

DRAFT - Extension of Practice Standards

Discussion paper for the Professionalism Committee of the AAE

At its meeting on 6 October 2023 in Cologne September 2023

0. Background

At the Professionalism Committee (ProfC) meeting on 21 April 2023 in Bratislava, Gábor Hanák raised that the ProfC should consider making some practice standards¹ mandatory. It was agreed that Gábor will exchange with a smaller group and revert by the autumn meeting on the what (case for change) and the how (subsidiarity and how to implement mandatory standards without losing FMAs). It was recommended by ProfC members to include in the group stakeholders in favour of mandatory standards and some against it.

The group consists of the following delegates: Esko Kivisaari (Finland), Gábor Hanák (Hungary), Giampaolo Crenca (Italy), Kristoffer Bork (Denmark), Malcolm Campbell (Sweden).

1. Description of the problem

The question raised initially was formulated as follows: should the AAE, by changing the Statutes, move toward adopting a criterion for full membership so that full members of full member associations are subject to some minimum level of compulsory practice standards?

What is the problem that could be solved by such a move?

A profession is recognized as such if it applies certain professionalism criteria.

The AAE applies a lot of these (i.e. these are membership criteria for its full members) such as a minimum code of conduct (a standard of general professional behaviour), minimum education standards, a minimum CPD standard, a disciplinary standard. No practice standards are required (for full membership), the only full membership criterion in this regard is that if the association issues practice standards, then a due process should be in place.

One opinion is that if an organization claims it is a professional one then it needs to have certain minimum practice standards in place.

The starting point is, which may be and is challenged, that although the actuarial profession is currently recognized as a professional body, but its recognition would be markedly higher by assuring the public that all persons who provide key actuarial services are subject to some minimum practice standards.

2. Outline of the solution discussed by the group

Principal Requirement: all persons who provide key actuarial services should be subject to some minimum practice standards.

¹ „Practice standards” and „technical standards” will mean the same kind of standards in this paper, and they will mean a set of statements of behavior expected of actuaries operating within a specified context; they set standards on matters such as the methodology to be employed, the approach to be used in setting assumptions, the contents of the resulting report or opinion, and the way in which the report or opinion should be presented.

Note that this Principal Requirement is different from the idea presented at the Bratislava ProfC meeting (which intended that practice standards become a membership criterion of the AAE) and it was developed through the discussions of the group.

Also note the similarities between this Principal Requirement and the main principles included in the Fit and Proper paper² of the AAE which, among others, states

"Principle 2: Any particular actuarial service of persons in Actuarial Public Interest Roles for similar undertaking/institutions and underlying business should be subject to the same, appropriate "Fit and Proper" requirements, regardless of the person performing it. Depending on the actuarial service, the requirements might be different.

Principle 3: These requirements would not include requiring belonging to an actuarial organization. I.e., the service of the person would trigger the need for compliance with the "Fit and Proper" requirements and not whether the person has a specific membership, unless in some Member States of the EU the local Regulator arranges differently."

One of the fundamental ideas behind the Principal Requirement is that actuaries are not required to comply with practice standards that are not relevant for their practice areas; however, if a practice standard is relevant then the actuary is expected to comply with it. It is a rebuttable presumption that ESAP 1 is relevant for all actuaries.

If an actuary is subject to practice standards by the regulator or by their own association or by an independent body, and if those practice standards cover the minimum requirements, then the actuary by complying with their applicable practice standards already comply with the Principal Requirement.

The Principal Requirement does not aim to achieve a monopoly for actuaries who are members of AAE FMAs.

"Key" actuarial services would be the same as defined by the Fit and Proper paper: the ones delivered by the persons in Actuarial Public Interest Roles.

The key aspiration of the AAE would be to get EIOPA (and/or other European institutions) to accept the practice standards the AAE proposes for the various practice areas as the "norm". The important aspect of approaching EIOPA (or any other European institutions) is that the set of minimum practice "norms" should (gradually) apply to all persons who provide key actuarial services. Once such minimum practice "norms" are mutually agreed, the AAE would investigate whether, and may state that, all Qualifying Actuaries satisfy this minimum. The Principal Requirement may be conceived as being very similar to what we have for the Qualifying Actuary in the MRA. Although the actuaries in one Qualifying Association and actuaries in different Qualifying Associations may have different levels of education/qualification, CPD and experience, there is a minimum requirement to be a Qualifying Actuary; and if that minimum is reached then the person should be considered as a Qualifying Actuary. Another issue would be the case of FMAs where there are no mandatory practice standards (i.e. neither by the association nor by any other standard setter). For them the transition to

² Beware that the Fit and Proper paper is not public (and hence it is not available at the AAE website) but it should be available to the members of the ProfC

mandatory practice standards could be different, and perhaps even bigger problem which could be overcome over time.

3. Pros and cons of the solution. This section is included so that the reader can follow the flow of thoughts throughout the discussions in the group; without it, the Conclusion can be clearly understood.

Opinions pro the solution

3.1 Professionalism has two sides and both are very important. Firstly, members should act professionally. And secondly, they should be perceived by external stakeholders as acting professionally. The latter is especially important if one of the strategic objectives of the organization is to make an impact on such external stakeholders.

Note that the non-practice standards are too general and do not make for the step change from a social club with certain behavioural norms to a real professional body.

Two examples of the past:

1) When we had our very first ECA, Karel van Hulle, who could not make it for the Congress, sent us a powerful message (and we put it to the back page of our Congress brochure) that read something like "Be more professional!" At that time (2012), the Groupe Consultatif had the same full membership criteria as today.

2) When CEIOPS (or EIOPA?) issued a paper about lines of defence for Solvency II then there was a chapter on whether or not audit of Solvency II would be required or beneficial and if so who would provide that audit. The conclusion of the paper was that the only provider of such service would be the audit profession as it was the only type of player that is subject to an internationally recognized set of practice standards and all auditors belonging to the audit profession are subject to such practice standards.

Furthermore, talking to various people who know actuaries and compare auditors and actuaries, we clearly realise their perception that auditors, who are subject to the audit standards, form a real profession whereas actuaries belong a group of nice guys with shared interests.

Do organizations exist that are recognized as professional ones without practice standards? Looking beyond actuaries and auditors, e.g. accountants, medical doctors, lawyers, engineers, architects, all professional organizations apply practice standards (or protocols which is a synonym).

The conclusion of the above indicate that if we want to become equal to real professions (such as auditors or architects) in terms of the level of perceived quality service providers (but not in terms of business weight as such an aspiration would indeed be futile) then we would need to be subject to practice standards, the same way as other real professions (such as auditors or architects) are.

- 3.2 On the one hand, the reasoning in 3.1 holds and in some countries in Europe, actuaries are already subject to mandatory practice standards.

On the other hand, the situation in other countries in Europe is very different and obstacles may exist in implementing such solutions. Nevertheless, the issue remains important due to the reasons in 3.1.

Therefore, we need to find a way/path, step by step, first to further highlight the importance of having and respecting practice standards regardless of whether they are mandatory or not and the need that actuaries in Europe converge in the same professional approach. Then a second step would be to understand by each MA what the situation is in their country and above all if MAs have their own practice standards or not, for instance, and in case if they are mandatory or not, or if they apply directly ESAPs, etc in order to have the whole picture of the situation.

- 3.3 The problem with the argument in 3.6 is that C1 of AAE's Code of Professional Conduct (CoPC) requires actuaries to observe and take into account any relevant technical standards but it does not require to actually have such technical standards. I.e. the CoPC requires actuaries to comply with technical standards if there are any; but it does not require to have any. Thus the actuarial profession is very different from the profession of the architects as the public expects that their profession has mandatory technical standards to comply with.
- 3.4 The proposed revised solution (i.e. the Principal Requirement in Section 2) does not envisage any additional practice standards (c.f. 3.7). It would simply require that some minimum practice standards should be in place for all persons who provide key actuarial services. If the standards issued by the authorities or by the actuarial association or by an independent body cover the minimum requirements, then no further actions would be necessary. The proposed revised solution does not mean a mandatory membership requirement for individuals to be a member of an actuarial association (or that an association should be a Full Member Association of the AAE): all persons who provide key actuarial services should be subject to some minimum practice standards regardless of their membership. Then it would be kind of a corollary that all FMAs of the AAE will have this minimum practice standard requirement for their own members.
- 3.5 The proposed revised solution requires that all persons who provide key actuarial services should be subject to some minimum practice standards. No actuaries (not 80%, c.f. 3.8, or 20%) would be thrown out if they are not required to comply with practice standards that are not relevant for their practice areas.

Opinions con the solution

- 3.6 Essentially the definitions found for professions elsewhere imply having education and ethical standards with some form of discipline, but don't include practice standards. So from a formal

point of view we do not need technical standards to be a profession. Then there is the less formal question of how others see us as a profession. What would be their reasonable expectations? Others would expect us to know about and apply relevant technical standards (compare with architects - we would expect an architect to have followed all relevant building codes etc). Our code of conduct covers this (C1). However others would not necessarily expect us to have our own technical standards.

- 3.7 In practice, actuarial work in Europe is subject to standards set by regulators and/or standards set by local associations (or sometimes even an independent body). Is there really a need for our members to have an additional set of standards imposed on them? The argument could be that imposing extra standards would mean we would be seen as being a profession, but the argument is not convincing. We are already seen as a profession based on our education and ethical standards - this would certainly be so in some countries in Europe. The key question is what happens if there are no (relevant) local standards. The argument is not convincing that it can or should be a membership requirement as such, but maybe we can have a guidance to member associations which says an FMA should assess the standards that members need to follow and assess if there are relevant "gaps" that need to be filled.
- 3.8 EIOPA has made it abundantly clear that the actuarial profession will not be given a monopoly over S2 work. If this was the case, there may have been some reason for us to collectively ensure that such work is carried out with a common set of technical standards - but that's not going to happen.
- 3.9 The logic of the proposal is that:
 - 3.9.1 actuaries do not currently form a profession in the sense that auditors from a profession – the main distinction being that actuaries lack practice standards, and
 - 3.9.2 actuaries would have the role as S II actuarial function holders/second line of defence role if we had such standards.
- 3.10 Both counts can be easily agreed upon, although it is doubtful that actuaries (FQA's) would have any chances of having a monopoly in the actuarial function holder role (auditors have monopoly due to historic reasons, they would not get one if discussion would start now). This agreement however is only limited to a fairly limited understanding of what actuaries are. There are quite many professionals having the same education as auditors, but only a limited number of them really do the official auditing, and only these ones are adhering to auditing standards (also the auditing world is dominated by large international auditing houses who are strict gate-keepers with respect to their monopoly). Within actuaries we have actuaries working in insurers not only in the second line of defence, we have actuaries working in social security, actuaries working as consultants. Then we have actuaries working in data science, in banking, you name it. With compulsory standards would we be throwing out, say, 80 % of our members who have no need

for these standards (actually such standards could be a disadvantage to many members as their employers etc. would have no need for this). In conclusion, we rather need to discuss whether our broad view of actuaries as a profession is in any way comparable with auditors. For actuarial function holders we could have additional requirements, but it will be hard to extend such requirements to all FQA's.

- 3.11 Part of the problem is the fact that the positions of the local associations in relation to standard setting differ. If it is recognised that the associations' standards are the ones to be followed (by all actuaries whether a member or not of the association) then it works, but if it is someone else (such as the supervisory authority - as in some countries in Europe) then the argument is not convincing. Essentially you can end up with those who are not a member following the required standards (set by the supervisors) and those who are members having to follow two (possibly conflicting) sets of standards. So the conclusion is that we don't need to have a monopoly in the sense that all actuaries have to be a member, but we do have to get to a position where the regulators recognise the associations standards (as a requirement to do the work). But we are a long way away from that.

4. Conclusion

The group reached consensus on the following points:

- 4.1 The **Principal Requirement** is supported in the sense that it should be linked to the framework of the Fit and Proper paper. It means that those persons to whom the Fit and Proper paper refers (i.e. persons in Actuarial Public Interest Roles as defined in that paper) would be subject to minimum practice standards.
- 4.2 What should be considered "minimum practice standards" is a matter of further discussions. Different practice areas should have different minimum practice standards, but all practice areas should have core practice standards (similar to ESAP 1).
- 4.3 Discussions should continue if the ProfC decides so.
- 4.4 The AAE should consult/negotiate the outcome of the continued discussion with some European institutions, in particular, with EIOPA.

The group presents this paper for discussion at the meeting of the Professionalism Committee on 6 October 2023. It may take any further action in light of the outcome of that discussion.