

Actuarial Standards

Presentation, discussion and Q&A

Haikko Manor 3 October 2014

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Standards Project Team

- Introduction
- IAA strategy for ISAPs and International Actuarial Notes, and Due Process
 - The role of ISAPs, and activity to date
- European perspective and the AAE
 - The role of ESAPs and activity to date
- Actuarial Standards in European States
- Discussion

- International Standards of Actuarial Practice (ISAPs) are **model** standards for use by standard-setters around the world. [ESAPs for Europe where needed]
- International Actuarial Notes (IANs) are educational documents on an actuarial subject to advance understanding of the subject. A set of IANs may be developed in support of an ISAP. [EANs may be developed in Europe]

- Widely accepted as a basis for convergence by local standard-setters
- Recognised by the parties who rely on actuarial work such as IASB, IAIS, IOSCO, European authorities, local regulators and audit firms
- Widely seen as contributing to the public good
- Promoting high quality actuarial practice

- Widely publicized
- All member associations must consider the new model standard and formulate their response to it:
 - adopting (as written or with minimal modification); or
 - confirmation that own standards are (or will be) substantially consistent; or
 - no comment or no action or still in progress.

- The IAA
- IAA strategy for ISAPs
- ISAPs versus IANs
- Due Process for ISAPs

Establish, maintain and promote **common standards** of actuarial education and **common principles** of professional conduct.

Promote the development and issuance of **actuarial standards** in the jurisdictions of all Full Member Associations, and the **global convergence** of actuarial standards.

- Actuarial Standards Committee (ASC) now established and operational
 - current Members are from USA, UK, Taiwan, Germany, Hungary, Australia, Finland, Canada, Netherlands, Mexico
 - new German chair from 1 January 2014
- Due Process in place
- Clear governance roles in place
- “Convergence” of standards being observed
- ISAPs and IANs (committee responsibility)

- The due process for ISAPs has a clear governance structure and a high level of transparency.
- Input is sought at every stage from all stakeholders, including full member associations of the IAA and supranational bodies.

- Any party may propose a topic for a new ISAP
- The IAA Council (representing member associations) approves the strategic action plan for ISAPs
- A Statement of Intent is developed for a new ISAP
- Exposure Draft(s) of ISAP circulated for comment
- A report is published on the responses to the ED
- A final draft ISAP is submitted for approval
- Professionalism Committee report on due process
- The final ISAP is approved by the IAA Council

1. To serve as **model** standards for use by standard-setters around the world
2. To serve as standards for use on assignments where the terms of engagement specify that the work is to be carried out in accordance with these ISAPs

Approved

- Glossary
- ISAP 1 General
- ISAP 2 Social Security

In process

- ISAP 3 – IAS 19
Task Force chair - Japan
- ISAP [4] – Insurance Contracts
IFRS
Task Force chair - Canada
- ISAPs [5] and [6] – ERM
Task Force chair - USA
- ISAPs [7] ... – BCR* & ICS*
Task Force chair - UK

*Basic Capital Requirement and Insurance Capital Standard, in process of development by IAIS

- acceptance of assignment
- knowledge of circumstances
- reliance
- materiality
- data quality
- process management
- assumptions and methods
- responsibility for them
- peer review
- documentation
- reporting
- deviation from guidance

- Approved by IAA Council, October 2013
- Content:
 - data
 - assumptions
 - methodology consistent with financing method
 - co-operation with independent expert reviewer
 - communication
 - appendix with possible items to be in actuary's report

- IAIS announcement last October on proposed development of BCR and ICS for application to global systemically important insurers (G-SIIs) and internationally active insurance groups (IAIGs)
- With respect to the BCR, possible role of ISAPs in arriving at “current estimate liabilities” (expected values, without margins)

- Survey by IAA Professionalism Committee included in Accreditation Committee annual questionnaire to associations
- For ISAP 1, of 58 responses:
 - 7 adoptions as written
 - 4 adoptions of substantially consistent versions
 - 3 considered already consistent
 - 2 in process of modifying local standard to achieve consistency
 - 23 still deciding, 9 not specified, 2 “supportive”
 - 5 have standards – no comment
 - 3 will not take action

(6 language translations have been made)

- The European Regulatory Scene
 - European Commission
 - EIOPA
 - Solvency II
- AAE Standards Project Team (SPT)
- Purpose and Process of ESAPs
- ESAP1
- ESAP2
- Other ESAPs?
- Actuaries and Solvency II

- Is there a specifically European context for standards?
- Yes...Solvency II
- Solvency II is an EU level set of laws and regulations
- ...which creates an overarching regulatory framework for insurance companies regulated in EU countries
- EIOPA is an EU level regulator which sets guidelines for national regulators

- Standards Project Team established in October 2010
- in October 2011 the GC/AAE approved
 - purpose of standards and criteria to adopt standards
 - report on due process for the development of standards
 - work plan for standards development 2011-2015

- The overriding purpose should be to serve the public interest by ensuring that the users of actuarial services benefit from a high quality of actuarial work.
- Standards should be principles-based
- AAE will issue model standards
- In general ESAPs will assume existence of ISAPs
- AAE member associations will be invited to
 - adopt standard (in English or French or translated into own language)
 - adapt standard to take into account local conditions
 - adapt an existing standard to cover material of AAE model standard
 - certify that the contents are covered by existing standards

- Exposure of draft model standard ended 1 March 2014
- Basis for conclusions published 21 March 2014
- Model standard expected to be adopted this afternoon
- Standard is **a clone of ISAP1**
 - substituting Actuarial Association of Europe for IAA
- Why ‘duplicate’ ISAP1?
- ...to ensure that ESAPs make a coherent set without relying on external model standards.

- Exposure of draft model standard ended 1 March 2013
- Basis for conclusions published 31 May 2013
- Revised working draft published 31 May 2014
- Standard covers *reporting* – not the *content* of the work
 - EIOPA guidelines are more than sufficient on content
- Based on responsibilities of *actuarial function* in Article 48
 - and requirement to prepare annual report in L2
- Will be finalised once legislation is ready
 - and then subject to a further round of exposure

- Reporting on technical provisions
 - Processes and procedures in place to ensure the appropriateness, completeness and accuracy of the process of calculating the TP
 - Processes and procedures in place to ensure the appropriateness, completeness and accuracy of the data used for calculating the TP
 - Identify deficiencies in data, processes and methodologies
 - Adequacy and reliability of the TP
- Opinions on 1) overall underwriting policy and 2) adequacy of reinsurance arrangements
 - What should be considered?
 - What form should the opinion take?

The Groupe *could* develop standards for other actuarial roles under Solvency II

- Carrying out Own Risk and Solvency Assessment (ORSA)
- Actuarial Function's contribution to Risk Management System
- Internal modelling
- Carrying out the risk management function
- Signing off the Solvency and Financial Condition Report
- Assisting the external auditor to review financial statements

Development of the first two of these, beginning with ORSA.

Is the volume and rate of production of standards by IAA/AAE at the right level and are Member Associations able to consider all ISAPs/ESAPs?

- Major challenge for the AAE
- ...and its member associations
- The role of the actuary looks set to expand and develop
- ...Solvency II is a trigger for this ... and an opportunity
- **Widely accepted high quality standards will help**
 - ...to provide support for claim of professionalism
 - ...to raise the credibility of AAE and its members

Who sets standards?

- The national association?
- The national financial regulator(s)?
- A separate standard-setting body set up by the association?
- A separate standard-setting body set up by the national government?
- A mixture of two or more of the above?

- Established due process required
- Draft standards available to its members and relevant 3rd parties for comment
- Comments on exposure draft duly considered
- Adopted standards properly disseminated by an authority with powers to do so
- Standards published and available to members

- Who sets your standards?
- Does your association have the necessary powers?
- Do you have existing standards in a particular area?
- Will you consider the existing and proposed ISAPs and ESAPs?
- If so, will you adopt them, adapt them (including translating), amend existing standards and/or declare substantial consistency
- Are you liaising with your local national financial regulators about authorized persons and about standards?

**Your
questions
and your
views.....**

