Society of Actuaries in Ireland

Member Report

AAE Committee Meetings, Bucharest, September 2015

Society News

New President
Dervla Tomlin succeeded Dermot Corry as President of the Society of Actuaries in Ireland at the conclusion of the Society's Annual General Meeting on 8th June 2015. One of the key themes on which Dervla wants to focus during her Presidency is "building confidence and earning trust". She has already emphasised to members the importance of adding value and showing leadership, both individually in the workplace and collectively as a profession.

3-Year Strategy Plan
The Society's mission is:

> *To develop the role and standing of the actuarial profession in Ireland and enhance its reputation;*
>
> *To support actuaries throughout their career so that they have the skills, attributes and knowledge appropriate to both current and future needs of actuarial practice;*
>
> *To develop, maintain and enforce actuarial standards that require actuaries to advise their clients with integrity, professionalism and objectivity.*

Our Strategy Plan (2014-2017) sets out a range of activities through which we endeavour to deliver on this mission. The Plan is available on our website at: https://web.actuaries.ie/press/strategic-plan.

Research

Financial sustainability of the State pension
We have appointed Milliman to perform an analysis of the financial sustainability of the State pension in Ireland. This will include an analysis of the key levers that could be flexed to improve sustainability – in particular, pension amount, indexation, retirement age and eligibility rules. We intend to publicise key findings once the research is finalised, to inform debate and public policy decisions in this area by providing a sense of the financial and social implications of flexing each of the levers in various ways.

Risk management in pensions

We also tasked a working group to help members increase their understanding of risk management as it applies to pension funds, so that they are well positioned to advise their clients and to serve the public interest. The working group developed materials as a foundation upon which to build or further enhance a risk management framework. These include a sample risk register and risk overview statement, which are available on our website here.

Unit pricing practices and governance

Another working group carried out a survey of current practices in unit pricing and related governance arrangements. Drawing on the survey results, they then produced a paper that serves as a resource guide for actuaries who are involved in unit pricing and/or have responsibility over any of the complex processes inherent in the operation of internal linked funds within life companies. The paper is available on our website here.

Assessing psychological capacity for risk taking and risk management

Colm Fitzgerald, a Fellow of the Society, carried out research into the psychological capacity of individuals and groups to make effective risk management decisions. As part of this work, he developed risk personality tests to assist individuals and groups (such as Boards of Directors) to understand and overcome the psychological, emotional and irrational biases that affect their decisions on risk taking. Colm's paper is available here.

Risk Management Perspectives Conference

Our annual Risk Management Perspectives conference will take place on 30th September 2015. Speakers from diverse backgrounds will share their thoughts on current risk management challenges and opportunities. The programme includes cyber risk, conduct risk, dominance risk, capital management in a Solvency II world and other hot topics. The programme also includes two panel discussions, giving attendees the chance to engage in an active discussion on dealing with risk management challenges, whether in a financial services context or otherwise. Details are available on our website at: https://web.actuaries.ie/events/2015/09/risk-management-perspectives-conference. A podcast of the presentations and panel discussions will be posted to the website after the event.

Submissions

We have responded to consultations on a wide range of topics, such as: Codes of Governance for Defined Contribution Pension Schemes; the Domestic Actuarial Regime and Related Governance Requirements under Solvency II; Introducing a Universal Retirement Savings System; Financial Management Guidelines for Defined Benefit Pension Schemes; Period Payment Orders; and many more. Copies of submissions are available at: https://web.actuaries.ie/press/submissions.

Membership
The Society is continuing to see an increase in membership. We have now grown to 1,595 members, as follows:

Category of membership	2015	2014
Fellows based in Ireland	759	717
Fellows non-resident	131	116
Associates	34	35
Affiliates	34	38
Students	611	560
Retired Members	26	23
Total	**1,595**	**1,489**

Annual Review
For more details on the activities of the Society over the period from July 2014 to June 2015, please see our Annual Review.

Industry News

Periodic Payment Orders
In May 2015, the Minister for Justice and Equality, Frances Fitzgerald TD, announced proposals to amend legislation in order to introduce Periodic Payment Orders, whereby a Court could decide that catastrophically injured people can be compensated in respect of the cost of future care by means of index-linked annual payments instead of a lump sum award. The legislative process for the introduction of PPOs is ongoing.

Central Bank of Ireland Consultation on Actuarial Regime under Solvency II
In May 2015, the Society responded to the Central Bank of Ireland Consultation Paper 92 (CP92) on "Domestic Actuarial Regime and Related Governance Requirements under Solvency II".

The Central Bank proposes to introduce the role of Head of Actuarial Function. In addition to the responsibilities called out for the actuarial function under Solvency II, the Head of Actuarial Function will be required to:

- Provide an actuarial opinion and actuarial report on technical provisions; and
- Provide an actuarial opinion on aspects of the Own Risk & Solvency Assessment.

Most insurance undertakings will also be required to appoint a Reviewing Actuary to conduct a peer review of the technical provisions and the related actuarial opinion and actuarial report. Peer reviews will be required every 2 years for "High Impact" companies and less frequently for other companies.

In our response to the consultation, we strongly recommended that the Central Bank require that the role of Head of Actuarial Function be performed by an actuary. Failing that, the requirements as proposed would represent a weakening of the regulatory framework, which currently requires that Appointed, Signing and Reviewing Actuaries be fully qualified actuaries.

We further recommended that the Head of Actuarial Function should be required to be a member of a recognised European actuarial association – specifically, an association that is a member of the AAE.

The Central Bank consultation paper is available here.

The Society's response is available here

The Central Bank is expected to respond to the submissions received and publish its requirements later this month (September 2015).

END OF REPORT

Institute and Faculty of Actuaries

Actuarial Association of Europe

Standards Professionalism and Freedoms Committee, autumn meeting 2016

Subject	Update on the activities of the UK's Institute and Faculty of Actuaries (IFoA)
Meeting	24 September 2015 Bucharest, Romania
Author	Emma Gilpin, Senior Regulatory Lawyer, IFoA

General Background

The IFoA is responsible for the regulation, in the public interest, of all of its members worldwide. It is subject to independent oversight, in the exercise of its regulatory functions in relation to the UK, by the Financial Reporting Council (FRC). The FRC is additionally responsible for the setting of technical standards in the UK.

The key recent (and upcoming) IFoA developments in relation to standards are:-

1. Launch of the Quality Assurance Scheme

1.1. On 1 September 2015, the IFoA launched its Quality Assurance Scheme (known as 'the QAS'), which is a voluntary accreditation scheme for organisations that employ one or more Members of the IFoA. The QAS is designed to apply to any sort of employer of actuaries and so far interest has been expressed from actuarial consultancies, insurance companies and regulators.

1.2. The QAS requires those organisations to demonstrate that they meet a range of outcomes set out in an Actuarial Profession Standard known as 'APS QA1: Quality Assurance Scheme for Organisations' (a copy of APS QA1 is included in **Appendix 1** to this note, for information).

1.3. They will be assessed by completing an application form and then being subjected to an assessment visit by an independent assessment team, who will make recommendations to the IFoA as to whether the Organisation is meeting those outcomes and should be awarded the QAS accreditation.

1.4. If the IFoA decides to award accreditation (and this may be a conditional award subject to them taking certain steps within a prescribed timeframe) then the organisation will be required to enter into an agreement in terms of which they agree to abide by the requirements in APS QA1 for the period of their accreditation.

<u>APS QA1 requirements and the interplay with standards</u>

1.5. APS QA1 imposes the following key requirements on accredited organisations:

- A requirement to support Members in complying with the Actuaries' Code and other professional responsibilities.

- A requirement to demonstrate commitment to the quality of actuarial work (which is broadly defined in the standard).

- A requirement to maintain and apply appropriate policies and procedures designed to achieve specified outcomes in relation to:

    - Quality assurance (including Work Review)
    - Conflicts of Interest
    - Development and training
    - Speaking up about issues of concern
    - Relationships with users of actuarial work (including engagement and communication and handling/resolving concerns about work)

- A requirement to take steps to monitor whether those outcomes are being achieved and whether the policies and procedures remain effective.

1.6. The outcomes include a specific requirement in relation to standards and outcome 1 (a) requires that "*there is compliance with all Mandatory Actuarial Standards and other relevant legal and regulatory requirements*".

1.7. 'Mandatory Actuarial Standards' in this context are defined as: "*Any professional, regulatory or other standards with which Members or Organisations are required to comply including, but not limited to, APSs and technical actuarial standards issued by the Financial Reporting Council.*"

1.8. The QAS requires the Organisation to demonstrate that its actuaries are complying with mandatory actuarial standards as well as requiring the organisation to 'support' them in meeting their broader professional duties.

1.9. There will also be monitoring visits in the middle of the 6 year accreditation period to ensure that the Organisations are still meeting the requirements of APS QA1 along with the requirement for completion of an Annual Return each year.

1.10. Organisations are also required to nominate a Senior Quality Assurance Representative (SQAR) who will be the key person from the organisation in relation to QAS. This will be an actuary (or may be a group of individuals if at least one of them is an actuary) who holds a sufficiently senior position to have influence within the Organisation. There will be a forum of SQARs set up and it is anticipated that there will be regular meetings to discuss relevant issues as well as to share good quality assurance practices. We also plan to establish chat rooms for SQARs to have informal discussions and to arrange seminars and events for them on particular topics.

Timescales

1.11. The QAS is now open for applications and if organisations submit their applications by 1 November then they will be part of the first batch of accreditations awarded. It is expected that those will be announced in early spring 2016.

1.12. Further information on the QAS can be found on the IFoA's QAS web page:

http://www.actuaries.org.uk/QAS

2. APS X2: Review of Actuarial Work now in force

2.1. At the last meeting of this committee, it was reported that the IFoA had published a new mandatory standard in relation to Work Review.

2.2. APS X2: Review of Actuarial Work came into force on 1 July 2015 and was accompanied by a large amount of work to tell Members about it. This included a range of events and seminars

around the UK (and beyond) and a webinar that had 1300 live views and a further 1200 views of the recording.

2.3. The IFoA is now undertaking work to monitor its implementation and to understand the impact of the new requirements. It is also developing Frequently Asked Questions to publish that reflect some of the questions and issues raised during the events and seminars and through its Professional Support Service and on 'train the trainer' materials' that will allow employers to do their own in house refresher seminars and courses.

3. Solvency II Practising Certificates

3.1. On 1 July 2015, the IFoA introduced three new mandatory Practising Certificates for those in the life and non-life practice areas who either hold, or intend to hold, the role of Chief Actuary, as approved by the UK's Prudential Regulation Authority (the authority in the UK responsible for providing approval in terms solvency ii legislation).

3.2. The three Practising Certificates (PCs) are: (i) Chief Actuary (life); (ii) Chief Actuary (non-life without Lloyd's); and (iii) Chief Actuary (non-life with Lloyd's), with particular criteria in terms of professionalism, experience and technical expertise to be met for each.

3.3. This means that if a Member of the IFoA is to hold a Chief Actuary role, they will be required, from 1 January 2016, to apply for a Practising Certificate.

3.4. The IFoA is currently consulting on the Actuarial Profession Standards that will give effect to those Practising Certificates (although the decision to proceed with the PCs themselves has already been approved and announced).

3.5. The IFoA also consulted earlier this year on the possible introduction of a voluntary Practising Certificate for those Members who intend to hold the role of Chief Risk Officer in a Solvency II organisation. However, having considered the consultation responses, it was decided that there were good reasons not to proceed with that Practising Certificate.

3.6. Those reasons included recognition that the skills and experience required of a CRO are wide and varied and do not therefore sit easily with the strict requirements of a Practising Certificates regime.

4. Risk Outlook Project

4.1. In light of the publication of the Joint Forum for Actuarial Regulation's (JFAR) Risk Perspective Document (an initiative involving the UK bodies with an interest in actuarial regulation), the IFoA has identified a need to develop a view of risks to the public interest in connection with actuarial activity.

4.2. It has therefore established a project:-

(1) To establish a methodology to identify relevant risks to the public interest.
(2) To apply that methodology in identifying an appropriate number of relevant risks.
(3) To produce an initial report capturing the detail of, and possible mitigants for, the identified risks.
(4) To categorise the identified risks by the likelihood of occurrence and the potential impact, or by other appropriate measures.
(5) To make recommendations as to the way in which the output should inform the IFoA's Regulatory Strategy.
(6) To consider how the findings can be turned into concrete outputs, including, but not restricted to, the following:
    a. How they can be used to inform wider IFoA strategy,

b. How they should be communicated to other stakeholders, including members and the public; and
c. How they can be kept current.

4.3. This work is at an early stage of development but is a key part of the risk based approach to regulation adopted by the IFoA.

4.4. It is envisaged that the project will focus on the risks in the UK during its first phase but with a view to possible expansion to consider risks outside of the UK in the future.

5. Publication of Note on 'Actuarial Software and Calculations – Professional Responsibilities'

5.1. The IFoA has developed, and is about to publish, a guide for the use and benefit of trustees and pension scheme sponsors in understanding the professional responsibility of actuaries when they provide advice or actuarial information which relies on data or calculations provided by others.

5.2. The guide sets out the IFoA's view of good practice in relation to the steps that might be appropriate for pensions actuaries to take when assuming professional responsibility for actuarial advice or calculations that relies upon third parties or actuarial software.

5.3. The note is accompanied by a Q&A document for use by actuaries when advising in relation to pension matters and a précis summary.

6. Planned Review of the Actuaries' Code

6.1. The IFoA will begin a substantive review of its Actuaries' Code at the end of the year with a Project Plan and proposed scope to be agreed in November. .

6.2. It is anticipated that any proposed changes will be put out to consultation in mid 2016.

APPENDIX 1: APS QA1 Quality Assurance Scheme for Organisations

Institute and Faculty of Actuaries

APS QA1: Quality Assurance Scheme for Organisations

Author: Regulation Board

Status: Approved under the Standards Approval Process

Version: 1.0, effective from 1 September 2015

To be reviewed: No later than 1 September 2018

Purpose: To promote the application by **Organisations** of effective quality controls, in order to assure high quality in relation to **Actuarial Work**.

Authority: Institute and Faculty of Actuaries

Target Audience: This **APS** is intended for use by **QAS Accredited Organisations**.

Wider adoption by other **Organisations** is strongly encouraged.

Although the requirements of this **APS** do not apply to **Members** as individuals this **APS** is relevant to, and may have professional implications for, **Members** working for **QAS Accredited Organisations** (or for **Organisations** by which this **APS** is adopted).

General Professional Obligations:

All **Members** are reminded of the Status and Purpose preamble to the **Actuaries' Code**, which states that the Code will be taken into account if a Member's conduct is called into question for the purposes of the Institute and Faculty of Actuaries' Disciplinary Scheme. Rule 1.6 of the Disciplinary Scheme states that misconduct:

"means any conduct by a Member in the course of carrying out professional duties or otherwise, constituting failure by that Member to comply with the standards of behaviour, integrity or professional judgement which other Members or the public might reasonably expect of a Member, having regard to any code, standards, advice, guidance, memorandum or statement on professional conduct, practice or duties which may be given and published by the Institute and Faculty of Actuaries and/or by the FRC (including by the former Board for Actuarial Standards)".

In the event of any inconsistency between this **APS** and the **Actuaries' Code**, the Code prevails.

Use of the words “must” and “should”:

This **APS** uses the word “must” to mean a specific mandatory requirement.

In contrast, this **APS** uses the word "should" to indicate that, while the presumption is that **Organisations** comply with the provision in question, it is recognised that there will be some circumstances in which **Organisations** are able to justify non-compliance.

1. Responsibilities of Organisations

1.1 The requirements of this **APS** apply to **QAS Accredited Organisations,** to the extent of their accreditation, although all other **Organisations** are encouraged to follow its requirements.

1.2 **Organisations** must:

1.2.1 Provide appropriate support to **Members** who:

(i) are employed by;

(ii) are a partner in; or

(iii) comprise,

the **Organisation** in question, in complying with the **Actuaries’ Code** and their other professional responsibilities in order to help them achieve high quality **Actuarial Work**;

1.2.2 Demonstrate commitment to the quality of **Actuarial Work**; and

1.2.3 Co-operate with any reasonable request for information and explanation from relevant regulatory bodies, including (but not limited to) the **IFoA**.

2. Good practice policies and procedures

2.1 **Organisations** must maintain and apply appropriate policies and procedures designed to achieve the outcomes in the Appendix to this **APS** in relation to each of the following areas regarding its **Actuarial Work**:

2.1.1 Quality assurance (including **Work Review**);

2.1.2 Conflicts of interest;

2.1.4 The development and training of **Members**;

2.1.5 **Members** speaking up where they identify issues of concern;

2.1.6 Their relationship with **Users** including:

2.1.6.1 engagement and communication; and

2.1.6.2 handling and appropriate resolution of concerns raised with **Organisations** or the **IFoA** in relation to **Members** or **Actuarial Work**.

2.2 **Organisations** must take reasonable steps to ensure that the policies and procedures required under paragraph 2.1 are applied, appropriately documented and meet the following requirements:

2.2.1 they are applied within the context of a clearly defined structure of leadership and operational responsibilities in relation to the assurance of actuarial quality;

2.2.2 they are clearly communicated and understood across the **Organisation**;

2.2.3 they serve to promote action to remedy deficiencies, where work is found to fall short of relevant quality standards.

2.3 **Organisations** must take reasonable steps to monitor regularly (i) the extent to which the outcomes set out in the Appendix to this **APS** are achieved; and (ii) the effectiveness of the policies and procedures required in terms of paragraph 2.1, and to identify and act upon areas for improvement.

Definitions Appendix

Term	Definition
Actuarial Work	Work undertaken by a Member, or for which a Member is responsible, or in which a Member is involved, in their capacity as a person with actuarial skills on which the intended recipient of that work is entitled to rely. This may include carrying out calculations, modelling or the rendering of advice, recommendations, findings, or opinions.
Actuaries' Code	The ethical code for Members issued by the Institute and Faculty of Actuaries.
APS	Actuarial Profession Standard issued by the Institute and Faculty of Actuaries.
Independent Peer Review	Work Review undertaken by one or more individual(s) who is, or are, not otherwise involved in the work in question and who would have had the appropriate experience and expertise to take responsibility for the work themselves.
IFoA	Institute and Faculty of Actuaries
Member	A member, of any category, of the IFoA.
Mandatory Actuarial Standards	Any professional, regulatory or other standards with which Members or Organisations are required to comply including, but not limited to, APSs and technical actuarial standards issued by the Financial Reporting Council.
Organisation	A legal entity, including: (a) a corporate body; (b) a limited liability partnership; (c) a partnership; (d) a sole practitioner; or (e) a public body, which consists of or employs one or more Members.
Quality Assurance Scheme	The scheme for Organisations operated by the IFoA and known as the Quality Assurance Scheme.
QAS Accredited Organisation	An Organisation, or identifiable part of an Organisation, that is currently accredited by the IFoA in terms of its Quality Assurance Scheme.
User	A legal entity, including a person or a body corporate, for whose use Actuarial Work is produced.
Work Review	Process by which a piece of Actuarial Work (or one or more parts of a piece of Actuarial Work) for which a Member is responsible is considered by at least one other individual for the purpose of providing assurance as to the quality of the work in question.

APPENDIX

Outcomes relevant to good practice, policies and procedures, to which section 2 of this APS refers

This standard aims to promote a working environment which supports **Members** in complying with their professional obligations and in delivering high quality **Actuarial Work**.

1. Quality assurance

   (a) There is appropriate supervision of those undertaking **Actuarial Work**.

   (b) There is compliance with all applicable **Mandatory Actuarial Standards** and other relevant legal and regulatory requirements.

   (c) There is clear, consistent and effective use, as appropriate and proportionate, of **Work Review** including **Independent Peer Review**.

2. Conflicts of interest

   Members employed by the **Organisation** are able to identify, manage and, where possible and appropriate, reconcile actual and potential conflicts of interest.

3. The development and training of **Members**

   The **Organisation** supports and facilitates the development and training of **Members** to maintain competence appropriate to their role and level of responsibility.

4. Speaking up

   There is an environment in which **Members** feel able to speak up where they have concerns of a professional nature in relation to **Actuarial Work**.

5. Relationship with **Users**

   (a) There is clear and appropriate engagement and communication with **Users**.

   (b) Any concerns raised with the **Organisation** or the **IFoA**, about **Members** or **Actuarial Work** are appropriately identified, addressed and, where possible, resolved.

Status Report on the Evolution of Solvency II and the Actuarial Function

Status date: September 2015

Country: GERMANY

1. Professional association's initiatives:

   The impact of the low interest rate environment on German life insurance business remains one of the major topics for DAV. For 2016, DAV has proposed a maximum interest rate for life insurance policies with guaranteed interest rates of 1.25%. This decision was substantiated by the fact that the revised German Insurance Supervision Act (VAG), which implements the Solvency II directive in local legislation, will come into force on 1st January 2016.
   A working group has been set up to discuss the expected effects of the additional interest rate reserve introduced in 2011 on life insurance companies and to propose possible amendments. Moreover, the discussion on new products with a two-phase interest rate guarantee continues.

   The new ERM Committee continues and extends the work on Solvency II initiated by the DAV Accounting and Solvency Committee. It aims at supporting the holders of the Actuarial and the Risk Management Functions. Apart from several working groups dealing with the standard formula and internal models in life and non-life insurances, there are working groups on capital management, operational risks, limit systems and reporting requirements of the AF and RMF (including ORSA).

   A coordination group Solvency II organizes all activities of the above mentioned working groups and the DAV representatives in the working groups of the AAE Solvency II project. The coordination group meets in monthly conference calls to screen relevant consultation papers and allocate tasks to the working groups in charge.

   A working group on consumer protection issues has been set up recently. After commenting on the KID for PRIIPs consultation the working group is currently preparing DAV's comments on PEPP.

Item	Description	Deadline / Status
Paper on risk reports	DAV developed for its members a paper that provides an overview of the different risk reports and connections between them.	
Papers on ORSA processes and EPIFPs	Two further papers on ORSA processes and on the method to report EPIFPs are in preparation and will be published soon.	

2. Position papers

[Position papers, if any, since the last report]

Item	Description	Deadline / Status
Comments on AF	DAV submitted comments on a first draft of detailed requirements on the AF to the German supervisor.	
Comments on risk-free interest rate metho-dology	DAV submitted comments on EIOPA's consultation paper concerning the methodology to calculate the relevant risk-free interest rate term structures to AAE so that they could be taken into account for AAE's official response.	

3. Supervisor actions & positions

Item	Description	Deadline / Status
Actuarial Function	The German supervisor published a draft of detailed requirements on the AF in April 2015; the final version was released in June 2015. The main issue from DAV's perspective is that the responsible actuary is in principle allowed to exercise the AF if there are no conflicts of interest.	
Applications for the VA, transi-tionals, etc.	Since April 2015, insurers can submit applications for approval to use USPs, the VA, transitionals, ancillary own-fund, and internal models. DAV has developed model forms to support actuaries when they submit their applications.	
Explanatory texts on certain pillar 1 regula-tions	The German supervisor is revising its explanatory text on certain pillar 1 regulations for the German market. DAV is being involved in that revision process.	

4. Expectations from the AAE and its Solvency II Project

Item	Description	Deadline / Status