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MINUTES
of a meeting of the
STANDARDS, FREEDOMS AND PROFESSIONALISM COMMITTEE
held in Vilnius, Lithuania
on Thursday, 24 April 2014

PRESENT:

Committee:

David Martin (Chairman)	Institute and Faculty of Actuaries
Jiři Fialka	Ceská Spolecnost Aktuáru
Peter Melchior	Den Danske Aktuarforening
Esko Kivisaari	Suomen Aktuaariyhdistys
Thomas Béhar	Institut des Actuaires
Gábor Hanák	Magyar Aktuárius Társaság
Yvonne Lynch	Society of Actuaries in Ireland
Rokas Gylys	Lietuvos Aktuarijų Draugija
Ron Hersmis	Het Koninklijk Actuarieel Genootschap
Magne Nilsen	Den Norske Aktuarforening
Wojciech Mojzuk	Polskie Stowarzyszenie Aktuariuszy
Lutz Wilhelmy	Association Suisse des Actuaires
Ad Kok	Chief Executive
Michael Lucas	Secretary-General

Members of the Groupe Consultatif and other Committees:

Karel Goossens	Institut des Actuaires en Belgique / Instituut van Actuarissen en Belgie
Jan Svab	Ceská Spolecnost Aktuáru
Tarmo Koll	Eesti Aktuaaride Liit
Thierry Poincelin	Institut des Actuaires
Birgit Kaiser	Deutsche Aktuarvereinigung
Dieter Köhnlein	Deutsche Aktuarvereinigung
Michael Renz	Deutsche Aktuarvereinigung
Gábor Borza	Magyar Aktuárius Társaság
Florin Ginghina	Asocitatia Romana de Actuariat
Manuel Peraita	Instituto de Actuarios Españoles

Félix Arias Bergadá	Col.legi d'Actuaris de Catalunya
Malcolm Campbell	Svenska Aktuarieföreningen
Chris Daykin	Institute and Faculty of Actuaries

Observers:

Ben Kemp	Institute and Faculty of Actuaries
John Instance	UK Financial Reporting Council

Apologies for absence:

Peter Prieler	Aktuarvereinigung Österreichs
Detelin Koitchev	Bulgarian Actuarial Society
Ian Morris	Channel Islands Actuarial Society
Mirjana Cesarec	Hvratsko Aktuarsko Društvo
Dimitris Dimitriou	Cyprus Association of Actuaries
Marianna Papamichail	Hellenic Actuarial Society
Steinunn Gudjonsdottir	Felag Islenskra Tryggingast Aerdfraedinga
Nino Savelli	Istituto Italiano degli Attuari
Vicenzo Urciuoli	Consiglio Nazionale degli Attuari
Inga Helmane	Latvijas Aaktuãru Asociãcija
Matthias Foehr	Association Luxembourgeoise des Actuaires
Jean-Paul Shipley	Malta Actuarial Society
José Manuel Mendinhos	Instituto dos Actuarios Portugueses
Igor Zoric	Udruženje Aktuara Srbije
Maria Kamenarova	Slovenská spoločnosť aktuárov
Jernej Merhar	Slovensko Aktuarsko društvo
Kerem Özdağ	Actuarial Society of Turkey
Antonina Redka	Society of Actuaries of Ukraine

1. Opening of the meeting and adoption of the agenda

1.1 The Chairman welcomed members to Vilnius, particularly those for whom it was their first meeting, and thanked Lietuvos Aktuarijų Draugija for hosting the meeting, and Swedbank for providing the venue.

1.2 The following additional items of business were agreed for discussion under Any Other Business:

- new Institute and Faculty of Actuaries qualification – Certified Actuarial Analyst – and implications for AAE
- role of actuaries in Risk Management
- fees payable to AAE for members working outside Europe

With these additions, the agenda, as circulated, was adopted and a copy is attached to these minutes as **Annex I**.

The Chairman drew attention to the attendance by external observers – John Instance (UK Financial Reporting Council) and Ben Kemp (Institute and Faculty of Actuaries legal adviser) – and indicated that, since there were items of reserved business which should be discussed only by AAE representatives, he would later ask the observers to withdraw so that a closed session could be held at the end of the meeting.

2. Minutes of previous meeting

The Minutes of the meeting of 26 September 2013, held in Dublin, were confirmed.

3. Actuarial Standards

3.1 Chris Daykin briefly summarised the work of the Standards Project Team (SPT) and the drafting team. He referred to the change of name of the Groupe Consultatif to the Actuarial Association of Europe (AAE) and, in the light of this, the recommendation by the SPT that model standards issued by the AAE should be re-named as European Standards of Actuarial Practice (ESAPs) instead of GCASPs, by analogy with ISAPs (International Standards of Actuarial Practice) issued by the International Actuarial Association (IAA). The Committee approved this recommendation.

3.2 The Committee noted the feedback provided in response to the comments received on ESAP1 – Quality of Actuarial Work.

3.3 Chris presented the final draft of ESAP1 and highlighted the following points:

- ESAP1 is essentially the same as the IAA's ISAP1, as agreed at the Committee's Dublin meeting;
- a specific change in the Preface to cover the duality with ISAP1 – member associations can adopt either ESAP1 or ISAP1

It was noted that, for an association to endorse an ESAP, the blanks in the model standard would need to be completed to make the endorsed document formal.

There was some discussion on whether the definitions section should be moved to an Appendix, but it was finally agreed that the version of ESAP1 proposed by the SPT should be recommended to the General Assembly for adoption as a model standard of the AAE. (Chris pointed out that, in adopting/adapting ESAP1, member associations would be free to re-arrange the layout). It was agreed that this recommendation should be considered at the meeting of the General Assembly on 3 October in Helsinki and not by electronic vote before then. Chris was asked that the SPT give some thought to preparing a draft of the transmission letter with which the model standard will be issued to member associations (signed by the Chairman of the AAE) after the Helsinki meeting, assuming that the standard is adopted.

3.4 In addition the 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; a mechanism for this might be that approved ISAPs (including revised ISAPs) would have a given future date from which they would apply
- 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). Chris agreed to prepare a paper on this for the Helsinki meeting of the Committee.

3.5 Chris reported that, following the Exposure Draft of GCASP2, the drafting team had substantially restructured the original draft in order to respond to the comments received. He reminded the Committee that the final version of the model standard (now ESAP2) 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 ESAP2 is likely to take. Chris also noted that EIOPA were generally supportive of this approach.

3.6 Chris referred in greater detail to the working draft of ESAP2 which SPT proposed should be issued to member associations, so that it can be made available to individual actuaries fulfilling the actuarial function. He pointed out that the working draft distinguishes clearly between the paragraphs which will represent the model standard (column 1), references to the legislation and guidelines on which the model standard is based (column 2), and commentary on why the SPT and drafting team have adopted a particular approach (column 3). A clean version of the wording of the model standard alone provided a more accurate impression of its length. The Committee was invited to approve the issuance of the working draft to member associations on the understanding that, when the relevant legislation has been completed, a final version of ESAP2 would be presented to the Committee for approval and for submission to the General Assembly of the AAE for adoption as a model standard.

Several members of the Committee commented favourably on the new draft and the clarity and additional detail provided by the tabular version. It was agreed that the most difficult areas related to opinions on underwriting policy and reinsurance adequacy, where some guidance, such as the comments on these issues in Column 3, would be useful. As noted above (minute 3.4) the SPT will review the issue of non-binding guidelines or educational notes.

There were no specific comments regarding changes, but it was agreed that members of

SFPC and Insurance Committee should have a brief opportunity (maximum two weeks) to submit comments and that the working draft, amended by any such appropriate comments, would then be issued to member associations. It was emphasised that this would not begin a period of formal exposure but that comments and reactions would nevertheless be most welcome in the meantime.

Chris will prepare a letter to member associations to accompany the ESAP2 working draft. He hoped that member associations would give the working draft wide exposure to their members and invite individual actuaries to respond with comments and suggestions. The SPT would like to gather as much experience of using the working draft as possible before producing the next formal exposure draft, which is likely to be towards the end of 2014. It was agreed that a reasonable timetable to aim for would be a final model standard coming to the Committee at the Spring Meeting in 2015, with formal adoption of ESAP2 by the General Assembly at the Annual Meeting in September 2015.

3.7 The Committee noted the report from SPT on risk management standards. The detailed discussion paper from the Risk Management Task Force (RMTF) is considered in the next item.

3.8 There was an extensive discussion about the risk management paper, largely regarding the principle of considering issuing three ESAPs rather than about the content in detail. There was some sensitivity (mainly articulated by representatives from the UK but with one or two other voices as well) 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. At the same time, however, some other associations very much appreciated the work of both the IAA and the AAE in providing model standards – this being one of the strategic objectives of both organisations – and suggested that the AAE should go ahead in producing risk management related standards. In addition, the Chairman expressed concern at the lack of communication with the Solvency II project team over the proposed development of standards which relate to work under Solvency II.

It was acknowledged that, a few years ago, no international model standards existed for actuaries, yet now there is the prospect of 8 ISAPS (ISAP1 and ISAP2 have been adopted, ISAP3 is close to its final form, ISAP4, ISAP5 and ISAP6 are in the SOI stage but ISAP7 and ISAP8 may come in relation to IAIS activities), and 5 ESAPs (ESAP1 being identical to ISAP1, ESAP2 on the actuarial function report under Solvency II, and the three ESAPs proposed by the RMTF. Some associations may find it too burdensome to consider what action to take in respect of all of these standards in a relatively short timescale.

Gábor Hanák referred to the view expressed by the Chairman of EIOPA that, if AAE did not take steps to set standards for the actuarial profession, then some other body would do so. This was the reason that responsibility for external review had been placed in the hands of auditors – they have professional standards. Thomas Béhar echoed the importance of AAE

seeking to influence the setting of standards in risk management. On the other hand, Ben Kemp drew attention to the cost burden created by compliance with standards. Esko Kivisaari pointed out that standards are not an end in themselves but rather a means of supporting the public interest, harmonisation, and gaining recognition for the profession by supervisors. It was also noted that certain issues may be better addressed through educational notes (similar to the IAA's International Actuarial Notes) than formal standards.

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It was agreed to follow a balanced approach to move forward but in a measured way, acknowledging the needs and actions of external bodies (like EIOPA) and of actuaries who ultimately will have to comply with agreed standards based on these model standards. A prioritisation of the risk management standards was agreed rather than pursuing them all at once. It was agreed to bring the ORSA standard (ESAP5 in the RMTF paper) forward first. The RMTF will develop a "proposal for consideration" (equivalent to the IAA's Statement of Intent) for consideration at the Committee's meeting in September. This should clearly and convincingly demonstrate the reason for the standard, why it is in the public interest, and the importance for associations and individual actuaries to provide actuarial services subject to standards. 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. The latter was identified as the closest to ISAP5 (Insurer Enterprise Risk Models), and it was agreed to await progress by the IAA and consider if there are specific European and Solvency II related issues to be addressed in an ESAP. It was noted that the SPT will seek to establish a protocol with the IAA to share information on the development of standards in order to optimise the process.

Chris pointed out that, in order to progress the development of "proposals for consideration", it would be necessary to review the Terms of Reference (ToR) of the RMT, which had now fulfilled its original ToR, and the membership of the task force. The need for input from the Solvency II project team was emphasised, in addition to "buy-in" by member associations. Once this is done, the first priority will be to produce a proposal for a model standard for the ORSA for the Committee's meeting in Helsinki in September 2014. The second proposal would probably be held for Spring 2015, and the third one not before Autumn 2015.

Some mechanism was needed for recording in due course what (if anything) associations are doing with model standards. At present there is no AAE annual reporting (unlike the IAA)

3.9 It was noted that it has not been possible to make progress with draft proposals for a revised Code of Conduct. It is hoped to present an update to the Committee's next meeting in the Autumn.

4. Professionalism issues

4.1 ***UK Actuarial Council***

The Committee noted the exchange of correspondence between the UK Actuarial Council and the Chairman regarding mutual arrangements for observers to attend meetings.

4.2 ***Mutual Recognition Agreement – Actuarial Society of South Africa (ASSA)***

It was noted that a Framework Agreement to allow member associations of AAE and ASSA to enter into agreements on mutual recognition of qualifications had 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. The Chairman reported that the Officers will put in place a procedure for keeping track of these bilateral agreements. It was noted that MRAs already exist between the UK and Irish associations and ASSA.

4.3 ***Competition legislation issues***

Esko Kivisaari reported that the Insurance Committee will discuss a European Commission questionnaire on the impact of implementing the Gender Directive, and whether it is possible to respond to this given the constraints of competition legislation on discussing or comparing commercially sensitive data.

5. Role of the Actuary / Actuarial Function

5.1 Ad Kok confirmed that he had prepared a revised draft in the light of comments received during the Dublin meetings, and to reflect remarks made by Gabriel Bernardino at the meeting with EIOPA in December. This paper has been approved by the Officers and is essentially ready for publication: before doing so, Ad agreed to circulate to the Committee (and to the Insurance Committee) for any final comments.

5.2 Following circulation to member associations of the draft letter and statement on “fit and proper” policies, it was confirmed that the DAV is using a German version of this letter. In addition both the Institute and Faculty of Actuaries and the Society of Actuaries in Ireland are in discussion with their respective supervisors on the issue of “fit and proper” policies.

6. Consumer Protection

The report on Risk Indicators prepared by the Consumer Protection Task Force (CPTF) was noted. It is intended to undertake more detailed work on risk indicators, with assistance from the technical committees, subject to appropriate caveats over the value of any statistics derived and the purpose for which they may be used. For example, it was pointed out that high values for some of the statistics suggested in the CPTF paper could be seen as either good or bad according to perspective, and could simply be ‘false positives’. Chris Daykin noted that the existing paper is largely insurance oriented; since EIOPA is increasingly interested in personal pensions, Chris suggested that further work by AAE should reflect this.

7. Review of Strategy / Action Plan 2014

A number of amendments to the list of objectives and priorities currently attributed to the Committee were suggested, in particular:

- review and coordination of standards, and the possibility of updating the 2009 survey of standards in member associations including any standard setting practices
- progress with development of standards

- imminent publication of a further paper on the role of the actuary
- update 2007 survey on number of actuaries in Europe (draft for next meeting)
- update brochure promoting the profession for new Parliament
- events to support member associations: ECA 2016; Global ICS seminar; Baltic seminar
- help associations to achieve membership of AAE
- Officer liaison activity
- ensure links with new IAA Eurasian/ central Asian initiative
- recently re-packaged Code of Conduct
- possible review of membership credentials of all member associations, in order to achieve a single IAA/EAA membership assessment

Malcolm Campbell explained that input from each of the committees, in particular their priorities for 2014, 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 next Officers' meeting.

8. Baltic actuaries seminar

The Chairman and Rokas Gylys reported briefly on a very successful Baltic Actuaries seminar held on 23 April, for which AAE had provided a number of speakers. Topics covered included:

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

9. Global ERM qualification

Malcolm Campbell reported that several new applications had been received from associations seeking to be able to award the CERA qualification: in Europe these included Denmark and Switzerland.

10. Bilateral meeting of AAE and Canadian Institute of Actuaries (CIA)

The Chairman reported briefly on a short informal meeting between representatives of AAE and CIA in Washington on 28 March. He referred in particular to the CIA's interest in a framework MRA similar to that introduced between AAE and ASSA.

11. AAE and IAA – Issues of mutual interest

The Committee noted a report from the Chairman on issues of mutual interest arising from the recent IAA meetings in Washington.

12. Meeting with EIOPA

The Committee noted the report of the meeting between AAE Officers and staff of EIOPA in Frankfurt on 11 December 2013. The Chairman referred again to the remark by Gabriel Bernardino in relation to standards for risk management – "If you do not do this, somebody else will". He also noted a perceived North/South divide in relation to standards, with countries in northern Europe generally preferring principles and those in southern Europe preferring rules.

13. Future Annual Meetings and Spring Meetings

13.1 ***Annual Meetings***

Future Annual Meetings were confirmed as follows –

- 2014 – Helsinki, Finland – 3 October 2014
- 2015 – Bucharest, Romania – 25 September 2015
- 2016 – Barcelona, Spain – *date tbc*

Offers to host future Annual Meetings from 2017 onwards were invited.

13.2 ***Spring Meetings***

Future Spring Meetings were confirmed as follows –

Pensions, IFR and Education Committees
2014 – Brussels, Belgium – 9 May 2014

Offers to host future Spring Meetings from 2015 onwards were invited.

14. Information Exchange

The Chairman drew attention to information from Germany and UK (attached to these minutes as **Annex II**).

15. Any other business

15.1 ***Certified Actuarial Analyst***

Ben Kemp reported that the Institute and Faculty of Actuaries are introducing a new qualification of Certified Actuarial Analyst, targeted at technical actuarial support staff. This would give them IFoA status (although not with the title 'actuary') and bring them within a regulatory framework, including examinations, CPD and discipline. Thomas Béhar reported that the Institut des Actuaires are discussing a similar development, and he suggested that it may be appropriate to consider mutual issues such as core syllabus. Ron Hersmis pointed out that the Dutch association has had such a qualification for several years, the level almost meeting the IAA definition of Fully Qualified Actuary. It was agreed to ask the Education Committee to discuss this matter in more detail at its meeting on 9 May. The Standards, Freedoms and Professionalism Committee will discuss the issue further at its next meeting.

15.2 ***Role of actuaries in Risk Management***

Karel Goossens referred to a discussion amongst some of the AAE Officers regarding the

positioning of actuaries in the field of risk management, and circulated a short report (attached to these minutes as **Annex III**). He referred in particular to:

- the need to raise the profile of actuaries (and AAE) in relation to risk management, and how to communicate our strengths in this field
- actuaries have experience in risk management in the Insurance and pensions fields and should focus first in these areas
- AAE syllabus includes risk management
- the interest of other professional bodies in this area, although from a broader and less mathematical perspective
- need for caution in discussing with other groups (eg CRO Forum), but raise with key actuaries who work in risk management
- identification of public interest and demonstrate 'fit and proper' profile to supervisors
- identification of key actuaries in this area and liaison with them on needs and vision
- formation of task forces from the technical committees to prepare opinion papers to raise profile

The consensus was that it was not the right time to form a joint Risk Management and Actuarial profession. Some felt that linking too closely with other professional groups in our fields could weaken actuaries' positions by attracting non actuaries to the insurance area of work. The action point at present is to work towards actuaries being regarded as "fit for purpose" in this area of work in insurance and pensions. The output from this discussion will be considered by the Officers in deciding next steps.

15.3 ***Fees payable for members working outside Europe***

In response to a question from Thomas Béhar, it was confirmed that member associations are required to pay fees to the AAE in respect of all fully qualified actuaries regardless of the country in which they are working. There was no wish expressed to alter this position.

16. Date of next meeting

The next meeting of the Committee will be held in Helsinki on 2 October 2014 at the invitation of Suomen Aktuaariyhdistys.

Contd/ - Reserved annex

17. Reserved business

The Committee considered proposals by the Officers setting out Terms of Reference (ToR) for admitting observers to AAE General Assembly and committee meetings. A number of suggestions were made during the discussion, in particular:

- it should be clarified that 'observer' is intended to refer to an attendee who is not a *bona fide* designated representative of a member association (i.e. someone with no connection to AAE)
- the proposals as drafted only relate to such "external" observers. Separate clarifying rules for non-committee members from AAE associations attending to observe proceedings were needed
- a more relaxed approach could be adopted for observers at committee meetings than at the General Assembly, as already reflected in the draft
- drafting should adopt a more relaxed approach in respect of members of one committee who are acting as alternates on other committees
- where more than one representative (or alternate) is attending the General Assembly on behalf of a member association, it must be clear who carries the voting authority for that association
- at General Assembly, the number of votes each representative carries on behalf of his/her association should be made known
- it would be helpful to give one or two examples of organisations which might be considered as institutional observers

Ad will re-draft the ToR and circulate to the Committee.