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

Revised draft of a model standard of actuarial practice (GCASP2) on the actuarial function report

Background

In October 2012 in Rome the Standards, Freedoms and Professionalism Committee (SFPC) approved for consultation with member associations and other stakeholders an exposure draft of a model actuarial standard of practice on the actuarial function report (GCASP2). Exposure of the draft took place between 1 November 2012 and 1 March 2013. Comments were received from 14 respondents, including 10 member associations, the International Actuarial Association (IAA), Insurance Europe (IE), UK Financial Reporting Council (FRC) and the Solvency II Pillar I Non-Life working group. The SPT's Basis for Conclusions was issued on 31 May 2013 and is included with the papers for this agenda item of the SFPC meeting in Dublin.

Next steps

As indicated in the Basis for Conclusions, the SPT intends to make a significant number of changes to the draft model standard and it will be necessary to issue a further exposure draft for consultation. However, since the standard is based on what is contained in the various levels of legislation, it will not in practice be possible to finalise the standard until the legislation has been finalised (and EIOPA have issued the final version of their guidelines to National Supervisory Authorities). The legislative process is delayed and it is not possible to estimate at this stage exactly when we will have the final version available and what timetable will be possible for issuing a revised exposure draft and moving towards formal adoption of the standard by the General Assembly. The earliest that a revised exposure could take place is in the autumn of 2014, but it may well not be possible until 2015.

Some associations suggested we should put the whole exercise on hold, given the legislative uncertainty. However, on 8 July some members of the SPT, accompanied by Siegbert Baldauf from the Solvency Project Team, had a meeting with EIOPA discuss the development of standards. We were disappointed that EIOPA had not responded to the consultation on the Exposure Draft of GCASP2. The representatives of EIOPA indicated that they did not feel able to officially endorse the development of standards by the Groupe, or to get involved in our due process, but that they are supportive to the approach taken, especially since this could lead to more consistency in the Actuarial Function reports across the EU. They are not planning to issue any guidance beyond Guideline 47 in their recent consultation (which will specify the requirement for an annual actuarial function report) regarding the contents of the actuarial function report and how the actuarial function should exercise their responsibility of giving opinions to the Administrative, Supervisory or Management Board (AMSB).

EIOPA made it clear that they are proceeding with the development of their own guidelines on governance and that these will probably be issued to National Supervisory Authorities in November

2013. These will include the setting up of the actuarial function and the requirement for the actuarial function to report to the AMSB at least once a year. Their intention is that this requirement will be brought into force by National Supervisory Authorities in 2014. So our dilemma is that GCASP2 is needed sooner than we expected, but we cannot finalise it until the legislation is finalised. The proposal of the SPT is, therefore, to present to the SFPC a revised draft of GCASP2, which we will call a 'working draft' rather than an exposure draft. It will not be subject to formal exposure to member associations, as we do not want to create additional work, and there will be a revised exposure draft in due course. However, it will be available to be promulgated to actuaries who may have the responsibility to prepare all or part of an actuarial function report in line with the guidance of National Supervisory Authorities.

Working draft

Because of lack of available resources on the drafting team over the summer, it has not been possible to complete the process of preparing the intended working draft in time for the Dublin meeting. The version which is included in the papers for this meeting is well advanced but not complete. In order to assist in understanding the interplay between legislation and standard, the drafting team have prepared it in tabular form, showing the relevant legislation, the proposed standard and comments in three separate columns. It is not intended that the final standard will be issued in this form. The complete version will be circulated to SFPC by email as soon as it is available and comments will be invited from the Committee before it is promulgated more widely. At this stage it will not have any binding force at all, and it will not be suitable for member associations to adopt as a standard, but we hope it will be useful to actuaries to have it made available.

Form of eventual standard

The discussion about taking care to distinguish what is a requirement of the regulations and what is a requirement of the standard has generated a lot of debate about the form of the eventual standard. In Annex 1 we set out discussion of some possible approaches, respectively used by other international standard-setters. Although no final decision has been taken, we illustrate in Annex 2 a possible approach which the SPT and the drafting team believe could be an appropriate way to make the distinctions clear. Views are invited from the SFPC on the best approach to take.

Conclusion

The SPT invites endorsement by SFPC of the proposal to finalise and issue a revised working draft of GCASP2 before the end of 2013. Comments are invited on the current state of the draft, and, in due course, on the complete working draft. Comments are also invited on the format to adopt for the eventual second exposure draft (and final model standard). The SPT and the drafting team will continue to work on preparing this draft, and getting it into the best format, whilst awaiting finalisation of the regulations and EIOPA guidelines before completing the second formal exposure draft.

Chris Daykin
Convenor, Standards Project Team
13 September 2013

ANNEX 1

GCASP2 draft revision - Revision of structure

From the stakeholder responses it is clear that there is need to revise the structure of the standard to make transparent which requirements emanate from the (draft) regulations and which were specific to the standard.

To come up with a suggestion for an improved structure four alternatives are revisited below.

Alternative 1 - Current structure (IAA practice):
Consisting of one document structured as follows

- **Preface** – stating the nature of the standard and giving guidance on how to use it, not specific to standard
- **General section** – stating purpose, scope and effective date of specific standard, explaining Language and cross references, not specific to standard.
- **Definitions section** – clarifying standard specific wordings
- **Appropriate practices section –** stating the core of the standard

Contrary to the current ISAPs of the IAA the Groupe's Standards will have strong relationships to other regulation or guidance external to the profession. Many stakeholders request transparency of these relationships which is difficult to achieve when using the IAA structure.

Alternative 2 (IASB practice):
Consisting of several documents

- Exposure Draft structured as follows
  - Introduction – stating why ED is issued, giving an overview of the proposals contained therein, stating who will be potentially affected and when and also raising questions to respondents
  - Draft Standard including its objective and scope
  - Defined terms and effective date are given in an appendix
  - Appendix "Application Guidance" being part of the standard giving additional guidance on special topics
- Basis for Conclusions document – accompanying the ED, focus is on the IASB's considerations while producing the ED
- Examples document – explaining some of the concepts in the ED

This structure could provide transparency on the relationships to regulation if related comments would be made in the Basis for Conclusions document. The Groupe could give additional guidance to actuaries e.g. AFR reporting examples and/or template texts for an opinion in an example document which is not part of standard.

Example: Due process documents in
http://www.ifrs.org/Current-Projects/IASB-Projects/Insurance-Contracts/Exposure-Draft-June-2013/Pages/Exposure-Draft-and-comment-letters.aspx

Alternative 3 (EIOPA practice):
In recent stakeholder consultation processes EIOPA uses 2 documents, one is the guidance the other one is an 'explanatory document' restating the guideline in boxes and additionally giving related explanations below.

Example:
"The boxes included in this document reproduce the Guidelines that have been published by EIOPA in the Consultation Paper EIOPA-CP-13/08.
1.2. This document only aims to facilitate the reading of the Consultation Paper EIOPA-CP-13/08 and is not subject to public consultation."

An advantage of this alternative is that the structure is familiar to the intended readership. A disadvantage of this structure is that there is also not much transparency to related regulation. However, this could potentially been given in the explanations.

Alternative 4 (CEIOPS practice)
Prior to EIOPA CEIOPS has used another approach for their advice papers in which the related regulation has been stated first and then giving explanations and then stating the 'advice' in boxes.

Example: CEIOPS-CP-51/09 2 July 2009

At first glance this structure would be fitting best to our needs as it explains our thinking and states the related regulation as well. However the relevant regulation is widely spread around several L1, L2 and L3 documents. Additionally some regulations relate to more than one element of GCASP2. The consequence would be a fairly long document (GCASP2 has 21 pages already) with a lot of redundancies.

Overall conclusion for now:
There seems not to be an ideal template for a structure.
There are common elements we should make use of:

1. **Standard statements and definitions**
2. **Statements of related regulation**
3. **Explanation of considerations made by issuer**

Additionally we may use

4. **Examples for educational purposes.**

The revised structure of GCASP's ED could be either similar to the CEIOPS alternative or a combination of this with the IASB alternative.

One problem which is common to Alternatives 2-4 is that the related documents are in tendency comprehensive and less readable. This needs to be avoided whenever possible. Unfortunately we would need to have the revised standard drafted accordingly before being able to decide on readability.

While the content related to item 1. is more or less already known (GCASP2 + suggested revisions) we would in any case need to work on the content of related items 2. and 3.

Annex 2

Example of possible format

3.2 Technical Provisions

3.2.1 Co-ordination of Process[1]

3.2.1.1 The Report must include an overview of the overall process employed in respect of the calculation of the technical provisions. This must include a description of the key responsibilities and tasks, the review and signoff process and how conflicts of interest have been managed.

L1: 48.1(a) Insurance and reinsurance undertakings shall provide for an effective actuarial function to: (a) coordinate the calculation of technical provisions

L3: Actuarial Function 58 The actuarial function report should include..... in cases where both calculation and validation of technical provisions is done by the actuarial function the undertaking should have in place processes and procedures in order to avoid conflicts of interest and ensure appropriate independence.

3.2.1.2 The Report must disclose the opening and closing technical provisions, split, where appropriate, between best estimate and risk margin.

L 1: 77.1 The value of technical provisions shall be equal to the sum of a best estimate and a risk margin …

Comment *The split of technical provisions into best estimate and risk margin components is relevant to the AMSB. In cases where the components of the technical provisions are calculated separately, the respective results should be reported to the AMSB.*

3.2.1.3 The Report must disclose a reconciliation of technical provisions which shows a breakdown of the change over the reporting period including, where appropriate, the impact of new business, the impact of actual experience diverging from any assumptions made, the effect of any model changes, the effect of assumption changes and the amount of any unexplained movements. A commentary on the main items of movement should be provided.

L3: Actuarial Function 67(e) The actuarial function report should include a comparison of the technical provisions with the technical provisions in the preceding actuarial function report with explanations of any material differences, including details of changes in assumptions, the result of both calculations and a

[1] For every task of the AF explicitly mentioned in Article 48 of the S II directive there is a related section of GCASP2

reconciliation of the two sets of technical provisions.

3.2.2 Sufficiency and quality of data

L1: 48.1(c) Insurance and reinsurance undertakings shall provide for an effective actuarial function to: (c) assess the sufficiency and quality of the data used in the calculation of technical provisions.

3.2.2.1 The Report must give an overview of the review undertaken by the Actuarial Function of the data used to perform the calculation of technical provisions. This should include an assessment of the internal processes and procedures in place in relation to the accuracy and completeness of the data used. The Report should make clear what reliances have been made by the AF in making this assessment.

L3: Actuarial Function 67(c) The actuarial function report should include a description of the review made to data used for the calculation of the technical provisions……

<u>Comment</u>
According to ISAP 1 3.5.1 the actuary should consider whether sufficient and reliable data are available to perform the actuarial services. According to ISAP 1 3.5.2 reasonable steps should be taken to validate the data used. According to the S II regulation referenced the AF have has to report to the AMSB on such activities.