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Notes of a meeting of the Insurance Committee
Held on Thursday 11 May 2017 from 09.00 – 17.00 in Reykjavik

MINUTES

Participants

Karel	Goossens	Belgium	alternate Bruno Kokken
Kirsten	Sasady	Denmark	member
Kristoffer	Bork	Denmark	AAE Chairperson
Esko	Kivisaari	Finland	Chair
Lauri	Saraste	Finland	member
Thomas	Behar	France	AAE Vice Chairperson
Matthias	Pillaudin	France	member
Siegbert	Baldauf	Germany	AAE SII Project Leader
Wilhelm	Schneemeier	Germany	member
Gabor	Hanak	Hungary	Chair SPT
Istvan	Kerenyi	Hungary	member
Tony	O'Riordan	Ireland	member
Philip	Shier	Ireland	AAE Past President
Evaldas	Valeiša	Lithuania	member
Helge-Ivar	Magnussen	Norway	alternate Astrid Seltmann
Wojciech	Mojzuk	Poland	alternate Robert Pusz
Florin	Ginghina	Romania	member
Maria	Kamenarova	Slovak Republic	member
Malcolm	Campbell	Sweden	alternate Katarina Östberg
Lutz	Wilhelmy	Switzerland	alternate Philip Keller
Peter	Franken	The Netherlands	member
Ad	Kok	The Netherlands	AAE Chief Executive
David	Hare	United Kingdom	observer
Kartina Tahir	Thomson	United Kingdom	member

1. OPENING OF THE MEETING AND ADOPTION OF THE AGENDA

1.1 The Chairperson welcomed the members to Reykjavik, particularly those for whom it was the first time and those coming back after a period of leave. He acknowledged the Committee's thanks to the Félag íslenskra tryggingastærðfræðinga (FÍT) 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 THE PREVIOUS MEETINGS

2.1 The minutes of the meeting of 22 and 23 September 2016, held in Barcelona, were confirmed.

2.2 It was noted that teleconferences were held on 8 December 2016, 8 February 2017 and 18 April 2017. The meeting notes of these are available on the AAE website.

3. UPDATE OF EUROPEAN AGENDA

3.1 The Chairman gave a presentation (attached to these minutes as **Annex II**, slides 2 – 11) summarizing the European agenda as it affects the financial sector.

3.2 Brexit has now been triggered. The UK government's White Paper of 2 February and the art 50 letter served by the UK suggest that the UK has the intention to have the freest possible trade in services between the UK and the EU member states and a bespoke mutual access model. UK delegates report that British insurance companies are intensively creating entities in Europe. It is also expected that a SII type regime will carry on with slight changes.

3.3 Risks and vulnerabilities in the EU financial system :

- The current environment of low interest rates and elevated political and economic uncertainties poses substantial risks to the banking and insurance sector. The asset quality is not allowing to cover the discrepancy between returns and funding costs.

- The steepening of the yield curve can pose additional valuation concerns while a sudden substantial interest rate increase might expose companies to an increasing probability of lapses. Actuaries can play a role in assessing the fairness of measurements: a working group with David Hare, Siegbert Baldauf, Wilhelm Schneemeier, Thomas Béhar, Mathias Pillaudin and Esko Kivisaari will organize an information exchange on the market practices of how to face the impact.

- Interconnectedness, in particular via asset price contagion and direct financial exposure, adds to financial sector risks.

- Technological risks are increasingly affecting the financial sector via cyber risks and ageing of core IT systems.

- In the meantime it can be observed that the convergence of regulation, guarantee schemes and recovery and resolution measures are more or less complete in the banking sector. The Basel II reliance on internal models has to a large extent been replaced by risk floors and nearly 500 pages of new regulation.

4. CONSULTATIONS

The Committee has prepared the AAE input to several consultations as mentioned in the agenda. The strategic importance of participating in consultations requires expertise and is time consuming. The Chairperson therefore repeats the request for volunteers and participation.

5. ESAP 3 AND EAN ON ORSA

5.1 Gábor Hanak, convener of the Standards Project Team (SPT) gave an overview since the last meeting in Barcelona, 22 September 2016. The SPT and its task forces have progressed on the work on ESAP3 (ORSA) and ESAP5 (Independent review). The report (annex 2.a) is attached with the agenda.
Gábor mentioned the discussion going on in the IAA where it is confirmed that model standards are set on the international level while effective standards (binding on actuaries) are promulgated in the context of each member association.

5.2 David Hare gave a presentation (attached to the minutes as **Annex III**) summarizing the status of the ESAP3 Actuarial Practice in relation to the ORSA Process under Solvency II.
A new draft has been prepared since the Barcelona meeting that is now ready for formal consultation in the SFPC, and it is the intention to propose it for a formal vote after the Spring meetings so that the ESAP 3 can be presented for approval to the General Assembly in September.
David gave an overview of the remarks and suggestions during the consultation process. The "Koninklijk Actuarieel Genootschap" confirmed that it agrees with the text as proposed at the meeting and will take care of possible extensions where appropriate when adopting the standard.

5.3 David Hare also discussed the progress of the Educational Actuarial Note (EAN) going on together with ESAP 3. The document is nearly ready but needs further review and where possible reduction. It has been stressed that the EAN is not aimed to interpret the ESAP but serves for clarification of the subject. Appendices such as the discussion of triggering events can help to focus on specific aspects.
An EAN is a living document and will be amended regularly to include most recent experiences. It is now a good moment to take over the coordination of the EAN and therefore candidates for chairing this group are invited to inform the chairperson.
It is observed that the subject covered by ESAP 3 and the corresponding EAN is of interest to the Task Force on Risk Management (for insurance and pensions) and that possible input can be asked from the participants of this task force.

5.4 The Task Force on ESAP 5 on Independent review by actuaries in the context of SII and led by Wolfgang Deichl conducted a survey with mixed results.

6. NON-LIFE ISSUES

6.1 The Non-Life Working Group met twice through teleconferencing since Barcelona with a few written procedures in between.

6.2 Kartina Thomson introduced the subjects (see **Annex IV** to the minutes):

- Peter Franken noted that the Actuarial Function has evolved into a second line of defense function in most countries. Several Member Associations are preparing additional guidance.

- Dieter Köhnlein and Matthias Pillaudin are conducting a survey on the use of Undertaking Specific Parameters and intend to present the results in September.

- Kartina Thomson indicated that short term events such as soft market conditions with lower premium rates, low interest rate environment, NatCat, reserve releases, as well a medium term events such as reserves strengthening, regulatory impact on capital, cyber risk, broker facilities and long term events such as climate change, technology, big data, autonomous vehicles are influencing the non-life market in Europe.

7. SOLVENCY II

Siegbert Baldauf reported on the activity of the Solvency II Project Team (see **Annex V** to the minutes). The major subjects under consideration have been:

- The timeline illustrates the efforts to be expected in the coming period with the review processes going on.

- Today's focus of the industry lies on the Solvency Financial Condition Reports to be published by 20 May.

- The Delegated Regulation has already been adapted for infrastructure investments.

- EIOPA has received a number of inputs from stakeholders addressing mistakes found in the ITS on Reporting and Disclosure mostly related to the instructions.

- The review of the standard formula will have to consider 3 areas (proportionate and simplified application of the requirements, removal of unintended technical inconsistencies, and removal of unjustified constraints to financing). EIOPA's advice shall be delivered by 28 February 2018. The next step in the preparation is the Round Table on SCR Review on 23 May in Frankfurt where the AAE will be represented.

- EIOPA has set out the methodology to derive the Ultimate Forward Rate leading to an UFR of 3,65% and has agreed upon transition. In 2018 it is expected that the UFR will pass from 4,2% to 4,05%. The impact of the UFR change has been tested and is small.

- On 16 December 2016 EIOPA have published their first LTG - Report. Until 1 January 2021 EIOPA shall publish such a report annually.

- A summary of the EIOPA Stress Test results has been made public.

- International Capital Standard: the IAIS continues its process addressing some issues with wording such as for example replacing market consistent by current estimate.

8. NEGATIVE INTEREST RATE/IMPACT OF LOW INTEREST RATE ENVIRONMENT

8.1 The Committee noted the presentation in the European Systemic Risk Board (ESRB)/European Central Bank (ECB) on 17 January, 2017. It is based on a discussion paper of the AAE published on 16 December 2016 "Negative Interest Rates and Their Technical Consequences" (see **Annex VI** to the minutes).

8.2 The modelling issues are important for actuaries.
The discussion on the lower bound for the negative interest rate has been lively again in the committee. Wilhelm Schneemeier will produce a short memo summarizing the arguments in favor and against.

9. ESA's REVIEW

Philip Shier reported on the answer prepared on the Commission's Consultation on the ESA's. Comments are welcome taking into account that the consultation ends on 16 May.
The committee expressed a number of considerations such as the opportunity to split the consumer protection part and the prudential part of the supervision and the recommendation not to derogate once a role is agreed.

10. EIOPA INSURANCE AND REINSURANCE STAKEHOLDER GROUP (IRSG)

Annette Olesen (by phone) and Tony O'Riordan gave an update on the activity of the IRSG (see report in **Annex VII** of minutes).

The IRSG recently responded to consultations such as the EIOPA discussion paper on review of Solvency Capital Requirement, recovery and resolution, big data, complex IBIPs.

The IRSG is currently preparing input to subjects such as consumer trends report, consultations on - consumer financial services action plan- operation of ESAs (due imminently)- Fintech.
Other areas considered or subject to ongoing consideration include 2016 stress test results, monetary incentives review (unit-linked payment of management charge rebates from investment manager to manufacturer, so-called "kick-backs"), PRIIPS (including with environmental/social objectives), International Capital Standards.
The IRSG will be seeking to enhance its visibility and transparency and has established a communications group to move this forward.

11. PAN-EUROPEAN PENSION PRODUCTS (PEPP)

A proposal from the Commission is awaited before the summer break. If it is published it will be discussed in Copenhagen.

12. COMMISSION HIGH LEVEL EXPERT GROUP ON SUSTAINABLE FINANCE

The Committee congratulates Esko Kivisaari with his nomination as a member of the Commission High Level Expert Group on Sustainable Finance (see slide 14 of Annex II). He will report in more detail at the next meeting.

13. IAIS GLOBAL ICS INITIATIVE

The Chairperson elaborated on the elements mentioned in the context of the Solvency II Project (see slide 19 of Annex II).

14. RISK MANAGEMENT TASK FORCE

The Task Force on Risk Management (for insurance and pensions) has now been put in place under GÁbor Pazstor of Hungary as chair and Danielle O'Sullivan of Ireland as deputy chair. An activity report is presented by Karel Goossens in his role as the liaison officer (see **Annex VIII**).
The Task Force has defined an action plan for the coming months focusing on an ERM Data base, best practice and consistent approach, a position paper on the fit of actuaries, and a CRO conference.

Karel also refers to the further activity of the Task Force on the Roles of Actuaries. Three out of four of the objectives have been achieved and it is therefore time to redefine the priorities for the future. A survey amongst the MA's to find out what expectations are will be organized soon.

15. IASB/FINANCIAL REPORTING ISSUES

The Chairperson reported that IFRS17 concerning insurance contracts is expected for 19 May with implementation as from 2021. We will continue to monitor the topic given it is considered in the IAA.

16. INSURANCE BLOCK EXEMPTION REGULATION

The AAE has been in contact with DG Competition in this context. It is noted that the regulation expired and was not replaced. Members facing issues in this context are invited to inform the Chairperson.

17. ANTI-DISCRIMINATION ISSUES

No new developments are to be noted. We will continue to monitor the topic.

18. BIG DATA

The topic is considered in the IAA context. The committee will follow up when the EU consults on the impact.

19. LINKS WITH OTHER ORGANISATIONS

The Chairperson reported on the recent contacts with EIOPA, the European Parliament and the Commission.

20. REVIEW OF COMMITTEE PRIORITIES

Committees are asked to confirm priorities in view of the modified strategic objectives of the AAE. The Chairperson has mapped the new objectives to SO1, 2 and 3 on slide 44 of Annex II.

21. TASK FORCE ON CONSUMER PROTECTION

Thomas Béhar reported on the progress of the Task Force Consumer Protection. The task force is now driven by the Chair - Valéry Jost - and representatives of the UK, Germany and Ireland.
The Task Force prepared the reply on two consultations: on PRIPPS with environmental issues and on the Guidance under IDD. New consultations are to be expected. The committee members are invited to nominate experts from all over Europe.

22. EXCHANGE OF CURRENT ISSUES

Germany

- Elections are planned soon so that the political environment is slightly uncertain. The discussion and the implementation of the low interest rate reserve continues. The SII results for the market seem ok but local accounts are under pressure in the low interest rate environment. The DAV is also focusing on the role of actuaries in the field of consumer protection and has a strong ERM committee.

Sweden

- The market suffers from an overload in SII reporting and it is questioned how this info can be made useful.

United Kingdom

- Elections are expected for 8 June. Solvency II is influencing the insurance market and issues such as the risk margin need to be get under control. The low interest rate in general is considered to be a major issue.

Switzerland

- The Swiss Solvency system has abolished the UFR and therefore the discount rate is now negative over periods above 15 years. A draft law instruction is prepared to privilege insurance clients over debt holders.

Slovakia

- Overload on reporting is a real burden. In addition industry has to absorb new regulation and taxes. The actuarial association has adopted the ISAPs and ESAPs.

Hungary

- A 3rd bankruptcy has been observed in the insurance sector. The supervisor introduces the concept of an ethical insurer for example setting minimum rules for surrender values. Concentration is continuing on the insurance market. The implementation of the proportionality principle is an issue.

Ireland

- The regulator is very active issuing directives for companies to improve. The Society of Actuaries has abolished the practicing certificate and is growing fast with 891 fellow members and 1.800 members in total.

Denmark

- The regulator seems to be less active. General Data Protection regulation is considered and micro pricing based on big data is an issue.

Poland

- Surrender charges have been introduced in disability (refers to pain and suffering claims).

Lithuania

- A new government is now in place and insurance law is changed with for example restrictions on unit linked products.

Belgium

- Focus goes to the SFCR these days and the low interest rate reserve is a continuing topic.

The Netherlands

- The Dutch insurance market is still in a consolidation mode. The regulator is applying the legislation strictly. The second line of defense role of the Actuarial Function is a problem for smaller companies.

France

- The French regulator is rather creative and has for example introduced a block of movement of saving contracts. The exchange between the supervisor and the Institut focusses on modelling of expenses and low interest rate. The association is now issuing a newsletter every two weeks.

Finland

- Changes are going on in the health care system

23. ANY OTHER BUSINESS

No additional points have been mentioned.

24. DATE AND PLACE OF THE NEXT MEETING

The next meeting of the Committee will be held Copenhagen on 22 September at the invitation of Den Danske Aktuarforening.