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Basis for conclusions

Actuarial Function Report Standard of Practice (GCASP2)

An exposure draft of Groupe Consultatif Actuarial Standard of Practice 2 (GCASP2) on the Actuarial Function Report under Directive 2009/138/EC was issued on 1 November 2012, with a comment period lasting until 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. A complete list of the respondents is provided at Annex 1.

Main considerations
Actuaries should perform actuarial work in respect of the Actuarial Function Report (AFR) in a way which is consistent with

1. Solvency II regulation (including Level 1, 2 and 3 provisions);
2. Applicable professional codes of conduct; and
3. Actuarial standards of practice, whether general or specific to the AFR.

Observations

- This would necessarily add requirements of professionalism on top of the regulation, but this will be to the benefit of the users of the advice through the quality of the actuarial work carried out.
- Actuarial standards of practice include the requirement that reporting done by actuaries should be according to the needs of the intended user/recipient, which, in the context of the AFR, is the AMSB.
- The principle of proportionality is fundamental, being a core element of Solvency II regulation and of actuarial standards of practice.

Principles
For the Groupe Consultatif the overriding purpose for setting standards is to serve the public interest by ensuring that the users of actuarial services benefit from a high quality of actuarial work. According to the objectives and purposes agreed by the Groupe Consultatif for standards, the principal purposes of actuarial standards should be:

- to enhance the quality of delivery of professional services by actuaries;
- to help to ensure that the actuarial work product meets the needs of users of actuarial services;
- to enable actuaries to play an enhanced role in the protection of policyholders and beneficiaries through the quality of the advice given;
- to contribute towards the development of consistency of actuarial practice across the EU; and
- to provide guidance to actuaries on good practice.

The Groupe Consultatif intends to set actuarial standards of practice which are principles-based and which are consistent with the above purposes.

There are four main principles underpinning the current exposure draft for GCASP2:

Principle 1: Actuarial work must be carried out consistently with Solvency II regulations and guidelines.

Principle 2: Actuarial work must be carried out in a way which is proportional to the risk profile of the undertaking.

Principle 3: The work must be consistent with the code of conduct of the actuarial profession and with any applicable general actuarial standards.

Principle 4: The AFR must be structured according to the needs of the principal users, in particular the Administrative, Management or Supervisory Body (AMSB)

These would include the following more specific requirements in the context of GCASP2:

Principle 1: Actuarial work must be carried our consistently with Solvency II regulations and guidelines.

- The framework for the AFR is set by Article 48 of Directive 2009/138/EC.
- The requirements for a report (at least annually) from the actuarial function (the AFR) to the AMSB are expected to be contained in Level 2 regulations. A clear indication of the intent is given by Guideline 47 of EIOPA's Proposal for Guidelines on the System of Governance (EIOPA-CP-13/08 and BoS-13/26).
- Since the AFR must document all tasks that have been carried out by the actuarial function and their results, it follows that GCASP2 must cover reporting on technical provisions, the opinion on the overall underwriting policy and the opinion on the adequacy of reinsurance arrangements.

Principle 2: Actuarial work must be carried out in a way which is proportional to the risk profile of the undertaking.

- The proportionality principle is fundamental to the Solvency II Directive (for example in Article 29(4)).
- Materiality considerations should always be borne in mind as part of the exercise of actuarial judgement.
- Both proportionality and materiality should be clearly understood in the context of what the standard requires actuaries to do.

Principle 3: The work must be consistent with the code of conduct of the actuarial profession and with any applicable general actuarial standards.

- The principles of the actuarial profession's code of conduct apply to all work by actuaries, namely integrity, competence and care, compliance, impartiality and effective communication.
- A key ethical responsibility of the actuary is to avoid or manage conflicts of interest, in order to ensure that advice is impartial and objective.

Principle 4: The AFR must be structured according to the needs of the principal users, in particular the Administrative, Management or Supervisory Body (AMSB)

- An actuary should ensure that any communication, whether written or oral, is clear and timely, and that the method of communication is appropriate, having regard to:
    a) the intended audience;
    b) the purpose of the communication;
    c) the significance of the communication to its intended audience; and
    d) the capacity in which the member is acting.

- This implies the use of appropriate language, openness, transparency and accountability.
- The report should inform the AMSB on the tasks that have been undertaken.
- The report should clearly identify suggested actions.
- The report should follow up on previous recommendations and identify what has been done and what still needs to be done.

The exposure draft was prepared based on these principles, which need to be continually borne in mind in the preparation of the final standard.

The following are the principal concerns raised by respondents to the exposure draft, together with the response of the Standards Project Team and our conclusions with regard to the development of the final version of the standard.

1. **Regulations or standards: Insufficient transparency about which requirements emanated from the regulations and which were specific to the standard**

- We accept that this is a valid point. We will change the format of the standard to make transparently clear which aspects come directly from the Directive, from the Level 2 regulations or from EIOPA guidelines.
- A consequence of this is that the format of the standard will diverge from the format of ISAP1 from the International Actuarial Association, which was the template used for the exposure draft.
- A final decision has yet to be taken on how to implement this in practice, as there are several different models which could be used, such as the approach of EIOPA or that of the IASB.

2. **Proportionality: The Principle of Proportionality was not adequately reflected**

- The Principle of Proportionality was very much in mind in the drafting of the standard. However, it is accepted that it could be made more prominent and pervasive.
- It should be seen as one of the key principles underpinning the standard.

3. **ISAP1: There could be overlap or inconsistency with ISAP1 promulgated as a model standard by the International Actuarial Association (IAA)**

- It is accepted that there were some inconsistencies, especially with regard to definitions, since the exposure draft was prepared before the final version of ISAP1 was available.
- The intention of the Groupe is to adopt ISAP1 as GCASP1. GCASP2 will be adapted to reflect this and to rely on what will be contained in GCASP1.

4. **Burden of regulation: The standard should not add requirements to the regulations**

- Actuaries should perform actuarial work relating to the AFR consistently with the professional code of conduct and other general actuarial standards of practice. This would necessarily add some requirements on top of the regulation.
- Most of the aspects where comments suggested that the exposure draft was adding to the regulation were in fact based on our understanding of the likely content of the Level 2 regulations. This will be clearer when the requirements of the regulation are highlighted.

5. **Framework for standards: There is no general and transparent framework for GC standards in place**

- Given that it is only the intention to issue a limited range of standards relating to Solvency II (and the pensions equivalent), the objectives and purposes papers already approved by the Groupe provide a sufficient framework.
- The Standards Project Team does not consider that much purpose would be served by delaying the development of urgently needed standards in order to concentrate first on a generalised conceptual framework.

6. **Standard too prescriptive and detailed: Standard not principles-based**

- The apparent level of prescription results from the requirements of the regulation.

7. **Redundancies: The standard is repetitious and contains redundancies.**

- This was intentional in order to make sure that the standard approaches the various topics to be dealt with in the AFR in a consistent way.
- It could be drafted in fewer words but this would make it more convoluted and more difficult for the actuary to follow in respect of different tasks of the actuarial function, which might in practice be carried out by different people.

8. **Premature: Further drafts of the standard should be held back until the final content of the Solvency II regulations is known**

- The next draft of the standard for formal exposure will be held back until the regulations and EIOPA guidelines are in place, so that the regulatory provisions can be properly referenced.
- However, EIOPA's consultation on guidelines for National Competent Authorities makes it clear that the intention is to introduce the actuarial function report for reporting year 2014, i.e. before the relevant regulations are finalised. The Standards, Freedoms and Professionalism Committee of the Groupe Consultatif has agreed with the recommendation of the Standard Projects Team that a revised working draft of the standard should be prepared in order to be available at the end of September 2013. This will enable actuaries carrying out the actuarial function to have access to an advanced draft of the intended standard in order to facilitate their work in 2014.
- A revised exposure draft of GCASP2 will be finalised once the legislation is in place and will be subject to a second period of exposure under due process before the final standard is adopted and promulgated.

The Standards Project Team is grateful to all those who took the time to respond to the consultation on the exposure draft. Apart from the significant high level points addressed above, many more detailed drafting points were made, which will be taken into account in preparing the revised working draft of the standard for the Standards, Freedoms and Professionalism Committee meeting in September.

Chris Daykin
Convenor, Standards Project Team

Brussels, 31 May 2013

ANNEX

List of respondents to exposure draft of GCASP2

External stakeholders

Financial Reporting Council
International Actuarial Association
Insurance Europe
Solvency II Pillar I Non-life Working Group

Member Associations of the Groupe Consultatif Actuariel Européen

Česká Společnost Aktuárů
Col.legi d'Actuaris de Catalunya
Den Danske Aktuarforening
Deutsche Aktuarvereinigung
Het Koninklijk Actuarieel Genootschap
Institut des Actuaires
Institute and Faculty of Actuaries
Magyar Aktuárius Társaság
Society of Actuaries in Ireland
Suomen Aktuaariyhdistys