



Caribbean Actuarial Association

Standards Architecture

A description of the Proposed CAA Approach to Standards

Prepared by: Neil Dingwall
Chair, Standards Steering Committee

Table of Contents

Standards Architecture	1
Table of Contents	2
1. Purpose	3
2. Background	3
2.1 IAA Commits to Convergence of Global Standards.....	3
2.2 CAA as Standard Setter for the Region	3
2.3 Assessment of Regulatory Positions	3
3. Standards of Practice – current position	4
4. CAA Standards – the Way Forward	5
5. Standards Architecture Diagram	6
5.1 Generic Standards	7
5.2 Specific Standards.....	7
5.3 Cross Practice Issues	7
6. CAA Due Diligence Procedure.....	8
7. Language	9

1. Purpose

The purpose of this document is to provide an explanation of the approach that the Caribbean Actuarial Association intends to take in establishing a comprehensive set of Actuarial Standards that will apply to work performed in the Caribbean region.

2. Background

2.1 IAA Commits to Convergence of Global Standards

The International Actuarial Association (IAA) has taken an important step towards the global convergence of actuarial standards. This step follows a recommendation from the report of the Task Force on the Convergence of Actuarial Standards, which was presented to the IAA Council at its meeting of October 12, 2010 in Vienna. The Council agreed that the IAA should take a firm position on actuarial standards and that it should proceed to set up an efficient internal structure and due process to complement and support the development and adoption of high quality model standards. The IAA has adopted this recommendation as a specific strategic objective and has introduced a new structure to prepare model International Standards of Actuarial Practice.

2.2 CAA as Standard Setter for the Region

With the Caribbean Actuarial Association (CAA) recognition as a Full Member Association of the International Actuarial Association (IAA) the CAA wishes to be recognized as the Actuarial Standard setter for the Region. In December 2009 the CAA invited discussion of Actuarial Standards during a session on how to strengthen the financial system. During that session, the Caribbean Association of Insurance Regulators (CAIR) challenged the CAA to establish a more robust set of Actuarial Standards that could be applied in the Caribbean region.

2.3 Assessment of Regulatory Positions

Trinidad and Tobago is expecting legislation to be presented that will introduce a uniform life valuation method and risk based capital requirements for insurance companies similar to Jamaica as well as provide for the inspector to determine what actuarial standards would apply. Jamaica is considering clarifying Generally Accepted Actuarial Standards, some guidance on setting interest rates, updating the Non Life capital test, introducing broader stress testing, upgraded asset liability management requirements, development of pension transfer values and some upgrades in experience studies. The Bahamas is reviewing its insurance act and indicated this would be an opportunity to review the actuarial role. Belize would like to review their legislation but the timeframe has not yet been determined.

It would appear that Regulators would like to see any actuary performing work in the Caribbean related to regulatory requirements being governed by Caribbean Actuarial Standards. The Regulators recognise that actuaries doing work in the Caribbean market are not necessarily members of the CAA. The Regulators do not want to put in place a market constraint of this nature in the Caribbean. The lack of a comprehensive set of designated actuarial standards, in particular not taking local conditions into account, consequently leaves the actuary to select the standards that are to be applied. In addition some actuaries do not designate which standards they are applying.

3. Standards of Practice – current position

Ethical Standards are addressed by the CAA in our Code of Conduct. Qualification Standards are partially addressed in the CAA constitution while continuing professional development is not currently part of the CAA requirements. Qualification requirements are usually addressed in the legislative fit and proper requirements of the various territories.

Technical standards are standards applying to actuarial practice. These cover the content of actuarial work and can deal with issues such as data, assumptions and modelling, measurement of liabilities and actuarial practice in relation to IFRS or regulatory requirements.

Governance or Generic standards relate to the governance of the actuary's role and the actuarial work product. These standards may cover issues such as how the actuary should carry out his/her work in relation to his/her employer and client or other internal or external functions (board, management, auditor, supervisors etc.). These standards do not cover the process of developing and setting standards or the issues relating to the process of monitoring compliance with standards or the discipline process.

Communication standards concern the communication and reporting of actuarial work and outcomes to various stakeholders and publics.

The CAA currently has two actuarial *Standards of Practice in place*

[*APS1- Pension Schemes: Actuarial Valuation Reports \(adopted December 2004\)*](#)

[*APS2 - The Prudential Supervision of Long-Term Insurance Business \(adopted December 2005\)*](#)

APS1 and ASP2 would be considered as technical standards but do include some elements of Governance and Communication. These Standards of Practice do currently apply to CAA members performing work in the Caribbean.

4. CAA Standards – the Way Forward

Following the meetings in December and the discussion with members at the last AGM, the Council of the CAA agreed on the need for a comprehensive set of standards.

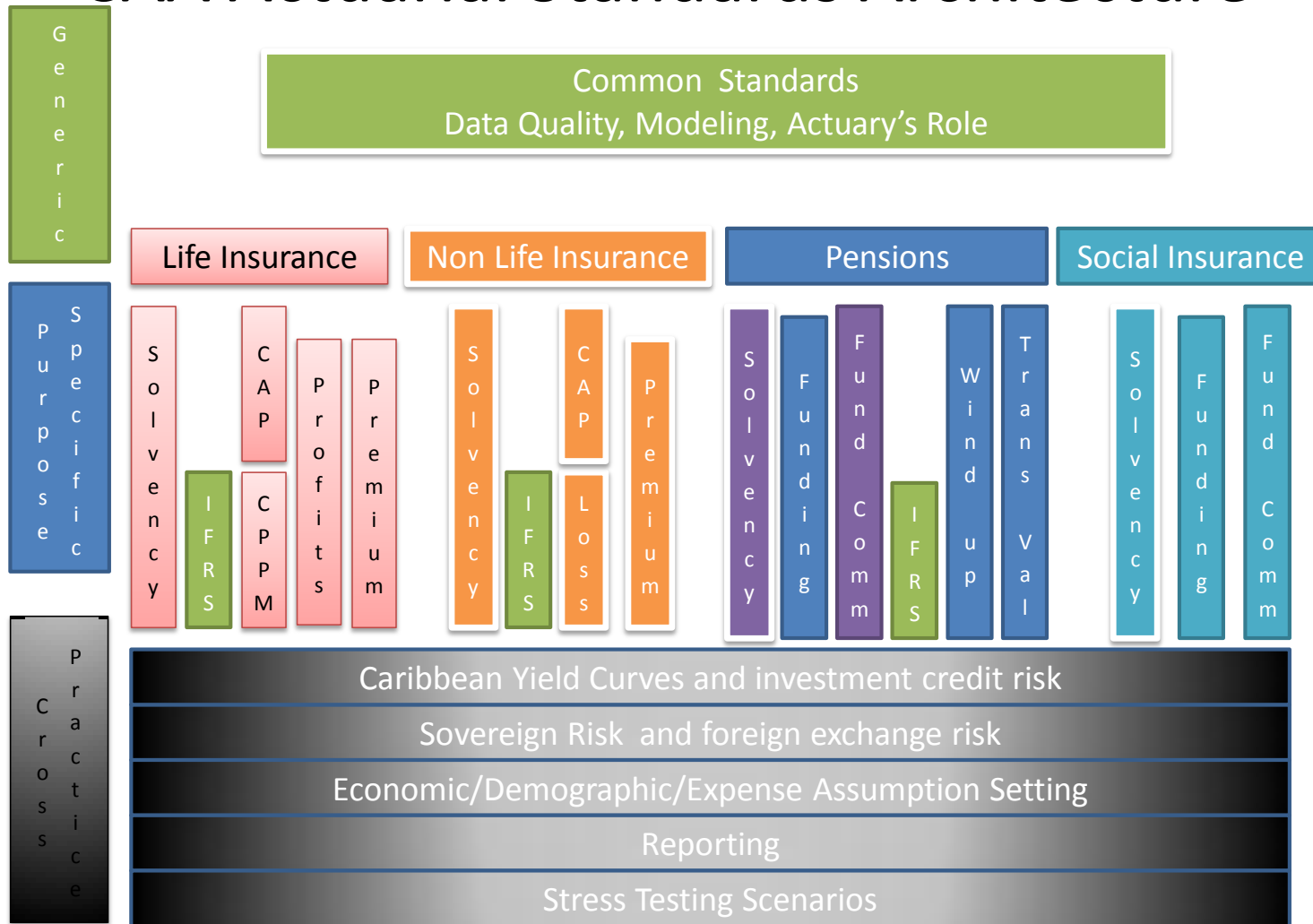
The following aims have been used to frame the approach taken to updating and extending our standards:

- I. They should narrow the range of acceptable results
- II. The standards should reflect local conditions
- III. They should converge with IAA standards
- IV. They should require that when actuarial reports are completed in accordance with CAA Actuarial Standards that the Actuary shall so opine and disclose any differences.

The above goals are best summarised in the CAA Standards Architecture document that follows.

5. Standards Architecture Diagram

CAA Actuarial Standards Architecture



Green – Expected IAA development

5.1 Generic Standards

The IAA is developing model standards in a number of areas. In particular, they are proceeding with a generic standard that will cover issues that are common to all types of actuarial work such as data quality, modeling etc. Given the desire of the CAA to converge with the IAA model standards as they are released and given that generic standards are unlikely to give rise to region specific issues, it is intended that the CAA will use the work of the IAA in this area. These Standards would still have to flow through the CAA due process but would facilitate ensuring international consistency of CAA Standards with International Actuarial Standards. These expected Standards are illustrated in green in the Architecture diagram.

5.2 Specific Standards

The middle section of the Architecture illustrated in the diagram shows how the project is divided into four practice areas - Life Insurance, Non-Life Insurance, Pensions and Social Insurance. Each practice area has a designated chairman and a working committee. Within each practice area, a number of issues have been identified that may benefit from the implementation of standards. The standards process will be ongoing and not every area can be addressed in the first round.

The IFRS issue, which applies across three of the practice areas is shown in green as the intent is to rely on the IAA in this area *except where there are issues specific to the Caribbean region that require modifications.*

5.3 Cross Practice Issues

A number of issues are both relevant across practice areas and have some very specific Caribbean issues. This is particularly true of a number of key economic issues which are much harder to come to agreement on in our Caribbean markets which often lack the necessary external explicit pricing information.

The economic issues will involve

- Provide for the common application of the yield curve to the discounting of liabilities in the economic environment of the Caribbean for both short and longer durations.
- Provide a common methodology for handling sovereign risk and foreign exchange risk in the context of the Caribbean

- Provide for the common methodology to reflect Equity and/or Real Estate performance in the markets of the Caribbean

The bottom section of the Architecture diagram shows how the project plans to address specific issues regarding cross practice issues which will need to be addressed by committees which have representation from all of the relevant practice areas.

6. CAA Due Diligence Procedure

The implementation of new standards requires that the existing CAA due diligence procedure be followed. A summary of the current due diligence procedure is provided below for reference:

- a. Council agrees on the need for a Standard
- b. Council appoints a Committee to write a Standard
- c. The Standard comes back to Council for approval
- d. The Membership is invited to comment in writing on the Standard for 6 months
- e. Council and / or the Committee agrees on materiality of changes suggested by Members
- f. The revised Standard is exposed for three months
- g. If there are no material comments Council approved and adopts the Standard
- h. At the next Annual General meeting the membership ratified the Standard
- i. The Standards are promulgated by the Council
- j. The Standards are published and dispatched to the Members.

While it is not an explicit requirement of the CAA due diligence process, the steering committee intends to seek comments on the exposure drafts from a number of relevant bodies that have been included on an advisory council. This council includes representatives from the Caribbean bodies that represent the regulators, accountants, insurance companies, pension funds and others.

7. Language

Some of the language used in the standards is intended to be interpreted in a very specific way in the context of a decision of the actuary. In particular, the following verbs are to be understood to convey the actions or reactions indicated:

- The verb “must” means that the indicated activity is mandatory and failure to follow the indicated action will constitute a departure from the standard
- The verb “should” means that, under normal circumstances, the actuary is expected to follow the indicated course of action, unless to do so would (in the actuary’s professional opinion) produce a result that would be inappropriate or would potentially mislead the users of the resulting information. If the indicated action is not followed, the actuary should disclose that fact and provide Justification for it. Deviation from the indicated course of action in such circumstances is in compliance with the standard.
- The verb “may” means that the indicated activity is not required, nor even necessarily expected, but in some, not necessarily all, circumstances may be an appropriate activity, possibly among other alternatives.