Who needs International Actuarial Standards?

Alf Gohdes, Lisbon

June, 2016
About standards, ISAPs, and the ASC

• How do standards help your members?
• The IAA issues model standards and educational notes
  – International Standards of Actuarial Practice (ISAPs)
  and
  – International Actuarial Notes (IANs)
• ISAPs are model standards – what does this mean?
• ASC activity to date and planned
Are Standards useful to actuaries?

Yes:
- Cornerstones of good governance of the profession are:
  - (local) Codes of Professional Conduct
  - (local) Professional Standards of Qualification and
  - (local) Professional Standards of Practice
- Other professions have got their act together globally
- G20 demanding standards for all professions
- Facilitate convergence in actuarial standards
- Increase public confidence in actuarial services
- Self-regulation better than externally imposed regulation

No:
- Unnecessary, additional rules, not needed before ...
- It places actuaries at a disadvantage ...
2010: IAA decides to issue model standards

If the IAA wishes to

“be recognized worldwide as a major player in the financial services industry”

and

“to promote the role, reputation and recognition of the actuarial profession in the international domain”,

... then it must take a leadership position in addressing the issue of actuarial standards.

Quotations from the Task Force’s presentation to Council in 2010
IAA strategy on actuarial standards

IAA Strategic Objective 3 (of 6)

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

Objectives for ISAPs

• Model standards widely accepted as a basis for convergence by local standard-setters
• Recognized by the parties who rely on actuarial standards such IASB, IAIS, IOSCO and the local regulators and auditors
• Widely seen as contributing to the public good
• Promote high quality actuarial practice
ISAP Content & Guidance

• Needs to have widespread practical relevance to actuarial work
• Existing pronouncements by any supranational organization do not already provide sufficient actuarial guidance
• Guidance can usually be stated as “the actuary should
  – Failure to comply with “must” would lead to disciplinary action
  – “may” when an activity is appropriate in certain circumstances
• Principles-based rather than prescriptive (i.e. “what” not “how”)
• Does not restrict practice inappropriately relative to a non-actuary
• Does not inhibit development and use of new techniques or methods
• Does not shift responsibility inappropriately from principal to actuary
• Does not contain educational material
ISAPs are model standards

Council decision (October 2010, Vienna)

• Based on the principle of subsidiarity
• Approach of “Medium Convergence” chosen:
  ◦ **Full** - single set of globally mandatorily applicable standards
  ◦ **Strong** - only minor modifications model standards allowed
  ◦ **Medium** - congruence with model standards
  ◦ **Weak** - national standards, but conflicts avoided
  ◦ **None** - diverse and possibly contradictory national standards

IAA encourages “substantial consistency” with ISAPs

• There are several ways of doing so
Approach

• **Adopting** an ISAP with only the modifications in the Drafting Notes;
• **Customizing** an ISAP by revising the text of the ISAP to the extent deemed appropriate while ensuring substantial consistency with it;
• **Endorsing** an ISAP for local conditions by declaring that it is appropriate for use in certain defined circumstances;
• **Modifying** existing standards to obtain substantial consistency with an ISAP; or
• **Confirming** that existing standards are substantially consistent.

“Substantial consistency” is achieved with an ISAP if:

• There are no material gaps in the standard(s) in respect of the principles set out in the ISAP; and
• The standard or set of standards does not contradict the ISAP.
Apart from ISAPs there are also IANs

International Actuarial Notes (IANs) are

- **Educational** in nature
- Promulgated by the **technical committees of the IAA** (not the ASC)
- Professionalism Committee has oversight responsibility for IANs
Due Process for ISAPs

- Provides governance and a high level of transparency
- Allows the IAA to proactively identify the need for new ISAPs (or revision of existing ISAPs) and to respond rapidly when development (or revision) is approved
- Intends to give users and end-users of actuarial services confidence in quality, suitability and production process of ISAPs
- Intends Member Associations (MAs), standard setters and other interested parties to recognize the value of ISAPs and allows for engagement in their development
- Intends actuaries to have confidence in the professional and commercial suitability and applicability of ISAPs
- Provides ample opportunity for comment before action is taken
Due Process: key points

• **Any party** may propose a topic for a new ISAP
• Before work on an ISAP can commence, it must first be on the **strategic action plan** that Council approves
• A **Statement of Intent** for a new ISAP is exposed for comment, then (after **report** on action taken) finalized and approved
  (Approval process: ASC drafts, PC audits DP adherence, EC approves and Council ratifies)
• **Exposure Draft(s)** of ISAP are exposed for comment
• ASC reviews comments and produces **report** on action taken
• **Final draft** ISAP and **report** are exposed for final comment
• **Final ISAP** and **final report** are recommended by EC and adopted by Council (by an affirmative vote of at least 80%)
Actuarial Standards Committee (2016)

- Al Beer (USA)
- Peter Braumüller (Austria)
- Andrew Chamberlain (UK)
- Ruth Chu (Taiwan)
- Alf Gohdes (Germany), Chair
- Gábor Hanák (Hungary)
- Tom Karp (Australia), Vice Chair
- Esko Kivisaari (Finland)
- Luc Farmer (Canada)
- Godfrey Perrott (USA), Vice Chair
- Marius du Toit (South Africa)

- EC liaison: Tomio Murata (Japan)
- IAA staff liaison: Amali Seneviratne
ASC activity (last six years)

- **2010**: ASC constituted
- **2011**: Due Process defined
- **2012**: ISAP 1 (General standard on actuarial services)
- **2013**: ISAP 2 (Social Security)
- **2015**: ISAP 3 (IAS 19)
ASC activity (last six months) 1/3

• ISAP 1A (Governance of Models)
  ✓ TF / ASC currently working on comments

• ISAP 5 (Enterprise Risk Models for Insurers)
  ✓ TF / ASC currently working on comments
ASC activity (last six months) 2/3

- **ISAP 6 (ERM Programs and IAIS Insurance Core Principles)**
  - ✔ TF / ASC working on ED

- **ISAP 7 (current estimates; IAIS capital stds)**
  - ✔ TF / ASC working on ED

- **ISAP 4 (Insurance IFRS)**
  - ✔ Probably the most extensive project
  - ✔ TF / ASC working on ED
ASC activity (last six months)

• **Other issues**
  - Held a webcast on EDs for 1A & 5
  - Contributed to mitigation of risk from ISAPs
  - EC: “strategic direction of ISAPs”
  - PC: considering interaction with IANs
  - SSRT: exchanging experiences
Plans for the medium term

Expected adoption

- May 2017 : IASP 1A
- May 2017 : ISAP 5

Estimated adoption

- Nov 2017 : ISAP 6
- July 2018 : ISAP 7
- July 2018 : ISAP 4
Plans for the medium term

Raising Profile of ISAPs by

- Increasing interaction with MAs – ensuring availability
- Running webcasts after ED issuance and ISAP approval
- Defining and monitoring “success”

Watch out for

- 2\textsuperscript{nd} Standards seminar in spring 2017
QUESTIONS