



SOCIETY OF ACTUARIES

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Report on the International Actuarial Association: International Standards of Actuarial Practice and International Actuarial Notes

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With the new accounting rules for insurance finally on the horizon, the Actuarial Standards Committee (ASC) of the International Actuarial Association (IAA) is in the initial stage of developing an International Standard of Actuarial Practice (ISAP) to provide guidance to actuaries that are involved in implementing the new accounting principles. “What’s that?” you say. “International standards of practice! I didn’t know there was such a thing. Do I have to comply?”

The real issue for most actuaries in the United States right now is not what the ISAP on insurance accounting will say. Given the timetable for adoption of the accounting rules, that can be addressed in due time. The more pressing questions are 1) what are ISAPs and 2) how do they affect members of the SOA?

ISAPs (International Standards of Actuarial Practice) are **model** standards prepared by the IAA for member associations and other actuarial standard setters to consider adopting (or endorsing). ISAPs have no authority by themselves unless an actuary asserts that his/her work complies with the ISAP.

The ASC drives the process for the development of ISAPs. The process is well defined and documented in *Due Process for International Standards of Actuarial Practice*.¹ The Executive Committee (EC), which carries out the work of the Council, fields ideas for standards and maintains a list of potential standards. Ideas can of course originate anywhere, but get to the EC through a member association or from an IAA committee. The EC decides if the idea should result in an ISAP or an International Actuarial Note (IAN). [More about IANs later.]

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WHAT ARE ISAPs?

The place to start is to say something about the IAA. It is an association of actuarial associations. The SOA is a member, as are the Casualty Actuarial Society, the Academy of Actuaries, the Canadian Institute of Actuaries, the Conference of Consulting actuaries, the American Society of Pension Professionals and Actuaries, and fifty-nine other actuarial associations from around the world. The governing body of the IAA is the Council, which comprises representatives from the member associations. The work of the IAA is done by the committees, which also have representatives from the member associations. The Council appoints the members of the ASC. There are eleven members of the ASC, two of whom are members of the SOA. In fact, one of these, Dave Pelletier, is the chair of the ASC. The other SOA member who is on the ASC is Godfrey Perrott.

The usual practice of the ASC is to form a task force to develop an ISAP and to solicit assistance from committee members or others. The first formal step in developing an ISAP is writing the Statement of Intent (SOI). An SOI makes the case for a proposed ISAP, stating its purpose, intended scope, outlining the general content, and explaining why it is needed and how it will benefit the profession and the public. The ASC exposes a draft of the SOI for comments, then revises it and presents it for approval by the EC, which in turn submits it to the Council for ratification.

After the SOI is approved and ratified, the work on the ISAP begins in earnest. The task force drafts the proposed standard and works with the ASC to get a document worthy of exposure to the member associations. The ASC publishes the exposure draft and solicits comments from member associations and from other interested parties. The ASC then reviews the comment letters and modifies the draft standard as it sees fit. It summarizes the comments and reports to the member associations on how it reflected the comments in modifying the ISAP. It may contact member associations to sound out their reaction to how it responded to their comments. If changes in the draft standard are substantive, there may be a second exposure.



After satisfying itself that it has sufficiently reflected the views of the member associations in the draft standard, the ASC submits a final version to the EC. If the EC approves the proposed ISAP, it submits it to Council for adoption.

HOW DO ISAPs AFFECT MEMBERS OF THE SOA?

Once adopted, the ISAP is published by the IAA. In other words, it goes into effect. But what does that mean? Here it must be emphasized that ISAPs are model standards. The IAA operates under a guiding principle of subsidiarity. The essential concept of subsidiary is that the IAA is engaged in international activities that serve the interests of the profession and which would be inefficient for the member associations to do individually. In the context of standard setting, this means that the IAA does not impose standards on member associations, because each has a standard-setting process of its own. At the same time, the member associations have expressed a desire for some degree of convergence of standards among member associations. The model standards provide a benchmark for member associations as they move towards convergence. There are also associations, especially small ones, which benefit directly from the model standards. They can adopt a model standard as written, or modify it, and make it one of their own.

Actuaries then do not ordinarily practice explicitly in conformity with ISAPs. They practice in conformity with local standards, which may have been influenced by the IASPs. It is possible for an actuary to declare that his work is done in conformity with international standards, in which case he has obligated himself to follow the guidance in the ISAPs.

WHAT ARE IANs?

There are many topics for which it makes sense for the IAA to use its international scope to develop helpful guidance to actuaries. The IANs cover technical areas of actuarial practice and have proven to be useful to actuaries charged with implementing new practices, such as new accounting rules. They represent the thinking of a number of actuaries from around the world and hence offer a good resource for actuaries addressing technical topics for the first time. IANs are educational in nature. They are not authoritative and they do not mandate policies or practices. Actuaries should refer to them not because they are binding (they are not), but because they are useful.

THE SCORECARD

At the time of this paper, there is one ISAP in effect. ISAP 1 General Actuarial Practice was adopted in November 2012. This standard provides guidance to actuaries on topics that apply to almost every assignment, including accepting assignments, data quality,

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reliance on others, communication, and other general aspects of actuarial service.

ISAP 2, Financial Analysis of Social Security Plans is slated for adoption in October 2013. The SOI for proposed ISAP on IAS 19- Employee Benefits has been ratified. This standard is expected to be completed in 2015. The standard on IFRS 4 has an expected completion date of 2017.

Currently there are 12 IANs. Ten of them relate to accounting topics, namely, various aspects of IFRS 4. When the new accounting rules for insurance are adopted, that number is likely to double.

THE VALUE OF ISAPs

Few actuaries would question the value of actuarial standards. Nevertheless, they may want to understand why there are international standards. Aren't national standards sufficient?

The answer is twofold. The first relates to current circumstances. The desire for convergence of standards comes from the awareness of the member associations that the public expects and deserves a high degree of consistency among the various actuarial standard sets. There is also a desire of the member associations to help the smaller associations who need standards but do not have the resources to develop standards from the ground up.

The second relates to the future. It is my belief that multi-national insurers and sponsors of pension plans will eventually grow weary of dealing with multiple standards from their experts, regardless of convergence. There will be a demand for international standards and the profession must be able to respond. When the day comes, there will not be time enough to develop a process and a robust set of standards to meet the public expectation. The work of the IAA today lays the foundation for the future. ■

END NOTES

¹ http://www.actuaries.org/ABOUT/Documents/Due_process_EN.pdf