

Report of Standards Project Team to Standards, Freedoms and Professionalism Committee meeting in Helsinki, 2 October 2014.

At the meeting of the Standards, Freedoms and Professionalism Committee (SFPC) in Vilnius on 24 April 2014, the Standards Project Team (SPT) was asked to review the due process for the development of ESAPs, and to include a due process for European Actuarial Notes (EANs). In this covering paper we discuss the difference between standards and educational notes and introduce the new due process paper. We also report on progress with ESAP2, present a Proposal to Develop a Standard relating to work on ORSA under Solvency II and report on a protocol being discussed with the Actuarial Standards Committee (ASC) of the International Actuarial Association (IAA) to enhance cooperation. Finally we present an updated version of the SPT work-plan for onwards transmission to the General Assembly.

Due process

The SPT has reviewed the due process for the development of standards, which was approved by Member Associations (MAs) at the General Assembly in Prague on 21 October 2011. Since we have had only limited experience of implementing the current due process, it is too early to recommend any major changes. However, the attached revised due process paper incorporates the following:

- The change from Groupe Consultatif to Actuarial Association of Europe
- The change from GCASPs to ESAPs
- Greater clarity that ESAPs are model standards
- Making it into a self-standing document which can be uploaded to the website and found more easily
- Introducing an initial scene-setting paragraph
- Changing the timeline to start ticking when the SFPC approves a standard for development
- Introducing the term Proposal to Develop a Standard (PDS) to correspond to the IAA's Statement of Intent.
- A number of minor editorial changes to reflect our experience of developing ESAP1 and ESAP2
- A paragraph focussing on the revision of an existing standard, in particular to cope with the potential need to revise ESAP1 to follow changes made to ISAP1 by the IAA.

In addition to the clean due process recommendation, the meeting papers also include a track changes version of the existing due process to the proposed revised ESAP process.

The most significant change to the due process document is the introduction of a separate due process for European Actuarial Notes (EANs), which is based quite closely on the IAA's due process for International Actuarial Notes (IANs). The SPT believes that it is important for the AAE to establish a clear understanding of the difference between model standards (ESAPs) and educational notes (EANs). The table below sets out what the SPT understands to be the most important distinguishing features:

Model standards (ESAPs)	Educational notes (EANs)
Model wording suitable for adoption by MAs as standards which apply to individual actuaries.	Educational material which is available for use by individual actuaries without MAs having to adopt it formally.
Intended to be mandatory (using words like 'should' or 'must').	Helpful guidance and educational material for actuaries.
Actuaries must comply if MA adopts a standard.	No obligation to follow the guidance.
Reflects a common understanding of how something should be done or what constitutes satisfactory practice.	Offers alternative valid approaches, where different approaches are acceptable, or practice is still developing.
Primarily intended to benefit, and give confidence to, the intended user(s), through enhanced quality and consistency of approach.	To help individual actuaries in doing their work and only indirectly benefit intended users of actuarial work.
Requires significant agreement and buy-in from the profession.	May present alternatives and does not require any agreement on which of them is 'best practice' or even good practice.
Principles-based and succinct instructions.	Didactic in style along lines of a text-book, with examples and case studies.
Expected to change relatively infrequently as it contains durable principles.	Should be flexible enough to evolve as practice and techniques develop and with the addition of new case studies and examples.

In governance terms the recommended due process places the SFPC in the driving seat for the development and approval of model standards, whereas EANs would be the responsibility of the relevant technical committee (e.g. Insurance Committee, Pensions Committee or Investment and Financial Risk Committee). SFPC may propose to a technical committee that an EAN should be developed, for example instead of SFPC approving the development of a standard or to supplement a standard which is being developed, but SFPC is responsible only for ensuring that due process is followed and not for the technical content.

The SPT commends to the SFPC the revised due process set out in the attached document. If SFPC agrees, it should be put to the General Assembly for approval.

ESAP2

Following the SFPC meeting in Vilnius a working draft of ESAP2 was promulgated to member associations on 31 May 2014. Some useful comments have already been received from a few member associations. The timetable for preparing the second exposure draft is still dependent on finalisation of the Level 2 and Level 3 measures. We are hoping to be in a position to bring the exposure draft to SFPC towards the end of the year or very early in 2015, so that we can remain on track for asking the General Assembly to approve the model standard at the meeting in September 2015.

Risk Management Standards

In October 2013 the SPT established a task force on risk management standards under the chairmanship of Gábor Hanák. The first report of the task force was discussed by the SFPC at the meeting in Vilnius on 24 April 2014. We now attach a formal Proposal to Develop a Standard for the first of three possible risk management ESAPs – relating to actuarial practice in connection with preparing an insurance undertaking's Own Risk and Solvency Assessment (ORSA).

In prior discussions on this topic, diverse views have been expressed about the need for actuarial standards in relation to risk management, or whether it would be more appropriate to develop one or more EANs. The SPT strongly recommends that work be started on an EAN relating to actuarial work in the ORSA, as there is considerable scope for the development of material which explores different techniques and practices, including case studies, in an emerging area of practice. However, our strong recommendation is that work should also be started on ESAP3, as proposed in the attached PDS, which has been developed by the Risk Management Task Force. The model standard should be fairly short and should concentrate on enunciating some clear actuarial principles. The argumentation for this approach is set out more fully in the attached PDS but the following are key reasons why we think it is the appropriate way forward:

- A standard will give a clear steer towards consistent high quality practice which will benefit the intended users.
- ORSA is a legislative requirement applicable to all insurance undertakings in the EU, where development of consistent practice is a clear objective.
- Actuaries do not have a monopoly of risk management function work, or of work contributing to the ORSA, but many actuaries are expected to be doing such work in practice.
- Having a European Standard of Actuarial Practice (and adoption or adaptation of such a model standard by MAs) will enhance the standing of the members of the actuarial profession as providers of high quality and reliable advice on the ORSA.
- A model standard will have a higher profile with stakeholders than an educational note.
- The type of model standard envisaged will not constrain the development of practice in the emerging area of ORSA work, or put actuaries doing such work at a competitive disadvantage compared to non-actuaries.

Protocol with the ASC of the IAA

As discussed by the SFPC at the meeting in Vilnius, the SPT has reflected on the need for increased cooperation with the standard-setting activities of the IAA and has concluded that a formal protocol between the SPT and the Actuarial Standards Committee (ASC) would be useful in order to assist coordination, and in order to reduce the risk of duplication of effort or conflict or overlap between ESAPs and ISAPs. We therefore drafted and proposed to the ASC a protocol or agreement which was discussed at the IAA Committee meetings in London on 10-14 September. The ASC asked for it to be made shorter and less formal and work is continuing to finalise a document acceptable to both sides.

Revised SPT Work-plan

The General Assembly is required to approve changes to the SPT's work-plan, in order to provide MAs with an overview of the intended direction of travel with regard to the development of ESAPs. The attached revised plan takes into account the current timetable for ESAP1 and ESAP2 and includes a timetable for the development of ESAP3, should the PDS be approved by SFPC. The next ESAP to be brought forward for consideration with a PDS will be ESAP4 on the role of the actuarial function in contributing to the risk management function under Solvency II. The timetable envisages, subject to approvals being obtained along the way as required under due process, that

ESAP1 would be adopted by the General Assembly on 2 October 2014 in Helsinki, ESAP2 and ESAP3 in September 2015 in Bucharest and ESAP4 in September 2016.

Chris Daykin
Convenor, Standards Project Team
15 September 2014