



Society of Actuaries in Ireland

European Standards of Actuarial Practice ESAP2: Actuarial Function Report

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Agenda

- Backdrop to AAE
- Actuarial Standards of Practice
- ESAP2: Key texts & initial considerations
- Development of standard
- Structure of ESAP2
- Consultation response
- Next steps
- Discussion/Feedback

Disclaimer:

The material, content and views in the following presentation are those of the presenter(s).



Actuarial Association of Europe (AAE)

- Formerly known as the Groupe Consultatif
- Representative body for actuarial associations in Europe
- 37 member associations across 35 countries
- Development of actuarial profession incl. setting model standards
- Liaison body with EC institutions, EIOPA, IAA, IAIS



Actuarial Standards of Practice

- Set a minimum standard for the behaviour of actuaries operating within a specific context
- Promote high quality actuarial practice and serves the public interest
- Promote a greater consistency of approach to actuarial practice
- Increase the confidence of users of actuarial services
- Model standards binding where compliance stated or member association makes mandatory



European Standards of Actuarial Practice (ESAPs)

- ESAPs apply to actuarial work concerning matters applying in Europe
- Solvency II – harmonised EU-wide insurance regulatory regime
 - Article 48(2) of Level 1 Solvency II Directive: “The actuarial function shall be carried out by persons who have knowledge of actuarial and financial mathematics..... and who are able to demonstrate their relevant experience with applicable professional and other standards”.
- ESAPs aimed at the creation and convergence of actuarial standards across Europe
- Widely-accepted quality standards will assist the role of the actuary under Solvency II



AAE process for issuing standards (1)

- Standards project team, operating under the Standards, Freedoms & Professionalism committee of the AAE
- Due process set out for the development of ESAPs and EANs (European Actuarial Notes)
- Consideration given to existing standards e.g. ISAPs issued by the IAA.
- To date:
 - ESAP1 – General Actuarial Practice (issued October 2014)
 - ESAP2 – Actuarial Function Report (exposure draft)



AAE process for issuing standards (2)

- Proposal for standards may come from within AAE or externally
- Drafting team, cross-border and life/non-life representation
- Broad process
 - Prepare exposure draft
 - Consultation period
 - Evaluation of responses and review
 - [Revised exposure draft and consultation]
 - Adoption by AAE and promulgation
 - Member associations invited to adopt, adapt or declare consistency of existing standards
- AAE encourages actuarial standard-setting organisations to adopt ESAPs



Solvency II drivers

- Level 1, Article 48: Tasks of the actuarial function
 - Technical provisions (various tasks)
 - Opinions (underwriting policy, reinsurance arrangements)
 - Contribution to the implementation of the risk management system

- Level 2, 272(8):

“The actuarial function shall produce a written report to be submitted to the administrative, management or supervisory body, at least annually. The report shall document all tasks that have been undertaken by the actuarial function and their results, and shall clearly identify any deficiencies and give recommendations as to how such deficiencies should be remedied.”



ESAP2 – Initial considerations

- Specific work context – preparation of the Actuarial Function Report (AFR) concerning the tasks of the Actuarial Function (AF) contained within Article 48(1) of Directive
- Principle of proportionality is fundamental
- Materiality considerations are also key
- Standard confined to the reporting task
- Scope excludes how the tasks being reported on might be carried out
- Avoid conflict/overlap with IAA standards, unless specific circumstances in EU justify
- Structured and focused on needs of the main recipients of the report
- Usability



Development of standard

- Nov 2012: Exposure draft
- Comments received from 14 respondents, including 10 member associations
- May 2013: Basis for conclusions
- May 2014: Revised working draft
- H2 2015: Final exposure draft & adoption (September?)



Structure of ESAP2 (1)

1. General (incl. purpose, scope, language)
2. Definitions
3. Appropriate practices
 - 3.1 General principles
 - 3.2 Technical provisions
 - 3.2.1 Conclusions on adequacy and reliability of Technical Provisions
 - 3.2.2 Important information about Technical Provisions
 - 3.2.3 Disclosure of opening and closing Technical Provisions
 - 3.2.4 Co-ordination of process
 - 3.2.5 Sufficiency and quality of data
 - 3.2.6 Methods and models
 - 3.2.7 Assumptions
 - 3.2.8 Comparing best estimates against experience
 - 3.2.9 Sensitivity analysis



Structure of ESAP2 (2)

3.3 Opinion on underwriting policy

3.3.1 Opinion on the overall underwriting policy of the undertaking

3.3.2 Areas of consideration

3.3.3 Sufficiency of premiums

3.3.4 Environmental changes

3.3.5 Adjustments to premiums

3.3.6 Anti-selection

3.3.7 Interrelationships

3.4 Opinion on reinsurance arrangements

3.4.1 Conclusions on adequacy of reinsurance arrangements

3.2.2 Interrelationships

3.2.3 Effectiveness of reinsurance arrangements

3.5 Contribution to risk management



Structuring the report

- ESAP2 is not prescriptive on structure
 - 3.1.2: “The AFR should have a form, structure, style, level of detail and content which is appropriate to the particular circumstances, taking into account the intended users”.
 - 3.1.14: “The AFR should include sufficient information and discussion about each area covered so as to enable the AMSB to judge its implications”.
- Multiple reports, not necessarily all at the same time, may in aggregate comprise the AFR.
- Core part of report covering technical provisions, opinions and contribution to the risk management system are the key control function tasks.
 - 3.1.13: “The AFR must clearly identify any deficiencies and give recommendations as to how such deficiencies should be remedied”.



Structuring the report

- Structure of ESAP2 broadly aligns to the structure a report might follow. For example:

Introduction
Executive summary [incl. key conclusions and recommendations]
Technical Provisions [covering sub-headings as per ESAP2]
Underwriting opinion [covering sub-headings as per ESAP2]
Reinsurance opinion [covering sub-headings as per ESAP2]
Contribution to risk management system
Summary of major tasks and results
Summary of progress on recommendations made in previous AFR
Conclusions
Appendices

Core
elements



Feedback points raised on ESAP2 drafts (1)

Concern raised	Conclusion
Clarity on link to Directive requirements	Tabular format in revised version
Guidance on how the tasks of the AF should be carried out	Out of scope. EANs being considered.
Interpretation of Solvency II texts	Out of scope. EANs being considered.
Too prescriptive	Reflective of regulations
Repetitious	To enhance consistency of approach across different sections
Single or multiple reports	Point covered in 3.1.1 commentary in tabular version



Feedback points raised on ESAP2 drafts (2)

Concern raised	Conclusion
Distinguishing between conflicts of interest and segregation of duties (doer/reviewer)	ESAP2 requires conflicts of interest to be identified. How segregation of duties has been achieved is related to governance structures – ESAP2 not prescriptive on this.
ESAP adds requirements to the regulations	Professional codes of conduct and ASPs will necessarily add requirements. Most of those noted are actually requirements of the regulations.
'All tasks' of the Actuarial Function	ESAP2 concluded with 'all major tasks'. Focus of AFR is on Article 48 tasks, but expectation is that report would cover other issues of interest to AMSB.
Principle of proportionality not adequately reflected	Made more prominent in revised draft.



Proportionality & Materiality

- Proportionality is fundamental to the Solvency II Directive.

ESAP2, 1.3.3: “In applying 1.5.2. of ESAP1, actuarial services related to the AFR should be carried out in a way which is proportional to the nature, scale and complexity of the underlying risks of the undertaking”.

- Materiality should always be borne in mind as part of the exercise of actuarial judgement

ESAP2, 1.4.1: “A failure to follow the principles in this standard need not be considered a departure if it does not have a material effect. The contents of this standard should be read in that context, even where the term material is not explicitly used or where the word ‘must’ is used.”

ESAP2, 2.10: “Material - Matters are material if they could, individually or collectively, influence the decision to be taken by intended users on the basis of the relevant information given. Assessing whether something is material is a matter of reasonable judgement which recommends consideration of the intended users and the context in which the work is performed and reported (similarly materiality).”



Revised working draft (May 2014)

- Two formats provided:
 - Model standard format
 - Tabular version:
 - Column 1: Text from model standard format
 - Column 2: Supporting texts from the regulations
 - Column 3: Commentary



ESAP2 – Next steps

- Final comments for input to drafting team
- Final exposure draft (Q2 2015)
- Adoption by AAE (est. Sept 2015)



Other developments

- ESAPs in development:
 - ORSA
 - Actuarial function's contribution to the risk management system
 - Internal Models
- EANs (European Actuarial Notes):
 - Educational in nature
 - Not mandatory
- IANs (Information and Assistance notes) or ASPs from SAI:
 - AF's contribution to ORSA
 - Assessing data sufficiency and quality
 - Actuarial opinions
- CBI requirements:
 - CBI Consultation Paper 92 – additional domestic requirements regarding the Actuarial Function

Questions/Feedback?

Links

- AAE website: www.actuary.eu
- ESAP2 working draft:

http://web.actuaries.ie/sites/default/files/forum/2014/06/2014_05_31_-_ESAP2_Working_Draft_final.pdf

http://web.actuaries.ie/sites/default/files/forum/2014/06/2014_05_31_-_ESAP2_Working_Draft_final_tabular.pdf