**“Fit and Proper”**

An AAE perspective on how to support AAE’s Full Member Associations and promote actuaries and actuarial work across Europe

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# Glossary

AAE: Actuarial Association of Europe

FMA: Full Member Association

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# Introduction

The AAE currently has 37 member associations in 36 European countries, representing over 27,000 actuaries. In each country, the requirements for doing actuarial work differs. In some countries, some actuarial activities are regulated by law and some are not. For the activities regulated by law, the appointment of a body controlling the actuarial activity and the control of the actuarial activities can either be delegated to a professional body (i.e. local actuarial association) or kept within the realm of the regulator.

After several years of analysis made on legal recognition, reserved activities and the promotion of the actuarial profession, the AAE concluded that there are major differences between local regulations of AAE’s FMAs and promoting local legal recognition and/or reserved activities locally will be very challenging. In fact, there are major differences between local regulations and views that regulator have on a same topic. But more importantly, several FMA raised that the AAE promoting legal recognition and/or reserved activities would be perceived to be pushing self-serving interests which would very likely back-fire and therefore hinder the achievement of our AAE’s goal to promote the highest standard of actuarial work across Europe. Therefore, the AAE concluded that best way forward is to promote the professionalism and the education level of actuaries across Europe to protect the profession and the industries in which the profession is active. This also means that the AAE should promote, at a European level, that non-actuaries doing actuarial work should also follow the same high standards as actuaries. Consequently, based on Figure 1 below, the best way forward to achieve this goal is to define minimum “Fit and Proper” requirements for actuarial activity and promote those on a European level with the AAE and locally (if relevant) with the FMAs.

A picture containing timeline

Description automatically generated

Figure 1: "Fit and Proper" - the common denominator

**Therefore, the goal of this paper is to define 1.) what is “Fit and Proper” 2.) how actuaries are “Fit and Proper” and 3.) how to ensure that any actuarial work is subject to some “Fit and Proper” requirements.**

# Principles

* **No perception of self-serving profession:** the actuarial profession cannot be perceived trying to create a monopoly for the profession. The actuarial profession should rather aim to make its members achieve the highest standards and support stakeholders to identify and implement the relevant standards with regards to Fit and Proper.
* **Subsidiarity:**
  + Local promotion of Fit and Proper to be done by FMAs (with, if requested, AAE’s support);
  + European promotion of Fit and Proper to be done by the AAE as representative of FMAs.

# What are “Fit and Proper” requirements from an AAE perspective

## Education syllabus

## CPD Guidelines

## Code of conduct

## Disciplinary process

## Standards

# What are “Fit and Proper” requirements from a European Union regulation perspective

## Solvency II

### Method

The current analysis comprises the Solvency II Directive as of 30.6.2021, the Commission delegated regulation as of 15.04.2021, and the Commission implementing regulation as of 06.07.2020. Note that corresponding recitals are not part of this analysis.

To identify activities with actuarial character, I propose to look for the following strings (case insensitive, not a complete word) to match mentioning of actuarial work:

1. actuar
2. distri
3. probabili
4. math
5. estima
6. knowle
7. experienc
8. theor
9. empir
10. expert
11. judgement
12. validat

Moreover, the descriptions of the key functions (SII Dir Art. 44-48; SII Impl Reg Art. 258-272; and references therein) reveal activities with actuarial character in a systematic way.

To identify the general requirement to be "fit" and "proper", I have looked for:

1. Fit;
2. Proper.

in all documents. It makes sense to analyse the directive first, as the delegated and implementation regulation merely adds detail.

"Fit" relates to professional qualifications, knowledge, and experience needed to perform certain activities adequately, soundly, and prudently. Therefore, a description of the corresponding qualifications, knowledge, and experience is well suited to detail the "fit" requirement for each task with actuarial character. It makes sense to associate the activities with actuarial character with the functions explicitly mentioned in the Solvency II system of governance: the key and the critical or important functions.

### General requirement to be fit and proper

According to [Art 42, SII Dir](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:02009L0138-20210630&from=EN#tocId59), persons are:

* **"Fit"** if their professional qualifications, knowledge, and experience are adequate to enable sound and prudent management, and
* **"Proper"** if they are of good repute and integrity.

Obviously, people are fit for a function if they can fulfil all tasks required for the function in a sound and prudent manner. It is therefore necessary to:

1. Identify the actuarial aspects of the activities needed to fulfil the different functions in the undertaking
2. Analyse the requirements regarding professional qualifications, knowledge, and experience to be adequately enabled to perform the activities with actuarial character in those functions.

The proper requirements are personal and not related to specific functions of tasks. The requirements are summarized in [Art. 43 SII Dir](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:02009L0138-20210630&from=EN#tocId60):

1. Proof of good repute (e.g by means of extract of a judicial record);
2. Proof of no previous bankruptcy.

### Activities with actuarial character by function (incomplete)

Actuarial skills are needed for various actuarial tasks in the undertaking:

1. Actuarial role in the administrative, supervisory and management body.

Actuarial role in key functions other than the actuarial function:

1. Actuarial role in the risk management function:
   1. Model and measure specific risks, especially underwriting and reserving risks;
   2. Contribute to the aggregation of risk;
   3. Contribute to the calc of the SCR;
   4. Contribute to the assessment of the liquidity of insurance liabilities;
   5. Contribute to the assessment of the sensitivity of technical provisions to interest rates and spreads;
   6. Contribute to the internal model concerning:
      1. Design and implementation,
      2. Test and validation,
      3. Documentation,
      4. Analysis of the performance,
      5. Information of and suggestions to the administrative, supervisory and management body.
   7. Contribute to the own risk and solvency assessment, ORSA, especially to the assessment of:
      1. Solvency needs,
      2. Compliance with capital requirements and requirements regarding technical provisions,
      3. Adequacy of the application of the standard formula.
2. Actuarial role in the internal control function, especially in the control of other actuarial tasks in the undertaking.
3. Actuarial role in the audit function, esp. when auditing technical provisions, and solvency requirements.

Activities of the actuarial function:

1. Actuarial function to effectively:
   1. Coordinate the calculation of technical provisions;
   2. Ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
   3. Assess the sufficiency and quality of the data used in the calculation of technical provisions;
   4. Compare best estimates against experience;
   5. Inform the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions;
   6. Oversee the calculation of technical provisions in the cases set out in Article 82;
   7. Express an opinion on the overall underwriting policy; and
   8. Express an opinion on the adequacy of reinsurance arrangements.
   9. Contribute to the effective implementation of the risk-management system referred to in Article 44, in particular with respect to the risk modelling underlying the calculation of the capital requirements set out in Chapter VI, Sections 4 and 5, and to the assessment referred to in Article 45.

Moreover, activities with actuarial character may be contained in critical or important functions. As these functions are determined by insurance and reinsurance undertaking, an additional step in necessary to identify more common critical and important functions.

### Solvency and financial conditions reports

Insurance and reinsurance undertakings need to describe their system of governance including the fit and proper requirement as part of their solvency and financial condition report, SFCR, per SII Imp Reg, Article 294, Para 2:

"The solvency and financial condition report shall include all of the following information regarding the ‘fit and proper’ policy of the insurance or reinsurance undertaking:

1. A description of the undertaking's specific requirements concerning skills, knowledge and expertise applicable to the persons who effectively run the undertaking or have other key functions;
2. A description of the undertaking's process for assessing the fitness and the propriety of the persons who effectively run the undertaking or have other key functions."

It would make sense to analyse SFCRs of select big and small undertakings in all EEA countries. On a small non-representative sample, companies often define the requirements as what is needed to fulfil the requirements of the tasks of the key functions. In the process for assessing the fitness, the actuarial education and qualification often plays a role. Moreover, assessments of function holder by supervisors are mentioned.

### Solvency II - appendix

|  |  |  |
| --- | --- | --- |
| Regulation | Classification | Text |
| SII Dir | Actuarial Function | *[Article 48](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:02009L0138-20210630&from=EN" \l "tocId65)*  **[Actuarial function](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:02009L0138-20210630&from=EN" \l "tocId65)**  1.  Insurance and reinsurance undertakings shall provide for an effective actuarial function to:  (a)  coordinate the calculation of technical provisions;  (b)  ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;  (c)  assess the sufficiency and quality of the data used in the calculation of technical provisions;  (d)  compare best estimates against experience;  (e)  inform the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions;  (f)  oversee the calculation of technical provisions in the cases set out in Article 82;  (g)  express an opinion on the overall underwriting policy;  (h)  express an opinion on the adequacy of reinsurance arrangements; and  (i)  contribute to the effective implementation of the risk-management system referred to in Article 44, in particular with respect to the risk modelling underlying the calculation of the capital requirements set out in Chapter VI, Sections 4 and 5, and to the assessment referred to in Article 45.  2.  The actuarial function shall be carried out by persons who have knowledge of actuarial and financial mathematics, commensurate with the nature, scale and complexity of the risks inherent in the business of the insurance or reinsurance undertaking, and who are able to demonstrate their relevant experience with applicable professional and other standards. |
| SII Dir | Supervising Actuaries | *[Article 68](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:02009L0138-20210630&from=EN" \l "tocId90)*  ***[Exchange of information with other authorities](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:02009L0138-20210630&from=EN" \l "tocId90)***  *Par 2 lit (c)*  *2.  Articles 64 to 67 shall not preclude Member States from authorising exchanges of information between the supervisory authorities and any of the following:*  (c)  independent actuaries of insurance undertakings or reinsurance undertakings carrying out legal supervision of those undertakings and the bodies responsible for overseeing such actuaries. |
| SII Dir | Actuarial methods in calculating technical provisions | *[Article 77](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:02009L0138-20210630&from=EN" \l "tocId102)*  **[Calculation of technical provisions](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:02009L0138-20210630&from=EN" \l "tocId102)**  1.  The value of technical provisions shall be equal to the sum of a best estimate and a risk margin as set out in paragraphs 2 and 3.  2.  The best estimate shall correspond to the probability-weighted average of future cash-flows, taking account of the time value of money (expected present value of future cash-flows), using the relevant risk-free interest rate term structure.  The calculation of the best estimate shall be based upon up-to-date and credible information and realistic assumptions and be performed using adequate, applicable and relevant actuarial and statistical methods. |
| SII Dir | Quality of technical provisions | *[Article 82](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:02009L0138-20210630&from=EN" \l "tocId115)*  **[Data quality and application of approximations, including case-by-case approaches, for technical provisions](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:02009L0138-20210630&from=EN" \l "tocId115)**  Member States shall ensure that insurance and reinsurance undertakings have internal processes and procedures in place to ensure the appropriateness, completeness and accuracy of the data used in the calculation of their technical provisions.  Where, in specific circumstances, insurance and reinsurance undertakings have insufficient data of appropriate quality to apply a reliable actuarial method to a set or subset of their insurance and reinsurance obligations, or amounts recoverable from reinsurance contracts and special purpose vehicles, appropriate approximations, including case-by-case approaches, may be used in the calculation of the best estimate. |
| SII Dir | Comparison against experience | *[Article 83](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:02009L0138-20210630&from=EN" \l "tocId116)*  **[Comparison against experience](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:02009L0138-20210630&from=EN" \l "tocId116)**  Insurance and reinsurance undertakings shall have processes and procedures in place to ensure that best estimates, and the assumptions underlying the calculation of best estimates, are regularly compared against experience.  Where the comparison identifies systematic deviation between experience and the best estimate calculations of insurance or reinsurance undertakings, the undertaking concerned shall make appropriate adjustments to the actuarial methods being used and/or the assumptions being made. |
| SII Dir | Statistical Quality (Internal model) | *[Article 121](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:02009L0138-20210630&from=EN" \l "tocId163)*  **[Statistical quality standards](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:02009L0138-20210630&from=EN" \l "tocId163)**  1.  The internal model, and in particular the calculation of the probability distribution forecast underlying it, shall comply with the criteria set out in paragraphs 2 to 9.  2.  The methods used to calculate the probability distribution forecast shall be based on adequate, applicable and relevant actuarial and statistical techniques and shall be consistent with the methods used to calculate technical provisions. Insurance and reinsurance undertakings shall be able to justify the assumptions underlying their internal model to the supervisory authorities.  3.  Data used for the internal model shall be accurate, complete and appropriate.  Insurance and reinsurance undertakings shall update the data sets used in the calculation of the probability distribution forecast at least annually.  4.  No particular method for the calculation of the probability distribution forecast shall be prescribed.  Regardless of the calculation method chosen, the ability of the internal model to rank risk shall be sufficient to ensure that it is widely used in and plays an important role in the system of governance of insurance and reinsurance undertakings, in particular their risk-management system and decision-making processes, and capital allocation in accordance with Article 120.  The internal model shall cover all of the material risks to which insurance and reinsurance undertakings are exposed. Internal models shall cover at least the risks set out in Article 101(4).  5.  As regards diversification effects, insurance and reinsurance undertakings may take account in their internal model of dependencies within and across risk categories, provided that supervisory authorities are satisfied that the system used for measuring those diversification effects is adequate.  6.  Insurance and reinsurance undertakings may take full account of the effect of risk-mitigation techniques in their internal model, as long as credit risk and other risks arising from the use of risk-mitigation techniques are properly reflected in the internal model.  7.  Insurance and reinsurance undertakings shall accurately assess the particular risks associated with financial guarantees and any contractual options in their internal model, where material. They shall also assess the risks associated with both policy holder options and contractual options for insurance and reinsurance undertakings. For that purpose, they shall take account of the impact that future changes in financial and non-financial conditions may have on the exercise of those options.  8.  In their internal model, insurance and reinsurance undertakings may take account of future management actions that they would reasonably expect to carry out in specific circumstances.  In the case set out in the first subparagraph, the undertaking concerned shall make allowance for the time necessary to implement such actions.  9.  In their internal model, insurance and reinsurance undertakings shall take account of all payments to policy holders and beneficiaries which they expect to make, whether or not those payments are contractually guaranteed. |
| SII Dir | Calibration Quality (Internal model) | *[Article 122](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:02009L0138-20210630&from=EN" \l "tocId164)*  **[Calibration standards](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:02009L0138-20210630&from=EN" \l "tocId164)**  1.  Insurance and reinsurance undertakings may use a different time period or risk measure than that set out in Article 101(3) for internal modelling purposes as long as the outputs of the internal model can be used by those undertakings to calculate the Solvency Capital Requirement in a manner that provides policy holders and beneficiaries with a level of protection equivalent to that set out in Article 101.  2.  Where practicable, insurance and reinsurance undertakings shall derive the Solvency Capital Requirement directly from the probability distribution forecast generated by the internal model of those undertakings, using the Value-at-Risk measure set out in Article 101(3).  3.  Where insurance and reinsurance undertakings cannot derive the Solvency Capital Requirement directly from the probability distribution forecast generated by the internal model, the supervisory authorities may allow approximations to be used in the process to calculate the Solvency Capital Requirement, as long as those undertakings can demonstrate to the supervisory authorities that policy holders are provided with a level of protection equivalent to that provided for in Article 101.  4.  Supervisory authorities may require insurance and reinsurance undertakings to run their internal model on relevant benchmark portfolios and using assumptions based on external rather than internal data in order to verify the calibration of the internal model and to check that its specification is in line with generally accepted market practice. |
| SII Dir | Validation Quality (Internal model) | *[Article 124](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:02009L0138-20210630&from=EN" \l "tocId166)*  **[Validation standards](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:02009L0138-20210630&from=EN" \l "tocId166)**  Insurance and reinsurance undertakings shall have a regular cycle of model validation which includes monitoring the performance of the internal model, reviewing the ongoing appropriateness of its specification, and testing its results against experience.  The model validation process shall include an effective statistical process for validating the internal model which enables the insurance and reinsurance undertakings to demonstrate to their supervisory authorities that the resulting capital requirements are appropriate.  The statistical methods applied shall test the appropriateness of the probability distribution forecast compared not only to loss experience but also to all material new data and information relating thereto.  The model validation process shall include an analysis of the stability of the internal model and in particular the testing of the sensitivity of the results of the internal model to changes in key underlying assumptions. It shall also include an assessment of the accuracy, completeness and appropriateness of the data used by the internal model. |
| SII Dir | Documentation Quality (Internal model) | *Article 125*  **Documentation standards**  Insurance and reinsurance undertakings shall document the design and operational details of their internal model.  The documentation shall demonstrate compliance with Articles 120 to 124.  The documentation shall provide a detailed outline of the theory, assumptions, and mathematical and empirical bases underlying the internal model.  The documentation shall indicate any circumstances under which the internal model does not work effectively.  Insurance and reinsurance undertakings shall document all major changes to their internal model, as set out in Article 115. |
| SII Dir | Compliance with national provisions re actuarial principles | *[Article 182](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:02009L0138-20210630&from=EN" \l "tocId250)*  **[Life insurance](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:02009L0138-20210630&from=EN" \l "tocId250)**  Member States shall not require the prior approval or systematic notification of general and special policy conditions, scales of premiums, technical bases used in particular for calculating scales of premiums and technical provisions or forms and other printed documents which a life insurance undertaking intends to use in its dealings with policy holders.  However, the home Member State may, for the sole purpose of verifying compliance with national provisions concerning actuarial principles, require systematic communication of the technical bases used in particular for calculating scales of premiums and technical provisions. Those requirements shall not constitute a prior condition for an insurance undertaking to pursue business. |
| SII Dir | Sufficient premiums where health insurance is an alternative to social security | *[Article 206](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:02009L0138-20210630&from=EN" \l "tocId282)*  **[Health insurance as an alternative to social security](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:02009L0138-20210630&from=EN" \l "tocId282)**  1.  Member States in which contracts covering the risks under class 2 in Part A of Annex I may serve as a partial or complete alternative to health cover provided by the statutory social security system may require that:  (a)  those contracts comply with the specific legal provisions adopted by that Member State to protect the general good in that class of insurance;  (b)  the general and special conditions of that insurance be communicated to the supervisory authorities of that Member State before use.  2.  Member States may require that the health insurance system referred to in paragraph 1 be operated on a technical basis similar to that of life insurance where all the following conditions are fulfilled:  (a)  the premiums paid are calculated on the basis of sickness tables and other statistical data relevant to the Member State in which the risk is situated in accordance with the mathematical methods used in insurance;  (b)  a reserve is set up for increasing age;  (c)  the insurer may cancel the contract only within a fixed period determined by the Member State in which the risk is situated;  (d)  the contract provides that premiums may be increased or payments reduced, even for current contracts;  (e)  the contract provides that the policy holders may change their existing contract into a new contract complying with paragraph 1, offered by the same insurance undertaking or the same branch and taking account of their acquired rights.  In the case referred to in point (e) of the first subparagraph, account shall be taken of the reserve for increasing age and a new medical examination may be required only for increased cover.  The supervisory authorities of the Member State concerned shall publish the sickness tables and other relevant statistical data referred to in point (a) of the first subparagraph and transmit them to the supervisory authorities of the home Member State.  The premiums must be sufficient, on reasonable actuarial assumptions, for insurance undertakings to be able to meet all their commitments having regard to all aspects of their financial situation. The home Member State shall require the technical basis for the calculation of premiums to be communicated to its supervisory authorities before the product is circulated.  The third and fourth subparagraphs shall also apply where existing contracts are modified. |
| SII Dir | Sufficient premiums for life insurance | *[Article 209](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:02009L0138-20210630&from=EN" \l "tocId288)*  **[Premiums for new business](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:02009L0138-20210630&from=EN" \l "tocId288)**  Premiums for new business shall be sufficient, on reasonable actuarial assumptions, to enable life insurance undertakings to meet all their commitments and, in particular, to establish adequate technical provisions.  For that purpose, all aspects of the financial situation of a life insurance undertaking may be taken into account, without the input from resources other than premiums and income earned thereon being systematic and permanent in a way that it may jeopardise the solvency of the undertaking concerned in the long term. |

## IORP II

### Regulation

The table below shows the different references to actuarial work in the IORP II regulation per functions and activity.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| IORP II regulations | Prudent calculation of technical provisions | Actuarial function | Board member/trustee/persons who effectively run the IORP | Risk management function | Internal audit function |
| Recital 40 | Technical provisions should be calculated on the basis of recognized actuarial methods and certified by an actuary or by another specialist in that field. | The actuarial function should be carried out by persons who have knowledge of actuarial and financial mathematics commensurate with the size, nature, scale and complexity of the risks inherent in the activities of the IORP, and who are able to demonstrate their relevant experience with applicable professional qualifications or other standards. | For persons who effectively run the IORP, this means their qualifications, knowledge and experience are collectively adequate to enable them to ensure a sound and prudent management of the IORP |  |  |
| Article 13.4, technical provisions | The calculation of the technical provisions shall be executed and certified by an actuary or by another specialist in that field, including an auditor, where permitted by national law, on the basis of actuarial methods recognized by the competent authorities of the home Member State. |  |  |  |  |
| Article 13.4.a, technical provisions | The minimum amount of the technical provisions shall be calculated by a sufficiently prudent actuarial valuation, taking account of all commitments for benefits and for contributions in accordance with the pension arrangements of the IORP. |  |  |  |  |
| Article 13.4.a, technical provisions | The economic and actuarial assumptions chosen for the valuation of the liabilities shall also be chosen prudently taking account, if applicable, of an appropriate margin for adverse deviation. |  |  |  |  |
| Article 22.1.a.(i), requirements for fit and proper management |  |  | For persons who effectively run the IORP, this means their qualifications, knowledge and experience are collectively adequate to enable them to ensure a sound and prudent management of the IORP |  |  |
| Article 22.1.a.(ii), requirements for fit and proper management |  | For persons who carry out the actuarial or internal audit key functions this means their professional qualifications, knowledge and experience are adequate to properly carry out their key functions. |  |  | For persons who carry out the actuarial or internal audit key functions this means their professional qualifications, knowledge and experience are adequate to properly carry out their key functions. |
| Article 22.1.a.(iii), requirements for fit and proper management |  |  |  | For persons who carry out other key functions this means their qualifications, knowledge and experience are adequate to properly carry out their key functions |  |
| Article 22.1.b., requirements for fit and proper management |  | The requirement to be proper: they are of good repute and integrity. | The requirement to be proper: they are of good repute and integrity. | The requirement to be proper: they are of good repute and integrity. | The requirement to be proper: they are of good repute and integrity. |
| Article 24.1, general provisions |  | IORPs shall enable the holders of key functions to undertake their duties effectively in an objective, fair and independent manner. |  | IORPs shall enable the holders of key functions to undertake their duties effectively in an objective, fair and independent manner. | IORPs shall enable the holders of key functions to undertake their duties effectively in an objective, fair and independent manner. |
| Article 24.2, general provisions |  | IORPs may allow a single person or organisational unit to carry out more than one key function, with the exception of the internal audit function referred to in Article 26, which shall be independent from the other key functions. |  | IORPs may allow a single person or organisational unit to carry out more than one key function, with the exception of the internal audit function referred to in Article 26, which shall be independent from the other key functions. |  |
| Article 24.3, general provisions |  | The single person or organisational unit carrying out the key function shall be different from the one carrying out a similar key function in the sponsoring undertaking. |  | The single person or organisational unit carrying out the key function shall be different from the one carrying out a similar key function in the sponsoring undertaking. | The single person or organisational unit carrying out the key function shall be different from the one carrying out a similar key function in the sponsoring undertaking. |
| Article 24.3, general provisions |  | Member States may, taking into account the size, nature, scale and complexity of the activities of the IORP, allow the IORP to carry out key functions through the same single person or organisational unit as in the sponsoring undertaking, provided that the IORP explains how it prevents or manages any conflicts of interest with the sponsoring undertaking. |  | Member States may, taking into account the size, nature, scale and complexity of the activities of the IORP, allow the IORP to carry out key functions through the same single person or organisational unit as in the sponsoring undertaking, provided that the IORP explains how it prevents or manages any conflicts of interest with the sponsoring undertaking. | Member States may, taking into account the size, nature, scale and complexity of the activities of the IORP, allow the IORP to carry out key functions through the same single person or organisational unit as in the sponsoring undertaking, provided that the IORP explains how it prevents or manages any conflicts of interest with the sponsoring undertaking. |
| Article 24.4, general provisions |  | The holders of a key function shall report any material findings and recommendations in the area of their responsibility to the administrative, management or supervisory body of the IORP which shall determine what actions are to be taken. |  | The holders of a key function shall report any material findings and recommendations in the area of their responsibility to the administrative, management or supervisory body of the IORP which shall determine what actions are to be taken. | The holders of a key function shall report any material findings and recommendations in the area of their responsibility to the administrative, management or supervisory body of the IORP which shall determine what actions are to be taken. |
| Article 24.5, general provisions |  | Without prejudice to the privilege against self-incrimination, the holder of a key function shall inform the competent authority of the IORP if the administrative, management or supervisory body of the IORP does not take appropriate and timely remedial action in the following cases: |  | Without prejudice to the privilege against self-incrimination, the holder of a key function shall inform the competent authority of the IORP if the administrative, management or supervisory body of the IORP does not take appropriate and timely remedial action in the following cases: | Without prejudice to the privilege against self-incrimination, the holder of a key function shall inform the competent authority of the IORP if the administrative, management or supervisory body of the IORP does not take appropriate and timely remedial action in the following cases: |
| Article 25.2, risk management |  |  |  | The risk-management system shall cover, in a manner that is proportionate to the size and internal organisation of IORPs, as well as to the size, nature, scale and complexity of their activities, risks which can occur in IORPs or in undertakings to which tasks or activities of an IORP have been outsourced, at least in the following areas, where applicable: (a) underwriting and reserving; (b) asset–liability management; (c) investment, in particular derivatives, securitisations and similar commitments; (d) liquidity and concentration risk management; (e) operational risk management; (f) insurance and other risk-mitigation techniques; (g) environmental, social and governance risks relating to the investment portfolio and the management thereof. |  |
| Article 25.3, risk management |  |  |  | Where, in accordance with the conditions of the pension scheme, members and beneficiaries bear risks, the risk management system shall also consider those risks from the perspective of members and beneficiaries. |  |
| Article 26, internal audit function |  |  |  |  | The internal audit function shall include an evaluation of the adequacy and effectiveness of the internal control system and other elements of the system of governance, including, where applicable, outsourced activities. |
| Article 27.1, actuarial function |  | Where an IORP itself provides cover against biometric risks or guarantees either an investment performance or a given level of benefits, Member States shall require that IORP to provide for an effective actuarial function to: (a) coordinate and oversee the calculation of technical provisions; (b) assess the appropriateness of the methodologies and underlying models used in the calculation of technical provisions and the assumptions made for this purpose; (c) assess the sufficiency and quality of the data used in the calculation of technical provisions; (d) compare the assumptions underlying the calculation of the technical provisions with the experience; (e) inform the administrative, management or supervisory body of the IORP of the reliability and adequacy of the calculation of technical provisions; (f) express an opinion on the overall underwriting policy in the event of the IORP having such a policy; (g) express an opinion on the adequacy of insurance arrangements in the event of the IORP having such arrangements; and (h) contribute to the effective implementation of the risk management system. |  |  |  |
| Article 27.2, actuarial function |  | Member States shall require IORPs to designate at least one independent person, inside or outside the IORP, who is responsible for the actuarial function. |  |  |  |
| Article 55.3.c, exchange of information between authorities |  | Articles 52 and 53 shall not preclude Member States from authorising exchanges of information between the competent authorities and any of the following: independent actuaries of IORPs carrying out supervision of those IORPs and the bodies responsible for overseeing such actuaries. |  |  |  |

Table 1: IORP II regulation

### IORP II “Fit and Proper” requirements and matching with AAE requirements

Table 2 below lists the requirements derived from the IORP II regulation (i.e. text highlighted in yellow in Table 1). In the white rows of the table you will find the requirements and in the grey rows, a matching with AAE requirements.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Classification (Fit or Proper) | Prudent calculation of technical provisions | Actuarial function | Board member/trustee/persons who effectively run the IORP | Risk management function | Internal audit function |
| Fit | Knowledge of recognised actuarial methods for the valuation of pension liabilities. | Knowledge of recognised actuarial methods for the valuation of pension liabilities; | Knowledge and experience are collectively adequate to enable them to ensure a sound and prudent management of the IORP. |  |  |
|  | Education syllabus; continuous professional development; Principle B of the code of professional conduct**.** | Education syllabus; continuous professional development; Principle B of the code of professional conduct. | Based on the definition, an actuary in the board is almost a must given this requirement. This actuary must then have good knowledge of all the fields that apply to the actuarial function in order to be able to bring countervailing power in the management of the IORP. The actuary will fulfill these requirements due to the education syllabus, continuous professional development and code of professional conduct (principle B). |  |  |
| Fit | Professional judgement (applying "sufficiently prudent actuarial valuation"; Choosing economic and actuarial assumptions; appropriate margin for adverse deviation). | Professional judgement (applying proportionality; applying "sufficiently prudent"; choosing economic and actuarial assumptions; whistleblowing). |  | Professional judgement (applying proportionality; applying "sufficiently prudent"; choosing economic and actuarial assumptions; whistleblowing); | Professional judgement (adequacy and effectiveness of the internal control system and other elements of the system of governance). |
|  | Code of conduct (principles A, B and C). European Actuarial Note on professional judgement. | Code of conduct (principles A, B and C). European Actuarial Note on professional judgement. |  | Code of conduct (principles A, B and C). European Actuarial Note on professional judgement. | Code of conduct (principles A, B and C). Code of conduct (principles A, B and C). European Actuarial Note on professional judgement. |
| Fit | Knowledge of pension arrangements in the jurisdiction**. A** minimum of two years of experience with pension arrangements in the jurisdiction. | Knowledge of pension arrangements in the jurisdiction**.** A minimum of two years of experience with pension arrangements in the jurisdiction.  Actuary with relevant experience and applicable professional qualifications or other standards.  Proven continuous professional development in this field (an actuary needs to be up-to-date with all relevant professional developments and new or updated professional standards) |  |  |  |
|  | Education syllabus; continuous professional development; Principles B and C of the code of professional conduct. | Education syllabus; continuous professional development; Principles B and C of the code of professional conduct. |  |  |  |
| Fit |  |  |  | Good notion of needs for consumer protection, (intergenerational) fairness (providing member and beneficiary perspective). |  |
|  |  |  |  | The vision and missions of actuarial association are to contribute to the greater good. This is not specifically handled in AAE’s governance documents. |  |
| Fit |  |  |  |  | Good knowledge of internal control and governance systems. Good knowledge of control and governance systems of outsourcing partners. |
|  |  |  |  |  | Education syllabus; continuous professional development; Principles B and C of the code of professional conduct. |
| Fit |  | Good understanding of: (a) coordinate and oversee the calculation of technical provisions; (b) assess the appropriateness of the methodologies and underlying models used in the calculation of technical provisions and the assumptions made for this purpose; (c) assess the sufficiency and quality of the data used in the calculation of technical provisions; (d) compare the assumptions underlying the calculation of the technical provisions with the experience; (e) inform the administrative, management or supervisory body of the IORP of the reliability and adequacy of the calculation of technical provisions; (f) express an opinion on the overall underwriting policy in the event of the IORP having such a policy; (g) express an opinion on the adequacy of insurance arrangements in the event of the IORP |  | Good understanding of: (a) underwriting and reserving; (b) asset–liability management; (c) investment, in particular derivatives, securitisations and similar commitments; (d) liquidity and concentration risk management; (e) operational risk management; (f) insurance and other risk-mitigation techniques; (g) environmental, social and governance risks relating to the investment portfolio and the management thereof. |  |
|  |  | Education syllabus; continuous professional development; Principle B of the code of professional conduct**.** |  | Education syllabus; continuous professional development; Principle B of the code of professional conduct**.** |  |
| Proper |  | Adhering to professional standards; Actuary being objective, fair and independent; Actuary with good repute and integrity. | Good repute and integrity. | Objective, fair and independent; Good repute and integrity. | Objective, fair and independent; Good repute and integrity |
|  |  | Code of professional conduct; European actuarial standards. | Code of professional conduct; European actuarial standards. | Code of professional conduct; European actuarial standards. | Code of professional conduct; European actuarial standards. |
| Proper |  | No criminal records; Sound financial position; No civil action against person to pursue personal debts; No refusal of admission to or expulsion from professional bodies; No sanctions applied by regulators (from all industries); No questionable business practices. | | | |
|  |  | Those requirements cannot be checked by actuarial associations and should be performed by the regulator/employer when required. | | | |

Table 2: IORP II Fit & Proper requirements

## Accounting

## Performance reporting

## GDPR

## SFDR

The working group checked for any mention to fit and proper requirements in the SFDR (sustainable finance disclosure regulation) and hasn’t found any requirements and/or information.

## PEPP

## PROPOSALS FO​​R A RELEVANT AND DYNAMIC EU SUSTAINABILITY REPORTING STANDARD-SETTING

​​On 25 June 2020, the European Commission issued a request for technical advice mandating EFRAG to undertake preparatory work for the elaboration of possible EU non-financial reporting standards in a revised EU Non-Financial Reporting Directive.​​​​​ The final report of the Task Force proposes a roadmap for the development of a comprehensive set of EU sustainability reporting standards.

# How do we ensure that actuarial work is subject to “Fit and Proper” requirements

## Systemic actuarial activity

Activity is already regulated and controlled and approved/reviewed by a person (e.g. SII). This person needs to be “Fit and Proper”. How can we promote actuaries to be recognized as “Fit and Proper” automatically.

## Non-systemic actuarial activity

For these activities, there is a challenge as actuaries have to follow the CoC, CPD, etc. and other professionals do not.

# Appendix on definition of latest techniques