



Institute
and Faculty
of Actuaries

Exposure Draft ESAP 1- General Actuarial Practice

Actuarial Association of Europe

IFoA Consultation Response

3 March 2014

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.



Michael Lucas
Secretary- General
Actuarial Association of Europe
Maison des Actuaire
4 Place du Samedi
B-1000 Brussels
Belgium

3 March 2014

Dear Michael

Exposure Draft ESAP 1 - General Actuarial Practice

Thank you for the opportunity to comment upon the Actuarial Association of Europe's (AAE's) proposed new model standard, ESAP 1- General Actuarial Practice. I set out the Institute and Faculty of Actuaries' comments on ESAP 1 below.

We note that ESAP 1, as proposed, would be substantively very similar to International Standard of Actuarial Practice 1 (ISAP 1), as issued by the International Actuarial Association (IAA). To the extent that it is considered necessary or expedient to issue ESAP 1 at all, we support the stated policy intention to align ESAP 1 with ISAP 1. As a member association of the IAA, we have supported the development of ISAP 1. We propose upon this basis not to comment further on the substance of ESAP 1, but to provide some brief remarks on the form of ESAP 1 and on the desirability of issuing a further standard - one which is substantively similar to an existing international standard - at all.

As a matter of good regulation, we do have some concern as to the need for a further general standard, in addition to ISAP 1. Plainly, this will give rise to some level of duplication in international standard setting, with the potential implication that some actuaries will become subject to one, or perhaps both, of ESAP 1 and ISAP 1 (depending upon the decisions made regarding adoption or otherwise of the model standards by the regulator(s) in that jurisdiction). This possibility may be considered unsatisfactory for at least three reasons. Firstly, it could give rise to a duplication of the regulatory/compliance burden on those who require to familiarise themselves with both standards. Secondly, the similarity of content could give rise to a level of confusion amongst actuaries. Thirdly, and perhaps most importantly, the same considerations could conceivably give rise to unnecessary confusion on the part of the public.

We recognise, of course, that both ESAP 1 and ISAP 1 are intended to be model standards, but by virtue of the fact that they have been issued it is, at least, conceivable that either or both will be imposed on actuaries by different associations around the world. Further, whilst it is, we understand, intended that ESAP 1 will be substantively similar to ISAP 1, it is, as has been acknowledged, not identical, and could not necessarily be safely assumed to be identical by actuaries to whom it is applicable.

There is of course a further related risk associated with the approach proposed. This is that, notwithstanding the stated intention of ensuring that ESAP 1 is substantively similar to ISAP 1, there would nonetheless be the risk that some element of inconsistency might develop between the two standards. This would again appear unsatisfactory, particularly as regards general standards in an increasingly globalised profession.

We understand, that in future, it is envisaged that the AAE will concentrate its standard setting activity around issues which are specific to Europe. We can understand that there may be some desirability of having a general standard to which such more specific standards can in turn refer. We do wonder if it would be open to the AAE instead simply to refer directly to ISAP 1 as a general standard for this purpose. We say this, recognising that the member associations of the IAA, including those from Europe, have already voted unanimously in favour of the issuing of ISAP 1.

If it is felt nonetheless to be expedient for the AAE to issue its own general standard, we would not oppose such a move in principle. We do however think it appropriate that, in doing so, the potential regulatory risks are acknowledged and that consideration is given to trying to mitigate some of those risks.

By way of practical suggestion, we wonder if it might be appropriate to add to the statement on the front page of ESAP 1, explicit clarification to the effect;-

1. Whilst ESAP 1 and ISAP 1 are model standards, individual actuaries may elect, or be required by their local regulator, to use ESAP 1 or ISAP 1. In such situations it is anticipated that compliance with ISAP 1 will normally be treated, by that individual or local regulator, as 'deemed compliance' with ESAP 1.
2. That member associations are not expected normally to adopt, endorse etc both ISAP 1 and ESAP 1.
3. That member associations which have properly declared substantial consistency with ISAP 1 might thereby, without further action, be deemed to have done so also in respect of ESAP 1.

We note finally the statement in the first page of ESAP 1 to the effect that it is, "identical in content" to ISAP 1. We wonder if this should say "substantively identical".

We hope that these brief comments are helpful. We would be happy to expand further, if that would be of assistance. Should you wish to discuss any of the points raised please contact Helena Dumycz, IFoA Policy Manager (helena.dumycz@actuaries.org.uk +44 (0) 20 7632 2118), in the first instance.

Yours sincerely

A handwritten signature in black ink that reads "David Hare". The signature is written in a cursive style and is positioned above a horizontal line that serves as a separator.

David Hare
President, Institute and Faculty of Actuaries