

ACTUARIAL ASSOCIATION OF EUROPE

2023 Revisions of ESAP3 and AAE Glossary
ESAP3 Review Task Force

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2023 Revisions of AAE Glossary and ESAP3 (1/2)

- As per the Due Process for the Development of European Standards of Actuarial Practice, ESAPs should be reviewed at least every five years to ensure that they are still up-to-date, relevant and meet the needs of users of actuarial services and of actuaries. The Actuarial Standards Subcommittee (ASSC) of the Professionalism Committee (ProfC) conducts such reviews.
- As ESAP3 on the ORSA process under Solvency II has been approved in 2017, the ASSC has formed the ESAP3 Review Task Force to perform the first review on ESAP3.
- The scope of the ESAP3 Review Task Force also includes incorporating the ESAP3 definitions into the Glossary of Defined Terms used in European Actuarial Standards (“AAE Glossary”), as approved in 2021.
- This document presents the main changes in the AAE Glossary and ESAP3

2023 Revisions of AAE Glossary and ESAP3 (2/2)

- The ESAP3 Review Task Force has prepared the following documents
- 1) ESAP 3 (2023) – Exposure Draft 2023.03.31
 - 2) AAE Glossary (2023) – Exposure Draft 2023.03.31
 - 3) ESAP 3 (2023) – Update step 1 – Draft 2023.03.31 (TC version) including “house-keeping” changes only
 - 4) ESAP 3 (2023) – Update step 2 – Draft 2023.03.31 (TC version) based on step 1 including substantial changes
 - 5) AAE Glossary (2023) – Draft 2023.03.31 (TC version)

Due Process and the ASSC Proposal

- According to the DP the ASSC proposes that the ProfC approves the exposure drafts of the ESAP3 and the AAE Glossary to be submitted to the AAE member associations for consultation
- The follow-up of the DP up to date is included in the ASSC workplan
- The aim is to propose the final documents to the ProfC and the General Assembly for approval in their AAE autumn meeting



AAE Glossary (2023)

GLOSSARY OF DEFINED TERMS USED IN
EUROPEAN STANDARDS OF ACTUARIAL PRACTICE

Changes compared to AAE Glossary (2021)

AAE Glossary (2023) – New Defined Terms

- The following defined term did not exist in ESAP3 (2017):
 - ORSA
- The following defined terms have been transferred from ESAP3 (2017):
 - Entity
 - Exposures
 - Uncertainties
 - ORSA cycle
 - ORSA process
 - ORSA run
 - ORSA-triggering event

AAE Glossary (2023) – Other comments

- Introduction text
 - As AAE Glossary (2023) covers all approved ESAPs, there is no need anymore to indicate to which ESAPs the AAE Glossary applies
- Existing definitions
 - Definitions already included in AAE Glossary (2021) have not changed
 - Some missing dotted blue underline formatting has been added



ESAP3 (2023)

EUROPEAN STANDARD OF ACTUARIAL PRACTICE 3 (ESAP3)

Actuarial practice in relation to the ORSA process under Solvency II

Key changes compared to ESAP3 (2017)

ESAP3 – Non-content related changes

- Preface
 - The Preface has been aligned with the Preface in ESAP2
 - No changes in the content of the Preface
- General
 - Section “General” has been aligned with section “General” in ESAP2
 - Text on “Compliance” removed as it is already covered by ESAP1
 - Meaning of “may” and “any” added
- Definitions
 - The Definitions section has been removed: now included in AAE Glossary
- Editorial
 - Some missing dotted blue underline formatting has been added
 - Some minor spelling changes

ESAP3 – Sustainability

- Since the issue of ESAP3 in 2017, many discussions and publications took place on Environmental, Social and Governance (ESG) risks, with particular focus on assessing and modelling climate risks
- As ESAP3 is a standard in relation to the ORSA process **under Solvency II**, the ESAP3 Task Force concluded that ESAP3 should not set requirements that go beyond the SII Directive and SII Delegated Regulation requirements
 - This means that ESAP3 can refer to considering “**sustainability risks**” and “**sustainability factors**” as used in SII regulation, but should refrain from setting standards **how** to consider climate risks in the ORSA
 - It would be more appropriate to handle this “how” element by updating European Actuarial Note 1 (EAN 1) on ESAP 3 and ORSA (issued May 2020)

Sustainability & Approach to uncertainty

Structured approach to uncertainty (article 2.1.1.2)

- In considering whether the ORSA process follows an appropriately structured approach to uncertainty, the actuary should take into account whether it ...
- **(new)** “facilitates the identification of sustainability risks of which the impacts could only become material beyond the undertaking’s projection period used for business planning purposes”
- **(update)** “enables emerging and sustainability risks”

Sustainability & ORSA consideration period

ORSA consideration period (article 2.1.3.2)

- In determining the appropriateness of the time period selected for the ORSA process, the actuary should consider the projection period used for business planning purposes and the evolving risk profile of the undertaking, including ...
- **(new)** “changes in sustainability factors, including climate changes and their physical and transition risks that may play out over a period beyond the undertaking’s projection period used for business planning purposes.”

Sustainability & Qualitative assessment

Qualitative assessment (article 2.2.2.2)

- In considering whether the qualitative risk assessments are appropriate, the actuary should take into account the extent to which the assessments ...
- **(new)** “analyse the uncertainty on timing and impact of the identified risks, particularly in case of sustainability risks.”

ESAP3 – Missing material risks

A new article has been incorporated in ESAP3, describing the responsibility of the actuary to clearly share any concerns that material risks are not covered by the ORSA. This concern could relate to sustainability / climate risks, but as well apply to any other type of risks.

Qualitative assessment (new article 2.2.2.5)

- **(new)** “Where the actuary has reasonable grounds for believing that the ORSA process has resulted in a set of ORSA-triggering events that is missing material risks, then the actuary must ensure that his or her concern is appropriately documented and communicated to the AMSB in a timely fashion.”

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