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Session 65 (P-9A)

International Standards of Actuarial Practice – A Primer

What we'll cover today

- Introduction (Dave)
- IAA strategy for ISAPs and International Actuarial Notes, and Due Process (Peter)
- The role of ISAPs, and activity to date (Dave)
- Perspectives from around the world
  - USA (Bob)
  - Europe (Chris)
  - Caribbean (Neil)
  - South Africa (Peter)
  - Canada (Dave)
- Q&A

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Session 65 (P-9A)

International Standards of Actuarial Practice – A Primer

IAA Strategy for ISAPs and IANs, and Process

Peter Doyle

IAA and ISAPs

- Who is the IAA?
- IAA strategy for ISAPs
- ISAPs versus IANs
- Due Process for ISAPs

Who is the IAA?

- The International Actuarial Association (IAA) is the worldwide association of professional actuarial associations, with a number of special interest sections for individual actuaries.

- 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.

What is the IAA's strategy for standards?

Strategic Objective 3

•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.

Action plan for international standards

- ASC now established and operational
- Due Process in place
- Clear governance roles in place
- “Convergence” of standards being observed
- ISAPs and IANs

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.

Objectives for ISAPs

- 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.

Due Process for ISAPs

- 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.

Due Process: key points

- 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

After the approval of a new ISAP

- 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.

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International Standards of Actuarial Practice – A Primer

Role of ISAPs, and Activity to Date

Dave Pelletier

Dual role of ISAPs

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

Actuarial Standards Committee

- Al Beer (USA)
- Andrew Chamberlain (UK)
- Ruth Chu (Taiwan)*
- Alf Gohdes (Germany), *Vice-chair*
- Gábor Hanák (Hungary)
- Tom Karp (Australia)
- Esko Kivisaari (Finland)
- Ryoichi Nakamura (Japan)**
- Dave Pelletier (Canada), *Chair*
- Godfrey Perrott (USA), *Vice-chair*
- Francis Ruygt (Netherlands)
- Jesús Zúñiga (Mexico)
- *IAA staff liaison:* Amali Seneviratne

*Effective 2014

**2011-2013

ASC roles

- 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

ISAPs in place and underway

Approved

- Glossary
- ISAP 1 General
- ISAP 2 Social Security

In process

- IAS 19 TF – Yasuyuki Fujii (Japan), *chair*
- IFRS X TF – Micheline Dionne (Canada), *chair*
- ERM TF – Dave Ingram (USA), *chair*
- BCR* & ICS* TF – XX (YY), *chair*

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

ISAP 1 – General Actuarial Practice

- Approved by IAA Council, November 2012
- Reformated to remove Definitions to a separate ISAP Glossary, October 2013
- Task Force members:
  - Emil Boeke (South Africa)
  - Jacque Friedland (Canada)
  - Friedemann Lucius (Germany)
  - Godfrey Perrott (USA), *Chair and ASC liaison*
  - Amali Seneviratne, *Secretariat*

ISAP 1 – Content

- 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

ISAP 2 – Financial Analysis of Social Security Programs

- Approved by IAA Council, October 2013
- Content:
  - Data
  - Assumptions
  - Methodology consistent with financing method
  - Co-operation with independent expert reviewer
  - Communication
  - Appendix with possible items in actuary's report

Task Force on ISAP 2 - Social Security

- Joe Applebaum (USA)
- Rob Brown (Canada), *Chair*
- Barbara D'Ambrogi-Ola (Finland), *Vice-Chair*
- Anne Drouin (Switzerland)
- Florian Leger
- Warren Luckner (USA)
- Martin Lunnon (UK)
- Jean-Claude Ménard (Canada)
- Godfrey Perrott USA), *ASC liaison*
- Pierre Plamondon (Canada)
- Junichi Sakamoto (Japan)
- Andrew Young (UK)
- *IAA staff* – Amali Seneviratne

ISAP 3 – Actuarial Practice 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:

Jacque Friedland (Canada)
Yas Fujii (Japan), *Chair*
Alf Gohdes (Germany), *ASC Liaison*
GaryHibbard (UK)
Pari Kandhai (Netherlands)
Esko Kivisaari (Finland)
Mary Frances Miller (USA)
Heidi Rackley (USA)
Anna Selivanova (Russia)
IAA staff: Amali Seneviratne

ISAP [4] – Actuarial Practice 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:

Bob Buchanan (Australia)
Guy Castagnoli (Switzerland)
Micheline Dionne (Canada), *Chair*
Gabor Hanak (Hungary), *ASC liaison*
Jim Milholland (USA)
Yoshio Nakamura (Japan)
Frances Ruygt (Netherlands)
Derek Wright (UK)
Matthias Zerbst (Germany)
IAA staff: Amali Seneviratne

ISAP(s) on ERM

- 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
  - 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:

Al Beer (USA), *ASC liaison*
Tony Coleman (Australia)
Seamus Creedon (UK)
Gábor Hanák (Hungary)
Dave Ingram (USA), *Chair*
John Maroney (Switzerland)
Christian-Marc Panneton (Canada)
Masaaki Yoshimura (Japan)
IAA staff: Amali Seneviratne

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)
- In very early stages
- Task Force:

Andrew Chamberlain (UK), *Chair and ASC liaison*
Clemens Frey (Germany)
Jules Gribble (IAIS)
Tom Karp (Australia)
Toshihiro Kawano (Japan)
David Oakden (Canada)
David Paul (UK)
Francis Ruygt (Netherlands)
Dave Sandberg (USA)
IAA staff: Amali Seneviratne

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International Standards of Actuarial Practice – A Primer

A Perspective from the US

Bob Meilander

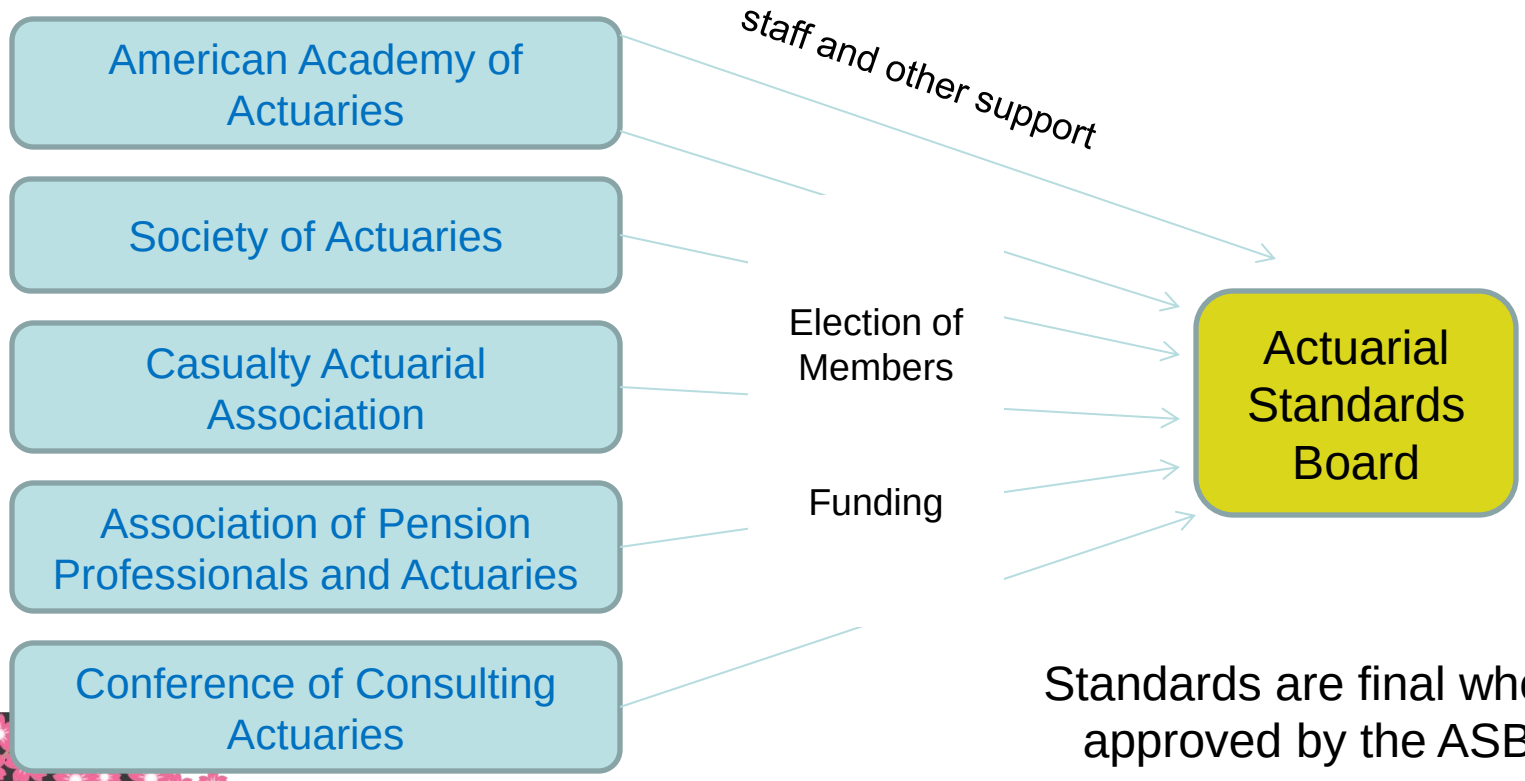
Overview

- US Actuarial Standards Board
- View on ISAPs
- Disposition of ISAPs
- Some thoughts on Standard Setting

DISCLAIMER

The statements, representations, and expressions of opinions or views made in this presentation are those of the author and should not be construed as representing the views of the Actuarial Standards Board.

US Actuarial Standards Board (ASB)



Standards are final when approved by the ASB

US Actuarial Standards

- Two general types of standards
  - Regulation based (E.g. life opinion, health opinion)
  - General practice topics (E.g. credibility, life dividends, risk classification)
  - Many standards have elements of both types
- 45 existing standards (4 have been repealed)
  - 6 general topics
  - 8 casualty
  - 2 enterprise risk management
  - 9 health
  - 13 life
  - 7 pension

General View of ISAPs

- View of IASPs
  - Good models for areas that have no standards
    - Based on the best input from active and former national standard setters
  - Wholesale adoption unlikely in the US
    - Different legal system
    - Different evolution of practice

ASB Consideration of ISAPs

- Review of Statement of Intent
  - Have not noted issues at this level
- Review of Exposure Draft
  - We look at each seriously to determine how it might apply in the US
  - Look for areas where our standards differ
  - Assess how we might address those differences
    - Will comment to ASC during exposure period on ways the ISAP may be improved

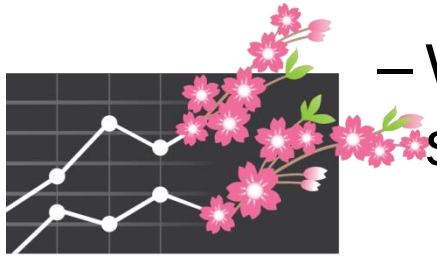
ASB Consideration of ISAPs

(continued)

- Review of Final Draft
  - Serious review of the ISAP considering
    - Disposition of our comments
    - Where it still differs from US standards
    - Whether differing guidance is appropriate and necessary for US practice
  - Will make changes where appropriate to reflect final ISAPs
    - No specifics so far
    - No major differences so far

ASB Disposition of ISAP 1

- Gave careful review of ED
  - Resulted in 3 page comment letter
    - No major issues
    - Numerous suggestions
- We found the final ISAP 1 to be consistent with existing US actuarial standards
  - Made changes to ASOP No. 1 that are consistent with ISAP 1, though not as a direct result of ISAP 1
  - Will consider other changes when affected standards are changed



ASB Disposition of ISAP 2

- Gave careful review of ED
  - Resulted in 4 page comment letter
    - Five significant issues (scope, assumptions dictated by law when government is the provider, closed group valuation, subsequent events, and presentation requirements)
    - Numerous other suggestions
  - Final Draft
    - One remaining issue – subsequent events
    - Remainder of ISAP 2 is substantially consistent with US Standards

- We made no changes to our standards as a result of ISAP 2

ASB Review of ISAP 3 ED

- Gave careful review of ED
  - Resulted in 3 page comment letter
    - 2 areas of major concern (ISAP 3 is narrowly focused on IAS 19; some parts of it require the actuary to judge accounting policies)
    - Numerous other suggestions
  - We'll see what happens next!
    - But we do not anticipate any changes to our standards as a result of ISAP 3

ASB Work on ISAPs 4

- We have not yet started to review ISAP 4

Thoughts on Standard Setting

- What I like
  - Due Process
    - Important to get it right – time is less of an issue
  - Basic structure:
    - General – Appropriate Practices – Communication
  - Responsiveness to comments
    - Detailed report on disposition of comments
- Where I am less enthusiastic
  - Glossary will become an issue
    - Same term may have different meanings by practice area
  - Convergence may require more concession

Thoughts on Standard Setting

- What I'd do differently in the US (if we could start all over)
  - Organization of standards
    - Ours are as they happen
    - May be a better approach (but we haven't found it yet!)
  - More discipline in assuring consistency of wording
    - Use the same term the same way as much as possible
    - Don't get creative
      - If "should consider" is your term, don't use "might consider"

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Session 65 (P-9A)

International Standards of Actuarial Practice – a Primer

A perspective from Europe

Chris Daykin

Actuaries in Europe

- Actuarial associations in Europe are members of the Actuarial Association of Europe (AAE) – formerly known as the Groupe Consultatif Actuariel Européen
- AAE has 37 member associations in 35 countries
- representing about 20,000 qualified actuaries

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

Purpose of standards (AAE)

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.

AAE standard-setting

- 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 GC model standard
  - certify that the contents are covered by existing standards

ESAP1: General actuarial practice

- 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

- exposure of draft model standard ended 1 March 2013
- basis for conclusions published 31 May 2013
- revised working draft to be published shortly
- 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

- 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
- 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

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

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Session 65 (P-9A)

International Standards of Actuarial Practice – a Primer

A perspective from
A Small Association – The Caribbean
Neil Dingwall

Actuaries in The Caribbean

- The Caribbean Actuarial Association is the professional body for the Caribbean
- 227 members in total with 70 ordinary members
- Working across about 20 different small countries with differing systems and regulators

Country	Number	Population
Argentina	1	
Bahamas	7	371,000
Barbados	42	283,000
Belize	1	324,000
Bermuda	1	65,000
Canada	20	
Germany	1	
Haiti	1	
Jamaica	56	2,710,000
South Africa	1	
St. Vincent	1	109,000
Suriname	8	535,000
Trinidad & Tobago	70	1,337,000
USA	17	
Total	**227**	**6m**

Application of Standards

- Specific Actuarial Standards are not designated
- CAA Standards are currently not comprehensive so there is no generally accepted actuarial practice in the region.
- Actuaries have international designations and tend to look to the standards of their home designations for guidance.
- Range of practice is wide
- Detailed Regulation has been the response

CAA Project Plan

Purpose:

- Develop a comprehensive set of Actuarial Standards that will apply to work performed in the Caribbean region.

Objectives:

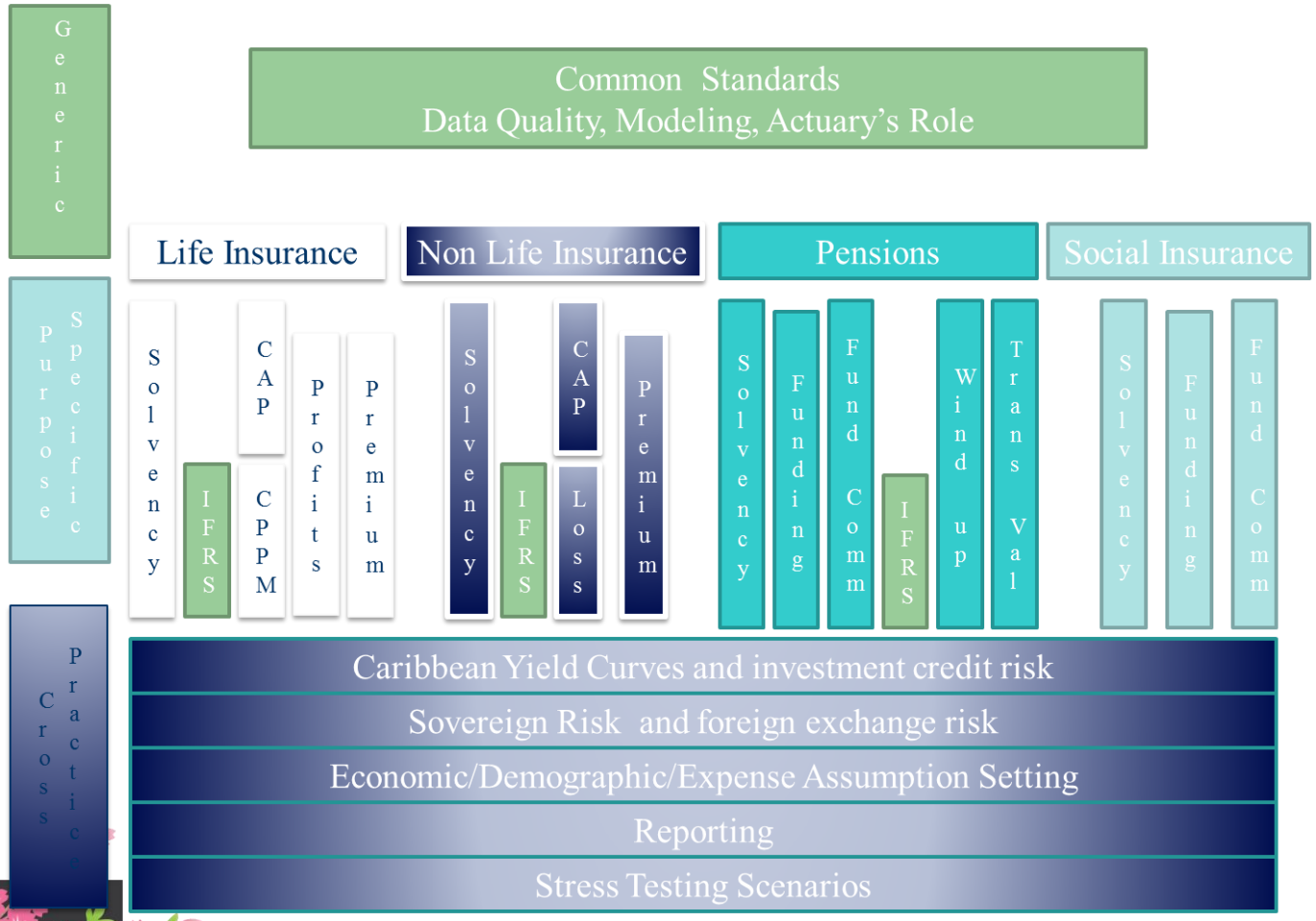
- Caribbean Actuarial Standards will become the Caribbean Standard.
- Caribbean Actuarial Standards will be consistent with International Actuarial Standards.

Expectations

Caribbean Actuarial Association Standards will:

- take into account local conditions
- broaden the scope of CAA Actuarial Standards,
- converge with international actuarial standards,
- require disclosure of Standards used, and
- follow the CAA Due Process.

CAA Actuarial Standards Architecture



Green – Expected IAA development

Application of CAA Standards

Legislation or Regulation will:

- Provide for Regulatory discretion to designate consistent methods throughout the Caribbean
- designate CAA Actuarial Standards as the Standard to be applied
- provide for consistent reporting in the Region
- Equal application to CAA members, local or foreign actuaries completing regulatory reports

Advisory Committee

- Representation from CAA, Regulators, Industry, Accounting, CARTAC
- Meetings twice a year: CAIR Annual Meeting, CAA Annual Meeting
- Communication by the CAA of related CAA activities in the region
- To assist the CAA in setting priorities in developing standards for the region
- Monitor and co-ordinate implementation of standards in the region

Progress

- APS1 – Pension Schemes Actuarial Valuation Reports
- APS2 – Supervision of Long Term Insurance
- APS3 – Social Security Programs (based on IAA)
- APS4 – Property and Casualty (in progress)
- Discussion paper: Technical specifications assessing the development of the Zero rate curve for Caribbean jurisdictions
- ISAP1 General Standard
- Pension scheme transfers
- Change in due diligence process to speed up approval

Small Association Comments

- Small number of practitioners in each field limit available contributors and make consensus hard
- Progress is slow
- Important to find a good project manager
- The IAA drafts are a help
- Significant effort needed to allow for local conditions
- Need to seek external help

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Session 65 (P-9A)

International Standards of Actuarial Practice – A Primer

A Perspective from South Africa

Peter Doyle

Actuaries in South Africa

Members	2 938
Fellows	1 049
Practice areas	10

- Health, micro-insurance, ERM and banking
- Life/Pensions (46%)

In addition to SA, members practice throughout Africa and in Europe

Qualifications & Standards

- Award our own designation: FASSA (Fellow of the Actuarial Society of South Africa)
- Also award CERA (Chartered Enterprise Risk Actuary)
- Set our own professional and technical standards
- Subject to oversight of the independently constituted AGB (Actuarial Governance Board)

Current development in standards

- Adopted a new Code of Professional Conduct in 2011.
- Reviewing a number of technical standards in the light of the new Code and new legislation.
- In the process of adopting a slightly modified ISAP 1.
- Similarly plan to adopt ISAP 2.
- Legislative changes, particularly SAM (SA equivalent of SII), will require ongoing review of technical standards.

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Session 65 (P-9A)

International Standards of Actuarial Practice – A Primer

A Perspective from Canada

Dave Pelletier

Actuarial standards in Canada

- Consolidated Standards of Practice (CSOP) in place since 2003, bringing earlier guidance together using consistent format and terminology
- Six Parts (totalling over 250 pages; principles-based):
  - 1000 – General
  - 2000 – Insurance
  - 3000 – Pension Plans
  - 4000 – Actuarial Evidence
  - 5000 – Public Personal Injury Compensation Programs (mostly Workers Compensation)
  - 6000 – Post-Employment Benefit Plans (other than pensions)

Perspectives on ISAPs

- Canadian Institute of Actuaries (CIA) and the independent Actuarial Standards Board (ASB) both supportive of IAA's strategic objective of global convergence of actuarial standards over time
- Integrated nature of Canadian standards makes adoption of ISAPs as is more difficult for now
- Hence, in medium term, ASB likely to strive for achieving substantial consistency with ISAPs, rather than adopting them per se; in longer term, might well move to ISAPs?

Actions on various ISAPs

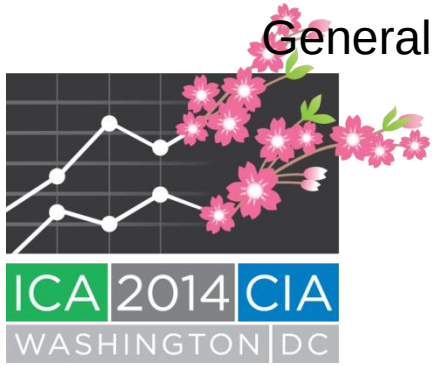
- ISAP 1
  - ASB taking notion of “substantial consistency” seriously
  - While Canadian standards generally go farther than ISAP 1, five areas identified where changes desirable to achieve substantial consistency.
  - ASB has issued a notice of intent to make these changes.
    - Some relatively minor, but …
    - In accordance with ISAP 1 para 2.8, removing the option for the actuary to express no opinion where assumptions selected by another party

Actions on various ISAPs

- ISAP 2
  - Currently no standard in Canada applying specifically to social security programs (Part 1000 – General of course applies)
  - Working group created by ASB to recommend whether it should adopt an actuarial standard based on ISAP 2. If so, the WG to advise whether
    - to adopt ISAP 2 as a stand-alone standard, *or*
    - to modify ISAP 2 wording to fit within the style of the Consolidated Standards of Practice

Actions on various ISAPs

- ISAP 3
  - Working group created by ASB to comment (independently of the CIA) on IAA's Exposure Draft
  - Too early to say how will be reflected in Canada
- ISAP [4]
  - Designated group (DG) created by ASB to ultimately prepare Canadian actuarial standard regarding IFRS X, with intent to follow ISAP [4] to greatest extent possible. DG currently commenting on IAA's SOI
- ISAP on ERM
  - No Canadian standard currently in this area (other than Part 1000 – General which would be applicable). Situation similar to ISAP 2.



Questions / reactions / comments?