

Actuarial Standards

Baltic Actuaries Seminar

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International Standards of Actuarial Practice

ISAPs, ESAPs, IANs and what to do with them

- Introduction
- IAA strategy for ISAPs and International Actuarial Notes, and Due Process
 - The role of ISAPs, and activity to date
- European perspective and the AAE
 - The role of ESAPs and activity to date
- Actuarial Standards in the Baltic states
- Discussion

- The IAA
- IAA strategy for ISAPs
- ISAPs versus IANs
- Due Process for ISAPs

The IAA exists to encourage the development of a global profession, acknowledged as technically competent and professionally reliable, which will ensure that the public interest is served.

Establish, maintain and promote **common standards** of actuarial education and **common principles** of professional conduct.

Promote the development and issuance of **actuarial standards** in the jurisdictions of all Full Member Associations, and the **global convergence** of actuarial standards.

- Actuarial Standards Committee (ASC) now established and operational
 - Current Members from USA, UK, Taiwan, Germany, Hungary, Australia, Finland, Japan, Canada, Netherlands, Mexico
- Due Process in place
- Clear governance roles in place
- “Convergence” of standards being observed
- ISAPs and IANs

- International Standards of Actuarial Practice (ISAPs) are intended to serve as **model** standards for use by standard-setters around the world.
- International Actuarial Notes (IANs) are educational documents on an actuarial subject that has been adopted by the IAA in order to advance the understanding of the subject in question. A set of IANs will often be developed in support of an ISAP.

- ISAPs widely accepted as a basis for convergence by local standard-setters
- ISAPs recognised by the parties who rely on actuarial standards such IASB, IAIS, IOSCO and the local regulators and audit firms.
- ISAPs widely seen as contributing to the public good.
- ISAPs promote high quality actuarial practice.

- The due process for ISAPs has a clear governance structure and a high level of transparency.
- Input is sought at every stage from all stakeholders, including full member associations of the IAA and supra-national bodies.

- Any party may propose a topic for a new ISAP
- The IAA Council (representing all member associations) approves the strategic action plan for ISAPs
- A Statement of Intent is developed for a new ISAP
- Exposure Draft(s) of the ISAP circulated for comment
- A report is published on the responses to the ED
- A final draft ISAP is submitted for approval
- The final ISAP is approved by the IAA Council

- ISAP is widely publicized
- All member associations of the IAA must consider the new ISAP and formulate their response to it:
 - Adopting the ISAP (as written or with minimal modification); or
 - Confirmation that own standards are (or will be) substantially consistent with the ISAP; or
 - No comment or no action or still in progress.

1. To serve as **model** standards for use by standard-setters around the world
2. To serve as standards for use on assignments where the terms of engagement specify that the work is to be carried out in accordance with these ISAPs

- Maintain framework for scope and architecture of standards
- Prepare Statements of Intent, Exposure Drafts, and final versions, for/of ISAPS
- Report to Professionalism Committee on how Due Process has been followed, and keep Professionalism Committee informed at each stage
- Provide periodic review of ISAPs
- Liaise with other committees
- Maintain a workplan on development of ISAPs

Approved

- Glossary
- ISAP 1 General
- ISAP 2 Social Security

In process

- ISAP 3 – IAS 19
Task Force chair - Japan
- ISAP [4] – Insurance Contracts
IFRS
Task Force chair - Canada
- ISAPs [5] and [6] – ERM
Task Force chair - USA
- ISAPs [7] ... – BCR* & ICS*
Task Force chair - UK

*Basic Capital Requirement and Insurance Capital Standard, in process of development by IAIS

- Approved by IAA Council, November 2012
- Reformatted to remove Definitions to a separate ISAP Glossary, October 2013
- Task Force members from:
 - South Africa, Canada, Germany and USA

- Acceptance of assignment
- Knowledge of circumstances
- Reliance
- Materiality
- Data quality
- Process management
- Assumptions and methods
- Responsibility for them
- Peer review
- Documentation
- Reporting
- Deviation from guidance

- Approved by IAA Council, October 2013
- 12 Task Force members from: USA, Canada, Finland, Switzerland, UK, Japan
- Content:
 - Data
 - Assumptions
 - Methodology consistent with financing method
 - Co-operation with independent expert reviewer
 - Communication
 - Appendix with possible items in actuary's report

in relation to IAS 19 Employee Benefits

- April 2013 – Final SOI approved by Council vote
- October 2013 – Exposure Draft published
- March 2014 – End of comment period
- November-December 2014 – Near-final draft, report on comments, and limited consultation
- April 2015 – Final draft, EC approval, Council vote
- Task Force members from Canada, Japan, Germany, UK, Netherlands, Finland, USA and Russia

in relation to IFRS X Insurance Contracts

- November 2013 – Draft SOI published
- February 2014 – End of comment period
- September 2014 – Council approval of final SOI
- August 2015 – Exposure draft
- Spring 2017 – Final draft, EC approval, Council vote
- Task Force members from Australia, Canada, Japan, Germany, UK, USA, Netherlands, Switzerland and Hungary

- Draft SOI published in 2011, but not proceeded with with following comments received
- Council e-vote decision January 2014 to take up ERM ISAP again
- New draft SOI targeted for spring 2014
- Potentially two ISAPs –ISAP [5] and ISAP [6]
 - use of internal models and stress tests to assess solvency and produce risk metrics for ERM programs within insurance entities
 - assessment of the compliance of ERM programs of insurance entities with regulations consistent with ICP 8 and ICP 16
- Task Force members from Australia, Canada, Japan, UK, USA, Switzerland and Hungary

ISAP(s) on IAIS's Proposed Basic Capital Requirement and Insurance Capital Standard



- IAIS announcement in October on proposed development of BCR and ICS for application to global systemically important insurers (G-SIIs) and internationally active insurance groups (IAIGs)
- With respect to the BCR, possible role of ISAPs in arriving at “current estimate liabilities” (expected values, without margins)
- IASP [7] - in very early stages
- Task Force members from Australia, Canada, Japan, UK, USA, Germany, Netherlands and IAIS

- Survey by IAA Professionalism Committee included in Accreditation Committee annual questionnaire to associations
- For ISAP 1, of 49 responses:
 - 6 adoptions as written
 - 4 adoptions of substantially consistent versions
 - 3 considered already consistent
 - 2 in process of modifying local standard to achieve consistency
 - 15 still deciding
 - 6 have standards – no comment
 - 2 will not take action
 - 6 translations

- ISAPs and ESAPs
- The European Regulatory Scene
 - European Commission
 - EIOPA
 - Solvency II
- AAE Standards Project Team (SPT)
- Purpose and Process of ESAPs
- ESAP1
- ESAP2
- Other ESAPs?
- Actuaries and Solvency II

Actuarial Standards for Solvency II



- Is there a specifically European context for standards?
- Yes...Solvency II
- Solvency II is an EU level set of laws and regulations
- ...which creates an overarching regulatory framework for insurance companies regulated in EU countries
- EIOPA is an EU level regulator which sets guidelines for national regulators

Article 48 (2) of Solvency II Directive



2) The actuarial function shall be carried out by persons who have knowledge of actuarial and financial mathematics, commensurate with the nature, scale and complexity of the risks inherent in the business of the insurance or reinsurance undertaking, and **who are able to demonstrate their relevant experience with applicable professional and other standards.**

What is the AAE doing about standards?



- Standards Project Team established in October 2010
- in October 2011 the GC/AAE approved
 - purpose of standards and criteria to adopt standards
 - report on due process for the development of standards
 - work plan for standards development 2011-2015

AAE standard-setting Purpose and Process



- The overriding purpose should be to serve the public interest by ensuring that the users of actuarial services benefit from a high quality of actuarial work.
- Standards should be principles-based
- AAE will issue model standards
- In general ESAPs will assume existence of ISAPs
- AAE member associations will be invited to
 - adopt standard (in English or French or translated into own language)
 - adapt standard to take into account local conditions
 - adapt an existing standard to cover material of AAE model standard
 - certify that the contents are covered by existing standards

- Exposure of draft model standard ended 1 March 2014
- Basis for conclusions to be published shortly
- Model standard expected to be adopted later in 2014
- Standard is **a clone of ISAP1**
 - substituting Actuarial Association of Europe for IAA
- Why ‘duplicate’ ISAP1?
- ...to ensure that ESAPs make a coherent set without relying on external model standards.

ESAP2: The actuarial function report (1)



- Exposure of draft model standard ended 1 March 2013
- Basis for conclusions published 31 May 2013
- Revised working draft to be published shortly (to be discussed tomorrow!)
- Standard will cover *reporting* – and not the *content* of the work
 - EIOPA guidelines are more than sufficient on content
- Based on responsibilities of *actuarial function* in Article 48
 - ...and requirement to prepare annual report

ESAP2: The actuarial function report (2)



- Reporting on technical provisions
 - Processes and procedures in place to ensure the appropriateness, completeness and accuracy of the process of calculating the TP
 - Processes and procedures in place to ensure the appropriateness, completeness and accuracy of the data used for calculating the TP
 - Identify deficiencies in data, processes and methodologies
 - Reliability and adequacy of the TP
- Opinions on 1) overall underwriting policy and 2) adequacy of reinsurance
 - What should be considered?
 - What form should the opinion take?

Other topics for model standards?

The Groupe *could* develop standards for other actuarial roles under Solvency II

- Carrying out the risk management function
 - Actuarial Function's contribution to Risk Management System
 - Internal modelling
 - Carrying out Own Risk and Solvency Assessment (ORSA)
 - Signing off the Solvency and Financial Condition Report
 - Assisting the external auditor to review financial statements
- No decisions taken yet on further standards – possible future ESAPs are to be discussed tomorrow on some of these topics

Role of actuaries under Solvency II



- Major challenge for the AAE
- ...and its member associations
- The role of the actuary looks set to expand and develop
- ...Solvency II is a trigger for this ... and an opportunity
- **Widely accepted high quality standards will assist**
 - ...to provide support for claim of professionalism
 - ...to raise the credibility of AAE and its members

Who sets standards?

- The national association?
- The national financial regulator(s)?
- A separate standard setting body set up by the association?
- A separate standard setting body set up by the national government?
- A mixture of two or more of the above?

- Established process required
- Draft standards available to its members and relevant 3rd parties for comment
- Comments on exposure draft duly considered
- Adopted standards properly disseminated by an authority with powers to do so
- Standards published and available to members

- Who sets your standards?
- Does your association have the necessary powers?
- Do you have any existing standards in a particular area?
- Will you consider the existing and proposed ISAPs and ESAPs?
- If so, will you adopt them, adapt them (including translating), amend existing standards and/or declare substantial consistency
- Are you liaising with your local national financial regulators about authorized persons and about standards?

**Your
questions
and your
views.....**

