

Procedure for the Stipulation of Professional Standards of Practice

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1. Introduction

On its foundation in 1993, as the professional representative body of actuaries, the DAV adopted a professional code of conduct with professional standards of practice for the practice of the actuary's profession in Germany in conformity with corresponding international principles. Among other things, they state that:

- the actuary shall perform his activity competently, honestly and with due care...(Art.1 Par. 2).
- the actuary shall perform his activity on his own responsibility taking due consideration of all the relevant professional standards issued or approved by the DAV... 3 Par. 1).
- the actuary is subject to the disciplinary procedure stipulated by the DAV ...(Art. 10 Par. 3).

Supplementary to its professional code of conduct, the DAV also has the possibility, via the development of standards of practice and the guarantee of their observation – if necessary through the application of a disciplinary procedure – to ensure a serious professional practice by its members. It is also obliged to do this in the interests of the actuarial profession. Only the correct and serious practice of the actuarial profession art all times and everywhere guarantees the reliability of the results of actuarial activities rightly expected by the general public and - resulting from it - the confidence of the general public in actuaries. Professional ethics and the trust of the general public are mutually dependent upon each other and, in view of the lack of a tradition in Germany, are still very susceptible to damage.

For the preparation of the professional principles on which standards are based and to guarantee their observation, a method had to be developed which justifies a high degree of confidence in the actuary's profession in Germany. The Professionalism Committee (AbF) was commissioned with the development. This is also to be found in the work guidelines of this committee. There it is stated:

- The committee is commissioned to take all suitable measures which serve the fulfilment and observation of the professional principles (Code of conduct) for the actuary;)§ 2, Par. 3)
- The committee shall advise the executive board of the DAV on all questions concerning the protection, care and promotion of professional interests...(§ 2 Par. 1)

This being the case, in section 2 a model will be presented for the development of professional standards of practice for a serious professional practice and the guarantee of their observation.

The International Actuarial Association (IAA) is the international organization of the actuary associations. Its objectives include the promotion of the actuarial profession worldwide through the implementation of high professional standards and the continuous further development of actuarial training. The most important decision-making organ of the IAA is the IAA Council which is made up of the delegates of the member associations. Its tasks include, among others, determining according to which methods professional standards of practice will be developed in order, through the so-called International Actuarial Standards of Practice (IASP), to ensure a serious professional practice of actuaries. In section 3 the IAA model of the professional standards of practice and the process of their development will be described, and a method developed which guarantees the integration of the DAV, its committees and its members in the development of the IASP.

The procedure for professional standards in the form presented in “Der Aktuar” issue 3/97 was approved by the executive board of the DAV at its meeting on 7th February 1997 in Hamburg. Numerous suggestions from the membership of the DAV were considered in this version. The procedure was then approved in the members' assembly in 1999. In this connection, a temporal limit of five years was set. Based on the experience in practice, the procedure was examined once again and at the members' assembly in 2004 it was fundamentally agreed to retain it. In addition,

an "abbreviated procedure for advisory notes" (see 2.4.4.) and changes in the time limits and the communication media used (see 2.4.1.) were agreed upon. Furthermore, at its meeting on 8th October 2004, the executive board of the DAV decided that each professional standard should be preceded by a preamble, which must pass through the same procedure for stipulation as the standard of practice itself (see 2.4.1).

2. The model

A profession which has long been confronted with a very similar requirement is that of public auditors. Based on the experience of the public auditors, among other things, the division into three categories of professional standards for practice has been taken over, namely, in accordance with hierarchical and practical aspects, whereby, the three groups in their entirety represent the interpretation of the code of conduct of the DAV in the form of practical professional guidance.

2.1 Three Groups of Professional Standards of Practice

Fundamental Principles lay the foundations for the quality standard of actuarial work. They deal with matters of fundamental importance and can put the generally recognized rules of insurance mathematics, laws and ordinances into concrete terms for the daily practice. Fundamental principles must be observed by all actuaries. Deviations from them are not permitted. Violations will be subject to sanctions within the context of disciplinary procedure.

Guidelines are generally obligatory professional standards which deal with important questions in connection with concrete actuarial activities. Guidelines, in other words, are also fundamental regulations which all actuaries must observe. However, they differ from fundamental principles in that in justified cases they may be deviated from¹. In the event of the grounds not being convincing, a disciplinary procedure may be initiated.

Advisory Notes are non-binding recommendations on specific actuarial questions. They are generally issued on the basis of an extensive professional discussion and coordination.

2.2 Official Channels for the Stipulation of Professional Standards of Practice

Official channels which come into question for the stipulation of professional standards of practice, are those which embody internal or external competence and such which, internally or externally, have the necessary, detailed expert knowledge, whereby, of course, there are some cases of overlapping. In detail they are:

The *executive board* is the typical body representing internal competence; it decides on proposals relating to professional standards of practice and announces and explains its decisions in this connection.

The *legislature, specialist ministries and supervisory authorities* are typical bodies of external competence with which, depending on state of the case, agreement exists, or must be reached, whereby, however, the professional standards of practice must lie within the competence of the DAV.

The *Professionalism Committee (AbF)* is a committee of both (derived) internal competence and internal expertise. It guarantees the connection at the internal interface between competence and specialist expertise. It is a general coordinating body also with respect to the conduct of procedure in the stipulation of professional standards of practice.

¹ Deviations are, as a rule, to be justified by the responsible actuary (on request).

The *Actuarial Committees* (or specialist institutes) are typical bodies of internal specialist expertise. They are responsible for working out the specialist contents of the professional standards of practice and have an effect on the staffing of the working groups required for this purpose (sector-internal or sector-general). Furthermore, they look after the specialist process of coordination with the members or with the bodies of external competence.

The *members* have internal specialist expertise and also internal competence (members' assembly). The representatives of external specialist knowledge include scientists associated with the DAV (universities), relevant professional associations, auditors, tax experts, possibly, also consumer representatives etc; for the purposes of this paper they are described as *the public*.

2.3 Communication Media

For the required communication during the process of stipulating professional standards of practice the following are available as forums and media:

- Information and discussion events (e.g. hearings, regional and local groups)
- Electronic media (especially Intranet and e-mail lists)
- Periodical "Der Aktuar"
- Blätter der DGVM (the journal of the German Institute of Actuarial Science)
- External print media

2.4 Stipulation Procedure for Professional Standards of Practice

Special requirements must be made for the stipulation procedure for professional standards of practice, if as a result of their binding nature, the intended and required high degree of seriousness associated with the practice of the actuary's profession is to be guaranteed.

Therefore it is, essential that such a procedure is characterized by

- a high degree of competence of the principles to be announced as well as
- a high representative standing of the institution announcing them.

The claim with respect to high competence has a considerable influence on the developed procedural model. Essential components of high competence are thereby

- the specialist expertise of the bodies drafting the professional standards of practice,
- the involvement of other expertise available in the public area (see 2.2),
- an adequate communication during the preparation of professional standards of practice,
- positive signals from external competent bodies (see 2.2) during the preparation of professional standards of practice and
- the clear structure of the procedure.

Against this background, the following procedure was developed:

2.4.1 Stipulation Procedure for Fundamental Principles and Guidelines

Proposal/information (step 1)

Impulses for the reformulation, but also for amendments to fundamental principles and guidelines may come from many sides. It is normal, however, that proposals are introduced by internal bodies. On principle, the collecting and clearing office for such proposals is the Professionalism Committee.

This body will determine in consultation with the responsible special committee(s) and/or the executive board,

- whether any action is necessary (this will certainly be the case if the proposal is supported by at least ten DAV members),
- whether the proposal is classified as a fundamental principle or a guideline, or possibly only an advisory note (this will, however, often not be possible) and
- whether the stipulation procedure described below or for important reasons an abbreviated procedure (see 2.4.2) should be applied.

Should there be a need for action in order to establish a fundamental principle or a guideline, the AbF shall be responsible for ensuring that the members are informed about this adequately and in good time (e.g. theme, normal or abbreviated procedure, suggested times etc.). The DAV members should thereby be invited to cooperate.

Draft by an actuarial committee (step 2)

The competent actuarial committee(s) is/are responsible for determining the technical contents and the drafting of a wording. For this purpose it/they will form a working group, giving due consideration to those DAV members who have expressed their willingness to cooperate (see step 1). If necessary, further groups of internal specialist expertise or institutions of external specialist expertise can be involved in the wording of the draft.

Each draft must be introduced by a preamble including mandatory details of the “theme”, “category” “area of application”, “prepared by” and “came into force on”.

Any necessary or useful explanations of the prepared draft should be made available to the recipients in an appendix.

Examination/coordination by the Professionalism Committee (step 3)

The complete submission (preamble, draft and appendix) is again sent to the *Professionalism Committee* as well as to the chairpersons of all the actuarial committees. A period of 6 weeks for the actuarial committees to register their comments starts as of dispatch of the documents. If no comments are submitted during this period of time, this will be regarded as consent to the draft.

Should any comments be submitted, these will be passed on to all actuarial committees for their information.

Under the direction of the Professionalism Committee, the draft is checked for possible special aspects of coordination or the procedure. Insofar as it is necessary, this may lead to a revision.

Publication of the draft (step 4)

In cooperation with the actuarial committee(s), the Professionalism Committee provides the media used for this purpose (see 2.3) for the communication of the provisional wording of the draft including the preamble and the explanations to the members as well as – if necessary – to relevant external institutions and the public (see 2.2).

Comments (step 5)

A three-month period is announced for comments as of publication.

The corresponding feedback will be collected by the *Professionalism Committee* and - if necessary, with comments on questions of the coordination or procedural aspects - then be submitted to the actuarial committee(s). In addition, the written comments are made accessible to all members on the Internet.

Hearing/Veto (step 6)

If the comments returned reveal such differences of opinion, that a hearing appears appropriate, or if this is requested, either by the committee(s) (working group) or at least 10 DAV members, this will be organized by the AbF in conjunction with the actuarial committee(s).

Participation is open to all DAV members. At the latest six weeks before the planned meeting, the AbF shall issue invitations to it. Members who would like to take part at the hearing must register at the latest 14 days prior to the hearing. At the hearing, one representative each of the actuarial committee(s) and the AbF will be present, as well as at least 2 representatives of the working group which has developed the fundamental principle or the guideline.

*As soon as possible after the hearing, a report on it as well as a brief note on the planned further procedure will be published (e.g. in “Der Aktuar”).

New version/final version (step 7)

Should no comments be made in step 5, this will be regarded as the final version.

Otherwise the actuarial committee(s) will produce a new version taking the suggestions received and/or the results of the hearing into account. In a commentary changes, any amendments or decisions not to accept amendments on the basis of comments submitted and/or the results of the hearing will be explained. The procedure will then continue with step 4, with the qualification that in step 5 a period of four weeks shall be set for the renewed submission of comments by the members.

If after a hearing, on the basis of the comments received, it is not to be expected that a further hearing will lead to agreement on a jointly acceptable end version, the procedure may be prematurely terminated (step 9).

Adoption/announcement (step 8)

The *Professionalism Committee* presents the final version - if necessary, complete with commentary – to the executive board for adoption. It publishes the fundamental principle or the guideline in the relevant media and additionally informs the next members’ assembly. The Professionalism Committee or the competent actuarial committee(s) may be entrusted with the implementation.

Premature termination of the procedure (step 9)

Premature termination of the procedure can be made after step 6, either by resolution of the AbF or if 10% of the DAV members submit such a written request to the AbF.

The draft submitted for comment will then be presented to the next members’ assembly for its approval. There should be a period of three months between the publication of this draft and the members’ assembly.

The approval of the draft as a new Guideline requires a majority of 50% of the valid votes cast for and against, and for adoption as a Fundamental Principle a majority of 75% of the valid votes cast.

The procedure for the drafting and adoption of fundamental Principles and Guidelines is thus completed.

2.4.2 Abbreviated Procedure for Fundamental Principles and Guidelines

The *abbreviated procedure* corresponds with a procedure which proceeds analogous with steps 1, 2, 3 and 8 and, as a consequence, calls for no automatic publication of the draft with an opportunity

for all members, as well as for external and public bodies, to submit comments; if necessary, the approval of one or several of these instances may be sought by direct contact.

This procedure may, as an “urgent abbreviated procedure lead only to a Fundamental Principle or Guideline whose validity is limited to a maximum term of 18 months. The normal procedure in accordance with 2.4.1 must be observed, if the Fundamental Principle or the Guideline is to continue to apply beyond this time.

2.4.3 Stipulation Procedure for Advisory Notes

In contrast to Fundamental Principles and Guidelines which are binding on the actuary, Advisory Notes are simply recommendations. However, they can only offer the desired assistance if the opinion-forming is transparent for all members and open to suggestions. Only in this way can the principle of “best advice” be implemented.

In principle, the development of Advisory Notes is oriented on the rules for Fundamental Principles and Guidelines, and the draft should be publicized with an opportunity for all DAV members to submit their comments, whereby the time limits defined under 2.4.1 need not necessarily be observed.

Themes which should be examined by actuarial committees/working groups as Advisory Notes, should be published by the means available for this purpose. Similarly, there should be regular reports on the ongoing work. As a result, every member will have the opportunity to contribute his or her own thoughts or objections on the matter, or to offer his/her cooperation at the beginning.

The decision to publish the result as an Advisory Note of the DAV lies with the executive board. It may also delegate this responsibility to the actuarial committee(s).

2.4.4 Abbreviated Procedure for Advisory Notes

In the event of special urgency of recommendations, on application of the competent actuarial committee, the Abbreviated Procedure for Advisory Notes can be initiated.

The Abbreviated Procedure for Advisory Notes, with the exception of step 3, is essentially the same as the Abbreviated Procedure for Fundamental Principles and Guidelines. It thus proceeds analogously for steps 1, 2 and 8, while step 3 is modified to the effect that the provisional wording, including the preamble and appendix, must only be agreed upon by the responsible actuarial committee and the inner executive board with the assistance of the AbF.

As soon as the Abbreviated Procedure is concluded with the decision of the executive board, the normal procedure in accordance with 2.4.1 must be passed through.

2.5 Revision, Reclassification and Cancellation of Professional Standards of Practice

The professional standards of practice adopted shall be reviewed at least every four years by the responsible actuarial committee or committees to ascertain whether they are still up to date and whether the contents are correct. The Professionalism Committee (AbF) shall ensure that this review is initiated within the deadline.

Together with the actuarial committee or committees the Professionalism Committee (AbF) shall ensure the current version of the professional standards of practice is communicated to the members using the media available for this purpose. Members shall be given three months to comment on the content and describe their own practical experiences.

The responsible actuarial committee or committees shall be responsible for reviewing the content and, if appropriate, drawing up a revised professional standard of practice. To this end it / they shall, if necessary, convene a working group tasked with reviewing any comments and assessments received from members and considering them if appropriate.

Following the review the responsible actuarial committee or committees shall give the Professionalism Committee (AbF) a recommendation as to the further classification of the professional standard of practice as well as a recommendation as to how it plans to proceed.

As a rule only the professional standard of practice, slightly amended if appropriate, should be presented directly to the Executive Board for adoption. In this case the members and the actuarial committees of the DAV are to be granted a period of six weeks to lodge any objections, coordinated by the Professionalism Committee (AbF). If at least ten members or one committee lodge or lodges an objection against a motion that is to be adopted directly then the procedure for professional standards of practice shall be repeated. However, the responsible actuarial committee or committees shall be at liberty, even in the case of only minor amendments, to recommend a repeat of the regular stipulation process.

If, however, the professional standard of practice is out of date and requires a fundamental review then a replacement paper shall be drafted that replaces the professional standard of practice. This will be indicated in the introductions to both papers. The replacement paper shall undergo the same regular procedure as professional standards of practice.

If, during the review process, the classification of the professional standard of practice changes, care must be taken that an appropriate linguistic formulation reflecting the future binding nature of the professional standard of practice is complied with. If the professional standard of practice is to be accorded a higher classification then the procedure for professional standards of practice is to be repeated.

If the responsible actuarial committee or committees reach the conclusion that the content of the professional standard of practice is out of date and a new version is not required from an actuarial perspective, then it may be cancelled following a resolution by the Executive Board. Members are to be informed of this via the appropriate media of the DAV.

3. Stipulation Procedure for International Actuarial Standards of Practice (IASP) of the IAA

On 4 November 2008 the IAA issued an announcement entitled “Due Process for International Actuarial Standards of Practice“, which constituted a fundamentally revised and simplified version of the previous announcement dated 5 June 2004. It contains a detailed description of the procedure used to develop international professional standards for actuaries which, however, can only be considered binding on the members of an actuarial association if they are adopted by said association as a professional standard of practice. Via the IASP, the objective is to establish uniform standards worldwide for the working methods of actuaries and to increase the confidence of clients and the public in actuarial work.

The IAA has emphasised that an IASP is initially designed as a model and that it is at the discretion of every individual member association to decide whether the IASP ought to be adopted as a professional standard of practice. In this respect it is also the task of the DAV to decide whether and, if yes, to what extent the IASP should be binding on its members. By the same token the DAV has the right to review and amend an IASP so that it meets the needs and requirements (made) of

German actuaries. In order to ensure that the DAV's bodies and members play an active role in drawing up this IASP the following procedure has been developed:

Initiation of the procedure and formulation of the draft by the IAA (Step 1)

Following approval of the issue of the IASP by the IAA and the formulation of the preliminary exposure draft by the responsible IAA committee, this is submitted to the DAV with the request to comment on it within what is usually a four-month period.

Examination / coordination by the Professionalism Committee (AbF) (Step 2)

The draft of the IASP is passed on to the Professionalism Committee (AbF), which convenes the responsible actuarial committee or committees and supplies it/them with this draft. Simultaneously, the Executive Board and the other committees are informed that a first draft of an IASP has been received.

Review / Comment(s) by the actuarial committee or committees (Step 3)

The responsible actuarial committee or committees has/have the task of commenting on the IASP within two months. To this end, it / they shall, if appropriate, convene a working group. In particular, it shall be incumbent upon the actuarial committee or committees to check whether the draft conflicts with the prevailing professional standards or practice of the DAV or prevailing national legal opinion. If this were the case, a veto should be exercised against the preparation of the IASP and secured by means of an appropriate resolution by the Executive Board.

Feedback from the actuarial committees (Step 4)

Any statement(s) by the actuarial committee or committees should be forwarded to the Professionalism Committee (AbF) as well as to the chairs of all actuarial committees.

The actuarial committees shall be given four weeks from the date of dispatch of the documents during which they may submit their comments on the statement(s). If no feedback is received within this period, the actuarial committees shall be regarded as having given their consent.

Dispatch of the statement to the IAA (Step 5)

The responsible actuarial committee or committees should check the feedback received. If necessary, the statement may be revised. The final version of the statement shall then be sent by the Professionalism Committee (AbF), following approval by the Board, to the IAA. Moreover, the Professionalism Committee (AbF) shall ensure that the members have been informed that the preliminary exposure draft and the corresponding DAV statement have been posted on the Internet. If any substantial changes have been made to the preliminary exposure draft during this first stage or if any contradictory opinions have been raised, this first stage may be conducted once again following a resolution by the responsible IAA committee and the IAA Council. Any new statement by the DAV should usually be submitted within two months.

Publication of the final exposure draft by the IAA (Step 6)

Following receipt of all statements from the national actuaries associations and review of the preliminary exposure draft, the IAA publishes the IASP final exposure draft of the IASP as part of its 60-day agenda for the next meeting of the IAA Council. If the responsible IAA committee feels that further amendments and enhancements are appropriate in order to further improve the quality of the IASP and to gain consensus among the member associations then this revised draft is published once again as part of the Council's 30-day agenda.

Adoption of the IASP by the Members of the IAA (Step 7)

The final exposure draft of the IASP is moved for adoption by the IAA Council and is adopted if at least 80% of the member associations vote in favour.

Implementation of the IASP by the DAV (Step 8)

The Professionalism Committee (AbF) forwards the adopted IASP to the responsible actuarial committee or committees and requests it / them to examine whether the IASP should – if appropriate in amended form -- become a professional standard of practice for the DAV and, if yes, which stage would be appropriate (binding fundamental principle, guideline or advisory note). If the responsible actuarial committee or committees decide(s) in favour then the stipulation procedure of the DAV in accordance with 2.4 is applied.

The IAA is then informed of this decision.

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