

**REPORT  
of the  
Standards, Freedoms and Professionalism Committee  
to be presented to the  
meeting of the General Assembly  
in Helsinki on 3 October 2014**

The Committee met once during the year, in Vilnius on 24 April, and presents this report to the General Assembly on its activities over the past year and issues of current concern. The Chairman will provide an oral report of the Committee's meeting in Helsinki on 2 October.

**1. Actuarial Standards**

The Committee endorsed the final draft of ESAP 1 (General Actuarial Practice) which is being submitted to the General Assembly for formal approval and adoption. This is essentially the same as the IAA's ISAP1, and covers the duality with ISAP1 – member associations will be able to adopt either ESAP1 or ISAP1.

The Standards Project Team (SPT) were asked

- to review the due process for adoption (and for revision) of model standards, particularly in the light of the need to keep ESAP1 aligned as far as possible with ISAP1, and to consider a formal arrangement with the IAA to ensure that AAE receives adequate notice of any changes
- to consider including in the due process document recommended procedures for adopting non-binding guidelines or educational notes (the AAE equivalent of the IAA's IANs).

Following the Exposure Draft of ESAP 2, the drafting team substantially restructured the original draft in order to respond to the comments received. The final version of the model standard cannot be prepared until the Level 2 regulations and Level 3 guidelines are promulgated, in order to ensure that our model standard is consistent with these. However, the guidelines on governance already promulgated by EIOPA to national supervisory bodies are expected to have the effect that the actuarial function of insurance entities should be established in 2014 and that it should report to the Administrative, Management or Supervisory Body of the entity at the end of 2014. It is therefore urgent for some guidance to be promulgated by AAE to indicate what form the model standard ESAP 2 is likely to take. It was noted that EIOPA were generally supportive of this approach. This "working draft" of

ESAP 2 has been sent to member associations with the request that they give it wide exposure amongst their members and invite individual actuaries to respond with comments and suggestions. In the light of the feedback received, it is planned to prepare the next formal exposure draft towards the end of 2014, with a view to submitting a final model standard at the Spring Meeting in 2015, with formal adoption of ESAP 2 by the General Assembly at the Annual Meeting in September 2015.

Three possible risk management standards were suggested by the SPT's Risk Management task force:

- The role of the actuarial function in contributing to the risk management system under Solvency II;
- Actuarial practice in relation to internal models under Solvency II;
- Actuarial practice in relation to the ORSA process under Solvency II.

There was some sensitivity about the possible introduction in a relatively short period of up to 5 or 6 AAE model standards, in addition to perhaps 8 ISAPs from the IAA. A prioritisation of the risk management standards was agreed rather than pursuing them all at once. It was agreed to bring the ORSA standard forward first, with a "proposal for consideration" (equivalent to the IAA's Statement of Intent) for consideration at the Committee's meeting in September. The second priority was the Actuarial Function contribution to the Risk Management system, and the third the standard in relation to actuaries working on internal models. In order to progress the development of "proposals for consideration", the Terms of Reference and membership of the Risk Management task force have been revised. At the same time, the SPT is seeking to establish a protocol with the IAA to share information on the development of standards in order to optimise the process.

## **2. Mutual Recognition Agreement outside Europe**

A Framework Agreement to allow member associations of AAE and the Actuarial Society of South Africa (ASSA) to enter into agreements on mutual recognition of qualifications has been signed. Discussions have taken place between ASSA and (separately) associations in the Netherlands, Germany and France regarding possible bilateral agreements with ASSA based on the Framework Agreement, and MRAs already exist between the UK and Irish associations and ASSA.. The Officers will put in place a procedure for keeping track of these bilateral agreements.

## **3. Role of the Actuary/Actuarial Function**

The Committee will discuss at its Helsinki meeting proposals for a structural approach to the developing role of the actuary in Europe in the areas of insurance, pensions, banking and risk management. This topic was also discussed at the Presidents' meeting on 27 August.

## **4. AAE Strategy and Action Plan**

Each of the committees has been asked to update their section of the Action Plan, in particular their priorities for 2015. This input will be used as the basis for a rolling update

process from which progress can be reported to member associations at the Annual Meeting. Michael Renz, as AAE Vice-Chairman, will be responsible for updating the action plan in the light of committee input, and he will present this at the General Assembly.

**5. Baltic Actuaries Seminar**

AAE provided a number of speakers for a very successful seminar, held in parallel with the Spring meetings in Vilnius. Topics covered included:

- professionalism and standards
- IT systems
- Solvency II
- consumer protection issues
- global Insurance Capital Standard

**6. Global ERM qualification**

Several new applications have been submitted by associations seeking to be able to award the CERA qualification: in Europe these include Denmark and Switzerland.

**7. Meeting with Internal Market DG**

The Chairman and other Officers represented AAE at a meeting with the Head and staff of the Commission's Insurance and Pensions Unit in June. A full note of this meeting appears with the agenda for the Standards, Freedoms and Professionalism Committee meeting on 2 October.

**8. EIOPA**

The Chairman and other Officers represented AAE at a meeting with the Chairman and senior staff of EIOPA in July. A full note of this meeting appears with the agenda for the Standards, Freedoms and Professionalism Committee meeting on 2 October.

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**REPORT  
of the Insurance Committee  
to be presented to the  
Meeting of the General Assembly  
in Helsinki on 3 October 2014**

The Committee met formally once during the year, in Vilnius on 25 April. In addition, conference calls were held in January, March and September. The Chairman will present an oral report of the meeting in Helsinki on 2-3 October.

**1. Solvency II**

The Committee's activities over the past year have continued to be primarily focused on issues related to the Solvency II project. With agreement having been reached on Omnibus II, and publication of the Draft Delegated Acts (DDA), the Commission are very reluctant to re-open consultation on issues closed politically. Consequently future AAE contributions on Solvency II will relate to EIOPA activities, and there has been regular interaction (including face-to-face meetings) with EIOPA in relation to consultations on:

- Underlying assumptions in the standard formula for the SCR calculation
- Implementing Technical Standards (ITS) on internal models, matching adjustment, SPVs
- First set of EIOPA guidelines
- Templates for the 2014 stress test

AAE has submitted comments on all of these consultations.

Concerns have been expressed within the Committee over

- progress with implementation into national legislation
- Actuarial Function vs Appointed Actuary
- who is responsible for certifying TP and SCR?
- transitional and volatility adjustments
- companies not subject to Solvency II

A mini-survey on these issues has been circulated to member associations, and responses to this survey will be presented at the October meeting.

## **2. IAIS issues**

Discussion of the current IAIS initiative to develop a global Insurance Capital Standard (ICS) has identified a number of key points:

- global vs EU
- EIOPA and Commission want to make Solvency II compliant with ICS
- the global ICS is intended (at least initially) to apply to IAIGs, but Solvency II will apply to all European insurers; however, by analogy with Basel 3, it can be expected that the global ICS will ultimately extend to all insurers
- notwithstanding the previous point, undertakings should be subject to only one capital regime
- importance of AAE being involved in ICS discussions to ensure a strong European voice

The AAE seminar on this topic, held in Brussels on 3 March, was well attended and provided perspectives from the different stakeholders. Gabriel Bernardino's keynote speech and a video of the seminar are available on the AAE web site.

## **3. Role of the Actuary/Actuarial Function**

A new approach by AAE to inform and influence stakeholders in relation to the Role of the Actuary will be discussed at the October meeting. Following a meeting of association Presidents on 27 August it is clear that there is widespread concern over the role of the actuary and the Actuarial Function under Solvency II. Discussion in Helsinki will focus on:

- the mini-survey mentioned in item 1 above
- a paper drafted by Karel Goossens
- the model letter on 'fit and proper' which was discussed at the April 2013 meeting of the Committee, and which has been used by one or two associations
- relationship between Actuarial Function and statutory roles hitherto certified by the national actuarial association
- can such certification continue where the AF is undertaken by non-actuaries?

## **4. Actuarial Standards**

This topic is covered in the report of the Standards, Freedoms and Professionalism Committee.

## **5. Consumer protection and anti-discrimination issues**

The Committee noted the report on Risk Indicators prepared by the Consumer Protection task force (CPTF), and EIOPA's interest for indicators. The Committee raised some concerns about this position paper especially with respect to the proposed indicators. AAE has to be careful not to lose its independent position and should avoid being seen as a rating agency.

There was also some concern about anti-discrimination proposals with regard to 'age and disability'. Another, perhaps even bigger, problem could be the use of 'big data'. This issue will be considered further at the Helsinki meeting.

The Committee submitted a response on behalf of AAE to the Commission's questionnaire on implementation of the Gender Directive, indicating what we expect the impact might be.

**6. Insurability**

Other aspects of insurability, in particular Commission consultations on amending the Block Exemption Regulation, and on cyber risks, will be discussed at the Helsinki meeting.

**REPORT  
of the Pensions Committee  
to be presented to the  
Meeting of the General Assembly  
in Helsinki on 3 October 2014**

The Committee met once during the year, in Brussels, on 9 May. The Chairman will present an oral report of the meeting which will be held in Helsinki on 3 October.

**1. Review of IORP Directive**

Although draft IORP II does not contain capital adequacy proposals, EIOPA is resuming QIS-type work through a solvency sub-group of the Occupational Pensions Committee. EIOPA is undertaking this resumption on its own initiative – it has not been requested to do so by the Commission. The AAE Pensions Committee Chairman attends meetings of the solvency sub-group as an observer. The sub-group intends to publish a consultation at the end of 2014, with a timeline that leads to a second QIS mid-May to mid-July 2015. Separately, EIOPA may also initiate stress-testing for IORPs in 2015. This has yet to be confirmed and there are no details as to what this might entail or how it might overlap/interfere with a second QIS.

There is no obligation on AAE to do anything with IORP II – it is not a document for consultation. It should also be noted that the recent European Parliamentary elections have resulted in changes within two of the three parties to the co-decision procedure (members of the ECON Committee and the Commissioners have changed). However, AAE views are welcomed and we are respected as both expert and impartial. The Committee agreed that it would be useful to develop an AAE Position Paper that could be shared with the Commission, EIOPA and other stakeholders. Initial views on the draft were that AAE should

- welcome improvements to governance through risk evaluation and improved disclosures
- welcome introduction of the Actuarial Function (and highlight the role for actuaries in DC)
- contribute to effective implementation of risk management system
- offer technical actuarial expertise on the delegated act for the risk evaluation of pensions
- explain that retention of the fully funded requirement at inception for cross-border IORPs can be an obstacle for setting up cross-border IORPs

## 2. **Market Consistency**

Work continues on a follow-up paper which will examine practical applications and limitations of market consistency in specific circumstances from a pensions point of view. Input has also been sought from the chairs of the IFR Committee and the Insurance Committee. Once the paper has been finalised, it is intended to send it to EIOPA and publish it on the AAE website. It is taking longer than expected to finalise this paper in order to reflect significant differences in national practice.

## 3. **Social Security Sub-Committee**

- ***Tracking/tracing services***

The SSSC produced an initial report some months ago and has since been expanding the report to include a further six countries - Belgium, France, Germany, Hungary, Ireland and UK. It is hoped that this expanded report will be available around the end of 2014; the Commission remains very interested in its content/findings.

- ***Adequacy of pensions***

Three subgroups have been established to address issues in a little more detail. The intention is to publish the task force opinions/ findings to coincide with the Commission's next report on this topic, expected around the end of 2014.

## 4. **EIOPA OPSG**

The current OPSG membership was established in September 2013. It has a 2½ year term and has started to identify issues on which it should be commenting. This covers items on which it is obliged to consult as well as OPSG's own initiative projects. There are three main areas of concern: IORP proposal, EMIR and consumer protection.

- ***IORP***

A consultation document is expected from EIOPA in October/November 2014. This consultation is expected to lead to a QIS in 2015, but this might be merged with the stress test (required as part of EIOPA's mandate) since it is unreasonable to ask IORPs to carry out two exercises in 2015. It is important to have AAE input to the OPSG view, otherwise it is likely to be mainly a PensionsEurope view.

- ***EMIR***

OPSG is also exercised about EMIR (European Market Infrastructure Regulation). It is concerned at the principle that IORPs are treated the same as Banks and Insurers in relation to derivative activity. Cash collateral and margin calls would add to expense/capital if applied to IORPs (especially larger Dutch funds that are active in this area). OPSG has undertaken to produce a position paper.

- ***Consumer protection***

The focus is around information/transparency and costs/charges. There is strong consumer representation on the current OPSG. The balance was tilted from the initial

OPSG composition following an Ombudsman complaint that consumers were not adequately represented.

**5. Decumulation**

Ken Forman from the IFR Committee is leading a small task force of volunteers from the three technical committees which will produce a paper on the actuarial aspects of decumulation. The paper is intended to address existing work and views in an accessible way and present an actuarial view to them. The paper will thus serve as a communication tool that will help us to have conversations with other parties like the Commission, MEPs and institutions such as Pensions Europe, OECD, etc. The task force will further take the lead in the AAE's response to the EIOPA survey on decumulation that is expected in the course of this year. A survey questionnaire to obtain information on national practices has been circulated to member associations.

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**REPORT  
of the  
Investment and Financial Risk Committee  
to be presented to the  
Meeting of the General Assembly  
in Helsinki on 3 October 2014**

The Committee has met once during the year, in Brussels on 9 May, and presents this report of its activities to the General Assembly. The Chairman will report orally on the meeting of 3 October.

**1. Market Consistency**

Following the publication of the educational note on a general theoretical actuarial framework for the concept of market consistency, which was well received by other stakeholders, progress with follow-up papers which will address practical application of market consistency principles in specific areas in Insurance and Pensions has been slow. Members of the IFR Committee have provided comments on a draft second stage paper, on the application of market consistency in pensions.

A steering group has been set up to manage the market consistency web portal: it is hoped to arrange a first meeting shortly to discuss structure and development of the portal.

**2. Review of Markets in Financial Instruments Directive (MiFID II)**

The Committee is developing a paper which analyses UCITS V and MIFID II versus Solvency II. MiFID II is likely to have a significant impact on those involved in these markets, and it is difficult to draw a comparison since they are radically different in nature but overlapping. In the first instance, it is intended that the paper should identify regulation, scope, quantitative and qualitative aspects, and extended to include also other regulations. It is important to recognise that this kind of comparison work is much appreciated by the European institutions (as the comparison paper between Solvency II and Basel II/III was), and could serve as a door-opener to establish contact with them.

**3. Regulation of Indices**

It is planned to prepare a AAE position paper on this topic, based on the committee's earlier comments to the Commission's consultation paper and subsequent proposals for the regulation of the production and use of indices serving as benchmarks in financial and other

contracts. It will be timely to have this ready in the autumn for the new European Parliament.

**4. Credit Assessments and Ratings**

The Committee submitted comments on behalf of AAE in response to the joint consultation paper of EBA, EIOPA and ESMA on draft implementing technical standards on the mapping of ECAI's credit assessments. There was extensive discussion around the question of ratings agencies' responsibility for ratings used by supervisors and possible detriment resulting from this.

**5. ESA Consultation - draft Regulatory Technical Standards on the requirements for OTC derivatives under EMIR**

As a recognised stakeholder, AAE was invited to participate in discussions with EIOPA on two questions relating to the requirements on collateral and the access to sufficient information in case the IRB model of a counterparty is used to determine the eligible collateral that an IORP or insurer can collect. A small group of volunteers from the IFR Committee, led by Tjemme van der Meer, gave considerable input to EIOPA. EIOPA will now propose some alternatives, to be discussed in a task force with other ESAs.

**6. Decumulation**

Ken Forman from the IFR Committee is leading a small task force of volunteers from the three technical committees which will produce a paper on the actuarial aspects of decumulation. The paper is intended to address existing work and views in an accessible way and present an actuarial view to them. The paper will thus serve as a communication tool that will help us to have conversations with other parties like the Commission, MEPs and institutions such as Pensions Europe, OECD, etc. The task force will further take the lead in the AAE's response to the EIOPA survey on decumulation that is expected in the course of this year. A survey questionnaire to obtain information on national practices has been circulated to member associations.

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**REPORT  
of the Education Committee  
to be presented to the  
Meeting of the General Assembly  
in Helsinki on 3 October 2014**

The Committee met once during the year, in Brussels on 9 May. The Chairman will present an oral report of the meeting which will be held in Helsinki on 2-3 October.

**1. Assessment Procedure**

Using the self-assessment template agreed in Vienna in 2013, associations were asked to provide details on how their syllabus complies with the AAE Core Syllabus. This procedure covers associations which use their own qualification process as well as those using university-based routes to membership. Four levels of depth of coverage were specified;

- Assumed pre-knowledge
- Not covered or superficially covered
- Comprehension - Understands the meaning of learning material
- Analysis - Breaks down material into component parts and understands the relationship between parts and organisational structure of material

Responses were assessed and rated green, amber or red, with those initially assessed as amber and red being reviewed in greater detail. It is hoped to complete the process by the October 2014 meeting and then consider further steps to be taken. The implementation date for meeting the new Core Syllabus of the AAE is September 2014 for new actuarial student members.

**2. Core Syllabus**

The revised Core Syllabus is due to be in place fully by the start of academic year 2014-15, with an update due every 5 years. The process for the next review, which is due to start after the current syllabus has been fully implemented, will seek to specify topics not well covered and specifying a preferred depth of coverage of each topic.. In relation to the issue of assessment process noted above, it is suggested that the next Core Syllabus should be written in terms of learning objectives rather than topics, in order to make assessment easier to relate to the syllabus.

In terms of syllabus development, the issue of big data/data science/data analytics has been suggested. Member associations will be asked for potential new topics for the syllabus, for discussion at the October meeting. The work of the IAA working group on the future of

actuaries will also be taken into account.

**3. CERA - Global Designation Enterprise Risk Management (ERM)**

Attendance at the CERA seminar held on 8 May was disappointing but the five presentations were well received and the slides have been made available on the AAE and CERA websites.

Overall there are 2,113 CERA award holders (end of April 2014) and the Danish, Chinese Taipei and Indian applications for award of signatory status are being reviewed.

**4. CPD Strategy**

The current CPD strategy, including the issue of whether CPD should be made compulsory, will be reviewed at the October meeting. A survey has been circulated to member associations, based on data collected two years ago; responses will be analysed to provide the basis for discussion

**5. Certified Actuarial Analyst**

At the request of the Standards, Freedoms and Professionalism Committee (SFPC), the Education Committee discussed the qualification of Certified Actuarial Analyst, targeted at technical actuarial support staff, which the UK Institute and Faculty of Actuaries is introducing. This would give them IFoA status (although not with the title 'actuary') and bring them within a regulatory framework, including examinations, CPD and discipline. The Institut des Actuaire is considering a similar development, and the Dutch association has had such a qualification for several years, the level almost meeting the IAA definition of Fully Qualified Actuary. SFPC suggested that it may be appropriate to consider mutual issues such as core syllabus and comparing standards, perhaps to generate and agree a minimum standard for an Analyst qualification for the AAE. However the Education Committee concluded that this would not be acceptable because it would introduce considerable confusion in the sector.