



GROUPE CONSULTATIF ACTUARIEL EUROPEEN

EUROPEAN ACTUARIAL CONSULTATIVE GROUP

SECRETARIAT, MAISON DES ACTUAIRES, 4 PLACE DU SAMEDI
B-1000 BRUSSELS, BELGIUM

TELEPHONE: (+32) 22 17 01 21 FAX: (+32) 27 92 46 48

E-MAIL: groupe@gcactuaries.org

WEB: www.gcactuaries.org

Proposal for the Groupe Consultatif to develop a model standard on general actuarial practice

Background

In October 2011 the Standards Project Team (SPT) recommended to the Standards, Freedoms and Professionalism Committee in Prague that the Groupe Consultatif should develop a model standard of practice on the quality of actuarial work in the context of Solvency II. The proposal was to develop a generic model standard, which could in fact be relevant more generally to actuarial work in insurance beyond Solvency II, or indeed in other practice areas. However, it was proposed that the scope should for the foreseeable future be restricted to work in connection with the implementation of the requirements of the Solvency II Directive and associated regulations and Level 3 measures.

The purpose of the standard was to reinforce the message of quality inherent in having the actuarial function carried out by qualified actuaries who are members of the Full Member associations of the Groupe Consultatif. It would not have been entirely a “technical” standard but a “professional standard”, fitting into the space between the high level axioms of the code of conduct and the detailed guidance being developed by EIOPA.

Some concern was expressed by member associations, firstly that the topics to be covered could overlap with the provisions of the Code of Conduct and, secondly, that the Groupe should avoid developing a standard which could potentially conflict with the model standard on general actuarial practice being developed by the International Actuarial Association (IAA).

The minutes of the SFPC meeting in Prague reported the following outcome to the discussion:

“Discussion on GCASP1 that it was important to capture high ethical standards and establish a hallmark of quality, and to encourage the choice of the actuarial profession as the most appropriate to undertake the Actuarial Function. This would be of particular potential benefit to smaller associations. At the same time, however, it was pointed out that there were many similarities with codes of conduct, and it would be difficult to ensure implementation/compliance as a standard. It was suggested that the SPT explore development of certain aspects in another form – e.g. guidance note, or recommended practice. Additionally, some aspects of GCASP1 might more appropriately appear in the IAA’s IASP1 – and it was suggested that the Groupe should be trying to influence the IAA in this respect.”

It was agreed at that meeting that the SPT should develop a revised version of the Code of Conduct, in order to improve the visibility of the key principles of professionalism, such as integrity and objectivity. This task was completed in October 2012 and a revised version of the Code of Conduct has now been adopted by the Groupe.

Meanwhile the IAA continued the development of International Standard of Actuarial Practice 1 (ISAP1) and this was adopted by the IAA Council as a model standard on 18 November 2012 at the meeting in Nassau, Bahamas. The Table of Contents of ISAP1 is included as Annex 1 of this paper and the full text of ISAP1 is included in the agenda papers.

As requested by SFPC, the SPT sought to influence the final version of ISAP1 more in the direction of our original proposal for GCASP1 and also to draw the IAA's attention to some aspects which we felt were not particularly appropriate for inclusion in ISAP1. However, realistically we were not able to influence the outcome significantly.

Nevertheless, ISAP1 has now been promulgated and member associations have been asked to report back in due course on what action they are taking on the basis of ISAP1, which might include either adoption, adaptation, asserting that existing standards of the association are congruent with ISAP1, modifying existing standards to bring them more closely into line with the provisions of ISAP1 or no action taken. Since almost all of the Member Associations of the Groupe Consultatif are Full Member Associations of the IAA, our members have already been presented with ISAP1 and we can presume that they are considering what to do with it.

GCASP1 based closely on ISAP1

Given the extensive overlap between ISAP1 and our original proposed content for GCASP1, the SPT now recommend to SFPC that the Groupe Consultatif should consider adopting a model standard based closely on ISAP1. Whilst it would be possible to envisage adapting ISAP1 in order to bring it more closely into line with our original conception for GCASP1, and to avoid potential overlap with the draft of GCASP2 which has recently been out for exposure, the general principle that the Groupe should avoid issuing model standards which might potentially conflict with IAA standards provides a strong argument for resisting the temptation to make minor (or even less minor) changes. The SPT has reviewed the draft of GCASP2 for possible conflicts with ISAP1 and we would propose to make some amendments to GCASP2 in order to take into account what now appears in ISAP1.

It is appropriate to raise the question as to whether the Groupe should do anything at all with ISAP1. In one sense it is up to our member associations to decide what to do with ISAP1, given that it has been promulgated by the IAA, of which they are members directly, whereas the Groupe Consultatif is not a member association of the IAA. The arguments in favour of the Groupe adopting ISAP1 more or less in its entirety as GCASP1 are the following:

- Inclusion of a model standard on general actuarial practice in the Groupe's model standards would make the set of standards prepared by the Groupe more complete
- Adopting ISAP1 as a Groupe Consultatif model standard would reinforce the principle that Groupe model standards are consistent with IAA standards
- If the Groupe is to have a model standard on general actuarial practice, it is best to model it closely on ISAP1, since preparing a different standard, or a modification of ISAP1, would run the risk of conflicts between the two standards

Would GCASP1 meet the criteria for developing a model standard?

In accordance with the due process this paper seeks to demonstrate how the proposal meets the criteria which are a prerequisite for the Groupe to decide to develop a model standard.

The overriding purpose of standards set by the Groupe Consultatif should be to serve the public interest by ensuring that the intended users of actuarial services benefit from a high quality of actuarial work. The SPT considers that this proposed model standard will serve the public interest and will fit well with the purposes agreed by the Groupe for standards.

However, the due process requires the Standards, Freedoms and Professionalism Committee to determine whether any proposal for development of a model standard meets the agreed criteria, which are as follows:

1. The proposed standard relates to actuarial work which has common characteristics across the EU and hence it is more efficient for the Groupe Consultatif to develop a model standard than for each member association to develop a standard independently.
2. There is no conflict or overlap with an IAA standard, unless there are specific circumstances in EU which justify the differences.
3. The proposed standard does not conflict with the legal or regulatory requirements, or with standards or guidelines set by another body at the European level, to which actuaries are also subject.
4. The proposed standard would serve as a significant point of reference for the actuarial profession in relation to other professions and regulators.

In addition, if one or both of the following additional criteria are met it would be particularly persuasive that the Groupe should develop a standard:

5. Key stakeholders (such as EIOPA and/or the European Commission) are expecting the actuarial profession to develop a standard (or guidelines) and are not intending to issue a standard of this type themselves or by other means.
6. There is a lack of clarity in the legal provisions or regulatory requirements in respect of which a standard would assist actuaries to deliver a high quality work product.

In the remainder of this paper consideration is given to whether each of these criteria is met:

- 1. The proposed standard relates to actuarial work which has common characteristics across the EU and hence it is more efficient for the Groupe Consultatif to develop a model standard than for each member association to develop a standard independently.**

The proposed standard would cover generic aspects of actuarial practice which are the same across the EU (and indeed globally). The IAA has considered that this material is most efficiently dealt with by the issuance of an IAA model standard, which will avoid each member association having to develop something similar. The same arguments apply to the Groupe Consultatif within the European context.

- 2. There is no conflict or overlap with an IAA standard, unless there are specific circumstances in EU which justify the differences.**

If the Groupe simply rebrands ISAP1 as a Groupe model standard, the essential content will be unchanged and there will therefore by definition be no conflict with the corresponding IAA model standard.

- 3. The proposed standard does not conflict with the legal or regulatory requirements, or with standards or guidelines set by another body at the European level, to which actuaries are also subject.**

The proposed model standard will be complementary to legal and regulatory requirements under the Solvency II Directive and especially to guidelines for the actuarial function which are being developed by EIOPA and GCASP2 which the Groupe is developing for the specific situation of actuarial function reporting. It will be important to monitor the EIOPA guidelines in order to take care that there is no overlap and, in particular, no actual or potential conflict. Care will be taken to ensure that GCASP2 does not overlap or conflict with GCASP1.

- 4. The proposed standard would serve as a significant point of reference for the actuarial profession in relation to other professions and regulators.**

A major reason for proposing the development of this model standard is to demonstrate that the actuarial profession, as represented by the Groupe Consultatif member associations, is a serious player on the Solvency II stage and as standards of practice, as might be expected of a true profession. Although the actuarial function does not have to be carried out by qualified actuaries who are members of our member associations, the Groupe argues that our members are the most appropriately qualified to perform these roles. We consider that it will be of value to regulators if we are able to say that our members operate under Actuarial Standards of Practice which require high quality performance of professional services. It will establish our credentials vis-à-vis the auditors, who are used to operating under professional standards, and will help to rebut criticisms, by regulators and others, that the actuarial profession is in general not a regulated profession in the EU.

5. Key stakeholders (such as EIOPA and/or the European Commission) are expecting the actuarial profession to develop a standard (or guidelines) and are not intending to issue a standard of this type themselves or by other means.

This proposal to develop model standards has discussed regularly in broad terms with the Chairman and Chief Executive of EIOPA at meetings with the officers of the Groupe. They accept that such standards would have value for our associations' members who are carrying out the actuarial function but it would not be true to say that they are providing any particular impetus to the profession to develop a generic standard.

6. There is a lack of clarity in the legal provisions or regulatory requirements in respect of which a standard would assist actuaries to deliver a high quality work product.

This criterion does not apply in respect of this proposed model standard.

Conclusion

In accordance with the Due Process, the SPT is bringing this proposal to the meeting of the Standards, Freedoms and Professionalism Committee on 11 April 2013 in Edinburgh.

The SPT considers that the above analysis demonstrates that the proposal that the Groupe Consultatif should develop a model actuarial standard of practice on the general actuarial practice meets the required criteria. The SPT recommends that the Standards, Freedoms and Professionalism Committee should, in accordance with Step 4 of the Due Process, request the SPT to continue work on developing an exposure draft of the model standard, which, as already indicated, would look very much like ISAP1. If the SFPC gives the go-ahead for further development, the SPT envisages that an exposure draft would be brought to the SFPC at the meeting in Dublin on 26 September 2013 for approval to enter into the consultation stage.

Chris Daykin
Convenor, Standards Project Team
2 April 2013

ANNEX 1

Table of Contents of ISAP 1 (approved by IAA Council on 18 November 2012)

Preface

Section 1 General

- 1.1 Purpose
- 1.2 Scope
- 1.3 Compliance
- 1.4 Applicability
- 1.5 Reasonable Judgment
- 1.6 Language
- 1.7 Cross-References
- 1.8 Effective Date

Section 2 Definitions

Section 3 Appropriate Practices

- 3.1 Acceptance of Assignment
- 3.2 Knowledge of Relevant Circumstances
- 3.3 Reliance on Others
- 3.4 Materiality
- 3.5 Data Quality
- 3.6 Assumptions and Methodology
- 3.7 Assumptions and Methodology Set by Actuary
- 3.8 Assumptions and Methodology Prescribed
- 3.9 Assumptions and Methodology Mandated by Law
- 3.10 Process Management
- 3.11 Peer Review
- 3.12 Treatment of Subsequent Events
- 3.13 Retention of Documentation

Section 4 Communication

- 4.1 General principles
- 4.2 Report