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MINUTES of a meeting of the INSURANCE COMMITTEE held in Barcelona on 22-23 September 2016

PRESENT

Committee:

Esko Kivisaari (Chairperson)

Bruno Kokken

Mike Poulding

Christos Loucaides

Lauri Saraste

Matthias Pillaudin

Wilhelm Schneemaier

István Kerényi

Tony O'Riordan

Giovanni Sammartini

Evaldas Valeisa

Peter Franken

Robert Pusz

Ana Maria Martins Pereira

Florin Gingham

Maria Kamenarova

Maria Jesus Romero

Aitor Milner

Katarina Östberg

Kartina Thomson

Siegbert Baldauf

Michael Lucas

Suomen Aktuaariyhdistys

Institut des Actuaire en Belgique / Instituut van Actuarissen
in België

Channel Islands Actuarial Society

Cyprus Association of Actuaries

Suomen Aktuaariyhdistys

Institut des Actuaire

Deutsche Aktuarvereinigung

Magyar Aktuárius Társaság

Society of Actuaries in Ireland

Istituto Italiano & Consiglio Nazionale degli Attuari

Lietuvos Aktuarijų Draugija

Het Koninklijk Actuarieel Genootschap

Polskie Stowarzyszenie Aktuarystów

Instituto dos Actuários Portugueses

Asociația Română de Actuarial

Slovenská spoločnosť aktuarov

Col·legi d'Actuaris de Catalunya

Instituto de Actuários Espanhóis

Svenska Aktuarietillsammans

Institute and Faculty of Actuaries

Solvency II project manager

Secretary-General, AAE

Members of the General Assembly and other Committees:

Christoph Krischanitz	Aktuarvereinigung Österreichs
Manfred Rapf	Aktuarvereinigung Österreichs
Karel Goossens	Institut des Actuairens en Belgique / Instituut van Actuarissen in België
Jiri Fialka	Ceská Společnost Aktuárů
Kristoffer Bork	Den Danske Aktuarforening
Thomas Béhar	Institut des Actuairens
Carmela Calvosa	Institut des Actuairens
Dieter Köhnlein	Deutsche Aktuarvereinigung
Michael Renz	Deutsche Aktuarvereinigung
Birgit Kaiser	Deutsche Aktuarvereinigung
Alexander Schalk	Deutsche Aktuarvereinigung
Gábor Hanák	Magyar Aktuárius Társaság
Philip Shier	Society of Actuaries in Ireland
Gennaro Olivieri	Istituto Italiano & Consiglio Nazionale degli Attuari
Rokas Gyls	Lietuvos Aktuarijų Draugija
Anne Sundby Magnussen	Den Norske Aktuarforening
Magne Nilsen	Den Norske Aktuarforening
Wojciech Mojzuk	Polskie Stowarzyszenie Aktuariuszy
Félix Arias Bergada	Col.legi d'Actuaris de Catalunya
Marc Arias Bellot	Col.legi d'Actuaris de Catalunya
Malcolm Campbell	Svenska Aktuarietföreningen
Lutz Wilhelmy	Association Suisse des Actuairens
David Martin	Institute and Faculty of Actuaries
David Hare	Institute and Faculty of Actuaries

Observers:

Jeffrey Schlinsog	American Academy of Actuaries
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Apologies for absence:

Angel Videnov	Bulgarian Actuarial Society
Ksenija Sanjkovic	Hrvatsko Aktuarsko Društvo
Anu Hoop	Eesti Aktuaaride Liit
Vassilis Aggelou	Hellenic Actuarial Society
Steinunn Gudjonsdottir	Felag Islenskra Tryggingast Aerdfræðinga
Claudio Tomassini	Istituto Italiano degli Attuari
Baiba Močāne	Latvijas Aaktuāru Asociācija

Ikram Shakir	Association Luxembourgeoise des Actuaire
Jean-Paul Shipley	Malta Actuarial Society
Nenad Milikic	Udruženje Aktuara Srbije
Pavel Gojkovic	Slovensko Aktuarsko društvo
Taylan Matkap	Actuarial Society of Turkey
Elena Markova	Society of Actuaries of Ukraine

1. Opening of the Meeting and Adoption of the Agenda

- 1.1 The Chairman welcomed members to Barcelona, particularly those for whom it was their first meeting. He acknowledged the Committee's thanks to Col.legi d'Actuaris de Catalunya for hosting the meeting.
- 1.2 The agenda, as circulated, was adopted and a copy is attached to these minutes as **Annex I**.

2. Minutes of Previous Meeting

- 2.1 The Minutes of the meeting of 11 March 2016, held in Nicosia, were confirmed.
- 2.2 It was noted that teleconferences were held on 23 May 2016 and 16 August 2016.

3. Update on European agenda

The Chairman gave a presentation (attached to these minutes as **Annex II**, slides 2-19) summarising the European agenda as it affects the financial services sector. He highlighted:

- Capital Markets Union, including –
 - accelerating delivery of economic convergence and helping to cushion economic shocks
 - proposals for a simple, efficient and competitive EU personal pension product
 - sustainable finance
 - improvements in technology
 - support for infrastructure investments
 - better supervision and regulation for the benefit of investors/consumers
- banking issues
- PRIIPs
- Insurance Distribution Directive

4. Procedure for responding to consultations

The Chairman highlighted the problems which arise when trying to prepare a coherent consensus submission from AAE to consultations from the Commission, EIOPA, etc, where deadlines may be short. Comments from member associations are often received late and may reflect diverse views which it is difficult to reconcile. Esko referred to draft proposals from

the Officers and to his presentation (slides 31-33 of **Annex II**) which outlined a more structure way forward. A number of comments were made during discussion, in particular –

- members of the working group drafting the AAE response should be able to present views independent of their associations
- it should be made clear to member associations at an early stage (t+2) that the window of opportunity for comments is (t+6) -> (t+9): an earlier deadline may be necessary
- the schedule should explicitly include time for resolution of conflicts
- a good response from AAE is regarded (particularly by EIOPA) as more valuable than a response from a single association, however large

It was also noted that it is essential to ensure that AAE responses remain consistent with earlier comments on the same topic, and that, as a general principle, we respond only on technical/actuarial issues and not on political ones.

5. ESAP3/EAN on ORSA

5.1 Gábor Hanák, convener of the Standards Project Team (SPT), gave an overview of its activities since the Committee's last meeting. Progress with ESAP3 is discussed in detail in minute 3.2 below. Gábor also referred to the problem which would arise over an inconsistency in the definition of "model" between ISAP1A and ESAP2 when the former is adopted by IAA. The SPT report outlined several options as to how AAE might deal with this issue: the Standards, Freedoms and Professionalism Committee (SFPC) had agreed to endorse ISAP1A and then review the position when it is absorbed into ISAP1.

Progress with ISAP5 was noted.

5.2 David Hare gave a presentation (attached to these minutes as **Annex III**) summarising the issues which had been raised at the last meeting in relation to the Exposure Draft (ED) of ESAP3, and highlighting the actions taken by his drafting group to address these concerns. He drew attention to two additional amendments which the drafting group proposed, to cover the definition of uncertainties and reference to feedback loops. David also outlined the revised structure of the EAN on ESAP3.

Tony O'Riordan noted that ORSAs are now being actively developed by a number of undertakings, and David confirmed that this experience had provided some useful feedback for the drafting group. In a second question, Tony referred to the comment on applicability to non-actuaries, and asked how it was envisaged that non-actuaries would in practice adopt or refer to the standard in their work on ORSAs, Gábor confirmed that this would be included in the promulgation letter to external stakeholders.

There were no further comments on the revised draft, and David and his drafting team were congratulated on their excellent work in revising and clarifying the original draft. It was noted that SFPC had agreed to adopt the timetable proposed in David's presentation:-

- informal consultation, particularly with those member associations who responded to the consultation on the previous ED (until late October)
- finalisation of new ED for formal consultation (by late November)
- approval of formal consultation under Due Process (by end November)
- formal consultation on new ED (December – March)
- consultation responses worked through and, if necessary, an amended ESAP3 produced
- agree ESAP3 at Spring 2017 meetings
- draft EAN will accompany the ED (but not be subject to the formal consultation)

6. **Non-life issues**

Kartina Thomson gave a presentation outlining the group's main areas of activity (attached to the minutes as **Annex IV** – this is an updated version of the report from the working group which was circulated as part of the agenda before the meeting). She also drew attention to a separate paper (attached as **Annex V**) containing information on requirements, additional to Solvency II, for the Actuarial Function across Europe.

A number of comments were made in relation to the work on the Actuarial Function Report –

- Thomas Béhar – include governance as well as quantitative aspects
- Carmela Calvosa – work in France on developing guidance notes for the AFR
- Peter Franken – the working group is keen to receive more national input

Dieter Köhnlein and Matthias Pillaudin gave a brief presentation (slides 10-15 of **Annex IV**) on the work on USPs, with particular reference to the French market. They encouraged committee members to provide corresponding input from their national jurisdictions so that an AAE discussion paper can be developed. It was noted that the working group should liaise with the Solvency II project manager to ensure this aligns with EIOPA requirements.

7. **Solvency II**

7.1 Siegbert Baldauf gave a presentation (attached to the minutes as **Annex VI**) in which he gave an overview of the Solvency II project, highlighting developments both in the European institutions and the AAE since the last report to the Committee in March. Particular reference (slides 2-10) was made to:

- EIOPA Stress Test

- adaptation of methodology to develop the risk free rate
- consultation on Ultimate Forward Rate (see minute 9 below)

7.2 Siegbert's presentation continued (slides 11-24 of **Annex VI**) with a detailed briefing on the Commission's call for advice to EIOPA on Solvency II review, and how AAE should react. The project team will identify key issues of interest to AAE and collect information from the member associations. He will set up meetings with those willing and able to contribute. It will be necessary to identify and quantify the specific tasks to be undertaken and the resources which will be required: these will be substantial, and temporary paid assistance may be needed. Specific issues which should be addressed in the AAE's contribution to the review include –

- adequacy of underlying parameters
- impact of negative interest rates on actuarial models (we have already agreed to provide a paper on this for EIOPA)
- concentration risk in certain central European markets (Maria Kamenarova will provide details to Siegbert)

8. **Impact of low/negative interest rates**

The Committee noted the AAE paper on the low interest rate environment which had been of considerable interest to EIOPA. We have undertaken to provide a further paper which addresses the impact of negative interest rates, and Christoph Krischanitz confirmed that he has set up a small group which will identify and review the practical effects on industry software and actuarial models which may no longer work with negative interest rates. Christoph would welcome any additional volunteers, and he requested members of the Committee to provide input for his review. Wilhelm Schneemeier emphasised that negative interest rates had a much wider economic impact which AAE should address and bring to the attention of EIOPA, including the question of the interest rate floor, and he urged action on this. He pointed out that DAV already has a group working on this wider economic aspect, and it was agreed that this group should liaise with Christoph's group as soon as possible to take this work forward. After the DAV group has done the initial work it will also be discussed whether the AAE can extend this to the European level. Progress will be reported to the Committee at its next conference call.

9. **Ultimate Forward Rate**

The Committee noted EIOPA's consultation paper on the methodology to derive the Ultimate Forward Rate and the AAE response. Esko explained that only a few member associations had provided input and the views expressed had been divergent. It had not been possible to reach a common view on details and consequently the AAE response had been at quite a high level, asking some questions about the methodology. Tony O'Riordan reported that there had

not yet been agreement within EIOPA on revisions and their application.

10. IAIS consultation on International Capital Standard

The Chairman gave a brief overview of progress with the IAIS consultation on development of a global Insurance Capital Standard (see **Annex II** slides 20-29), and discussions with EIOPA on the question of ensuring a robust and comprehensive European response. Esko emphasised EIOPA's concern that input to the consultation via IAA is dominated by US opinion: EIOPA Chairman, Gabriel Bernardino, has urged AAE to ensure there is a strong and consolidated European view. Thomas Béhar also emphasised the importance of links to the review of Solvency II. The group of Committee members who have had conference calls on the issue will continue to monitor the IAA process and will have a conference call to see whether AAE concerns are sufficiently expressed the IAA submission or whether a separate AAE comment letter is needed.

11. EIOPA Insurance and Reinsurance Stakeholder Group (IRSG)

Tony O'Riordan reported, jointly with Annette Olesen via video link, on current and forthcoming work within IRSG, the sub-group structure set up to undertake this work, and how it feeds into EIOPA on formal consultations. In answer to various questions -:

- PRIIPs
 - timetable depends on decision by Commission on the way forward
 - there is a role for actuaries in technical aspects/RTS
 - RTS too complex in implementation in many products/jurisdictions
- IAIS International Capital Standard – Annette will be invited to join AAE conference calls
- Stress test results – due in December
- Commission personal pension initiative – not much on IRSG agenda, more an issue for OPSG
- low interest rates – no specific IRSG action to provide input to EIOPA

Committee members were encouraged to pass on relevant input on IRSG issues to Tony or Annette.

12. Insurance Block Exemption Regulation

Tony O'Riordan reported that it appears likely the IBER will not be renewed – a final decision is expected in March. He explained that the basis for this is that –

- there is very little quantitative evidence of detriment if IBER is not renewed;
- existing horizontal guidelines are considered sufficient to overcome obstacles to cooperation. On the question of seeking legal opinion on the adequacy of horizontal guidelines, this is beyond the resources of AAE, and Insurance Europe are not willing

to undertake this;

- the European Commission may provide additional guidelines, and perhaps AAE could help here

Tony gave a short presentation (attached to these minutes as **Annex VII**) outlining details of the horizontal guidelines. He agreed to draft a short paper to outline actuarial issues arising from these guidelines.

13. EIOPA initiative on Infrastructure investments

The Committee noted EIOPA's advice to the European Commission on the identification and calibration of infrastructure corporate. We will continue to monitor this topic

14. Capital Markets Union – Potential EU Personal Pension Framework

The Chairman gave an overview of this consultation (see **Annex II** slides 30-57), highlighting the challenges and opportunities. He pointed out that this was really a long-term savings topic rather than a pensions one: it, and the EIOPA consultation which preceded it, does not address the decumulation phase – an aspect where AAE might consider preparing a discussion paper. It was noted that Esko will coordinate with volunteers (including Pensions Committee) to prepare the AAE response to the consultation. Input is expected at least from UK, France, Germany, Ireland and Netherlands..

15. Roles of Actuaries / Actuarial Function

Karel Goossens referred to the paper based on the survey of member associations on the roles of actuaries under Solvency II. The paper was of considerable interest to EIOPA, who asked for additional information on

- actuaries in Board positions/acting as Risk Managers or CROs
- combination of Risk Management Function and Actuarial Function

A follow-up survey to capture responses to these additional questions was approved and will be circulated shortly, and Karel asked Committee members for their assistance in ensuring that their associations respond in a timely manner.

Karel drew attention to the report of the round table on ERM, which has provided valuable input to discussions on how the topic fits into the role of the IFR Committee and the wider AAE strategy review. A further meeting of the round table will be held on 13 October.

Karel also referred to two other work-streams, roles of actuaries in Pensions and independence of the actuary, where further progress requires additional volunteers.

16. IASB / Financial Reporting Issues

Esko reported that there has been little progress with IFRS 4 and IFRS 9. We will continue to monitor this topic.

17. Anti-Discrimination issues

Esko reported that there have been no new developments in this area. We will continue to monitor this topic.

18. Big data

The Committee noted the Financial Services User Group report on Big Data in Financial Services. The Chairman noted that the topic of big data is now on the IAA agenda and can therefore probably be dropped from the AAE agenda.

19. Cyber risks

The Chairman noted that this topic is now on the IAA agenda and can therefore probably be dropped from the AAE agenda.

20. Links with other organisations

20.1 *Meeting with DG FISMA (Insurance & Pensions Unit)*

It was noted that a meeting was held between Officers of AAE and staff of the Insurance and Pensions Unit of DG FISMA in Brussels on 6 July 2016.

20.2. *Meeting with EIOPA*

It was noted that a meeting was held between Officers of AAE and the Chairman and staff of EIOPA in Frankfurt on 5 July 2016.

21. Review of Committee priorities

It was agreed that review of the Committee's priorities should be deferred until the strategy review is complete.

22 Report to General Assembly

The Committee noted and approved the report of its activities which the Chairman will present to the General Assembly. He will add to the report as necessary in the light of discussions at this meeting.

23. Exchange of news on current issues

Belgium

- change of guarantees in low interest rate environment – a consumer protection issue

Cyprus/Slovakia

- implementation of Solvency II is forcing investments out of low credit risk countries (to be followed up as part of our work on Solvency II review)

Hungary

- local legislation has prescribed the Hungarian Actuarial Society to elect a Supervisory Board, beside the Chief Executive (president) and executive committee: noted that this is not a requirement in any other jurisdiction

France

- low/negative interest rate issues

Germany

- see attached **Annex VIII**

24. Any other business

Following implementation of Solvency II it was noted that, in several countries, national supervisors are requesting recovery plans from undertakings which are approaching – but still above – the SCR. This will be followed up as part of our work on Solvency II review.

25. Date and place of next meeting

The next meeting of the Committee will be held in Reykjavik on 11 or 12 May 2017 at the invitation of the Icelandic association. (The date will be confirmed after discussion with the Chairman of the Standards, Freedoms and Professionalism Committee).