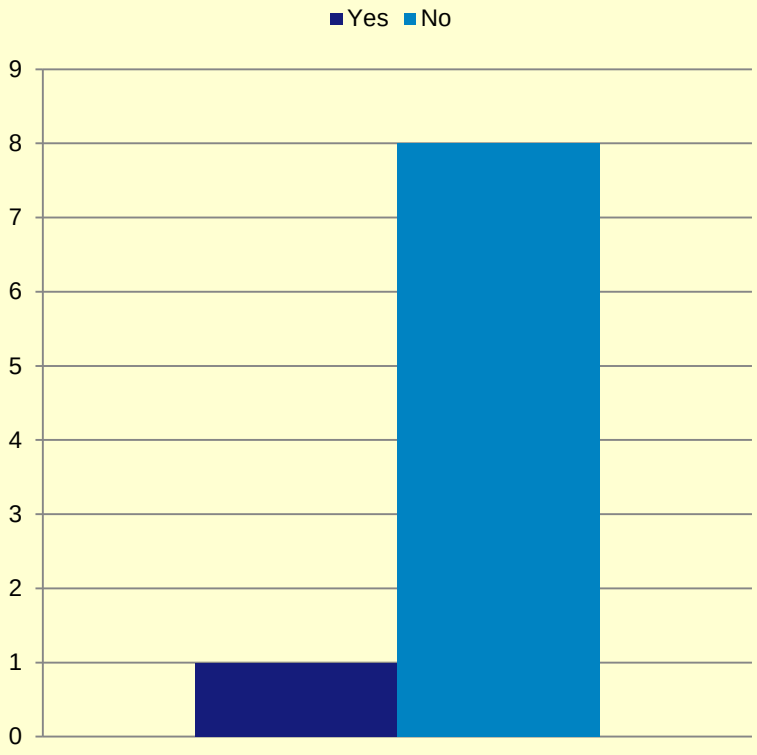
Existing Guidance

Q5
Requirement for audit:
Is there any professional guidance in your country which is specific to actuaries to provide support in the completion of the actuarial element of audits?

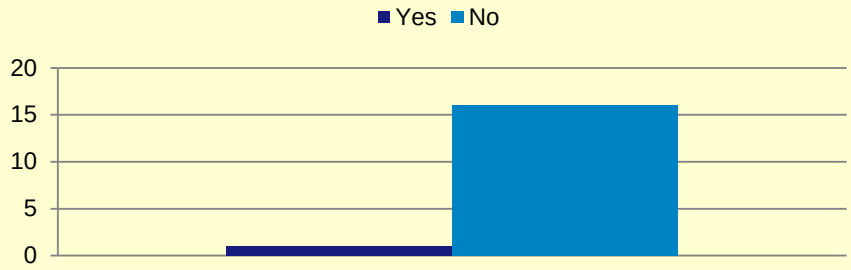


Q8
Requirement for independent peer review:
Is there any professional guidance in your country which is specific to actuaries to provide support in the completion of required independent peer reviews?

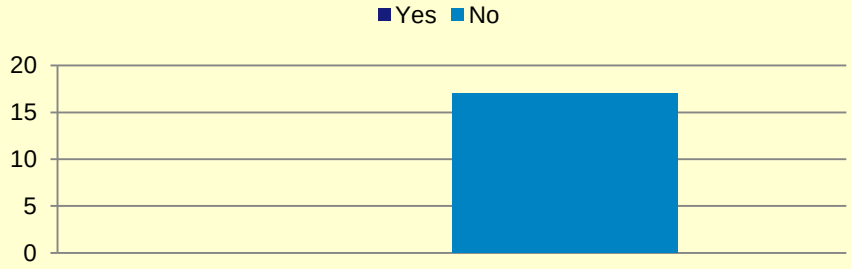


Existing Guidance

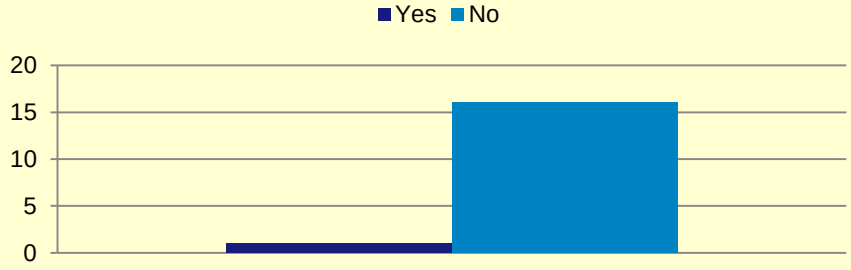
Q13
Is there any professional guidance on the evaluation of assets and liabilities in your country which is specific to actuaries to provide support in the completion of required independent peer reviews?



Q18
Is there any professional guidance on the evaluation of SCR in your country which is specific to actuaries to provide support in the completion of required independent peer reviews?



Q23
Is there any professional guidance on reporting in the context of Solvency II in your country which is specific to actuaries to provide support in the completion of required independent peer reviews?



Survey Results*

1 Regulatory / legal environment

2 Existing guidance

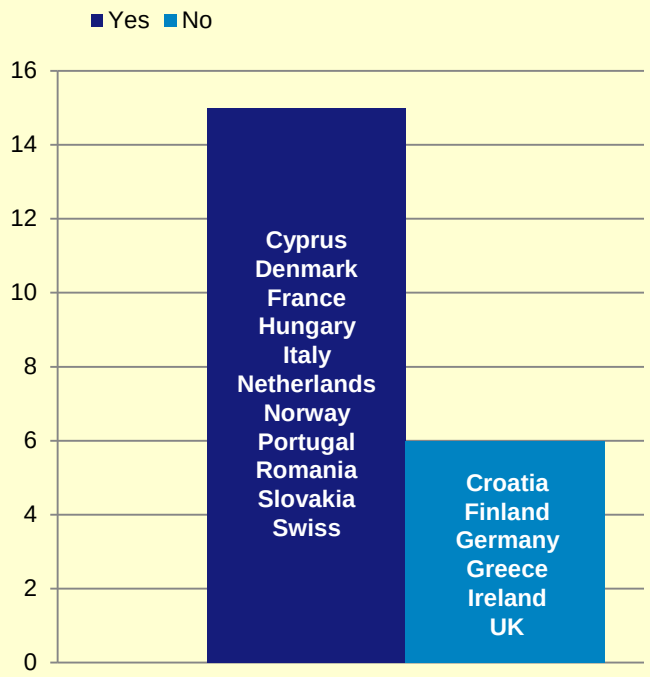
3 **Need for a model standard**

4 Scope

* Note: no adjustment for double answers from some member associations
for questions with multiple answers possible the number of responses is specified

Need for a model standard

Q9
Need for a model standard:
Do you consider it helpful for actuaries in your country that a model standard for 'independent review by actuaries in the context of Solvency II' will be developed by the AAE?



Q9
Need for a model standard – Comments

Pros:
- Standardization, increased uniformity, consistency, harmonization
- Increased quality, minimum quality level / best practice, professionalising
- Level playing field

Cons:
- Risk of introducing contradictions with standards already in place
- Independent review requirements may be different in each country, therefore it may be best to allow standards to emerge at local level rather than as an EU-wide model
- Actuaries should acquire more experience of the Solvency II framework first and will then be able to make more informed contributions to discussion on whether a model standard would be useful and if so, what it should cover

Q24
With regard to 'independent review by actuaries in the context of Solvency II' – which format would be most suitable for the actuarial profession in your country? Please rank the mentioned items 1 to 5, with 5 the most suitable.

	Rating Average*
Standard based on model standard	3,8
Guidance	3,3
Legal requirements	3,2
Discussion with peers	2,7
Other	2,1

* 5 – most suitable and 1 – least suitable

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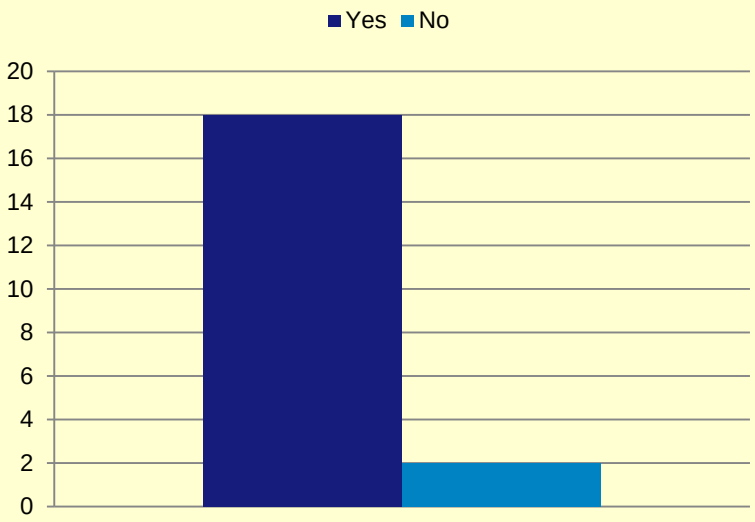
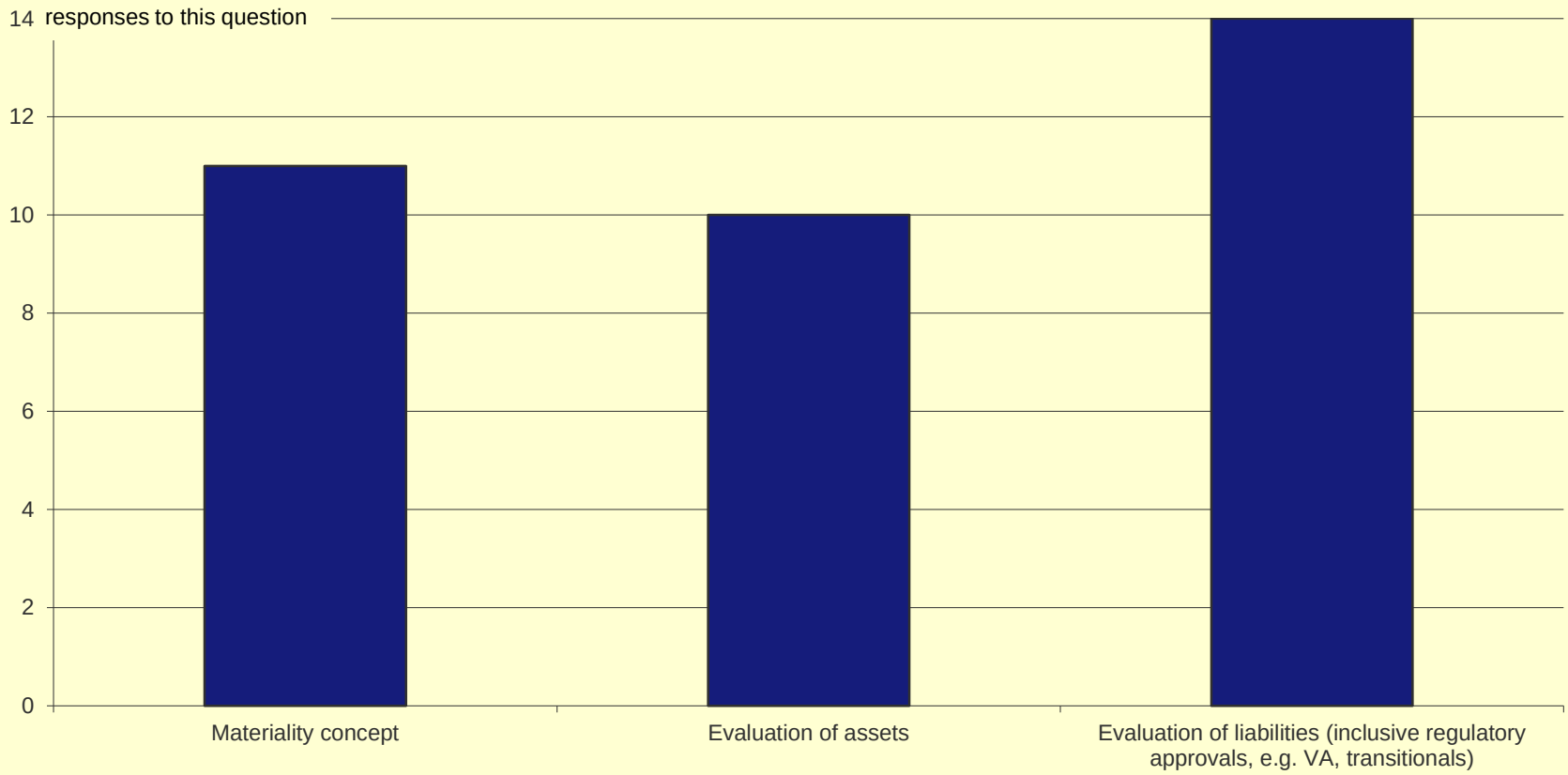
Independence and skills of the reviewer

Q26
Should a model standard cover independence and skills of the reviewer?



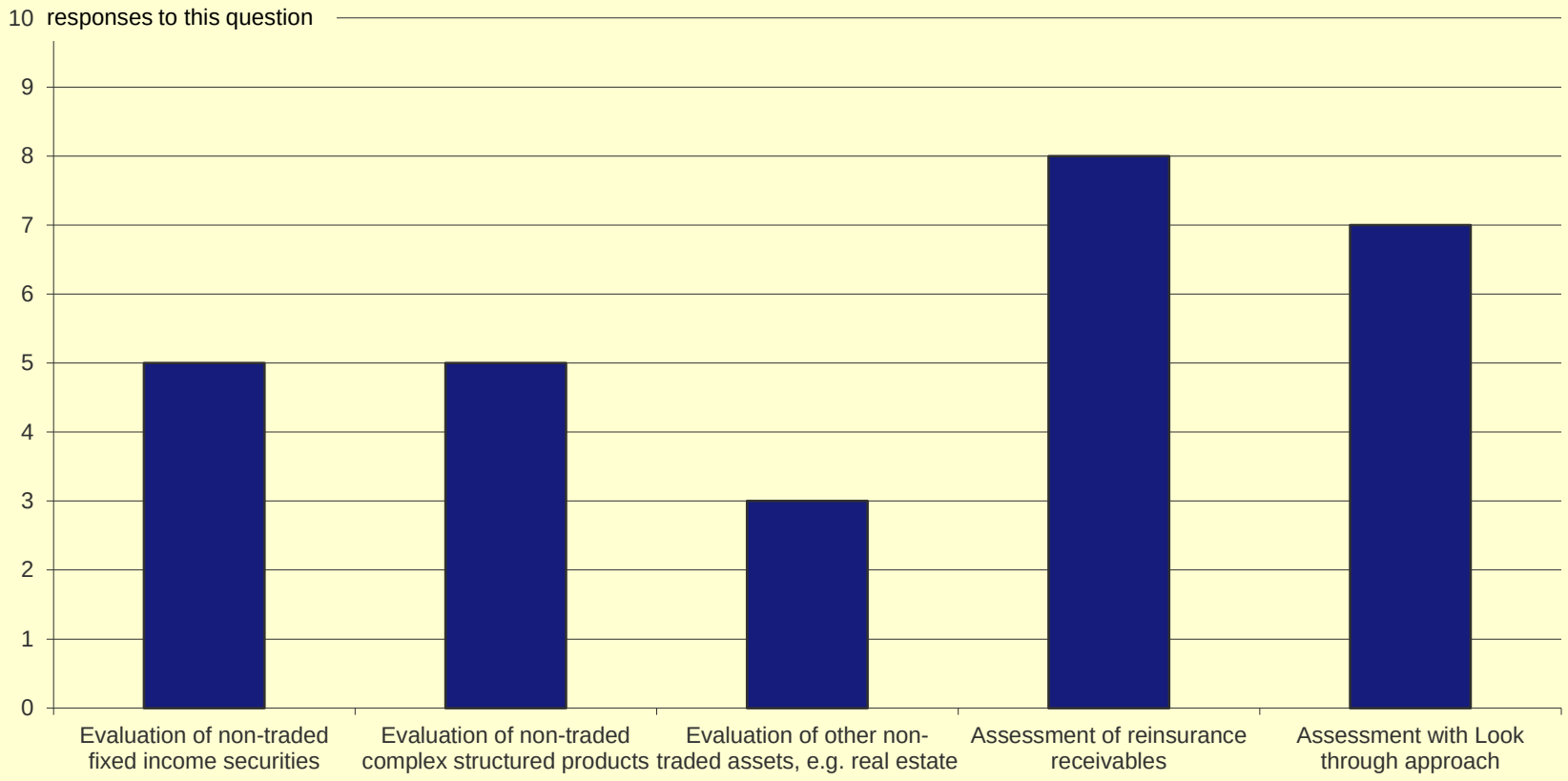
Evaluation of assets and liabilities

Q10
General items:
Which items of actuarial work should be addressed by a model standard?



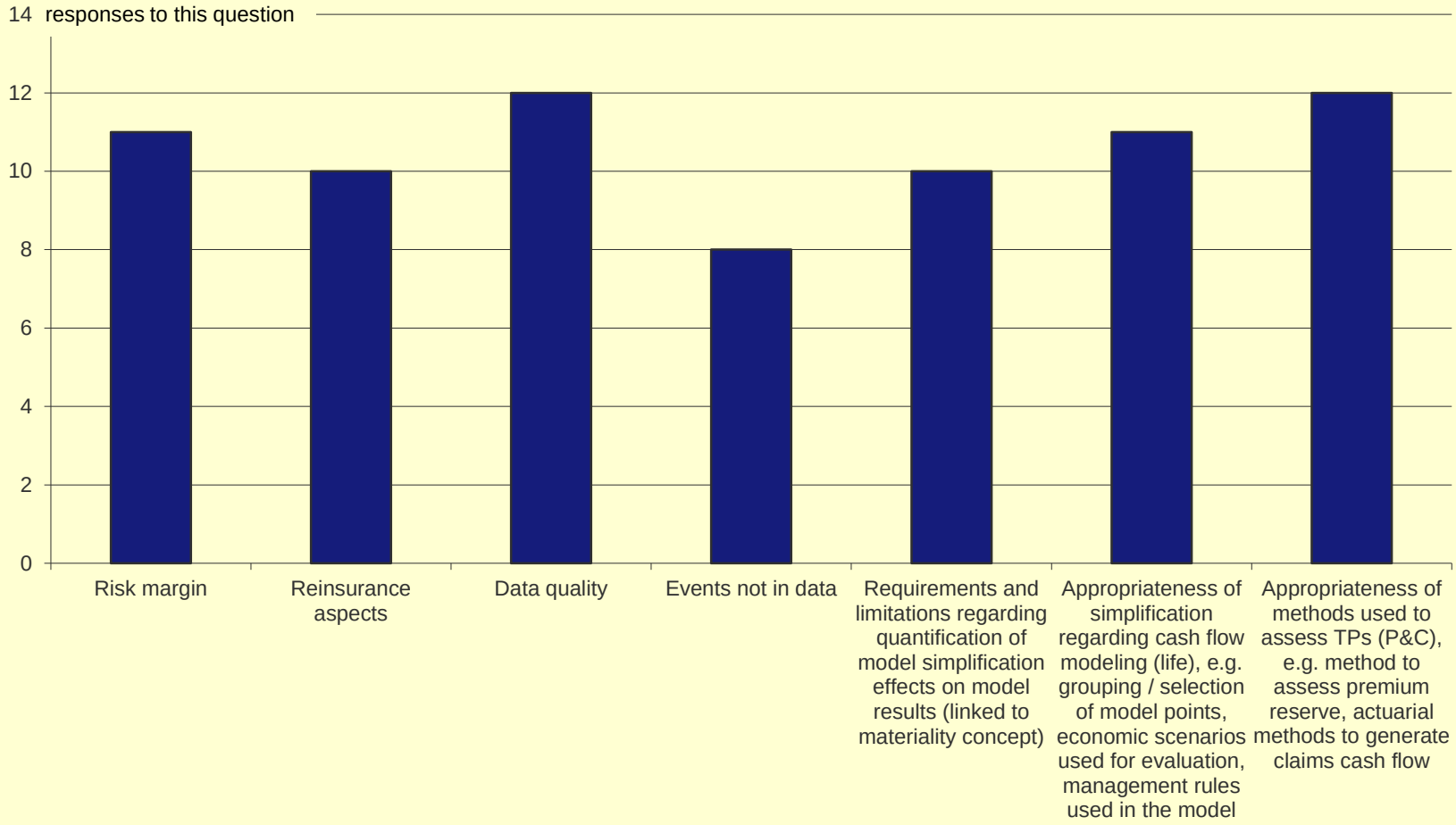
Evaluation of assets and liabilities

Q11
Particular items:
If you ticked the ‘evaluation of assets’ box, which items in particular do you consider should be addressed by a model standard?



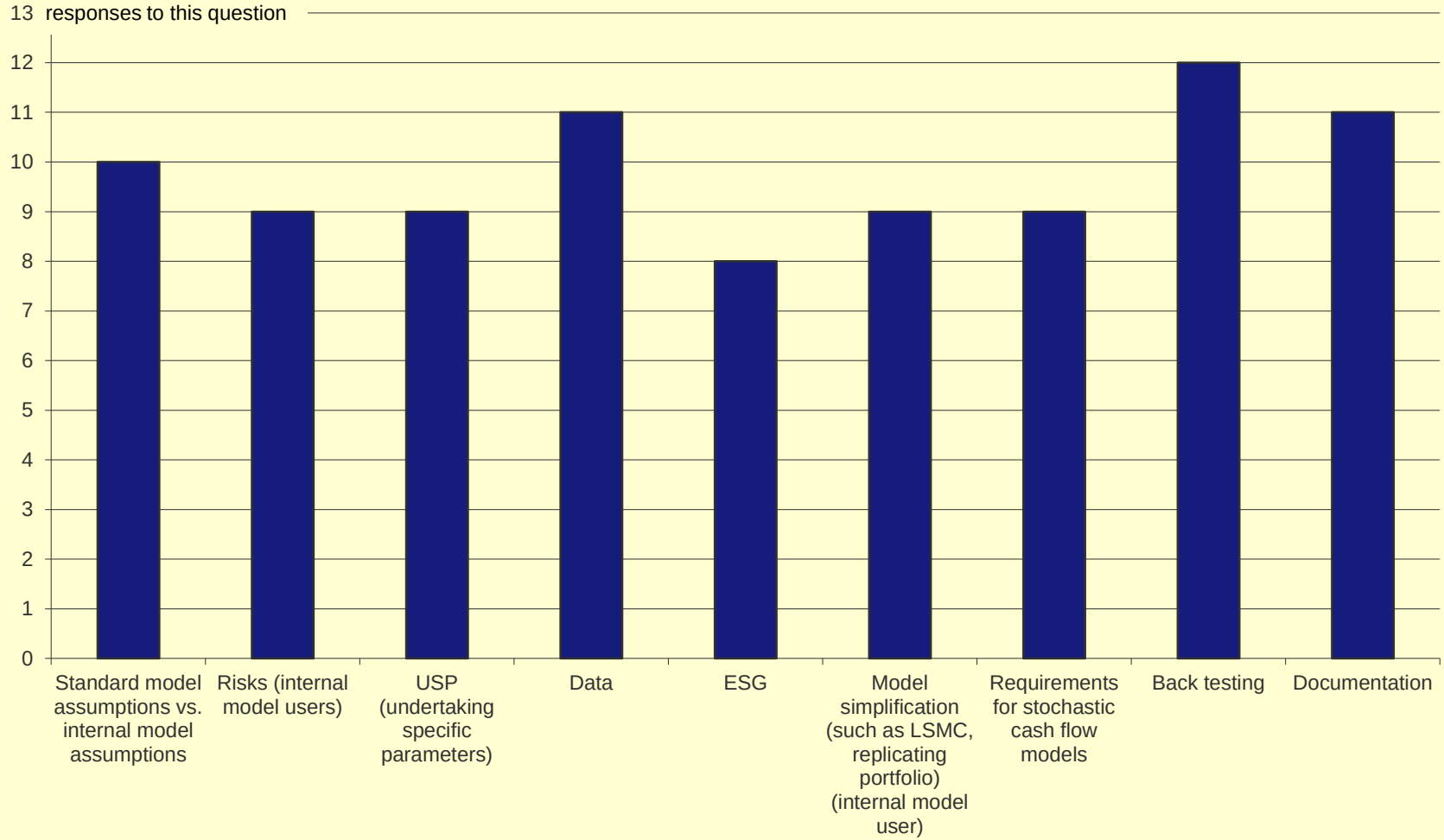
Evaluation of assets and liabilities

Q12
Particular items:
If you ticked the ‘evaluation of liabilities’ box, which items in particular do you consider should be addressed by a model standard?



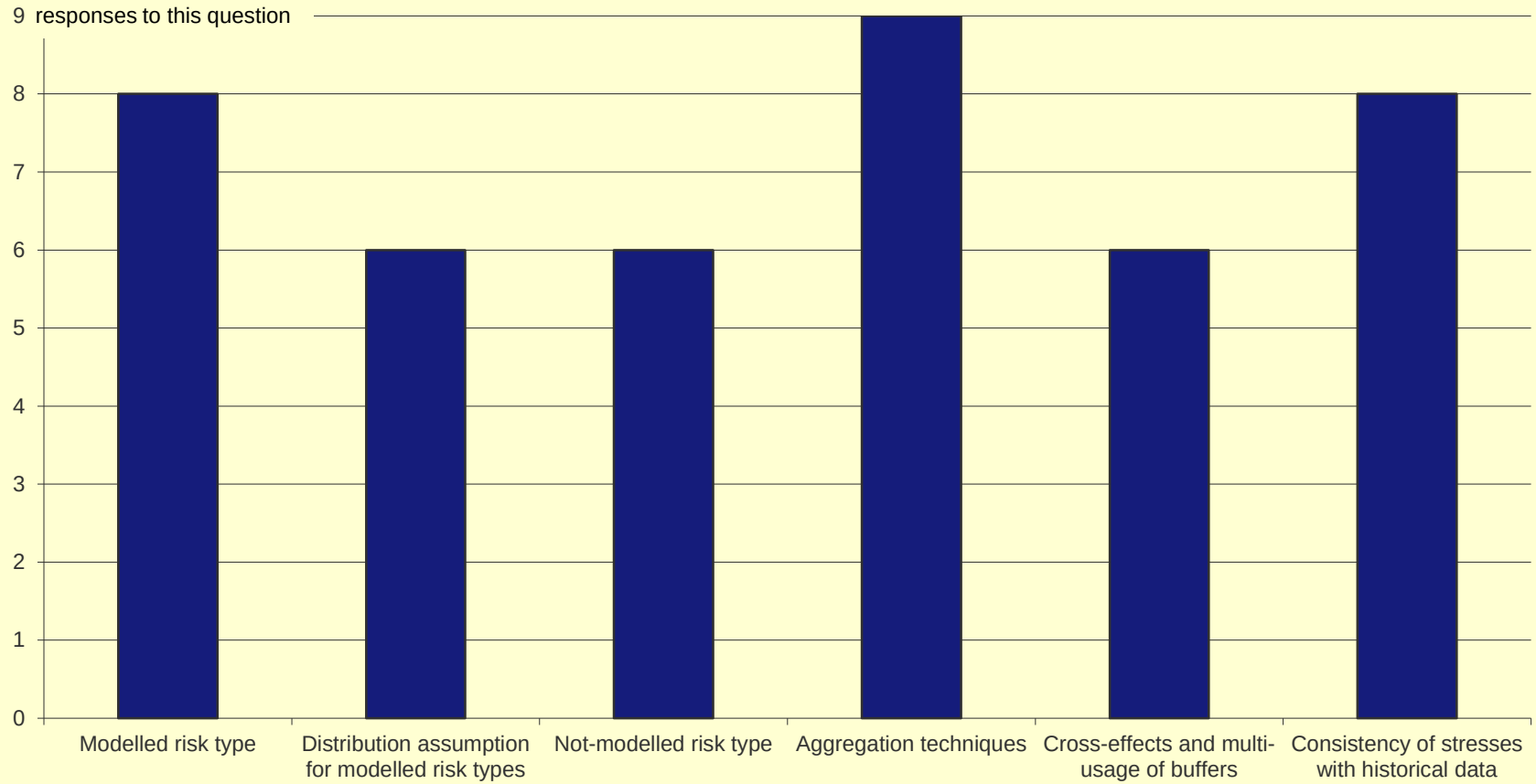
Evaluation of SCR

Q14
General items:
Which items of actuarial work should be addressed by a model standard?



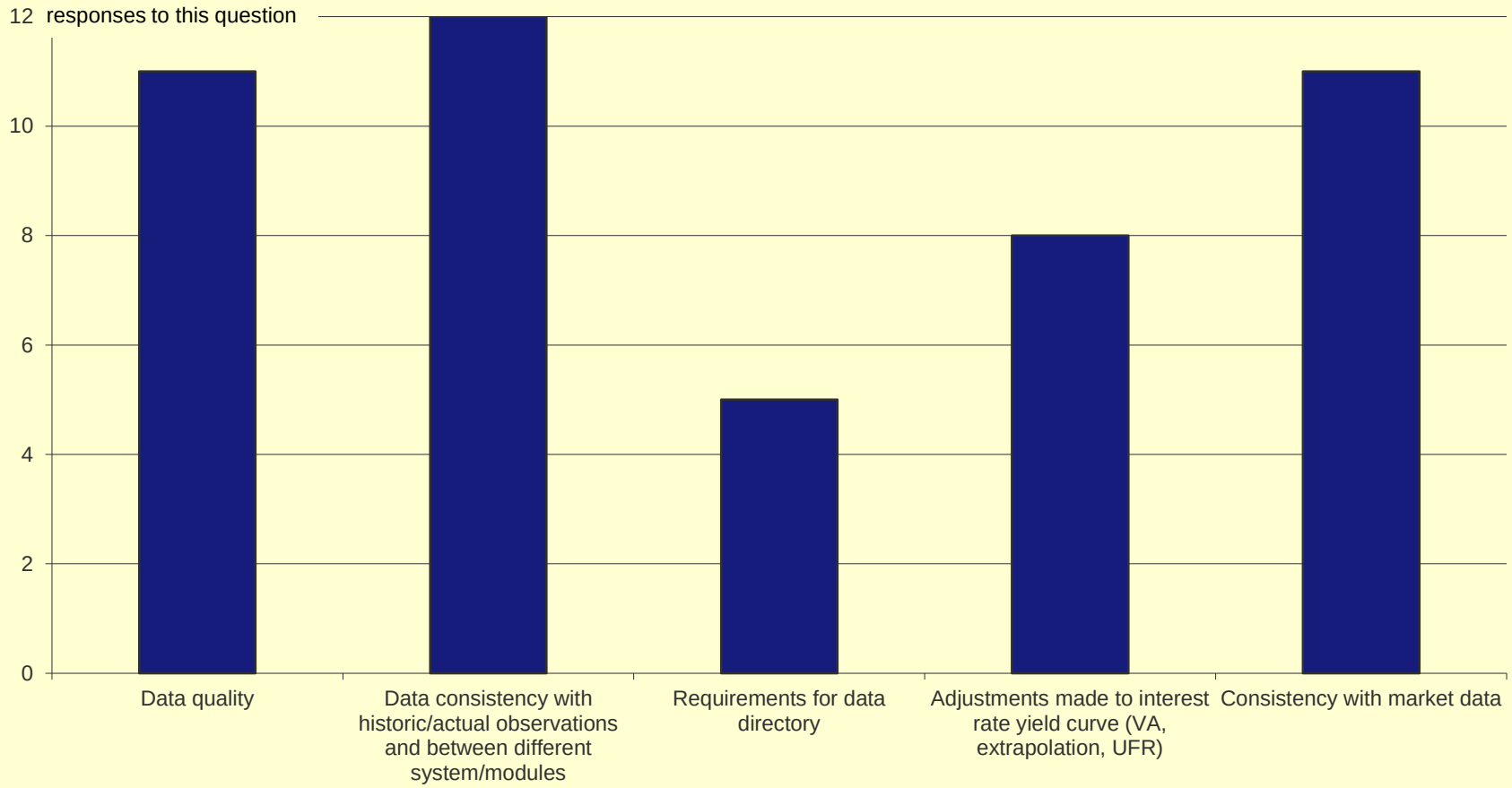
Evaluation of SCR

Q15
Particular items:
If you ticked the 'risks' box, which items in particular do you consider should be addressed by a model standard?



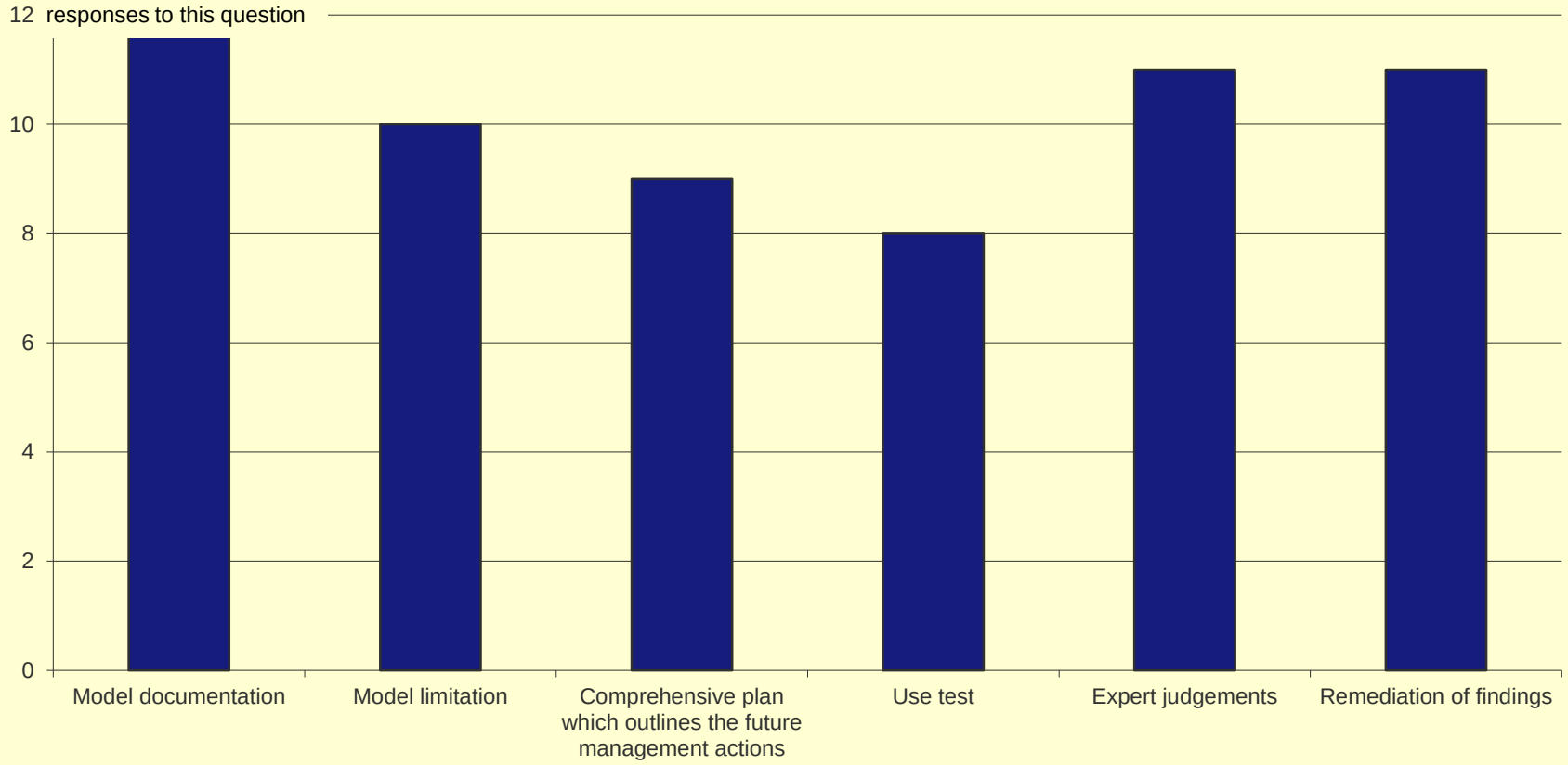
Evaluation of SCR

Q16
Particular items:
If you ticked the ‘data’ box, which items in particular do you consider should be addressed by a model standard?



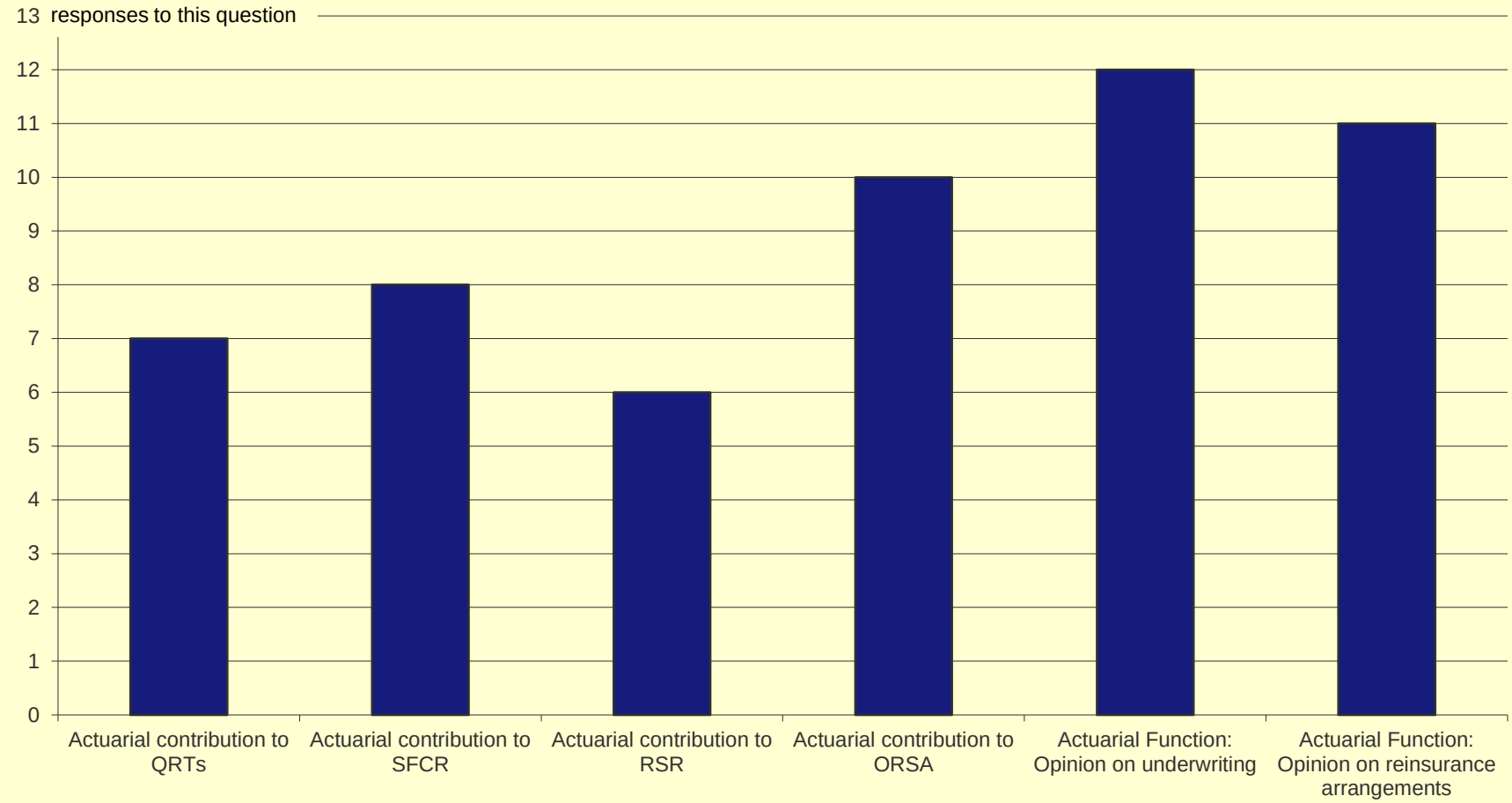
Evaluation of SCR

Q17
Particular items:
If you ticked the ‘documentation’ box, which items in particular do you consider should be addressed by a model standard?



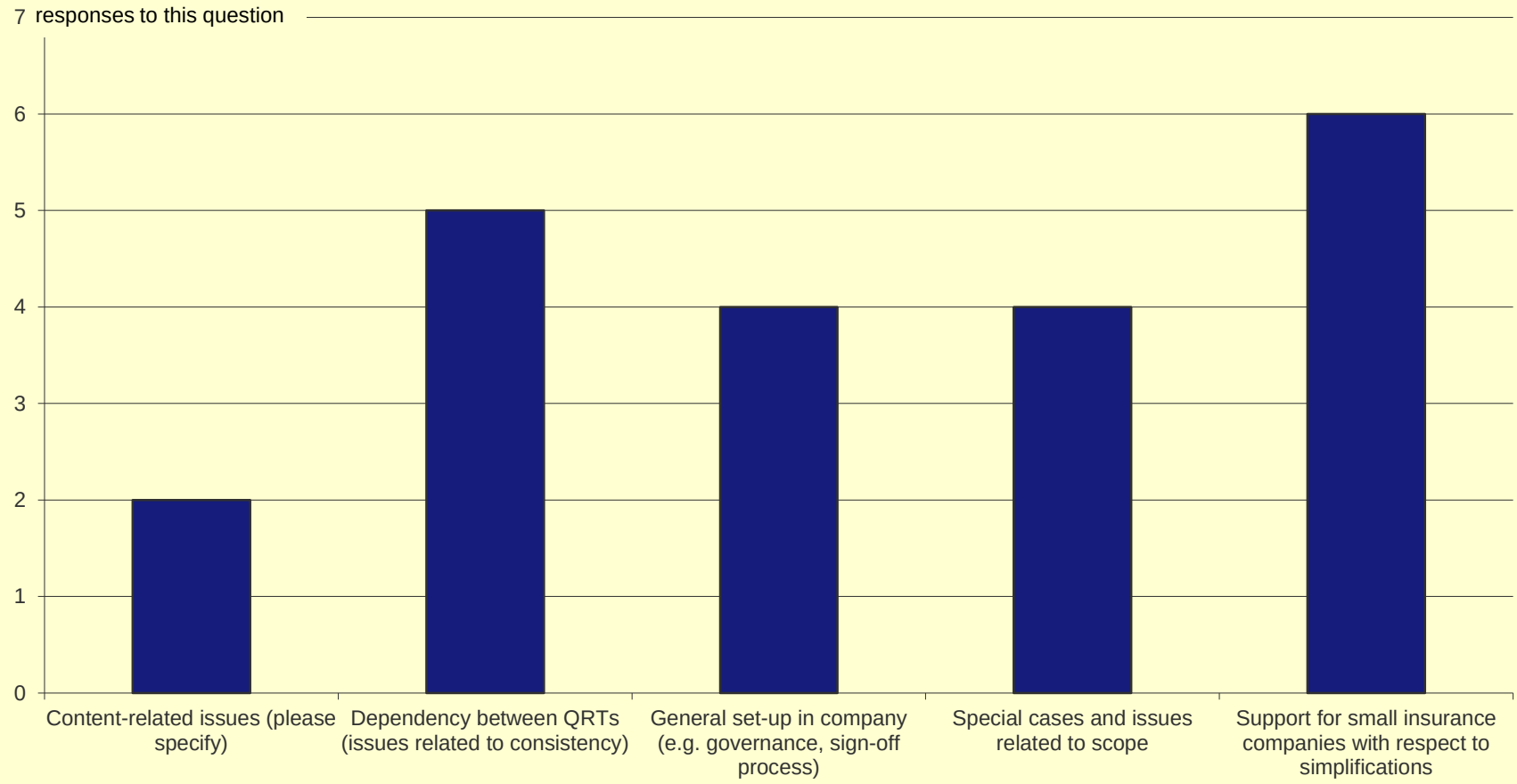
Reporting

Q19
General items:
Which items should be addressed by a model standard?



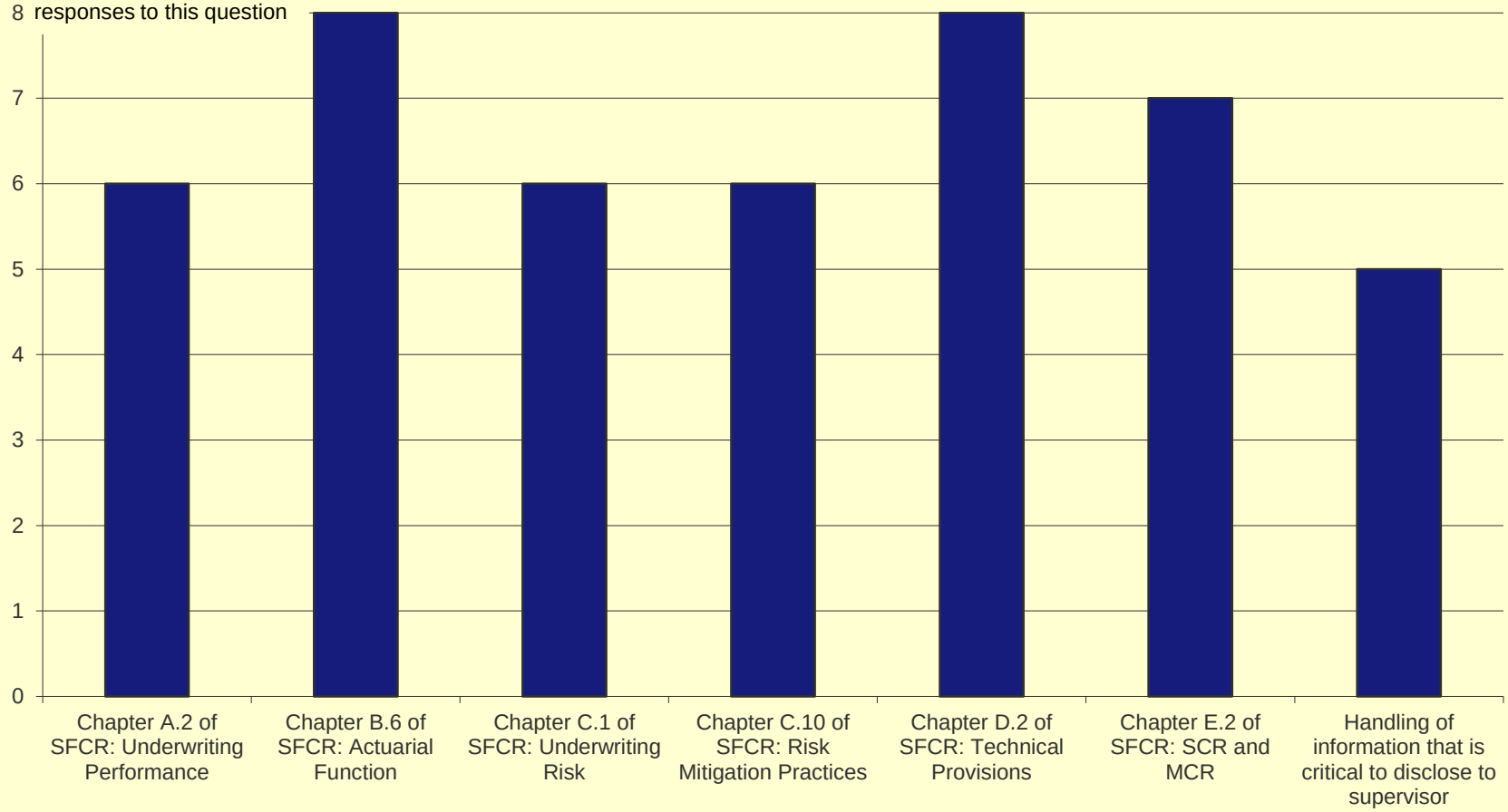
Reporting

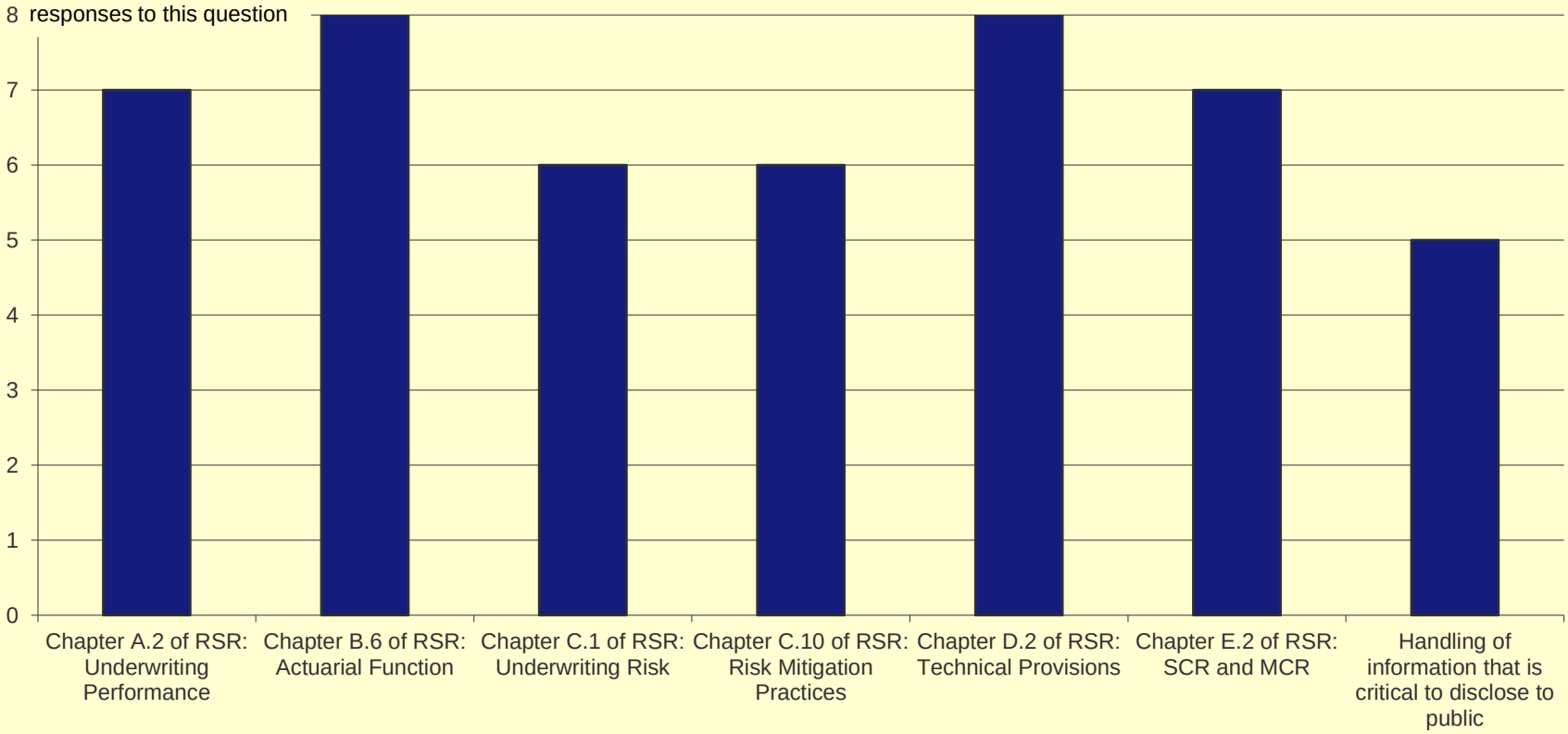
Q20
Particular items:
If you ticked the 'QRTs' box, which items in particular do you consider should be addressed by a model standard?



Reporting

Q21
Particular items:
If you ticked the ‘SFCR’ box, which items in particular do you consider should be addressed by a model standard?



Reporting

Q22
Particular items:
If you ticked the 'RSR' box, which items in particular do you consider should be addressed by a model standard?