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Notes of a meeting with EIOPA 18 December 2016

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Kristoffer Bork
Michael Renz
David Martin
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Christoph Krischanitz
Siegbert Baldauf

EIOPA
Gabriel Bernardino
Manuela Zweimüller
Timothy Shakesby
Patrick Peruez
Dimitris Zafeiris
Petr Jakubik
Justin Wray
Lars Dieckhoff
Gabriele Arnoldi
Sandra Hack
Barthold Kuipers

1. Consumer Protection

Conduct risk indicators

EIOPA risk-based conduct strategy will be published this year or early next year. EIOPA is trying to capture trends: for the first time pensions are included. They see self-regulation (no supervisory intervention) as the best way forward.

EIOPA is keen to continue the dialogue with the AAE on the definition and interpretation of conduct risk indicators, and proposed a workshop together with us in 2016.

EIOPA wants a risk-based preventive approach to incentivise good products, and stress that it is important to put indicators into context in order to allow proper interpretation. The interaction between conduct indicators and prudential indicators is also very important.

Michael R reported that it is taking longer than expected to finalise our paper. He presented a draft text for information, and promised to provide a final version as soon as possible. It is hoped to include input from rating agencies.

Asset management fees

EIOPA is undertaking an analysis of asset management fees, disclosure of which is sometimes an issue. The framing of the questionnaire is very important: it is focused on unit-linked products, and will collect input from NCAs and industry. EIOPA hopes to complete the analysis in 2016 Q3.

PRIIPs

The consultation on draft RTS (comment deadline 29 January) is attracting very different responses from different sectors. EIOPA is keen to receive quality input on the insurance market, as the markets in the member states can be very different. EIOPA urged us to comment on the consultation paper in general and not to limit our comments to answering the questions raised. It was noted that treatment of credit risk in combination with market risk is difficult to assess, and EIOPA invited ideas and suggestions on how to treat insurers with regard to credit risk. Michael R pointed out that the timeline is very challenging since insurers would need to adjust their IT systems.

Michael R indicated that AAE will not respond to the Product Oversight and Governance consultation as it is more on the distribution side.

Forthcoming consultations

EIOPA is planning 5 further consultations on aspects of consumer protection during the coming year. AAE is encouraged to provide input and help for a consumer testing exercise planned for 2017, work on which will start in the course of 2016.

2. Roles of Actuaries / AAE Standards

David Martin gave an update on the following:

- TF on the roles of actuaries: survey is close to publication and will be sent to EIOPA when available. Reference was made in particular to –
    - Probably enough actuaries on the Life side, but perhaps not for the Non-life side
    - Two thirds of MSs have introduced legislation for Solvency II. Some will apply some "Solvency light" rules
    - 95% of AF holders are actuaries
    - 60% of AF holders report to Board of Directors, 85% to management board
    - 66% of CROs are actuaries
- ESAPs being planned/developed, and progress with them
- Code of Conduct review
- issues around mutual recognition agreements
- 2005 and 2013 Directives on Regulation of Professions and implications for the actuarial profession

3. Risk Management issues

Christoph Krischanitz reported on preparation of a paper on a risk management qualification, based on four pillars: Education, CPD, Experience, Personality, which will look at *effective* risk management.

4. Capital Markets Union

Gabriel Bernardino noted that infrastructure is the ongoing issue, and referred to EIOPA 's call for evidence. We explained that AAE has not responded since there is no quantitative evidence - something we have already mentioned. There will be a further consultation paper in April 2016, perhaps a Public Hearing in May, and results in July.

Christoph provided background to the paper which he is developing on the systemic risk actuary, and emphasised the importance of dependencies.

5. Insurance issues

EIOPA is satisfied that all that was necessary for introduction of Solvency II has been delivered. But it is also the start of a new journey, for which EIOPA wants to count on the continued dialogue with the profession.

Siegbert Baldauf reported on the new AAE Solvency II project structure, which was welcomed by EIOPA. Gabriel Bernardino requested our input on the regime and how it is implemented: he referred in particular to the company specific elements.

Gabriel also referred to work on the issue of biometric risks, where EIOPA is looking for a simple benchmark, and the review of the UFR methodology. A consultation is expected in late Spring/early Summer: this will address two basic questions in relation to defining a methodology for changing the UFR over time: What should the new methodology look like? How to get from where we are to the new basis? This consultation will not assess cost of capital rate. EIOPA is anxious that AAE should contribute to this consultation.

Gabriel reported that the Stress Test 2016 will be more focused than the previous one, with a "low for long" scenario with low risk premiums, and will address vulnerabilities rather than capital requirements. Siegbert presented the AAE's draft paper on the stress test: the final version will be sent to EIOPA once it is approved. Gabriel noted that climate change and financial stability are increasingly important and It is expected that they will be included in the 2018 Stress Test: he encouraged AAE to start to give consideration to this.

Siegbert report on work by AAE on the low interest rate environment: he presented the current draft paper analysing survey responses and will send the final version when it is complete.

EIOPA encouraged AAE to provide greater European input to the ICS debate. Gabriel was concerned that IAA responded on only 11 out of more than 100 questions in the recent consultation, and that its views are dominated by "American traditions and points of view". Particular emphasis was given to the need for European input in relation to product features. We will do our best to exert influence through senior AAE figures in leading positions at IAA (eg Gabor Hanak and Malcolm Campbell).

6. Pensions

IORP2

Philip reported on our recent interactions with MEPs, and referred to a qualification requirement to be inserted in the IORP2 preamble (made known to AAE by adviser to Brian Hayes MEP). Gabriel confirmed that EIOPA is waiting for the political decisions: it is expected that IORP2 will move forward during the Dutch presidency. A number of points of detail relating to IORP2 were discussed, in cluding -

- Risk evaluation needs careful expert implementation.
- Stress test publication is envisaged for 26 January. No unexpected results.
- EIOPA has not yet developed a specific opinion on the funding requirements. There is a difficult balance to be achieved; EIOPA does not insist on harmonising discount factors between Solvency II and IORP, and is concerned with the cost aspects for the pensions industry. On the other hand, consistency is necessary.
- The QA report is expected in April. Work was done in conjunction with the Stress Test, although objectives were different. There has been progress in finding common ground within EIOPA for one opinion: as a compromise the HBS should be taken as a risk management tool and transparancy tool. The HBS needs to be looked at further, but its role is clearer now.
- Issues regarding discretionary elements need careful handling.
- good progress in finding agreement among the supervisors.
- Appreciation expressed by EIOPA for the concepts in the AAE paper ”Clarity before Solvency”

PEPP

It was noted that EIOPA is finalising its opinion on PEPP as a second regime, based on the recent consultation. This will be published in February 2016, and advice will be based on evidence. Gabriel would like to have further discussion with AAE on a PEPP type approach in the second pillar.

7. Evaluation of regulation

Gabriel observed that regulation will never be perfect and should be assessed regularly. He is keen to do the Solvency II evaluation, which will be part of EIOPA’s work for the next 5 years. This will link in with the Burkhardt Baltz report ”Learn from experience”. Issues that will be evaluated thoroughly will include: procyclical effects, investment effects, and systemic effects

8. After the meeting

Barthold Kuipers confirmed that both Gabriel and Justin Wray would like to have a meeting with Pensions Europe, the Paritarian Institutions and AAE to discuss IORP2. In practice it will not be an open dialogue since EIOPA has already decided on the direction, but they would like to share their views and give an opportunity to respond before their QA report is published. This meeting might take place in February.