Minutes of the Standard-Setters Round Table Meeting
Conference Call

September 15, 2010

Participants:
Dave Pelletier  Chairman, SSRT and Chairman, Actuarial Standards Board, Canada
Thomas Behar  Immediate Past President, Institut des Actuaires, France
Chris Daykin  First Vice-Chairman, Groupe Consultatif and Chairman, Actuarial Standards Task Force, Groupe Consultatif
Mary Downs  Legal Counsel, Actuarial Standards Board (United States) and Executive Director, American Academy of Actuaries
Tom Karp  Professional Standards Committee, Institute of Actuaries of Australia
Katy Martin  IAA Secretariat
Yosuke Nakano  General Secretary, Institute of Actuaries of Japan
Godfrey Perrott  Actuarial Standards Board (United States)
Michael Pomery  Chairperson, IAA Professionalism Committee
Louise Pryor  Director, Actuarial Standards, Board for Actuarial Standards (UK)
Martin Oymanns  Deutsche Aktuarvereinigung e.V. (DAV)
Peter van Meel  Het Actuarieel Genootschap
Jesús Zúñiga  Vice-President, Colegio Nacional de Actuarios A.C. (CONAC)

1. The chairman opened the meeting by welcoming new members to the Round Table: Hansjörg Furrer of Switzerland and David Martin of the Institute and Faculty of Actuaries (UK), both unable to join the call.

2. The minutes of the previous meeting in Vienna were approved without amendment.

3. Update on status of Exposure Draft of IFRS 4 – Phase II (not discussed)

4. IAA Task Force on Convergence of Actuarial Standards

The task force report was received by the Executive Committee (EC) at its September meeting, and scheduled for further discussion in Vienna. Initial impressions included some surprise at the task force’s recommendations in terms of long term objectives, the steps needed to achieve those objectives, and the feeling that the task force was proposing to move too fast. Given that the task force had spent six months discussing convergence of standards in depth, it was perhaps understandable that it would take some time for the EC to fully digest the information and proposed timing contained in the comprehensive report.

The SSRT Chair commented that the report was well put together and accurately identified the different grades of congruence, the various ways of getting there, and the issues in doing so. He remarked that more emphasis on urgency might have been better. Another member agreed that it was a balanced report in setting out potential levels of congruence and their options, including the pros and cons for some of the stakeholders, with recommendations that were sensible and realistic. He expressed some concern at the Executive Committee’s initial reaction that the report was suggesting to go too far too fast.
Thomas Behar, speaking as a member of the Executive Committee, stated that they appreciated the quality and quantity of the work done by the convergence task force, but felt that another meeting was needed before the committee could adopt a position on the report. The report will also be tabled for discussion at Council and the Presidents’ Forum in Vienna.

[Note.- The SSRT is scheduled to meet on the morning of October 10, and the Executive Committee that afternoon.]

The task force report does not say very much about the future relationship between the IAA and the Round Table, which had been one of the reasons for setting up the task force. Michael Pomery, a member of the task force, asked for some sense from the members of the Round Table as to how they thought that relationship might develop under different circumstances. While some thought the relationship would depend to some extent on what direction the IAA would take, it was pointed out that this direction could equally be influenced by the opinion/direction of the Round Table. Under one hypothetical scenario, the Round Table might decide that if the IAA does not proceed with standards, the Round Table would.

One member recalled, however, that the Round Table was originally formed because the IAA was not doing anything in this space. After becoming acquainted with how different standard-setters and jurisdictions operated, the Round Table soon realized that there was a need for some form of convergence of standards internationally.

The Australians would prefer that convergence be addressed through an existing entity, the IAA, but should the IAA decide not to do anything they would be prepared to look at other options to get things moving.

The U.S. preference would be to proceed slowly and that the highest level they could support would probably be congruence with voluntary reporting.

5. A possible approach for action

The latest version of Dave Pelletier’s memo on a possible approach for action was distributed on September 6, 2010, and explored possible options should the IAA not take up international standards. The outlined process focussed more on actually drafting actuarial standards and less on how to get buy-in or approval for whatever is drafted, which may require a parallel process. One member thought that the proposed paper was a departure from the agreed terms of reference of the Round Table. However, the Chair preferred to reach agreement on an approach before considering what would need to be adjusted in the terms of reference. The paper asks the question - Is this something SSRT should be doing or not? – and is specific rather than general in its approach, which hopefully made it easier to address the issue.

One member suggested there was a very real possibility of complete inactivity on the issue and thus the SSRT should get the ball rolling. Another view expressed was that actuaries would consider getting involved in and expending resources on such work only if the option of producing something within the framework of the IAA were exhausted. The Insurance Accounting Committee produced a lot of good technical work on standards over the course of many years that unfortunately did not result in high level actuarial standards. Standards development required the commitment of significant resources and there would be reluctance to commit to such a project if there were a chance that it might be taken up elsewhere. The Chair agreed that this was a concern but suggested that standards developed by the SSRT could potentially be adopted or built upon by the IAA later on.
The UK and the United States felt that their existing standards covered Phase 2 adequately and there was nothing novel in terms of actuarial technique. The Canadian perspective was somewhat different, partially because the IFRS exposure draft is a significant departure from existing approaches to determining actuarial liabilities, in both Canada and elsewhere, and changes and additions to actuarial standards will be required. Canada has principles-based standards that provide for actuarial judgment and many standards detail how to apply that judgment and the acceptable ranges. Where there are potentially wide variances of practice, standards would be useful to support and help define the new approach. It was stated that the main difference between Canada and the United States was that Canada had a lot more prescriptive standards, but the Chair stated that the Canadian approach in fact was genuinely principles-based, more so than standards elsewhere.

The Chair asked if actuaries were happy to work within the framework set by the accountants. The BAS did not see the need for more detailed standards in this area at the moment. The Groupe Consultatif had focussed mainly on Solvency II and had not had serious discussions on a desire for standards related to Phase 2.

There was concern that, with the framework the exposure draft had put forward, there could be a wide range of results derived by actuaries all working with similar portfolios. One member commented that while standards could be useful under such circumstances, they would not entirely solve the problem because it would be too prescriptive to get everyone on the same number. One would have to get actuaries to share results about how they determined specific risk margins, liquidity premiums, and so on, and over time the practice would come closer into line. Even with standards in place, it would be unrealistic to expect that actuaries would come up with numbers that would be close from the start. With a new paradigm there were different views and inevitably not everything can be covered in rules.

One participant felt that the transparency was the key. The United States was about to adopt a communications standard stating in effect that the actuary must disclose all assumptions and must endorse all assumptions that he/she does not explicitly disclaim.

Another participant countered that under IFRS 4 Phase 2 the same disclosures would still produce different results. It would not be possible to summarize all the disclosures needed for several different actuaries to obtain the same results. Thus standards could serve to protect actuaries and they could avoid having to state that the results were different only on the basis of the disclosures. Instead, actuaries could state that they applied the particular standard and that all methodologies applied the particular standard. Even with disclosure, it would be necessary to state under which framework the actuary worked and which standards were applied. To certify a job as correct, an audit would be needed to identify if the actuary respected the standard or not. But simply respecting the disclosure requirement will not be enough to know that.

In summary, it appeared that some Round Table members saw no need for standards, while others did but with the IAA as a preferred starting point. At the other end Canada favoured a faster track for standards based on their usefulness to actuaries and users, and to bring actuarial work to a higher standard by providing a more consistent result for users.

For The Netherlands, the main concern was to use the Solvency II framework for developing standards, that convergence was on the backburner. Also, they wanted to avoid duplication of effort in standards development. From a European perspective, Solvency II seems more urgent,
and the Solvency II standard-setting process was complex because of the interaction between the regulatory activity and what the actuarial profession might do.

Canada may be the outlier on this issue, as the tremendous sense of urgency is not echoed elsewhere.

The Chair stated that this may be because Canada’s experience over the years led to an understanding of how critical standards were in order to produce numbers that were within a reasonable range of each other. Australia’s current approach was introduced four years after Canada’s and was therefore probably even more realistic and has full market value on the assets. The market must understand that because there is a reasonable degree of disclosure about assumptions the market analysts in particular can work out what’s going on and why some of the numbers are jumping around. In Australia, there is a lot more disclosure on the assumptions than in Canada. The Chair added that several years ago Canada had shown assets on amortized cost, but had now gone to market and is more like Australia in that respect.

Michael Pomery remarked that while sophisticated market analysts can work out the assumptions, there were many people who thought the purpose of actuarial standards was for two actuaries to come up with the same answer when faced with the same set of data. This posed a problem for actuaries. Louise Pryor added that for actuaries to come up with the same answer implies that there is some certainty or correct answer that can be arrived at. This is misleading and would not help those who make decisions on the information actuaries provide because it gives the actuarial information a false status.

The experience of Canada with a structure that is closer to the new IFRS than anyone else, with the possible exception of Australia, was that with no guidance the range potentially becomes too wide. Australia found that from its starting point it took another three or four years of experience to actually narrow results that they were getting into a more reasonable range than what they had originally. Ideally, a combination of some sort of standard or guidance along with transparency is needed. The Chair commented that it had been a similar situation in Canada and that if standards had not been in place it would have taken a lot longer for that convergence to happen. Would disclosure have had the same effect as the more prescriptive standards? Australia found that an active participant was needed - whether a regulator or standard setter or someone else - after new standards were in place to put the pressure on for a few years to keep everyone working to bring the results into a reasonable frame.

Noting that much of the discussion had moved from standards to disclosure, it was suggested that the Round Table should consider setting down what best practice should be for disclosure. Both the BAS and a soon-to-be-adopted U.S. revised standard on disclosure were very good documents on the topic, and will be circulated to the members of the Round Table prior to Vienna. In addition, Canada had a group preparing a brief outline of where they see standards should be with respect to the IASB exposure draft.

The Chair remarked that there did not seem to be a consensus for rushing ahead with the proposals in the “approach for action” paper. One possible outcome may be to focus on disclosure as had been suggested. It was agreed that a conference call will be scheduled soon after the Vienna meetings in order to regroup after we have heard the discussions in the various IAA forums.
Godfrey had circulated a discussion paper on feasible convergence which proposed a more gradual convergence. His approach envisioned a cooperative process between the SSRT and the IAA. The Convergence Task Force paper and Godfrey’s paper both hold out the possibility of an “IBAS” or international board for actuarial standards. Louise Pryor liked the model of an independent standard setter, but noted that they were difficult to set up especially for the IAA because it cannot be seen to be dominated by the profession. Another model that would be easier to set up than a fully independent body, would be one similar to the International Auditing and Assurance Standards Board (IAASB). The IAASB is comprised of practitioners producing standards but it has an independent oversight board that ensures proper procedures and due process have been followed, and that the standards have had input from a wide variety of stakeholders. The Chair noted that Canada’s ASB is structured the same way.

One member expressed a concern for greater clarification of what is meant by the term “actuarial standards” (some are reporting-type standards, others are moving toward prudential capital-type standards). More discussion is needed first on what these standards are aimed at achieving before any discussion of models or processes that could be used internationally.

Godfrey Perrott had prepared a survey on purposes identified by different standard-setters around the world. In addition, Chris Daykin had circulated a report from the Groupe Consultatif that analyzed the different types of standards (reproduced as Appendix 3 in the Convergence Task Force report).

An additional item for discussion in Vienna will be Chris Daykin’s paper documenting the principles for setting mortality assumptions, put together based on the SSRT survey done earlier this year. He will re-circulate the paper (version with Godfrey’s comments), so that more Round Table members will have the opportunity to comment.

It is possible that there will not be a clear decision in Vienna on where the IAA will go with the Convergence Task Force report; however, the discussions surrounding the report should provide some sense of which way the wind is blowing. Michael Pomery pointed out that one recommendation in the report was that the Executive Committee should develop ways of cooperating with the SSRT and other interested parties and agree a work plan for actions to be taken in conjunction with the Round Table. It was also suggested that the IAA might work with the Round Table to look at existing standards in some of the generic areas of actuarial work, like setting assumptions and so forth (see Section 10.4 of the report). Michael Pomery will email the Chair with details on the task force’s suggestions for working with the SSRT.

6. Terms of reference
The terms of reference (dated May 31, 2010) were approved with one amendment. Under the heading “Roles”, the fifth bullet point, should read: “... to provide a forum within which some or all of the member standard-setters could agree to discuss the development of common or model standards ...”

7. Status of survey on motor insurance claim reserving
Thomas Behar explained that there was not much in the way of specific motor insurance claim reserving standards in most countries but only general insurance standards. He will try to prepare a draft survey in time for Vienna.
8. Next meeting: Vienna on Sunday, October 10, 2010 from 9:00-12:30. Additional items for discussion will include the Chair rotation, and Godfrey’s example highlighting an artificially restricted standard “Joe the actuary”.