Standard-Setters Round Table

Actuarial Standard-Setting in Canada

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What we’ll cover

• A bit of history
• Governance and structure
• Our process
• Our standards
• How we’re approaching the ISAPs
A bit of history

- 1960s – no standards
- 1970s – conflicting views on the need for standards, but some public scepticism of professionals, and concern over interference with actuary’s judgement
- 1970-80s – trial period of “Recommendations”, plus “valuation technique papers” and “educational notes”
- 1980-90s – recognition that needed i) structure to replace patchwork, ii) proper due process, iii) reflection of importance of judgement
A bit more history

• 1990s – life insurance financial reporting modernized – huge sensitivity to the actuary’s assumptions and changes – Canadian statutory reporting = Canadian GAAP, explicitly referencing Canadian actuarial standards

• 1990-2000s – development and approval of our “Consolidated Standards of Practice”, and adoption of due process

• Early 2000s – failure of Equitable Life in the UK, and Penrose and Morris reports critical of profession’s standards and process

• 2007 – creation of Actuarial Standards Board, independent of the Canadian Institute of Actuaries
Governance and structure

• Actuarial Standards Oversight Council (ASOC)
  – Approximately 12 members
  – Largely (75% or more) non-actuaries; drawn from industry, business, other professions, regulators (retired), organized labour
  – Independent of the CIA, but financially supported by it
  – Oversees the ASB:
    • Appropriate due process
    • Appropriate and effective leadership, membership, and processes
    • NOT the appropriateness of a standard itself, only the process
    • ASOC acts as court of appeal where adoption of a standard challenged
Governance and structure

• Actuarial Standards Board (ASB)
  – Approximately 12 members, all actuaries
  – Appointed by ASOC

• Criteria for adoption of standards:
  – Advance the public interest
  – Provide for appropriate application of professional judgment within a reasonable range
  – Ensure that compliance is practical for actuaries with relevant training
  – Be clear, concise, and written in a consistent style
Independence

• Reporting to, and appointed by, the Actuarial Standards Oversight Council (ASOC), not the Canadian Institute of Actuaries (CIA)
• Active dialogue with regulators, but not obedience
• Active dialogue with industry, but not in their pocket
• Active dialogue with the CIA membership, but not governed by consensus
Due process

- Publication of Notice of Intent (NOI)
- Publication of Exposure Draft, with cover memo:
  - Summary of issues raised in response to NOI
  - Issues on which input particularly sought
  - Discussion forums if any
  - Timeline, contact information
Due process (cont’d)

- Possibly another ED cycle
- Publication of final standard after ASB approval (2/3 majority), with cover memo
  - Summary of issues raised
  - Confirmation that due process followed
  - Effective date, early implementation permitted or forbidden
Actuarial standards in Canada

• Consolidated Standards of Practice, bringing earlier guidance together, using consistent format and terminology
• Seven Parts (totalling over 300 pages; principles-based):
  – 1000 – General
  – 2000 – Insurance
  – 3000 – Pension Plans
  – 4000 – Actuarial Evidence
  – 5000 – Public Personal Injury Compensation Programs (mostly Workers Compensation)
  – 6000 – Post-Employment Benefit Plans (other than pensions)
  – 7000 – Social Security Programs (effective 2017.10.15)
CIA and ASB both supportive of IAA’s strategic objective of global convergence of actuarial standards, where appropriate (e.g. supporting IFRS 17), over time

Integrated nature of Canadian standards makes direct adoption of ISAPs as is difficult for now

ISAPs 1, 1A and 2 – modifications / additions to existing Canadian standards, with Canadian format and terminology

ISAP 4 – consideration being given to adoption as is! (rather than recast into Canadian format/terminology)

ISAPs 3, 5 and others – ?
Enacted changes arising from three ISAPs

- **ISAP 1 (general):**
  - While Canadian standards generally go farther than ISAP 1, five areas identified for change to achieve substantial consistency
  - One (consideration of peer review) eventually discarded (but now under study again)

- **ISAP 2 (social security):**
  - Had been no standard applying specifically to social security programs (Part 1000 – General of course applies)
  - Introduction of a new Part 7000 dealing with social security, building directly on ISAP 2
  - One area rejected: opining on the financial sustainability of the program

- **ISAP 1A (models):**
  - ASB work proceeded largely in parallel with the IAA’s
  - Largely consistent; model definition closer to earlier ISAP 1A draft
Answering the questions

1. Considering achievement of substantial consistency?
   – Yes!

3. Substantially consistent with ISAP 1?
   a) Very close. Consideration of peer review originally excluded; now studying how UK handled it
   b) Consistency largely through our Part 1000 General, but other Parts modified as necessary if inconsistent with ISAP 1
   c) Key challenges:
      a) 2.11 Consideration of peer review – initially rejected; now under study
      b) 2.8.2.a Disclosure rather than silence where actuary disagrees with prescribed assumption – change made!
Answering the questions

4. Process for attaining substantial consistency?
   a) Essentially yes; all ISAP areas mapped into existing standards and gaps analyzed
   b) Format – for now translating into existing Canadian format and terminology, but may change in future
5. Difficulties with any issues:
   a) Definitions? Not really; for now we use our own terminology
   b) What does substantial consistency mean? Are we?
   c) Prescriptive vs principles-based? Not a problem – ISAPs and Canadian standards largely principles-based – fine for local standard-setters to adapt to local realities
   d) Disclosure of prescribed assumptions? Resolved, moving to the higher standard of the ISAP than we previously had
   e) Consideration of peer review? Rejected, but under study
   f) Documentation/reporting? Not an issue
   g) ISAP structure? Not really – combination of general plus specific standards similar to ours.
Answering the questions

7. Some links:
   – In English:
     • Actuarial Standards Board  [http://www.asb-cna.ca/about_e.php](http://www.asb-cna.ca/about_e.php)
   
   – En français:
     • Les normes  [http://www.cia-ica.ca/fr/asb/cna-normes-de-pratique](http://www.cia-ica.ca/fr/asb/cna-normes-de-pratique)
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