Doing the Minutes?

- We had one person volunteering during the conference calls – but I realised yesterday she is not here

European agenda – some remarks

Esko Kivisaari

Brexit?

- The government's White Paper of 2 February 2017 and the Article 50 letter served by the UK on 29 March 2017 suggest that the UK's intention is to have
  - the freest possible trade in financial services between the UK and EU member states (as similar in scope to the passporting regime as is realistic and possible), and
  - a bespoke mutual access model (which would cover all aspects of financial services, including both retail and wholesale business) is seen as the best model for achieving that objective.

MUTUAL RECOGNITION – A BASIS FOR MARKET ACCESS AFTER BREXIT – Report by The International Regulatory Strategy Group

The criteria for access

- There should be clear and transparent criteria which provide the basis for mutual access to each other's markets. A number of criteria have been used in free trade agreements and other similar arrangements and the details of these criteria are considered in the Report.
- Where global standards are available and offer a sufficient degree of robustness and detail, the criteria for access could be based on those standards.

Mechanisms for assessing and maintaining regulatory alignment

- Formal mechanisms for consultation and co-operation between the respective regulatory authorities of the UK and EU will be required in order to ensure ongoing alignment, particularly in the context of change. A number of examples of such mechanisms are considered in the Report.
- The relevant forum should require the sharing of information. It should actively monitor the areas where divergence might arise and be empowered to make an assessment of the materiality of any divergence. The process should be transparent and based on a technical assessment of materiality.

Dispute resolution

- A dispute resolution mechanism is necessary to deal with disputes that may arise between the UK and EU in relation to the bespoke arrangement.
- A dispute resolution mechanism between the UK and EU is likely to have to consider regulatory divergence, and the terms of the FTA should spell out what the consequences would be if one of the parties ceased to meet the criteria for access.
- There are numerous examples of dispute resolution mechanics associated with free trade agreements and similar arrangements. Some of these have elements that may be useful for a UK-EU arrangement

JOINT COMMITTEE REPORT ON RISKS AND VULNERABILITIES IN THE EU FINANCIAL SYSTEM

APRIL 2017

The current environment of low interest rates and elevated political and economic uncertainties poses substantial risks to the banking and insurance sector

- Many banks struggle with asset quality concerns and attempt to mitigate discrepancies between returns and their respective funding costs.
- Costs of banks' equity exceed respective returns on equity, while insurers predominantly face reinvestment risks, as available long-term interest rates may eventually not suffice to fund the contractually guaranteed returns of the outstanding policies.
- In the asset management industry, low returns on assets directly translate into low returns on fund shares, potentially further reinforced by the reduction of clients' returns through fees charged by the fund industry and the costs of distribution.

Valuations

- Valuation risk for financial instruments and volatility remains high, as episodes of high volatility continue to occur and political risks are elevated. Persistent conduct of business risks and rising cyber risk act as additional drivers.
- A steepening of the yield curve, as recently observed, may benefit the profitability of banks, insurers and pension funds, but may also pose additional valuation concerns.
- High levels of non-performing loans (NPL), inefficiencies, overcapacities, and a lack of conclusive business strategies to improve profitability prospects all weigh on the sector despite some improving prospects for interest income.
- For the insurance sector, a sudden substantial increase of the interest rate might expose companies to an increasing probability of lapses.

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

- High co-movements in equity prices for insurers and banks, and high exposures of EU insurers to EU banks indicate the concentration of risk within those two sectors.
- Persistent search for yield supports the potential of price contagion among risky asset classes and reinforces valuation risk, while short-term reactions of the prices for fixed income instruments observed in late 2016 did not translate in higher geographic price heterogeneity, again pointing to the preservation of valuation risk

Technological risks are increasingly affecting the financial sector

- Fast technological change will, over time, significantly impact existing business models of financial institutions
- It leaves many financial intermediaries with ageing core IT systems and with the need to engage in IT investments, further aggravating profitability issues
- Cyber risk threatens data integrity and business continuity in an interconnected financial system. Against this background, the demand for cyber insurance is expected to grow while cyber coverage products are still relatively new in the market, with limited underwriting experiences

MEANWHILE IN BANKING

State of Banking Regulation: what is there until 2015

Single Rule Book

Deposit Guarantee Scheme, DGS

Banking Union

Capital Requirements Regulation and Directive, CRR & CRD IV)

Single Supervisory Mechanism, SSM

Macroprudential policies

Banking Structural Reform

Total Loss Absorbency Capacity, TLAC

Bank Recovery and Resolution Directive, BRRD

Single Resolution Mechanism, SRM

Topical initiatives in banking regulation

New Capital Requirements Regulation and Directive, **CRRII & CRD V)**

Bank Recovery and Resolution Directive, **BRRDII**

Single Resolutin Mechanism, **SRMRII**

- EU Commission published on November 23, 2016 a set of new regulation
- The proposals form a package with the intention to improve the resilience of banks to risks and to make the application of crisis management tools more efficient

An extensive package – nearly 500 pages of new regulation to the banking sector

actuarial association of europe

CRR II
(Capital Reguirements Regulation)

- TLAC (Total Loss Absorbency Capacity)
- Bindinhg leverage ratio
- Reformed methodology to assess then market risk of the trading book
- Binding NSFR (Net stable Funding Ratio)
- Renewed regulation for the treatment of large exposures
- Use of the Proportionality principle
- Risk weights of SME loans relieved

CRD V
(Capital Reguirements Directive)

- Financioal holding company structures
- Treatment of the EU parents of third country banks
- Renewal of Pillar 2 regulation
- Renewal of interest risk regulation
- Renewal of remuneration regulation

BRRD II
(Bank Recovery and Resolution Directive)

- Definition of the crisis management group and unit
- Calibration of the MREL (minimum requirement for own funds and eligible liabilities) requirement
- Internal MREL requirement
- Regulation for supervisory cooperation
- Application of bail-in for instruments emitted under third country legislation
- Moratorium powers

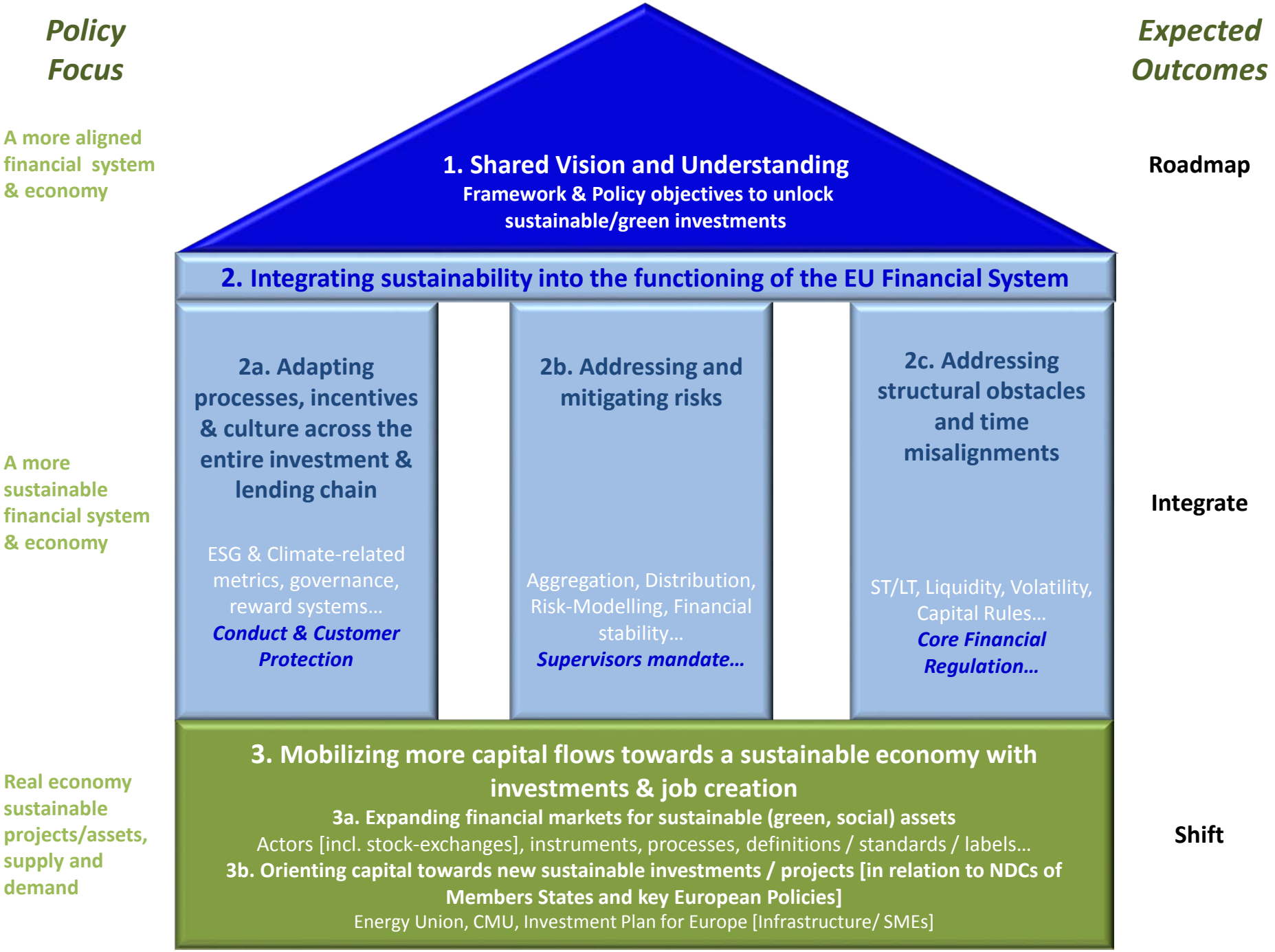
SRMR II
(Single Resolution Mechanism Regulation)

- To a large extent similar changes as those done for BRRD

Velkojien etusija-järjestys
(BRRD II)

- The priority ranking of holders of bank senior unsecured debt

HIGH LEVEL EXPERT GROUP ON SUSTAINABLE FINANCE


Policy Focus
Expected Outcomes
A more aligned financial system & economy
1. Shared Vision and Understanding
Framework & Policy objectives to unlock sustainable/green investments
Roadmap
2. Integrating sustainability into the functioning of the EU Financial System
A more sustainable financial system & economy
2a. Adapting processes, incentives & culture across the entire investment & lending chain
ESG & Climate-related metrics, governance, reward systems…
Conduct & Customer Protection
2b. Addressing and mitigating risks
Aggregation, Distribution, Risk-Modelling, Financial stability…
Supervisors mandate…
2c. Addressing structural obstacles and time misalignments
ST/LT, Liquidity, Volatility, Capital Rules…
Core Financial Regulation…
Integrate
Real economy sustainable projects/assets, supply and demand
3. Mobilizing more capital flows towards a sustainable economy with investments & job creation
3a. Expanding financial markets for sustainable (green, social) assets
Actors [incl. stock-exchanges], instruments, processes, definitions / standards / labels…
3b. Orienting capital towards new sustainable investments / projects [in relation to NDCs of Members States and key European Policies]
Energy Union, CMU, Investment Plan for Europe [Infrastructure/ SMEs]
Shift

ICS

IAIS developments

- On the **ICS**, the IAIS appears to make progress on decisions related to ICS elements such as valuation - where 3 options would be tested under Market Adjusted Valuation approach - and the calibration of capital requirements for some market risks. Decisions were made by the Financial Stability and Technical Committee (FSTC) and will be put forward to the approval of the Executive Committee, as part of the overall ICS package.
- On the point of **internal models**, EIOPA recently indicated to the secretariat that some qualitative questions on internal models would be included in the field testing exercise of this year, to allow for a proper discussion on internal models to begin already this summer at the IAIS.
- On **systemic risk**, the IAIS announced a workplan for the coming years. First, the IAIS will look into assessing potential systemically risky activities, with the aim of addressing them as part of ComFrame and ICS. Second, the IAIS has announced that a revised methodology for GSIIs would be consulted in 2018, adopted in 2019 and applied from 2020. In addition, the HLA would be revised, to be based on ICS 2.0 (and not on the BCR), and would apply from 2022 to all GSIIs identified in 2020.

IFRS

IFRS 17 still expected before summer

Standard-setting and related projects				
Conceptual Framework	Analysis			Publish Conceptual Framework
Disclosure Initiative: Materiality Practice Statement	Drafting		Publish Practice Statement	
Disclosure Initiative: Definition of Materiality (Proposed amendments to IAS 1 and IAS 8)	Drafting		Publish ED	
Insurance Contracts	Drafting	Issue IFRS Standard (Expected May)		
Rate-regulated Activities	Analysis			Publish DP

CONSULTATIONS

Consultations

- **CONSULTATION DOCUMENT - FINTECH: A MORE COMPETITIVE AND INNOVATIVE EUROPEAN FINANCIAL SECTOR – Due 15 June**
- **Volunteers?**

Questions

1.1. What type of FinTech applications do you use, how often and why? In which area of financial services would you like to see more FinTech solutions and why?

1.2. Is there evidence that automated financial advice reaches more consumers, firms, investors in the different areas of financial services (investment services, insurance, etc.) and at what pace? Are these services better adapted to user needs? Please explain.

1.3. Is enhanced oversight of the use of artificial intelligence (and its underpinning algorithmic infrastructure) required? For instance, should a system of initial and ongoing review of the technological architecture, including transparency and reliability of the algorithms, be put in place? What could be effective alternatives to such a system?

Questions - continued

1.4. What minimum characteristics and amount of information about the service user and the product portfolio (if any) should be included in algorithms used by the service providers (e.g. as regards risk profile)?

1.5. What consumer protection challenges/risks have you identified with regard to artificial intelligence and big data analytics (e.g. robo-advice)? What measures, do you think, should be taken to address these risks/challenges?

1.6. Are national regulatory regimes for crowdfunding in Europe impacting on the development of crowdfunding? In what way? What are the critical components of those regimes?

Questions - continued

1.7. How can the Commission support further development of FinTech solutions in the field of non-bank financing, i.e. peer-to-peer/marketplace lending, crowdfunding, invoice and supply chain finance?

1.8. What minimum level of transparency should be imposed on fund-raisers and platforms? Are self-regulatory initiatives (as promoted by some industry associations and individual platforms) sufficient?

1.9. Can you give examples of how sensor data analytics and other technologies are changing the provision of insurance and other financial services? What are the challenges to the widespread use of new technologies in insurance services?

Questions - continued

1.10. Are there already examples of price discrimination of users through the use of big data? Can you please provide examples of what are the criteria used to discriminate on price (e.g. sensor analytics, requests for information, etc.)?

1.11. Can you please provide further examples of other technological applications that improve access to existing specific financial services or offer new services and of the related challenges? Are there combinations of existing and new technologies that you consider particularly innovative?

Questions - continued

2.1. What are the most promising use cases of FinTech to reduce costs and improve processes at your company? Does this involve collaboration with other market players?

2.2. What measures (if any) should be taken at EU level to facilitate the development and implementation of the most promising use cases? How can the EU play its role in developing the infrastructure underpinning FinTech innovation for the public good in Europe, be it through cloud computing infrastructure, distributed ledger technology, social media, mobile or security technology?

2.3. What kind of impact on employment do you expect as a result of implementing FinTech solutions? What skills are required to accompany such change?

Questions - continued

2.4. What are the most promising use cases of technologies for compliance purposes (RegTech)? What are the challenges and what (if any) are the measures that could be taken at EU level to facilitate their development and implementation?

2.5. What are the regulatory or supervisory obstacles preventing financial services firms from using cloud computing services? Does this warrant measures at EU level?

2.6. Do commercially available cloud solutions meet the minimum requirements that financial service providers need to comply with? Should commercially available cloud solutions include any specific contractual obligations to this end?

Questions - continued

2.7. Which DLT applications are likely to offer practical and readily applicable opportunities to enhance access to finance for enterprises, notably SMEs?

2.8. What are the main challenges for the implementation of DLT solutions (e.g. technological challenges, data standardisation and interoperability of DLT systems)?

2.9. What are the main regulatory or supervisory obstacles (stemming from EU regulation or national laws) to the deployment of DLT solutions (and the use of smart contracts) in the financial sector?

2.10. Is the current regulatory and supervisory framework governing outsourcing an obstacle to taking full advantage of any such opportunities?

Questions - continued

2.11. Are the existing outsourcing requirements in financial services legislation sufficient? Who is responsible for the activity of external providers and how are they supervised? Please specify, in which areas further action is needed and what such action should be.

2.12. Can you provide further examples of financial innovations that have the potential to reduce operational costs for financial service providers and/or increase their efficiency and of the related challenges?

Questions - continued

3.1. Which specific pieces of existing EU and/or Member State financial services legislation or supervisory practices (if any), and how (if at all), need to be adapted to facilitate implementation of FinTech solutions?

3.2. What is the most efficient path for FinTech innovation and uptake in the EU? Is active involvement of regulators and/or supervisors desirable to foster competition or collaboration, as appropriate, between different market actors and new entrants. If so, at what level?

3.3. What are the existing regulatory barriers that prevent FinTech firms from scaling up and providing services across Europe? What licensing requirements, if any, are subject to divergence across Member States and what are the consequences? Please provide details.

Questions - continued

3.4. Should the EU introduce new licensing categories for FinTech activities with harmonised and proportionate regulatory and supervisory requirements, including passporting of such activities across the EU Single Market? If yes, please specify in which specific areas you think this should happen and what role the ESAs should play in this. For instance, should the ESAs play a role in pan-EU registration and supervision of FinTech firms?

3.5. Do you consider that further action is required from the Commission to make the regulatory framework more proportionate so that it can support innovation in financial services within the Single Market? If so, please explain in which areas and how should the Commission intervene.

Questions - continued

3.6. Are there issues specific to the needs of financial services to be taken into account when implementing free flow of data in the Digital Single Market? To what extent regulations on data localisation or restrictions on data movement constitute an obstacle to cross-border financial transactions?

3.7. Are the three principles of technological neutrality, proportionality and integrity appropriate to guide the regulatory approach to the FinTech activities?

Questions - continued

3.8. How can the Commission or the European Supervisory Authorities best coordinate, complement or combine the various practices and initiatives taken by national authorities in support of FinTech (e.g. innovation hubs, accelerators or sandboxes) and make the EU as a whole a hub for FinTech innovation? Would there be merits in pooling expertise in the ESAs?

3.9. Should the Commission set up or support an "Innovation Academy" gathering industry experts, competent authorities (including data protection and cybersecurity authorities) and consumer organisations to share practices and discuss regulatory and supervisory concerns? If yes, please specify how these programs should be organised?

Questions - continued

3.10. Are guidelines or regulation needed at the European level to harmonise regulatory sandbox approaches in the MS? Would you see merits in developing a European regulatory sandbox targeted specifically at FinTechs wanting to operate cross-border? If so, who should run the sandbox and what should be its main objective?

3.11. What other measures could the Commission consider to support innovative firms or their supervisors that are not mentioned above? If yes, please specify which measures and why.

Questions - continued

3.12. Is the development of technical standards and interoperability for FinTech in the EU sufficiently addressed as part of the European System of Financial Supervision? Is the current level of data standardisation and interoperability an obstacle to taking full advantage of outsourcing opportunities?

3.13. In which areas could EU or global level standards facilitate the efficiency and interoperability of FinTech solutions? What would be the most effective and competition-friendly approach to develop these standards?

Questions - continued

3.14. Should the EU institutions promote an open source model where libraries of open source solutions are available to developers and innovators to develop new products and services under specific open sources licenses? What other specific measures should be taken at EU level?

3.15. How big is the impact of FinTech on the safety and soundness of incumbent firms? What are the efficiencies that FinTech solutions could bring to incumbents? Please explain.

Questions - continued

4.1. How important is the free flow of data for the development of a Digital Single Market in financial services? Should service users (i.e. consumers and businesses generating the data) be entitled to fair compensation when their data is processed by service providers for commercial purposes that go beyond their direct relationship?

4.2. To what extent could DLT solutions provide a reliable tool for financial information storing and sharing? Are there alternative technological solutions?

4.3. Are digital identity frameworks sufficiently developed to be used with DLT or other technological solutions in financial services?

Questions - continued

4.4. What are the challenges for using DLT with regard to personal data protection and how could they be overcome?

4.5. How can information systems and technology-based solutions improve the risk profiling of SMEs (including start-up and scale-up companies) and other users?

4.6. How can counterparties that hold credit and financial data on SMEs and other users be incentivised to share information with alternative funding providers ? What kind of policy action could enable this interaction? What are the risks, if any, for SMEs?

Questions - continued

4.7. What additional (minimum) cybersecurity requirements for financial service providers and market infrastructures should be included as a complement to the existing requirements (if any)? What kind of proportionality should apply to this regime?

4.8. What regulatory barriers or other possible hurdles of different nature impede or prevent cyber threat information sharing among financial services providers and with public authorities? How can they be addressed?

Questions - continued

4.9. What cybersecurity penetration and resilience testing in financial services should be implemented? What is the case for coordination at EU level? What specific elements should be addressed (e.g. common minimum requirements, tests, testing scenarios, mutual recognition among regulators across jurisdictions of resilience testing)?

4.10. What other applications of new technologies to financial services, beyond those above mentioned, can improve access to finance, mitigate information barriers and/or improve quality of information channels and sharing? Are there any regulatory requirements impeding them?

INSURANCE COMMITTEE ACTION POINTS RE AAE STRATEGY

Insurance Committee Action Points re AAE Strategy

SO1: Enhance relations with European institutions

- maintain and enhance the role of the AAE as a meaningful source of advice among EIOPA, DG Fisma and other relevant bodies of the EU
- participate actively in the review of S II
- provide meaningful answers to all relevant consultations of the European institutions, stressing actuarial aspects, risk management expertise and the role of insurability

SO2: Promote Professionalism

- develop first EAN on ORSA

SO3: Promote a European community of actuaries

- provide a platform for European actuaries from different member associations to formulate a meaningful actuarial position on European questions of actuarial importance