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Notes of a meeting with EIOPA 19 December 2016

AAE	**EIOPA**
Kristoffer Bork	Gabriel Bernardino
Thomas Béhar	Carlos Guiné
Philip Shier	Justin Wray
David Martin	Dimitris Zafeiris
Falco Valkenburg	Lars Dieckhoff
Christoph Krischanitz	
Karel Goossens	
Siegbert Baldauf	
Ad Kok	

Roles of Actuaries

GB thanked the AAE for the additional survey on the Roles of Actuaries under SII. KG indicated that the NSAs are probably best placed to provide this kind of information.

Consumer Protection

GB reported that with respect to PRIIPS there were no new developments. PS referred to the notes prepared by the SAI and the letter from the Institut des Actuaires which GB acknowledged and broadly agreed to. [*AK: in the meantime the SAI documents have been sent to Katja Wurtz and Tim Walters*]

1. Insurance Issues

UFR

LD reported that EIOPA had requested market information through the NSAs. The envisaged timeline is

- Receipt of NSA information before year end
- First two weeks of January used by EIOPA to validate
- End of January meeting of Board of Supervisors (BoS) to discuss the impact
- March BoS meeting to decide on the proposed methodology and possible adjustment(s)

After some necessary fine tuning EIOPA hopes to arrive at one formula/methodology and has not the intention to continue with regular adjustments.

Review Solvency II

JW referred to the publication of the Solvency II review discussion paper[1]. The intention is to make things easier and to use the opportunity to recalibrate. Also special attention has been given to the treatment of interest risk. The 185 formulated questions include many open questions ("although proof will be required"). GB invited the AAE to react to this paper ("EIOPA is in buying mode").

SB reported that the AAE will continue to look into longevity, possibly by a joined working group of the technical AAE committees.

GB reported that NatCat remains a difficult topic under supervisors with only limited expertise present. Therefore it is the intention to start an expert group with an independent (from reinsurers) view. AAE is invited to participate in this group. EIOPA is also interested to attract academics ("who can think practically") to this group. AAE will carry out some search actions. **ACTION AAE (16).**

SB reported that the AAE will respond to the DP but might not be able to answer to all questions. **ACTION AAE (15).**

DM reported that ESAP3 is in process.

Supervisory Handbook

GB reported that the first version will be ready in 2017 and a next version in 2018. Special attention will be placed on technical provisions and best estimates. In the 1st quarter 2017 a more thorough investigation will start into methodologies and assumptions. AAE will be invited to share experiences and ideas with respect to standards of practice and methodology used to derive best estimates. **ACTION AAE (17).**

KG promised to send information on expert work carried out on best estimates on behalf of the Belgian supervisor. **ACTION AAE (18).**

GB reported that the NSA reviews show that there is much diversity in the approach to and judgement on technical provisions by actuaries.

In non-life there the review showed many inconsistencies in claim reserves for motor insurance. EIOPA will think of measures to increase the quality and asks AAE to participate in that work. **ACTION AAE (19).**

GB announced that EIOPA will publish a supervisory opinion on disclosures and invites the AAE to share ideas and experiences. GB suggested including this as a standard agenda item. **ACTION AAE (20-21).**

EIOPA is working on key risk indicators as a result of the stress test results. GB invites AAE to give advice on this topic. **ACTION AAE (22).**

CK handed out a copy of the AAE paper on risk management qualifications. GB promised to bring this paper to the attention of the ESAs **ACTION GB (25).**

[1] *"Discussion Paper on the review of specific items in the Solvency II Delegated Regulation (EIOPA-CP-16/0008)"*

Global ICS

CG reported that ICS 1.0 can be expected mid 2017 and expected the full ICS to be ready in 2021. With respect to market adjustment valuation, the effort is to end up with three methodologies. Currently there are 8-9 methodologies under discussion. Apart from this issue the discussions focus on longevity, guarantees and the base risk free rate. CG reported that there are great differences in thinking between participants. GB indicated that EIOPA ideally wants one methodology but "not at any price". His reasoning is that if these discussions fail "SII will de facto be the global standard".

CG further reported that some discussion partners do not see the need for a separate Risk Manager. CG advised that there could be a geographical split on mortality/longevity. It also proved to be very difficult to achieve consensus on lapse rates.

CK will send the AAE paper on Market Consistency[2] to CG. GB indicated to be happy with the AAE input to the IAA and said the AAE influence could increase if we would do more field testing. **ACTION AAE (26).**

Recovery & Resolution

GB referred to the recently published EIOPA discussion paper[3] and invited the AAE to participate. **ACTION AAE (27)**.

According to GB this is a necessary step to accomplish an Insurance Union. It should not be a copy of the Banking Union but must have sufficient proportionality to the various institutions involved. GB also regarded recovery plans to be a natural part of the ORSA process, whereas resolution plans are the responsibility of the NSAs. Most important question: when is an insurer not viable anymore? EIOPA are looking into criteria and indicators to measure this.

The first results will be sent to EU Institutions. EIOPA currently has a good overview of the various countries although some building blocks - like the various types of liabilities - are difficult to define. GB specifically invited AAE to look into this, but noted that this should be considered separately from issues relating to insurance guarantee schemes. **ACTION AAE (29)**.

Results Insurance Stress Test

GB reported with respect to

- Baseline scenario 01/01: results are more or less acceptable, despite volatility;
- The stress scenarios have proven to be sufficiently severe; next year the institutions will publish these results themselves under SII reporting; it will be important to keep these stress tests in line with market developments
- Quality of data: specifically the stress impact on Technical Provisions has been "far from consistent", especially with respect to duration of liabilities/assets. Therefore EIOPA has added an annex to the report to show these results. Some results are simply not possible.

GB asked whether the AAE could do something about the inconsistency between actuarial professionals, perhaps by producing a paper on how to reach a consistent judgement. This should also lead to better actuarial explanations. **ACTION AAE (29)**.

[2] *Market Consistency – an educational note, December 2012*
[3] *Discussion paper on potential harmonisation of Recovey and Resolution Frameworks for Insurers, EIOPA-CP-16/009, 2 December 2016*

KG challenged GB by pointing out that this should reciprocally lead to formal arrangements with respect to the role of the actuary. GB accepted that challenge. **ACTION AAE (29)**.

2. IFR

Negative Interest Rates

GB acknowledged the receipt of the AAE paper. CK explained the issues with current models with respect to negative interest parameters.

KG enquired about the possibility to combine the EIOPA and AAE efforts in this. GB responded that EIOPA first will have an internal discussion in January. That discussion could be followed by a meeting with the authors of the AAE paper. EIOPA will take a decision early January. **ACTION AAE (30)**.

3. Pensions issues

Personal Pensions

GB reported that it is very likely that the Commission will publish a proposal in 2017. The political momentum is currently building up. EIOPA will wait on the Commission's product pilots. Assistance from the AAE will be necessary. **ACTION AAE (31)**.

IORP Stress test

GB indicated that the 2017 stress test would include

- Implications of lower yields;
- Financial stability issues in relation to the impact on the real economy and sponsors;
- Cash flow information

The AAE was invited to share ideas and experiences. GB suggested to organise a telco early January to discuss this in more detail. AAE input should be available ideally before EIOPA's February meeting and in March at the latest. **ACTION AAE (32)**.

Pension funds will not be approached individually. The idea is that they will pick this up themselves in due course. The holistic balance sheet[4] will remain the basic framework, to provide for comparability of results although the actions taken by the IORP, employers and supervisors will depend on national regimes.

KG suggested joining forces in the same way as we discussed earlier with insurance. GB acknowledged that actuaries also "have to step up in pensions". **ACTION AAE (29)**.

GB thanked FV and PS for their assistance. To an extent this has been pioneering.

Implementation IORP 2

GB reported that there was no real news but asked the AAE to assist in the following areas

- benefit statement;
- pension data: how to collect good basis information;

ACTION AAE (33).

[4] *Common Framework for Risk Assessment*

AAE informed GB about

- The revised AAE Strategic Objectives with specific emphasis towards European Institutions;
- Current discussions to come to a formal arrangement between AAE and IAA;
- The current revision of the AAE Code of Conduct;
- The Round Table meetings on risk management.