

**FINNISH STANDARD OF ACTUARIAL PRACTICE 1
(FSAP 1)**

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GENERAL ACTUARIAL PRACTICE

**Approved as a standard
by the General Assembly of the Actuarial Society of Finland
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Section 1. General

1.1 Purpose

This FSAP provides guidance to actuaries when performing actuarial services to give intended users confidence that

- actuarial services are carried out professionally and with due care;
- the results are relevant to their needs, are presented clearly and understandably, and are complete; and
- the assumptions and methodology (including, but not limited to, models and modelling techniques) used are disclosed appropriately.

1.2 Scope

- 1.2.1 This FSAP is a general standard. It applies to all actuarial services performed by an actuary unless an element of guidance is explicitly superseded by another standard such as a practice-specific standard or by law.
- 1.2.2 Usually, the intent of a practice-specific standard is to narrow the range of practice considered acceptable under the general standards. In exceptional cases, however, the intent of a practice-specific standard is to define as acceptable a practice which would not be acceptable under the general standards, in which case that intent is specifically noted by words in a practice-specific standard like: “Notwithstanding the general standards, the actuary should . . .”, followed by a description of the exception.

1.3 Compliance

An actuary may fail to follow the guidance in an FSAP but still comply with it where the actuary:

- 1.3.1 Complies with requirements of law that conflict with the FSAP;
- 1.3.2 Complies with requirements of the actuarial code of professional conduct applicable to the work that conflict with the FSAP; or
- 1.3.3 Departs from the guidance in the FSAP and provides, in every report to which it is relevant, an appropriate statement with respect to the nature, rationale and effect of any such departure if the guidance is expressed as “should”. If the guidance is expressed as “must”, the actuary may not depart from it unless paragraph 1.3.1 or paragraph 1.3.2 applies.

1.4 Applicability

FSAP 1 provides guidance to actuaries on general actuarial practice when performing actuarial services. Other FSAPs do not repeat the general guidance provided in FSAP 1. Compliance with FSAP 1 is a prerequisite to compliance with all other FSAPs. An actuary who is performing these actuarial services may be acting in one of several capacities such as an employee, management, director, external adviser, auditor, or supervisory authority.

- 1.4.1 The application of the FSAP is clear when a single consulting actuary is performing actuarial services for a client who is not affiliated with the actuary.
- 1.4.2 When a team is performing actuarial services, most paragraphs of the FSAP apply to every actuary on the team. However, requirements in some paragraphs need not be met by every actuary on the team personally (e.g., 2.1.1). In the case of such paragraphs, each actuary on the team should identify, if relevant to that actuary's work, which member of the team is responsible for complying with such requirements and be satisfied that the other team member accepts that responsibility.
- 1.4.3 When a team is performing actuarial services, the team leader takes overall responsibility for the team's work product. An actuary who is not the team leader (and hence does not control the team's work product) should treat the team leader as the user and interpret the FSAP within that context.
- 1.4.4 If an actuary is performing actuarial services for an affiliated party (either individually or as a member of a team), the actuary should interpret the FSAP in the context of practices that apply normally within or in relation to the affiliated party, except that, if there are substantive inconsistencies between these practices and the FSAP, the actuary should endeavour to observe the spirit and intent of the FSAP as fully as possible.
 - a. The actuary should consider the expectations of the principal. These expectations might suggest that it may be appropriate to omit some of the otherwise required content in a report. However, limiting the content of a report may not be appropriate if that report or the findings in that report may receive broad distribution.
 - b. If the actuary believes circumstances are such that including certain content in a report is not necessary or appropriate, the actuary should be prepared (if challenged by a professional actuarial body with jurisdiction over the actuarial services) to describe these circumstances and provide the rationale for limiting the content of that report.

1.5 Reasonable Judgement

The actuary should exercise reasonable judgement in applying any FSAP.

- 1.5.1 A judgement is reasonable if it takes into account:
 - a. The spirit and intent of the FSAPs;
 - b. The type of assignment; and
 - c. Appropriate constraints on time and resources.

- 1.5.2 Nothing in an FSAP should be interpreted as requiring work to be performed that is not proportionate to the scope of the decision or the assignment to which it relates and the benefit that intended users would be expected to obtain from the work (Principle of Proportionality).
- 1.5.3 Any judgement required by the FSAP (including implicit judgement) is intended to be the actuary's professional judgement unless otherwise stated.

1.6 Language

- 1.6.1 Some of the language used in all FSAPs is intended to be interpreted in a very specific way in the context of a decision of the actuary. In particular, the following words are to be understood to have the meanings indicated:
- "Must" means that the indicated action is mandatory and failure to follow the indicated action will constitute a failure to comply with the FSAP, unless the departure is due to a conflict with law (1.3.1) or code of professional conduct (1.3.2);
 - "Should" (or "shall") means that, under normal circumstances, the actuary is expected to follow the indicated action, unless the departure is due to a conflict with law (1.3.1) or code of professional conduct (1.3.2). However, in all other cases, if following the indicated action would produce a result that would be inappropriate or would potentially mislead the intended users of the actuarial services, the actuary should depart from that guidance and disclose that fact and provide the reason for not following the indicated action as described in paragraph 1.3.3.
 - "May" means that the indicated action is not required, nor even necessarily expected, but in certain circumstances is an appropriate activity, possibly among other alternatives. Note that "might" is not used as a synonym for "may", but rather with its normal meaning.
 - "Any" (as in e.g. "any report") means all such items if they exist, while acknowledging they may not exist. Such a reference does not give rise to a requirement to create such an item.
- 1.6.2 FSAPs use various terms whose specific meanings are defined in the AAE Glossary. These terms are highlighted in the text with a dashed underscore and in blue (e.g. actuary).

1.7 Cross-references

When an FSAP refers to the content of another document, the reference relates to the referenced document as it is effective on the adoption date as shown on the cover page of the FSAP. If the referenced document is amended or restated after the adoption date of the FSAP, the actuary must consider the extent to which the guidance in the FSAP is still applicable and appropriate.

1.8 Application and Effective Date

This FSAP is effective for actuarial services commenced on or after x xxxx 202x. <to be updated>

The standard applies as appropriate taking into account the type of the current and earlier work of the actuary.

Section 2. Appropriate Practices

2.1 Acceptance of Assignment

- 2.1.1 When providing actuarial services, the actuary should confirm with the principal the nature and scope of actuarial services to be provided, including:
- a. The role of the principal;
 - b. Any limitations or constraints on the actuary;
 - c. Any requirements that the actuary is required to satisfy;
 - d. Identification of the schedule and expected cost or resources needed (especially if they are substantial); and
 - e. The information needed to be communicated to and by the actuary, especially if it is sensitive or confidential.
- 2.1.2 In accepting an assignment for actuarial services, the actuary shall:
- a. Be competent and appropriately experienced to perform the services;
 - b. Be satisfied that the assignment can be performed under the applicable code of professional conduct; and
 - c. Have reasonable assurance of time, resources, access to relevant employees and other relevant parties, access to documentation and information and the right of the actuary to communicate information, as may be necessary for the work.

2.2 Knowledge of Relevant Circumstances

The actuary should have or obtain sufficient knowledge and understanding of the data and other information available, including the relevant history, processes, nature of the business operations, law, and business environment of the subject of the actuarial services, to be appropriately prepared to perform the actuarial services required by the assignment.

2.3 Reliance on Others

The actuary may use information prepared by another party. This information may include data, opinions of other professionals, and supporting analyses (but excludes assumptions and methodology). The actuary may select the party and information on which to rely, or may be given the information by the principal. The actuary may take responsibility for such information or the actuary may state that reliance has been placed upon the source of this information and disclaim responsibility.

- 2.3.1 If the actuary selects the party on whom to rely, the actuary should consider the following:
- a. The other party's qualifications;
 - b. The other party's competence, integrity and objectivity;
 - c. The other party's awareness of how the information is expected to be used;

- d. Discussions and correspondence between the actuary and the other party regarding any facts known to the actuary that are likely to have a material effect upon the information used; and
 - e. The need to review the other party's supporting documentation.
- 2.3.2 If the actuary uses information prepared by another party without disclaiming responsibility for that information, the actuary:
- a. Should determine that the use of that information conforms to accepted actuarial practice in the jurisdiction(s) of the actuary's services;
 - b. Should establish appropriate procedures for the management and review of the information that the actuary intends to use; and
 - c. Does not need to disclose the source of the information.
- 2.3.3 If the actuary states reliance on the information prepared by another party and disclaims responsibility for it, the actuary should:
- a. Disclose in any report that fact (including identifying the other party);
 - b. Disclose in any report the nature and extent of such reliance;
 - c. Examine the information for evident shortcomings;
 - d. When practicable, review the information for reasonableness and consistency; and
 - e. Disclose in any report the steps, if any, that the actuary took to determine whether it was appropriate to rely on the information.
- 2.3.4 If the information was prepared by the other party under a different jurisdiction, the actuary should consider any differences in the law or accepted actuarial practice between the two jurisdictions and how that might affect the actuary's use of the information.

2.4 Materiality

In case of omissions, understatements, or overstaterments, the actuary should assess whether the effect is material. If the effect of any of these is material, the actuary should disclose this in any report to which it is relevant. The threshold of materiality under which the work is being conducted should be determined by the actuary unless it is imposed by another party such as an auditor or the principal. When determining the threshold of materiality, the actuary should:

- 2.4.1 Assess materiality from the point of view of the intended user(s), recognising the purpose of the actuarial services; thus, an omission, understatement or overstatement is material if the actuary expects it to affect significantly either the intended user's decision-making or the intended user's reasonable expectations;
- 2.4.2 Consider the actuarial services and the subject of those actuarial services; and
- 2.4.3 Consult with the principal if necessary.

2.5 Data Quality

- 2.5.1 Sufficient and Reliable Data – The actuary should consider whether sufficient and reliable data are available to perform the actuarial services. Data are sufficient if they include the appropriate information for the work. Data are reliable if they are substantially accurate. If sufficient and reliable data are not available, then the actuary should follow the guidance in paragraph 2.5.5. below.
- 2.5.2 Data Validation – The actuary should take reasonable steps to review the consistency, completeness and accuracy of the data used. These might include:
- Undertaking reconciliations against audited financial statements, trial balances or other relevant records, if these are available;
 - Testing the data for reasonableness against external or independent data;
 - Testing the data for internal consistency and consistency with other relevant information; and
 - Comparing the data to those for a prior period or periods.

The actuary should describe this review in any report.

- 2.5.3 Sources of Data for Assumptions – To the extent possible and appropriate when setting assumptions, the actuary should consider using data specific to the organisation or the subject of the actuarial services. Where such data are not available, relevant or sufficiently credible, the actuary should consider industry data, data from other comparable sources, population data or other published data, adjusted as appropriate. The data used, and the adjustments made, should be described in any report.
- 2.5.4 Data Modification – The actuary should disclose any modification of data before its use (such as interpolation, extrapolation, adjustment, or discarding of outliers) in any report.
- 2.5.5 Deficiencies in Data– The actuary should consider the possible effect of any data deficiencies (such as inadequacy, inconsistency, incompleteness, inaccuracy, and unreasonableness) on the results of the work. If such deficiencies in the data are not likely to materially affect the results, then the deficiencies need not be considered further. If the actuary cannot find a satisfactory way to resolve the deficiencies, then the actuary should consider whether to:
- Decline to undertake or continue to perform the actuarial services;
 - Work with the principal to modify the actuarial services or obtain appropriate additional data or other information; or
 - Subject to compliance with the actuary's code of professional conduct, perform the actuarial services as well as possible and disclose in any report the data deficiencies (including an indication of the potential impact of those data deficiencies).

2.6 Assumptions and Methodology

- 2.6.1 The assumptions and methodology may be
- Set by the actuary (2.7);

- b. Prescribed by the principal or another party (2.8); or
- c. Mandated by law (2.9).

2.6.2 Where a report is silent about who set an assumption or methodology, the actuary who authored that report will be assumed to have taken responsibility for such assumption or methodology.

2.7 Assumptions and Methodology Set by Actuary

Where the actuary sets the assumptions and methodology, or the principal or another party sets an assumption or methodology that the actuary is willing to support:

- 2.7.1 Selection of Assumptions and Methodology – The actuary should select the assumptions and methodology that are appropriate for the work. The actuary should consider the needs of the intended users and the purpose of the actuarial services. In selecting assumptions and methodology, the actuary should consider the circumstances of the organisation, the subject of the actuarial services, and the assignment, as well as relevant industry and professional practices. The actuary should consider to what extent it is appropriate to adjust assumptions or methodology to compensate for known deficiencies in the available data. The actuary should consider to what extent it is appropriate to use assumptions or methodology if they have a known significant bias to underestimation or overestimation of the result.
- 2.7.2 Appropriateness of Assumptions – The actuary should consider the appropriateness of the assumptions underlying each component of the methodology used. Assumptions generally involve significant professional judgement as to the appropriateness of the methodology used and the parameters underlying the application of such methodology. Assumptions may (if permitted in the circumstances) be implicit or explicit and may involve interpreting past data or other information or projecting future trends.
- 2.7.3 Margins for Adverse Deviations – In cases where unbiased calculations are not required, the actuary should consider to what extent it is appropriate to adjust the assumptions or methodology with margins for adverse deviations in order to allow for uncertainty in the underlying data or other information, assumptions or methodology. The actuary should disclose any incorporation of margins for adverse deviations in assumptions or methodology in any report.
- 2.7.4 Discontinuities – The actuary should consider the effect of any discontinuities in experience on assumptions or methodology. Discontinuities could result from:
 - a. Internal circumstances regarding the organisation or subject of the actuarial services such as changes in an insurer's claims processing or changes in the mix of business;
 - or

- b. External circumstances impacting the organisation or subject of the actuarial services such as changes in the legal, economic, legislative, regulatory, supervisory, demographic, technological and social environments.

- 2.7.5 Individual Assumptions and Aggregate Assumptions – The actuary should assess whether an assumption set is reasonable in the aggregate. While assumptions might be justifiable individually, it is possible that prudence or optimism in multiple assumptions will result in an aggregate assumption set that is no longer valid. If not valid, the actuary should make appropriate adjustments to achieve a reasonable assumption set and final result.
- 2.7.6 Internal Consistency of Assumptions and Methodology – The actuary should determine if the assumptions and methodology used for different components of the work are materially consistent, and that any significant interdependencies are modelled appropriately. The actuary should disclose any material inconsistencies in any report.
- 2.7.7 Alternative Assumptions and Sensitivity Testing - The actuary should consider and address the sensitivity of each methodology to the effect of variations in key assumptions, when appropriate. In determining whether sensitivity has been appropriately addressed, the actuary should take into account the purpose of the actuarial services and whether the results of the sensitivity tests reflect a reasonable range of variation in the key assumptions, consistent with that purpose.

2.8 Assumptions and Methodology Prescribed (other than by Law)

Where the assumptions or methodology are prescribed by the principal or another party:

- 2.8.1 If the actuary is willing to support the prescribed assumption or methodology (following paragraph 2.7 as applicable), the actuary may disclose the party who prescribed the assumption or methodology and the actuary's support in any report.
- 2.8.2 If the actuary is unwilling to support the prescribed assumption or methodology because:
 - a. It significantly conflicts with what would be appropriate for the purpose of the actuarial services; or
 - b. The actuary has been unable to judge the appropriateness of the prescribed assumption or methodology without performing a substantial amount of additional work beyond the scope of the assignment, or the actuary was not qualified to judge the appropriateness of the assumption;

then the actuary should disclose in any report that fact, the party who prescribed the assumption or methodology, and the reason why this party, rather than the actuary, set the assumption or methodology.

- 2.8.3 When the principal requests an additional calculation using an assumption set which the actuary does not judge to be reasonable for the purpose of the actuarial services, the actuary may provide the principal with the results based on such assumptions. If those

results are communicated to any party other than the principal, the actuary should disclose in any report the source of those assumptions and the actuary's opinion of their appropriateness.

2.9 Assumptions and Methodology Mandated by Law

When an assumption or methodology is mandated by law, the actuary should disclose in any report that the assumption or methodology was mandated by law and whether such assumption or methodology may limit the relevance of the work for other purposes.

2.10 Model Governance

For the purpose of this paragraph and subparagraphs 3.2.2i and 3.2.2j of paragraph 3.2.2 "using" includes selecting, developing, modifying, and running models.

This paragraph applies to all models used when performing actuarial services which support decision making. It provides guidance to actuaries on appropriate model governance to manage the risks inherent in using a model. Model governance is important for all models, from those using simple spreadsheets to those including complex simulations. The level of governance should be proportionate to the risk to the intended users as a result of an incorrect conclusion being drawn from the results of the model.

The actuary involved in using models should:

- 2.10.1 Be satisfied that the model risks have been identified, assessed, and that there are appropriate actions to mitigate these risks such as adequate model validation, documentation, and process controls.
- 2.10.2 Be satisfied that an appropriate model validation has taken place. The model validation includes assessments that:
 - a. The model reasonably fits its intended purpose. Items that the actuary should consider, if applicable, include the availability, granularity, and quality of data and inputs required by the models, the appropriateness of the relationships recognized, and the model's ability to generate an appropriate range of results around expected values;
 - b. The model meets its specifications; and
 - c. The full or partial results of the model can be reproduced or any differences can be explained.

The model validation should be performed by individual(s) who did not develop the model, unless to do so imposes a burden that is disproportionate to the model task.

- 2.10.3 Understand the model, the conditions under which it is appropriate for the model to be used including any limitations of the model for the intended use, the context in which the

model will be used, how model inputs will be provided, and how the actuary expects the results of the model will be used. The actuary should disclose relevant limitations or uncertainties and their broad implications in any report.

- 2.10.4 Be satisfied that there is adequate documentation of the model design, construction, and operation and of the conditions under which it is appropriate to use the model, including any limitations of the model. This documentation should include, where appropriate, scope, purpose, methodology, statistical quality, calibration, and fitness for intended purpose, and reflect changes to the model (if any) made by the actuary.
- 2.10.5 Be satisfied that the model is subject to appropriate controls. This should typically include a change control process that:
- a. Avoids unauthorized changes to the model;
 - b. Documents any changes made and any material impact on the model; and
 - c. Allows any changes to be reversed.
- 2.10.6 When the results or output of a model run are to be used:
- a. Be satisfied that the conditions to use the model are met;
 - b. Be satisfied that there are appropriate controls on inputs and outputs of the model;
 - c. Consider whether the model validation described in paragraph 2.10.2 should be performed in whole or in part;
 - d. Understand, and where appropriate explain, material differences between different runs of the model, and be satisfied that there is an adequate control process for production runs. In the case of stochastic models, be satisfied that a sufficient number of runs of the model are made and understand the significant differences between different runs of the model;
 - e. Understand any management actions or responses assumed within the model. The actuary should disclose such management actions or responses assumed and their broad implications in any report; and
 - f. Document, where appropriate, limitations, inputs, key assumptions, intended uses, and model output.

2.11 Process Management

- 2.11.1 Process Controls – The actuary should consider to what extent, if any, the procedures used to carry out the work should be controlled, and if so, how.
- 2.11.2 Reasonableness Checks – The actuary should review the results produced by the selected assumptions and methodology for overall reasonableness.

2.12 Peer Review

The actuary should consider to what extent, if at all, it is appropriate for any report to be independently reviewed, in totality or by component, before the final report is delivered to the principal or distributed to the intended users. The purpose of peer review is to ensure

the quality of a report, with the process tailored to the complexity of the work and the specific environment in which the actuary works. If a peer review is deemed to be appropriate:

- 2.12.1 The actuary should select a reviewer who is independent of involvement with the specific component(s) reviewed and is knowledgeable and experienced in the practice area of the actuarial services.
- 2.12.2 If the reviewer is an actuary, the reviewer should comply with the guidance in any applicable actuarial standard, in performing the review.

2.13 Treatment of Subsequent Events

The actuary should consider any subsequent event that has the potential of materially changing the results of the actuarial services if the event had been reflected in the work and disclose such an event in any report.

2.14 Retention of Documentation

- 2.14.1 The actuary should retain, for a reasonable period of time, sufficient documentation for purposes such as:
 - a. Peer review, regulatory review, and audit;
 - b. Compliance with law; and
 - c. Assumption of any recurring assignment by another actuary.
- 2.14.2 Documentation is sufficient when it contains enough detail for another actuary qualified in the same practice area to understand the work and assess the judgements made.
- 2.14.3 Nothing in any FSAP is intended to give any person access to material beyond the access that they are already authorised to have.

Section 3. Communication

3.1 General Principles

Any communication should be appropriate to the particular circumstances and take the skills, understanding, levels of relevant technical expertise and needs of the intended user into consideration to allow the intended user to understand the implications of the actuary's communication.

- 3.1.1 Form and Content – The actuary should determine the form, structure, style, level of detail, content, and relevant disclosures of each communication to be appropriate to the particular circumstances, taking into account the intended users.
- 3.1.2 Clarity – The actuary should word each communication to be clear and use language appropriate to the particular circumstances, taking into account the intended users.
- 3.1.3 Timing of Communication – The actuary should issue each communication within a reasonable time period. The timing of the communication should reflect any arrangements that have been made with the principal. The actuary should consider the needs of the intended users in setting the timing.
- 3.1.4 Identification of the Actuary – A communication shall clearly identify the issuing actuary. When two or more individuals jointly issue a communication, at least some of which is actuarial in nature, the communication shall identify all responsible actuaries, unless the actuaries judge it inappropriate to do so. The name of an organisation with which each actuary is affiliated may also be included in the communication, but the actuary's responsibilities are not affected by such identification. Unless the actuary judges it inappropriate, any communication shall also indicate to what extent and how supplementary information and explanation can be obtained from the actuary or another party.

3.2 Report

The actuary should complete a report, including relevant disclosures, unless any intended users will otherwise be adequately informed about the outputs of actuarial services (including access to the supporting information which is necessary to understand the outputs and disclosures). The actuary should present all information with sufficient detail that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary's work.

- 3.2.1 Content – The actuary should include in any report, if applicable:
 - a. The scope and intended use of the report;
 - b. The outputs from the actuarial services, including the potential impact from variability on those outputs;

- c. The methodology, assumptions and data and other information used;
- d. Any restrictions on distribution;
- e. The date of the report; and
- f. Identification of the authorship of the report.

3.2.2 Disclosures – The actuary issuing a report should disclose in that report, if applicable:

- a. Any material deviation from the guidance in the FSAP (1.3.3);
- b. Any reliance on information prepared by another party for which the actuary disclaims responsibility (2.3.3);
- c. Any material omissions, understatements, or overstatements (2.4);
- d. Any data validation (2.5.2), adjustments (2.5.3), modifications (2.5.4) and deficiencies (2.5.5);
- e. Any margin for adverse deviations in assumptions or methodology (2.7.3);
- f. Any material inconsistency in the assumptions and methodology used (2.7.6);
- g. Assumptions and methodology that have been prescribed by another party which the actuary does not support (2.8.2 and 2.8.3);
- h. Assumptions and methodology that are mandated by law (2.9);
- i. The limitations, and uncertainties, of any model used for the work, and their broad implications (2.10.3);
- j. The management actions or responses assumed in any model used for the work, and their implications (2.10.6e); and
- k. Any material subsequent event (2.13).

3.2.3 Authorship – The actuary issuing a report should include in the report:

- a. The actuary's name;
- b. If applicable, the name of the organisation on whose behalf the actuary is issuing the report, and the actuary's position held;
- c. The capacity in which the actuary serves;
- d. The actuary's qualifications;
- e. The code of professional conduct and actuarial standards under which the work was performed, if there is any possible ambiguity; and
- f. If applicable, attestations and reliances.

3.2.4 Form – A report may comprise one or several communications that may exist in several different formats. Where a report comprises multiple communications, the actuary should communicate to each intended user which communications compose the report. The actuary should ensure that report components (especially those in electronic media) are such that they can be reliably reproduced for a reasonable period of time.

3.2.5 Constraints – The content of a report may be constrained by circumstances such as legal, legislative, regulatory or supervisory proceedings. Constraints could also include other

standards such as financial reporting standards or an organisation's accounting policy. The actuary should follow the guidance on disclosure in any actuarial standard applicable to the actuary to the extent reasonably possible within such constraints.