



The Institute of Actuaries of Japan

*Think the Future, Manage the Risk*

# Consideration of Actuarial Standards of Practice in IAJ

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Standard Setters Round Table

Mexico City

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# AGENDA

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- Preface
- Background
- IAJ's Current Framework of Standards
- Answers of PC Survey on ISAPs
- Discussion in IAJ
- Future Perspective
- Practical Issues

# ■ Preface

- ✓ The Institute of Actuaries of Japan (IAJ) newly developed '*ASoP for Accounting of Retirement Benefit*' in 2016. In this development, IAJ referred to ISAP3, therefore *this ASoP* is substantially consistent with ISAP3.
- ✓ However IAJ doesn't have *ASoP for General Actuarial Practice (GAP) like ISAP1*. As one solution, we included some elements of ISAP1 in *the ASoP for Accounting of Retirement Benefit*.
- ✓ Now we are discussing how to deal with *ASoP for GAP like ISAP1*. I would like to show our current situation in this presentation.
- ✓ Since ISAP3 has already been adopted, I mainly focus on insurance field, especially correspondence to ISAP1.

# ■ Preface

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**Insurance**

Life/Non-Life

**Pension**

**Appointed Actuary**

**Certified Pension Actuary**

**FSA-Japan**

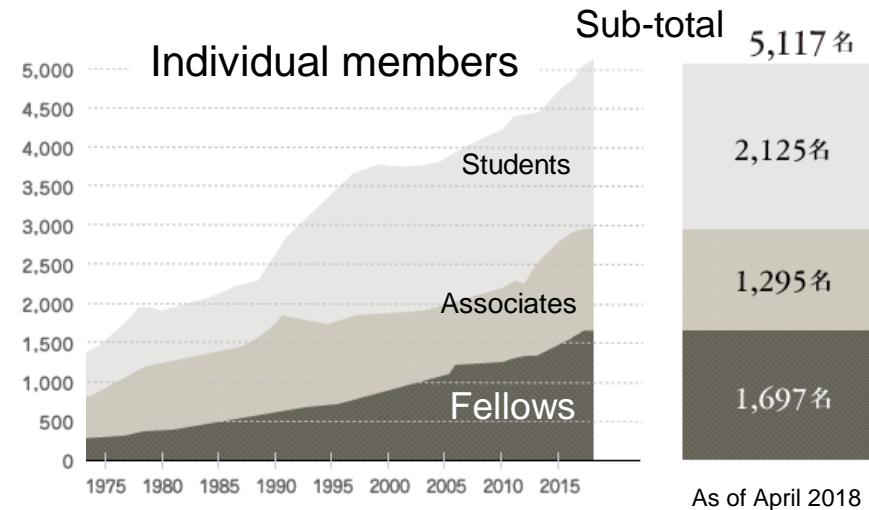
Financial Services Agency

**MHLW-Japan**

Ministry of  
Health, Labor and Welfare

# ■ Background / Overview

- ✓ IAJ was founded in 1899 and has a long history of about 120 years.
- ✓ Currently, the number of the IAJ members exceeds 5000. Among them, the number of Fellows is about 1700.



As of April 2018

## ■ Features of IAJ's members

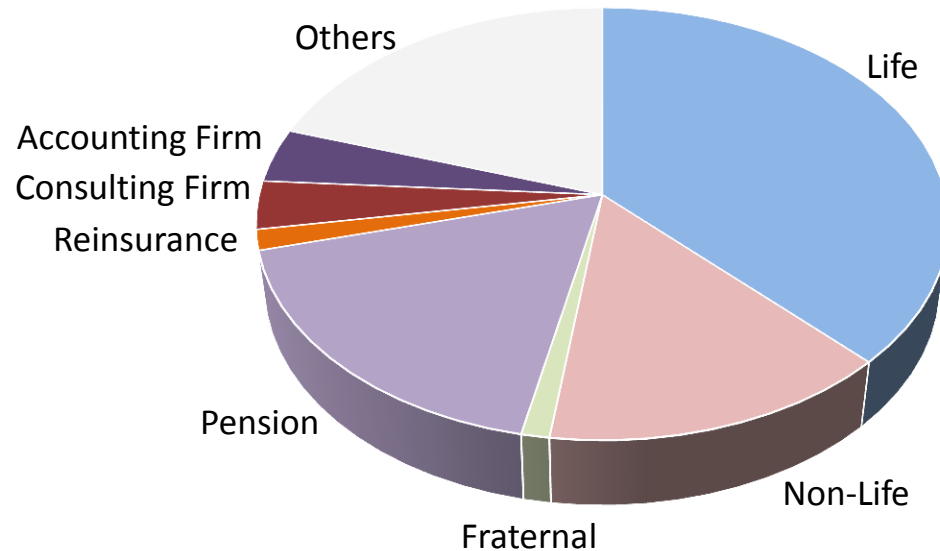
In-House

Domestic

Relatively Small

# Background / In-house & Domestic

## The composition of organisations where IAJ's members work



	percentage
Life	38%
Non-Life	15%
Fraternal	1%
Pension	18%
Reinsurance	2%
Consulting Firm	4%
Accounting Firm	4%
Others	20%

- ✓ In-house actuaries are the mainstream.
- ✓ Most of our members are engaged only in Japan.

# Background / Relatively Small

Red number in brackets is ratio to US

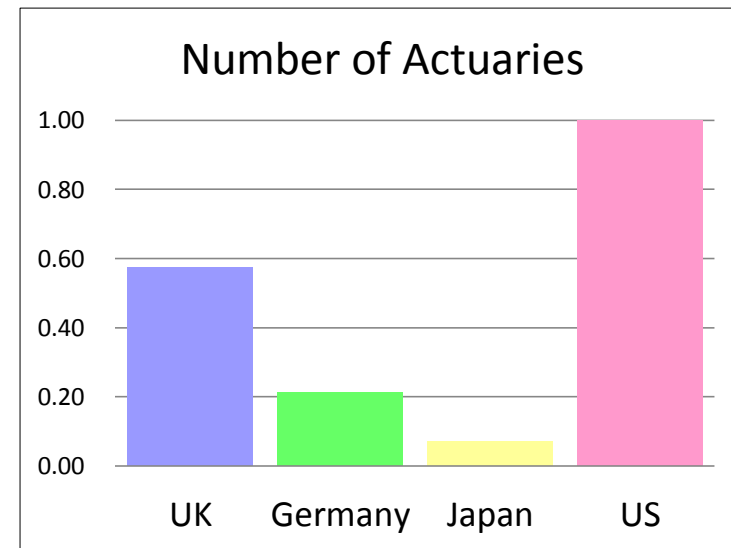


	UK	Germany	Japan	US
Population /2017 *1 million	66.0 [0.20]	82.7 [0.25]	126.8 [0.39]	325.9 [1.00]
Life Insurance Market (Premium Volume/2017 *2) USD billion	189.8 [0.35]	97.0 [0.18]	307.2 [0.56]	546.8 [1.00]
General Insurance Market (Premium Volume /2017 *2) USD billion	93.5 [0.11]	126.0 [0.15]	114.8 [0.14]	830.3 [1.00]
Pension Market (Total Investment / 2017 *3) USD billion	2903.3 [0.10]	270.7 [0.01]	1395.3 [0.05]	28169.0 [1.00]
Number of Actuaries *4	13,286 [0.57]	4,892 [0.21]	1,640 [0.07]	23,144 [1.00]

Source : (\*1) IMF/ World Economic Outlook Databases (\*2) Swiss Re / Sigma 2018 No3  
 (\*3) OECD / Pension Markets in Focus 2018 (\*4) IAA Website (US : Sum of SOA, CAS, ASPPA)

# ■ Background / Relatively Small

- ✓ The previous slide shows the following things.
  - The penetration rate of the insurance products in Japan is quite high (roughly 70~80%). A large insurance market is thus formed.
  - Compared with some indicators, the number of actuaries in Japan is much less than that in other advanced regions.



- ✓ Another feature is that almost of all Japanese actuaries are working in Tokyo. (concentration)



# ■ Background / Relationship with Regulator

- ✓ In 2000, the IAJ was named “Designated Corporation” by the FSA-Japan under the Insurance Business Law.
  
- ✓ The roles of Designated Corporation are below;
  - Development and review of “Standard Mortality Tables”
  - Development and review of “***Actuarial Standards of Practice (ASoP) for Appointed Actuaries***”
  
- ✓ “***ASoP for Appointed Actuaries***” provides standards to develop opinion required by the Insurance Business Law.

# ■ Background / Appointed Actuary

- ✓ In Japan 'Appointed Actuary' is the only actuarial position whose job title and function as the actuarial service is defined clearly in the Insurance Business Law.
- ✓ The function of 'Appointed Actuary' covers all important actuarial matters.
- ✓ Based on the requirements of the Insurance Business Law, Appointed Actuary must prepare written opinion that states the results of confirmation on :
  1. Reserve adequacy
  2. Fair and Equitable treatment in policyholder dividends
  3. Business continuity and solvency margin ratio

# ■ IAJ's Current Framework of Standards

## ■ Code of Professional Conduct

## ■ Actuarial Standards of Practice

- ASoP for Appointed Actuaries (Life)
- ASoP for Appointed Actuaries (Non-Life)
- ASoP for Appointed Actuaries (Fraternal)
- ASoP for Accounting of Retirement Benefit
- ASoP for Allocation of policyholder contribution to members in Demutualization

## ■ Guidance

- Guidance of ASoP for Appointed Actuaries (Life)
- Guidance of ASoP for Accounting of Retirement Benefit
- Commentary of ASoP for Appointed Actuaries (Life)
- Commentary of ASoP for Appointed Actuaries (Non-Life)
- Commentary of ASoP for Appointed Actuaries (Fraternal)

# IAJ's Current Framework of Standards

- ✓ In line with the development of insurance / pension market in Japan, IAJ has been establishing our system to realise the required role of actuaries.
- ✓ Regarding ASoPs and other related documents, basically, we have developed them to complement the regulatory system and statutory accounting system according to the requests from the law or the authorities.
- ✓ IAJ has established the framework of professionalism including ASoPs by self regulation.

Code of Professional Conduct

Disciplinary System

Actuarial Standards of Practice

CPD Scheme

# IAJ's Current Framework of Standards

## Setting process of ASoP

- Investigation and review on ASoP
- Communication with Related Authority

- Drafting the proposal of ASoP

- Decision of exposure draft of ASoP

- Public Consultation Process

- Approval of ASoP

- Ratification of ASoP (if necessary)

ASoP  
Subcommittee

(Planning Committee)  
President

BoD

Related Authority

# ■ Answers of PC Survey on ISAPs

10. Has your organisation adopted, or asserted substantial consistency with, any ISAPs in your jurisdiction?  
Please indicate the publication year if you are referring to a version other than the current version

	ISAP 1	ISAP 1A	ISAP 2	ISAP 3	ISAP 5
YES				✓	
NO	✓	✓	✓		✓

11. If you've chosen No for any ISAP above, what are the reasons for that?

	ISAP 1	ISAP 1A	ISAP 2	ISAP 3	ISAP 5
The ISAP has not been relevant for our jurisdiction					
There are legal reasons precluding us from adopting ISAPs					
There is disagreement with the guidance in the ISAP					
We have not yet made a decision	✓	✓	✓		✓
Other					

If you have chosen "Other" please elaborate:

14. Is substantial consistency with ISAPs an objective of your organisation?

YES
  NO

# ■ Answers of PC Survey on ISAPs

## ■ The meaning of the answer of Q14, 'YES'

- ✓ IAJ does not have *ASoP for GAP like ISAP1*.
- ✓ But Japanese actuaries generally recognise and understand the spirit and intent of ISAP1 through IAJ's current framework of standards.
  - The principle of ISAP1 is as same as that of our current framework (*Code of Professional Conduct* + ***ASoP for Appointed Actuaries***).
  - In other words, the way of thinking and behavior of Japanese actuaries are substantially consistent with ISAP1.
- ✓ From such a realistic or practical situation, we answered 'Yes' for Q14.

# ■ Answers of PC Survey on ISAPs

## ■ How do we explain such a situation ?

- ✓ In Japan 'Appointed Actuary' has a special status (like role models), so all actuaries in practice refer for guidance to ***ASoP for Appointed Actuaries***.
- ✓ Also, ***ASoP for Appointed Actuaries*** is covered by qualification exams, and the meaning and the idea are tested.
- ✓ As a result, although there are no express provisions, the fundamental concepts that actuaries must or should apply are understood, well-known and fully complied with.
- ✓ Additionally relatively small number and concentration of actuaries in Tokyo are also considered factors explaining this situation.



# ■ Discussion in IAJ

- ✓ We organised an educational lecture about ISAPs and about 300 members participated in it. All Exposure Drafts of ISAPs have been discussed at various committees and working groups.
- ✓ The body of applicable actuarial standards has been intensively discussed by Planning Committee(\*) in 2017 and 2018.
  - (\*) The planning committee has the role to discuss the overall management and strategy of IAJ comprehensively.
- ✓ In the discussion of Planning Committee, I used the materials such as presentations from each country and ‘Setting Actuarial Standards’ etc.
- ✓ PC survey also provides important information.

# ■ Future Perspective

- ✓ In recent years, changes have been occurring gradually in the business background around Japanese actuaries. For example, Japanese insurance company expand overseas business and in Japan new type of insurance are emerging.
- ✓ Along with this, the situation of Japanese actuaries as purely domestic and in-house is changing gradually.
- ✓ FSA-Japan is now examining economic value-based standards in accounting and solvency regulations. This is also a major background change.
- ✓ Under these circumstances, there are strong opinions that recognise the usefulness and necessity of *ASoPs for GAP, such as ISAP1*.

# ■ Discussion in IAJ

## ■ Answer for Q11 of PC Survey on ISAPs

✓ We have not yet made a decision.

# ■ Practical Issues

## ■ Language

- ✓ Standards written in English are not suitable for Japanese actuaries, so we need to establish *ASoP for GAP like ISAP1* only in Japanese.
- ✓ Generally, there are some difficulties in translation.

## ■ Business Culture

- ✓ It is necessary to define terms and express the provisions of standards mainly assuming a target audience of **Japanese In-house actuaries**.
- ✓ When a principle is clearly stated in standards, Japanese actuaries tend to interpret the provisions excessively conservatively in their practice, i.e. more than necessary.