

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 (1/3)

- 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.

2023 Revisions of AAE Glossary and ESAP3 (2/3)

- 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)
- The Exposure Drafts have been shared by the AAE with the AAE Member Associations on 9 May 2023, asking to share any comments by 9 August 2023.

2023 Revisions of AAE Glossary and ESAP3 (3/3)

- Six Member Associations have responded to the Exposure Drafts
 - Four Member Associations confirmed they have no comments to the EDs
 - Col.legi d'Actuaris de Catalunya (Spain)
 - Den Danske Aktuarforening (Denmark)
 - Deutsche Aktuarvereinigung (Germany)
 - Suomen Aktuaariyhdistys (Finland)
 - Magyar Aktuárius Társaság (“MAT”, Hungary) supports the EDs, with one comment on ESAP3, paragraph 2.2.2.5.
 - Het Koninklijk Actuarieel Genootschap (“AG”, the Netherlands) notes that it did not adopt ESAP3 and also do not expect to adopt the updated ESAP3. However, AG provided several comments and suggestions to the EDs.



AAE Glossary (2023)

GLOSSARY OF DEFINED TERMS USED IN
EUROPEAN STANDARDS OF ACTUARIAL PRACTICE

Follow-up on comments to the Exposure Draft

AAE Glossary (2023)

- AG suggested to add a definition of “**time period considered under the ORSA**”
 - AG indicates “In our opinion the time period reflects the period over which all material risks are assessed, and in the case of sustainability risks this means you have to consider a longer period.”
 - We view that the AG statement means that there is not an uniquely defined “time period considered **under the ORSA**” and that the relevant time period could differ **per ORSA scenario**. The ESAP3 text makes this distinction.
 - We also view that a definition on “time period considered under the ORSA” would merely reflect an interpretation than an objective definition that can be directly linked to text from the SII Directive or SII Delegated Regulation.
 - We therefore have not taken over AG’s suggestion.



ESAP3 (2023)

EUROPEAN STANDARD OF ACTUARIAL PRACTICE 3 (ESAP3)

Actuarial practice in relation to the ORSA process under Solvency II

Follow-up on comments to the Exposure Draft

ESAP3 – ORSA related comments (1/5)

- New article 2.2.2.5
 - “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.”
- AG comments that the standard as phrased in article 2.2.2.5 not only relates to qualitative risk assessments, but to all risk assessments. AG therefore suggests to move this article to a separate new section 2.2.3.
- We agree with this comment and have introduced section “2.2.3 Missing material risks in the set of ORSA-triggering events”.

- Article 2.2.2.5 (continued)
 - MAT comments that this article suggests that the **Actuarial Function** (AF) is fully responsible if material risks are not in the set of ORSA-triggering events.
 - Article 1.2.1 sets out that ESAP3 (only) applies to **actuaries** insofar as they have a material involvement in or responsibility for the design or performance of the ORSA process. It does not discuss the contribution of the AF to risk management: that is in scope of ESAP2 (AF Report).
 - In our view, article 2.2.2.5 does not state that the actuary (as meant in Article 1.2.1) is responsible for any missing material risks in the ORSA. It only points out which responsibilities this actuary has to report his or her views on such missing triggers. We therefore did not change Article 2.2.2.5.

ESAP3 – ORSA related comments (3/5)

- AG notes that different wording is used for the period to be considered, e.g. “time period considered under the ORSA” and “the ORSA consideration period”. AG suggests to use the wording “time period considered under the ORSA” as this is also the wording which is used in the Delegated acts.
 - We don’t see any clear wording in the SII Directive and SII Delegated Act on the ORSA time period. The EIOPA Guidelines on ORSA use “business planning period”. This wording is also used for the RSR (SII DA, Article 307).
 - However, we agree with AG’s point on inconsistent wording and have now consistently used “time period considered under the ORSA” in section 2.1.3 of ESAP3 to address this.

- Article 2.2.2.2 “Analyse the uncertainty on timing and impact of the identified risks, particularly in case of sustainability risks;”
 - AG suggests to change the text to “analyse the uncertainty and impact of the material risks over the time period in case of emerging risks, including sustainability risks;”
 - We note that SII considers sustainability risks as “established risks”, not a subset of emerging risks (see SII Delegated Acts Articles 1 and 269).
 - We view that “material risks” incorrectly suggests that only a subset of the “identified risks” should be analysed.
 - We therefore have not changed the ESAP3 text.

ESAP3 – ORSA related comments (5/5)

- AG suggests to combine the text of the 2nd, 3rd, and 5th bullet of article 2.1.2.2
 - As the proposal is editorial only and none of the other Member Associations has commented on this, we have not changed the text.
- Article 2.1.3.2: “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.”
 - AG suggests to remove the text after “transition risks”
 - ORSA scenarios are normally considered for risks and their financial impacts throughout the business planning period. For sustainability risks, the (main) financial impacts could only occur after the business planning period. The ESAP3 TaskForce has concluded this should be emphasized in the standard.
 - We have therefore not changed the ESAP3 text.

ESAP3 – Other comments → no changes

The following comments are not related to the content of the ESAP3

- AG doubts if ESAP3 add much value to ISAP6 ERM Programs
 - This comment relates to the yes/no question of adopting the ESAP3 model standard by a Member Association. It is beyond the scope of ESAP3 itself.
- AG suggests to avoid the “his or her” wording in section 1.2.2.
 - The “his or her” and “he or she” wording is used throughout ESAP3. As no other MA has commented on this, we will leave this at it is.
- AG suggests to remove the reference to AAE Glossary from the Preface section
 - The reference in the Preface is consistent with ESAP2 and is also needed to explain the underlining of terminology in the Preface.
- AG suggests to record the text of section 1.4.2 under a separate heading
 - The current setup is consistent with ESAP2.

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