

Meeting of the Standard Setters Round Table
March 4, 2010
Cape Town, South Africa

These minutes were confirmed, without amendment, at the SSRT meeting of September 15, 2010.

The meeting was chaired by Dave Pelletier who asked participants to introduce themselves and to state in which capacity they were attending this meeting.

Thomas Behar	Institut des Actuaire, France
Chris Daykin	Vice-Chair, Groupe Consultatif and Chair of the Actuarial Standards Task Force of the Groupe
Mary Downs	Legal Counsel to the Actuarial Standards Board (US) as well as American Academy of Actuaries Executive Director
Katy Martin	IAA Secretariat
Dave Pelletier	Incoming Chairman of the Actuarial Standards Board, Canada
Godfrey Perrott	Representing Al Beer, Chairman of the Actuarial Standards Board (US)
Michael Pomery	Chairperson, IAA Professionalism Committee
Louise Pryor	Board for Actuarial Standards (sets technical actuarial standards in UK)
Rajish K. Sagoenie	President, Actuarieel Genootschap
Martin Stevenson	Representing Bozena Hinton, President of the Institute of Actuaries of Australia
Paul Thornton	President, IAA
Yoshihiko Tsuji	General Secretary, Institute of Actuaries of Japan
Kurt Wolfsdorf	Deutsche Aktuarvereinigung e.V. (DAV)
Jesús Zúñiga	Vice-President, CONAC, Mexico, assigned by CONAC President to attend this meeting

1. Introductions

1.1 The Chair noted that some countries have actuarial standard setters that are not part of the profession, whereas included here today were representative of countries where the actuarial profession sets its own standards. For example in Canada, the Actuarial Standards Board is independent of the profession.

1.2 In the United Kingdom the technical actuarial standards are set by the Board for Actuarial Standards which is fully independent of the profession and funded separately. The profession, however, sets professional and ethical standards. An issue that has been raised in the UK is that the profession sets standards for any of its members who are not doing work in the UK (about 30% of its membership is overseas). There is an issue as to whether the UK profession as a standard setting body should also be represented here.

1.3 The representative for CONAC explained that in Mexico it is the profession itself that sets actuarial standards. With two kinds of actuarial rulings, so to speak, for some issues such as reserves valuation and pricing we have both the standards issued by CONAC (insurance only) and some rulings by the National Commission of Insurers and these are recognized by law. The profession is working on a new law based on Solvency 2 where the law still recognizes actuarial standards issued by CONAC on reserving and pricing but for the actuarial function as Solvency 2 defines it and for other actuarial work

such as risk and solvency assessment, etc., there is no specific guidance by CONAC required by law. In practice the actuarial standards are important anyway for instance when you deal with auditors. Auditing is another area where the actuary must follow standards set by CONAC.

1.4 In France, the Institut des Actuaire is its own standards setting body.

1.5 In the United States the Actuarial Standards Board is the standard setting body for the five US actuarial organizations but it is important to note that it is for US actuaries only, even though for example, the Society of Actuaries has membership outside of the US.

2. Confirm previous meeting record and agenda

The minutes of the previous meeting on 22 January 2010 were confirmed with two amendments.

- Page 5, agenda item 3, Objectives – paragraph on action required be amended to read:

“Action: The group was to revisit the wording of the three objectives, a draft of which follows ...” The remaining text in subparagraphs [a] to [d] to have italics removed.
- Page 6, agenda item 5, Any Other Business – Tony Coleman’s title be corrected to read “Chair of the IAA’s Enterprise and Financial Risk Committee”.

3. Business arising from previous meeting record not otherwise covered below

3.1 Added to the agenda as item 6 f): Chairmanship – frequency of rotating the Chair and how to go about selecting the Chair.

3.2 There was some confusion expressed about the relationship between this group and the Insurance Accounting Committee’s Actuarial Standards Subcommittee. The subcommittee is an official IAA group which has already issued study notes and has the objective of moving toward actuarial standards. It was decided that the relationship between this group and the various subcommittees of the IAA working on actuarial standards would be included in the discussions under item 5, Task Force on Convergence of Actuarial Standards.

4. Survey on mortality treatment in standards (Louise Pryor)

4.1 The Chair hoped that the survey on mortality would give us a sense of the approach given to standard setting around the world, including the scope and how that varies from country to country. This practical illustration may help us lay the groundwork toward setting our objectives.

4.2 Louise Pryor, reporting for Paul Kennedy, remarked that it was interesting to note that actuarial standards had remarkably little to say on this topic; that any prescription as to the assumptions to be used tended not to be in the actuarial standards but tended to come from other sources.

4.3 To some extent this survey was accidentally comparing prudential standards in some places with GAAP and accounting standards in others.

4.4 For example, in Mexico, you have the minimum reserves stated by law, but then you are obliged to make a reserve sufficiency test on this minimum reserve where it is the duty of the actuary to review

the mortality for the company, and also in Mexico's version of own risk solvency assessment you must use the actual experience of the company and therefore the actuarial standards apply.

4.5 Chris Daykin stated that a number of different European countries reported that they had no national standards with respect to mortality tables. However, France went further than most by having a standard relating specifically to mortality because they have a statutory function in France in terms of setting mortality tables.

4.6 Thomas Behar explained that in France, by law, companies are obliged to use different mortality tables for different insurance contracts. It is possible to build your own mortality tables but you must certify the table and it must be peer reviewed by an independent actuary. The review has to be done by a member of the Institut des Actuaires, who is certified to do such work and must follow a prescribed process. In addition, they are required to follow the life of the use of the mortality table, and report annually as to whether the actual mortality figures are close to the projected mortality.

4.7 In Germany, the DAV has three levels of standards: one level provides suggestions or hints, a second level are almost binding, and the third level are mandatory. The DAV has permanent groups that work together with the association of insurers to collect experience information from insurance companies. The German association has standards for producing mortality tables. The DAV has mortality tables produced with material collected from various sources industry wide. There is a mortality table that is recommended by the regulator (which most insurance companies use), although it is not a requirement to use it. How to calculate the margins is also binding and is part of the principle. Whether it is possible to make recommendations for loadings and reserving is under discussion in Germany owing to European anti-trust regulation concerns. In terms of health insurance, this business is strictly regulated. They have their own mortality tables developed by the associations but approved by the regulator.

4.8 For The Netherlands, most of the regulations are principles based. The mortality table published by Het Actuariel Genootschap are more of a prognosis table, which takes figures from the past but also projects to the year 2050. The association is in the process of publishing a new table from 2008 to 2060. While it is not obligatory to use this mortality table, most pension actuaries do so. The association sets standards and guidelines for the use of mortality tables. The raw data used for the tables is published by a central bureau of statistics.

4.9 Australia - Martin Stevenson subsequently advised that the actuarial profession did not prescribe mortality assumptions but rather adopted the principle that the Actuary must consider the current and a range of future experience in respect of mortality and other risk elements. However the regulator was prescriptive, specifying actual levels of mortality for its Solvency Standard and explicit margins for Capital Adequacy.

4.10 In Japan the appointed actuary must take account of two things for the confirmation of results (1) statutory requirements for operating in accordance with the law and regulation and (2) the statutory requirements for income projection, a kind of cash flow testing. The mortality rate of law and regulation, that is the standard mortality table, is developed by the Institute of Actuaries of Japan. The mortality rates used in income projection are based on company experience. The Institute of Actuaries of Japan sets standards that actuaries must follow for the use of mortality tables based on projections.

4.11 For the United States there are two standards that apply to general purpose reporting (GAAP) and then there is a more specific standard that applies to insurance illustrations. With respect to

general accounting the guidance is basically the actuary should use the company's own experience if it's credible and if not the actuary may go out further to industry experience, and so on. The standards indicate that an actuary should make sure that the mortality information used is appropriate, but is not more specific. With respect to illustrations, which are governed by regulation that among other things prohibit any mortality improvement assumption, it's more specific. The standards are principles based; there is no mention of a specific mortality table.

4.12 With respect to life insurance illustrations in the United Kingdom, the mortality table to be used is laid down by regulation, to ensure that companies do not compete by using unrealistically optimistic assumptions. For point of sale illustrations, there is no requirement for an actuary to be involved at all.

4.13 In Canada there is no mention of a specific mortality table. With respect to margin, the ASB provides a range and guidance to actuaries in terms of considerations the actuary should take into account as he/she decides where the margins should be within that range. The range is 3.75 divided by the expectation of life at the low end of the range, up to 15 divided by expectation of life at the high end. This produces a lower margin in terms of number of deaths for younger ages than at older ages, but a lower percentage of the mortality rates for older ages than for younger ages.

4.14 In relation to the UK position, the FSA lays down principles, with no mention of specific mortality tables in relation to insurance. General principles are laid down by the regulator, then the Board for Actuarial Standards have issued a consultation document which sets broad general principles about setting assumptions. The BAS view is that mortality is just one assumption and the principles you should apply for setting assumptions are general.

4.15 Michael Pomery observed how difficult it might be just in this one area (of approaches to mortality assumptions) to achieve convergence of actuarial standards. While not readily apparent, there may be some principles that could be laid down that we could all agree on.

4.16 The Chair commented that in the context of IFRS 4 Phase 2, the prudential focus driving mortality assumptions currently would be less relevant for this discussion because we are dealing with general purpose accounting world-wide standards, which is not directed by multiple prudential authorities. In that framework, it might be easier to come to common principles, for both arriving at best estimates and risk margins.

4.17 Chris Daykin remarked that there are probably some general principles about setting assumptions, which may apply to mortality as well as to other assumptions, which one might draw out from looking at what people are doing more generally. That would be the sort of level where some convergence could ultimately be achieved. Chris agreed to attempt to distil some common principles from what had been submitted.

5. IAA Task Force on Convergence of Actuarial Standards – status report (Michael Pomery)

5.1 What led to this task force was the setting up of this Round Table. At the IAA meeting in Hyderabad in November, we took the opportunity in two committee meetings – Executive and Professionalism – to explain what the Round Table was. In the short term, it was suggested that the Round Table's aim should be to do some work over the next year or two to try and have a consistent approach to any standards written for Phase 2 of IFRS 4, such that each country producing standards for its own actuaries would co-ordinate and exchange ideas so that what was produced would be similar in different countries. In the medium term the Round Table would look at other standards, not only those

related to IFRS 4, to see if there were areas where they could bring standards closer together around the world. The (very) long term aim might be to end up with global actuarial standards, in the same vein as the IASB's accounting standards.

5.2 There was enthusiastic support (but also some pushback) from IAA members to be involved with these aims. It was decided that a task force should prepare and present a report to the Council in Vienna (October 2010), thereby exposing these ideas to all the IAA's member associations. The terms of reference of the task force are [attached here](#) and the group has set up two meetings for Cape Town.

5.3 Separate from this the IAA had been moving on a track whereby the Actuarial Standards Subcommittee would write the first IAA model standard. Once completed, the IAA would invite national standard setters to adopt the model standard as is, or with some local modification. The first model standard is intended to be specifically based around IFRS 4. The task force will look at strategic objectives, but in the meantime, the work on a model standard would take place.

5.4 Godfrey Perrott suggested that global convergence could be achieved in a number of ways:

- Get the standard setters together to see how their standards could converge
- Publish model standards and try to persuade national standard setters to adopt them (the original IAA route)
- His proposed middle ground – have the IAA publish model standards and then have the standard setters report on how their standards are consistent

5.5 The Presidents' Forum will have a debate in Cape Town and the resolution for debate is: "Resolved, that it is in the public interest and essential for the credibility of the actuarial profession for the IAA to establish a robust set of model International Actuarial Standards of Practice to guide actuarial work under IFRS Phase 2 within 3 years."

5.6 Paul Thornton commented that in talking about a global set of actuarial standards this does not necessarily mean a single set of words that would apply to everyone around the world. We accept that different countries will have standards that are equivalent. Michael Pomery added that there was a need to define what was meant by the phrase "convergence of actuarial standards". It was intended to mean "bringing closer together" – not "creating a single set of words" but it was clear that some members of the task force had understood the latter.

5.7 Louise Pryor emphasized that it was important to work out the point of having convergence. If actuarial standards set by different standard setters actually have different purposes, convergence is unlikely. For example, is the purpose to protect actuaries or protect the public? A standard setters approach is greatly influenced by the defined purpose, in the case of the BAS, to assist the users of actuarial services.

5.8 Paul Thornton commented that convergence will strengthen the role of the actuarial profession globally. The more consistency in actuarial standards that are applied around the world, the more seriously the actuarial profession is entertained. He added that the significance of this is that the mission of the IAA is to serve the public interest and convergence of standards is in the public interest. The Chair stated that he hoped that the underlying purpose is that the users of actuarial information would get better quality and more consistency. Godfrey Perrott brought up the concerns in the United States over the survival of the profession, and the debates surrounding how to take the public into account in the U.S. environment.

5.9 Godfrey agreed, along with Louise, to develop a survey of the Round Table members on the purposes of standards in their jurisdictions.

6. This group

6.1 There had been some discussion by email on the purpose and objectives of the Round Table, and the following comments were added:

- a. A concern that Mission (a) is redundant to the work of the IAA Actuarial Standards Subcommittee, and that it gave the impression that the Round Table would be a drafter by identifying material to include in a model standard. It was pointed out that the Round Table would not be drafters, but rather could identify gaps.
- b. If Mission (a) were kept as is, how would the Round Table identify gaps? Through additional surveys?
- c. The scope of IASP 2 is too wide and would not meet the criteria in Mission (b) because it is a more general standard and not focussed on an IFRS 4 topic
- d. We must be clear that our approach is from the point of view of standard setters
- e. It would be useful to compare our experiences as standard setters, the constraints we are under, etc.
- f. We should identify the purpose of actuarial standards and in particular what attributes could we get consensus on and what attributes might we have divergent views on. There is some overlap on this point with the Convergence Task Force
- g. We should look at principles for actuarial standards, principles for mortality tables, what must be met and so on
- h. We could collect ideas, pull ideas from what other people have been doing, and then produce a set of principles that might be used by standard setters, for example distil a few important principles from our earlier mortality table discussion
- i. The focus is on “gaps” but we should also look at the standards we already have around the world (as we have done with mortality), identify some common principles and encourage finding common ground
- j. Amend Mission (a) by inserting (aa) to identify common principles in our existing practices that could be used to establish principles
- k. Prefer more transparency and to publish within the IAA the results of this group; the mission should be public, the Round Table meeting does not have to be. Some concern expressed that we not be too close to the IAA. We can be open and produce public documents while still operating with a restricted list serve.
- l. Amend Mission (a) - remove “particularly” and add “for example”. Add new subparagraph (aa) “to identify common principles and approaches adopted in existing standards and to seek ways of encouraging convergence of principles where internationally appropriate.”
- m. Discussion forum page needed for our website
- n. Possible topics for future surveys: discount rates; financial versus statutory reporting; appraisals; embedded values; claim reserving for non-life
- o. Thomas Behar to draft a questionnaire on the topic of motor insurance claim reserving (within one month)

6.2 Other discussion on the role and operation of the Round Table included:

- a. We will continue to operate in parallel with the IAA Task Force.
- b. Our link to the IAA Professionalism Committee will be through the membership in the Round Table of Michael Pomery, Chairperson of the Professionalism Committee

- c. Representatives of Switzerland and the UK Profession (given its role as standard-setting for non-UK-resident FIAs and FFAs) will be invited to attend, as will the IAA President. The Chair and the IAA President are to invite the Swiss and the UK Profession to identify the appropriate representative for future meetings.
- d. It was emphasized that the representatives should be involved in standard setting, and not just representatives of a particular actuarial association.
- e. Representatives to continue for the foreseeable future: Thomas Behar; Rajish Sagoenie; Yoshihiko Tsuji; Jesús Zúñiga; Godfrey Perrott (for Al Beer).
- f. Martin Stevenson to identify and inform the appropriate Australian standard-setter representative.
- g. Future meetings are to be set for mid-June (teleconference) and October (in person) in conjunction with IAA meetings in Vienna, avoiding scheduling conflicts with the Professionalism Committee and the Actuarial Standards Subcommittee in Vienna.
- h. The chairpersonship will rotate annually, with no re-election.

7. Relationship with / support from IAA

7.1 The IAA Secretariat will provide administrative support (Katy Martin).

7.2 A website page will be hosted by the IAA and will include members list, agendas and minutes, documents (reports) and discussion forum. IAA Member login will be required. A disclaimer statement will be needed.

8. Recent developments in each country/region of interest to others

Mexico (i.e., the profession) has started working on draft standards for Solvency 2.

9. Next steps by when and by whom

There were several, with most to be circulated by the week of April 5th:

- a. Chris Daykin to attempt to distil common principles implicit in the various approaches to mortality standards as submitted in the survey
- b. Chair to prepare terms of reference for this group.
- c. Godfrey Perrott to re-craft a mission statement for circulation (done immediately following meeting)
- d. Godfrey Perrott with Louise Pryor to prepare a survey on purposes of standards
- e. Thomas Behar to draft a questionnaire on the topic of motor insurance claim reserving
- f. Chair and the IAA President to invite the Swiss and the UK profession to participate.
- g. Katy Martin with the Secretariat to set up a Discussion Forum on the website to facilitate future discussion among the group in a manner more efficient than through the email list-serve.
- h. Katy Martin with Chair to schedule teleconference meeting in June and face-to-face meeting at Vienna

10. Any other business

The being no further business, the meeting adjourned.