



Actuarial Standards Board  
Conseil des normes actuarielles

# Actuarial Standards Board

## *Strategic Plan*

### *2016–2021*

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## **Introduction**

The Actuarial Standards Board (ASB) is an independent body with authority to establish standards of practice for the actuarial profession in Canada. Actuarial standards describe how actuarial work is to be conducted by members of the Canadian Institute of Actuaries.

The current plan was developed following a review of the current strengths, weaknesses, opportunities, and threats by the ASB. This analysis was also discussed with, and received input from, the Actuarial Standards Oversight Council (ASOC).

The purpose of this document is to provide a general work plan over the next five years. The actual implementation plan will form part of ASB's annual plans over the next five years.

## **Mission**

The mission of the Actuarial Standards Board (ASB) is to support the Canadian Institute of Actuaries in fulfilling its duty to the public by developing, establishing, and maintaining high quality standards of practice which promote public confidence in the actuarial profession in Canada.

## **Serving the Public Interest**

The ASB has developed the following strategic goals to better define how the ASB plans to serve the public interest:

### ***Comprehensiveness***

- To ensure actuarial standards of practice:
  - Are kept current and respond in an appropriate manner to new developments in actuarial science;
  - Restrict actuarial practice to an appropriate range while not unduly limiting actuarial developments or use of professional judgment where needed; and
  - Are such that users of actuarial information can place a high degree of reliance in the work of the actuary that is relevant, transparent, complete, and comprehensible.
- To ensure minimum standards apply to all areas of actuarial practice through:
  - General standards of practice which allow for a considerable range of practice; and
  - Practice-specific standards where it is in the public interest to have a narrower range of practice in a specific area of actuarial practice.

**Accountability**

- To ensure all relevant parties are aware of existing standards and proposed changes and have easy access to such information;
- To appropriately balance the need for standards with the administrative burden and cost of compliance; and
- To ensure due process for acceptance of standards is structured to allow sufficient discussion around new, or changes to, standards of practice from all interested parties and meets the rigour expected from a professional organization.

**Support of International Best Practices**

- To promote the development of international standards where relevant and applicable in Canada.

**Current Status**

The public benefits from the independent oversight by the ASOC who monitors the work of the ASB and provides input to the ASB work and operations.

The ASB has adopted a strong and proven standard setting due process that always takes into consideration the protection of the public interest. The due process is a publicly available document that requires a disciplined approach to setting actuarial standards allows for consultation with all interested parties (actuaries and non-actuaries) and makes the ASB accountable to the public for the standards it adopts.

As global leaders in the development of insurance standards and by having adopted standards in all major practice areas in Canada, the ASB regularly provides input into the development of international best practices as represented by proposed international standards. The profession in Canada must also follow General Standards that provide overall guidance for all actuarial work whether covered by one of the practice specific standard or not.

The ASB is composed of dedicated and experienced professionals, each a leader in their own practice areas, to conduct the business of overseeing and setting actuarial standards of practice.

The primary goals are to:

- Maintain this strong position; and
- Use findings from the recent analysis with ASOC, to work over the next five years to further improve standards and due process where necessary to ensure continued relevance of standards and maintain the confidence the public has in the actuarial profession.

## **Strategies for the Next Five Years**

The areas for improvement identified as part of the analysis of threats, weaknesses and opportunities have been grouped in the following three categories, namely, critical, important and process improvements.

### ***Critical***

As an organization that relies almost solely on volunteers to conduct its business, except for staff support from the CIA Head Office, the ASB needs to be very aware of the risk of volunteer fatigue and the need to have the ability to recruit competent and dedicated volunteers to undertake the very important work of setting meaningful and credible actuarial standards.

The following are initiatives to be undertaken as part of the strategic plan to better manage our valuable volunteer resources:

1. Reorganize the standard writing requirements by eliminating the Standards of Practice Editing Committee (SPEC) and using CIA office staff to address consistency of the written word in the standards. While transferring some additional onus on the ASB and designated groups, this action will ensure increased efficiencies and reduce the number of volunteers required to accomplish the work.
2. Work with the Practice Council and other CIA councils to develop a pipeline of qualified candidates. From this, develop a process where candidates in each practice area are identified and approached early to fill vacancies that arise on the ASB.
3. Propose an amendment to the Terms of Reference to allow for a longer maximum period of service on the ASB. This is expected to be very useful especially for practice areas where the number of practicing individuals is limited.

### ***Important***

#### ***Pensions***

The decline in interest rates and the volatility of financial markets have generated significant challenges for pension plans that pay a benefit on a defined formula (whether guaranteed or not).

The solvency funding requirements, which were intended to result in more prudent funding of pension plans, has not worked. The pension landscape is characterized by a multitude of solvency relief rules which increase the risk for plan members, particularly for plans where the accrued benefit is intended to be guaranteed.

Furthermore, the challenges in meeting the desired discount rate in a low interest rate environment has led to the implementation of a wide range of complex investment strategies moving away from the traditional focus on fixed income and equity investments. These include use of alternative asset classes with limited history (e.g., infrastructure, hedge funds etc.), customized fixed income assets designed to match liability movement and a variety of leveraging strategies that, in some cases, are very significant relative to actual invested assets. These developments make the determination of best estimate discount rates as required under current standards more

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challenging, with related implications for plan members and sponsors in terms of future benefit security and required contributions.

Finally, various new legislative and regulatory developments each with unique features have been introduced in recent years leading to new actuarial requirements. Some require specified levels of provisions for adverse deviations (PfADs) and others require calculations under stochastic modelling as opposed to deterministic calculations. While some guidance may be found in the general or practice-specific insurance standards, these new developments may not be adequately covered by existing practice specific pension standards.

As a response to this changing pension environment, the ASB has identified the following initiatives:

1. Develop standards for practice for stochastic modelling for pension plans that are broad enough to cover all situations where decision making requires use of a stochastic model rather than the traditional deterministic calculation. In this process, consistency of standards across practice areas will be given close scrutiny to ensure that future economic views are both consistent and seen as consistent by outside users.
2. Develop enhanced actuarial valuation disclosure requirements to better inform the public on the funding risks to which a pension plan may be exposed in the future.
3. Monitor developments outside of Canada and apply what can be learned from the evolution of actuarial practice outside of Canada.
4. Develop pension standards that are broad enough to allow creative solutions while protecting the public interest.

### ***Insurance***

It is expected that the International Accounting Standards Board will release their final standards for the Financial Reporting of Insurance Contracts during the planning period with an anticipated effective date of 2021. This standard will replace significant portions of the current actuarial standards (Life, Property and Casualty, and Public Personal Injury Compensation Plans) dealing with this financial reporting. It is further expected that the International Actuarial Association will publish model actuarial standards supporting this Standard. A new solvency framework is also under development by the regulator and expected to be released during the planning period.

As a response to this environment, the ASB has identified the following initiatives:

1. Closely monitor developments in relation to IFRS 17 and the new solvency framework and be ready to respond in a timely manner with revisions to general or practice specific standards that may be required.
2. Update promulgated rates as required.

### ***General Actions***

The ASB has identified a number of other actions that, while not related to a particular standard or practice area, are seen as important to improve the quality of standards and the effectiveness and transparency of the process. These actions are as follows:

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1. Monitor emerging practice areas to identify in a timely manner the potential need for practice specific standards (e.g., enterprise risk management (ERM)) by inviting practitioners to present at ASB meetings from time to time.
2. Monitor local and international developments that may affect existing practice-specific standards other than pensions and insurance.
3. Develop a guideline on content and style for DG's to consider when drafting revisions to, or a new, standard.
4. Propose changes to the Terms of Reference to require minimum attendance targets at ASB meetings for ASB members.
5. Propose changes to the terms of reference to clarify the role of ASB in relation to educational notes and to develop mechanisms to ensure that role is fulfilled.
6. Work on improving consistency between actuarial standards wherever applicable to minimize risk of having practice silos. This is also intended to improve the quality of standards.
7. Work on defining convergence with international standards with a goal of developing standards that are well aligned, where appropriate, with model standards developed by the IAA taking into account the actions of the other actuarial local standard setters.

## **Process Improvements**

The ASB has also identified a number of process improvements to improve the effectiveness and efficiency of its work. The following initiatives will be addressed over the term of this strategic plan:

1. Develop a process to systematically review evolution of actuarial standards and challenges encountered with actuarial practice in relevant jurisdictions outside of Canada (e.g., U.S., UK, Australia and International).
2. Develop a process to potentially enhance the involvement of interested publics and ASOC in identifying changes needed, and contributing to the development of, actuarial standards of practice.
3. Develop a standardized format for submission of documents to ASB for the approval of standards, exposure drafts and promulgations so that the ASB gets consistent information regardless of the area of practice or author of the document. It would also make it easier for ASOC and the public to verify that due process had followed.
4. Develop a process diagram clearly identifying the roles and responsibilities of designated groups with a view to improve estimates of the time required for projects on new or revisions to standards and identify strategies to support achieving the delivery timelines.
5. Continuously strive to improve the readability of standards for users (actuaries and non-actuaries).

## **Monitoring ASB Progress**

The ASB will regularly monitor its progress in implementing this strategic plan as part of its reporting to ASOC. A comparison of actual versus desired results on the strategic plan will be included as part of the annual report to ASOC and the CIA.

Annual plans will be developed for the regular planned activities of ASB and elements of this strategic plan to be implemented in each year. In addition, the ASB, as part of its regular activities, will monitor development and recommend changes to priorities, where necessary.

ASOC oversees ASB activities and will be able to assess ASB's performance relative to the strategic and annual plans to ensure an effective and efficient fulfillment of ASB's public interest mandate.