Introduction to Standard Setting

7th September 2022

Yvonne Lynch, Chair, Professionalism Committee
Hillevi Mannonen, Co-Vice-Chair, Actuarial Standards Committee
A few housekeeping items before we begin:

1. **Questions & Comments** – Verbal capabilities have been turned off, however questions or comments can be submitted by clicking on the Q&A icon at the bottom of your screen. We will answer questions during the Q&A session at the end of the presentations.

2. **Recording and presentation** – A YouTube recording along with the presentation will be made available on the IAA website within the next day or so.
Agenda

Yvonne Lynch, Chair, IAA Professionalism Committee
• Setting standards – why do it and what is involved?

Hillevi Mannonen, Co-Vice-Chair, IAA Actuarial Standards Committee
• International Standards of Actuarial Practice – Vision and Objectives, Progress and Future Plans
• International Actuarial Notes
• Specimen Actuarial Standards – a new tool?

Q & A . . . incl. Simon Wasserman, Observer to the Professionalism Committee
Setting standards – why do it?

Protect the public:
• Foster high quality and appropriate consistency in actuarial work
• Provide criteria and benchmarks for evaluating actuarial work
• Establish a basis for holding actuaries accountable

Support actuaries:
• Provide guidance on appropriate professional practice
• Enhance the reputation of the profession
• Establish a basis for defending the quality of work, if challenged
Setting standards – what is involved?

- Standard setting models
- Standard setting process
- No single or “correct” way to develop and implement standards
Standard setting models

• **Self-regulation**: actuarial association establishes a process, or a separate body, to develop and promulgate standards

• **External regulation**: standards are set by an external body that operates independently of the profession (e.g. regulator, government agency)

• **Mixed model**: some standards set by actuarial association and some by external body
What model is appropriate for your jurisdiction?

• Will it meet the needs of the users of actuarial work in your jurisdiction?
• Will it meet the needs of the actuarial profession in your jurisdiction?
• Any factors specific to your jurisdiction?
Standard setting process – considerations

- Authority to set standards
- Organizational structure, incl. accountability / oversight
- Scope and format of standards
- Due process
- Achieving and assessing effectiveness
- Dealing with non-compliance
Authority to set standards

- Legislation or regulatory requirements
- Association’s constitution
- Compliance may be a condition of membership
- Code of Conduct
Organizational structure

- Who will
  - Decide what standards are needed?
  - Draft the standards?
  - Approve them?
  - Provide oversight and accountability?
- Existing / new structures
- Paid resources / volunteers / both
- Non-actuaries?
- Administrative support / legal input
Scope and format of standards

- To which area(s) will standards apply and what matters will be covered?
- How will the body of standards be structured?
- Principles-based or rules-based?
- Style and language
- Mandatory or not?
Due Process

- Transparent procedures to develop, expose for consultation, promulgate, periodically review and update standards
- Create confidence in the independence and integrity of the standard setter
Due Process

IAA minimum criteria

• Proposal to consider a standard must follow an established process
• Make the proposed standard available for comment
• Consider comments received
• When adopted, the standard must be disseminated by an authority that has power to do so
• Publish standards and make them available to practicing actuaries
Achieving and assessing effectiveness

- Promotion and education
- Post-implementation review
- Periodic review / update
Dealing with non-compliance

• What actions can and will the association take in the event of non-compliance?

• Ensure that members understand the consequences of non-compliance
Resources

• “Setting Actuarial Standards”, a paper published by the Standard-Setters Round Table in November 2017

• Upcoming IAA webinar (27th September): “Real-life Experiences of Standard Setting”

• Workshop (25th October) . . . .  Amali.Seneviratne@actuaries.org
Hillevi Mannonen, Co-Vice-Chair, IAA Actuarial Standards Committee

- International Standards of Actuarial Practice – Vision and Objectives, Progress and Future Plans
- International Actuarial Notes
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The Vision and Objectives for International Standards of Actuarial Practice (ISAPs)

- **Vision**: ISAPs will be widely accepted as a basis for convergence by local standard-setters and recognised by the parties who rely on actuarial work.

- ISAPs are established to promote high quality actuarial practice globally
  - Helps to serve the public interest by benefiting users of actuarial work, regulators, and participants and beneficiaries of financial products and services, including social security programs; and
  - Benefits actuarial associations and individual actuaries by enhancing the credibility of the actuarial profession.
What is an Actuarial Standard?

- A statement of **behaviour expected of actuaries** operating within a specific context

- **Sets a minimum standard** on matters such as
  - The methodology to be adopted,
  - The approach to be used in setting assumptions,
  - The content of a report or opinion, and
  - The way in which the report or opinion should be presented
ISAPs are Model Standards

- The IAA develops model standards, International Standards of Actuarial Practice (ISAPs)

- Model standards are just what they say
  - Tools to assist standard-setters
  - Help Associations to avoid reinventing the wheel
  - Encourage convergence of actuarial standards
  - Not binding on any actuary

- Actual standards are set by an authorised body e.g. your Association
  - Apply to a specific jurisdiction
  - Are binding on actuaries working in that jurisdiction and within the scope of the standard
Using Model Standards

- **Standard-setter may**
  - Adopt a model standard with only the modifications in the Drafting Notes
  - Customize a model standard (while ensuring substantial consistency)
  - Endorse a model standard by declaring it appropriate for use in certain circumstances

- Any of these may include translation of the model

- **Other options**
  - Modify existing standards
  - Confirm that existing standards are substantially consistent
Think Globally – Regulate Locally

- General criteria to develop ISAPs include
  - An ISAP on this topic will serve the public interest, or public good
  - Improve the quality and consistency of the actuarial work product
  - It is in a recognised or emerging area of actuarial practice
  - Has widespread practical relevance to actuarial work
  - A sufficient number of IAA member associations or standard setters will find an ISAP useful
  - Existing pronouncements by any supranational organization do not already provide sufficient guidance or key stakeholders are expecting the actuarial profession to develop a standard (e.g. IAIS, IASB)

- Model standards are not developed
  - If the topic is country specific or has limited applicability and
  - a model standard would not add value to actuarial work in the broader scale
IAA Model Standards

ISAP1  General Actuarial Practice (2012...2019)
ISAP1A Governance of Modeling (2016; incorporated into ISAP 1 in 2018)
ISAP2  Social Security (2013...2018)
ISAP3  IAS 19 Employee Benefits (2014...2018)
ISAP4  IFRS 17 (2019)
ISAP5  Insurer Enterprise Risk Models (2016...2018)
ISAP6  Enterprise Risk Management and IAIS ICPs (2018)
ISAP7  "Current estimates" and other matters in relation to the IAIS capital standards, currently under development
IAA Glossary (2012...2019)

- Currently an ISAP on climate-related risks is under consideration
- The ISAPs are reviewed at least every 5 years, currently IASPs 5 & 6
The IAA also develops International Actuarial Notes (IANs)

An IAN is an educational document that provides information on current or emerging practices in relation to an international actuarial topic

It serves to familiarize actuaries with approaches that might be taken and to demonstrate how the actuarial profession might approach the topic

An IAN does not impose any obligation on any IAA Member Association or any individual actuary

IAA has issued IAN 100 on matters relating to IFRS 17
The IAA is considering developing Specimen Actuarial Standards (SASs). Many IAA Member Associations do not have a set of actuarial practice standards of their own. For such associations, adoption of ISAPs does not necessarily create a set of standards that is needed, as ISAPs are related to globally relevant issues. As response to these needs, the Actuarial Standards Committee and the Advice & Assistance Committee have worked out the concept of SASs.
Specimen Actuarial Standards (cont.)

- SASs would be specimen standards on more generic topics of traditional actuarial work
- They would be a base from which an association can produce standards in its own jurisdiction, with modifications to suit local circumstances as needed
- Initial thinking shows, e.g., a potential need for SASs in the following areas:
  - pension funding;
  - insurance reserving; and
  - balancing interests in life assurance participating policies
- The ASC would develop the SASs (based on demand from Member Associations)
- The IAA is seeking to understand its Member Associations’ needs and expectations, including support for the idea of developing SASs.
Some Useful Links

- IAA [International Standards of Practice (ISAPs) webpage](#) (incl. Due Process)
- IAA document outlining the proposed [Specimen Actuarial Standards](#)
- IAA webpage on [International Actuarial Notes](#) (incl. Due Process)
- IAA [Vision Statement for ISAPs and for Due Process](#)
- IAA [Statement of Objectives for ISAPs](#)
- IAA Professionalism Guideline on [Principles of Professionalism](#)
- Standard-Setters Round Table paper on [Setting Actuarial Standards](#)