

**Minutes
of a meeting of the
INVESTMENT AND FINANCIAL RISK COMMITTEE
held in Málaga
on Friday 7 April 2017**

Present:

Members of the Committee

Christoph Krischanitz (Chairperson)
Malcom Kemp
Tjemme van der Meer
Eduardo Trigo
Marcin Zwara
Petra Wildemann
Martin Juzco
Ad Kok

Aktuarvereinigung Österreichs
Institute and Faculty of Actuaries
Het Koninklijk Actuarieel Genootschap
Instituto de Actuarios Españoles
Polskie Stowarzyszenie Aktuariuszy
Society of Actuaries Switzerland
Česká Společnost Aktuárů
AAE Chief Executive

1. OPENING OF MEETING AND ADOPTION OF THE AGENDA

The Chairman welcomed members of the Committee to Málaga, and thanked Instituto de Actuarios Españoles for hosting the meeting.

2. MINUTES OF THE PREVIOUS MEETING

The minutes of the meeting held in Barcelona on 23 September 2016 were confirmed. No rejections made by the attendees.

3. CLOSED PROJECTS / HISTORY

3.1 Required Skills to be a good Risk Manager

The paper was published in December 2016. Communication via LinkedIn and other professional media platforms were initiated. Additional Links and Communication are welcomed. Further discussion will take place in AAE sessions.

3.2 Negative Interest Rates and their Consequences

Malcolm and Christoph reported their discussions and work on the consequences of the negative interest rates. The paper with the details of the consequences was published in December 2016. The reactions to the paper were very positive. Christoph presented the paper to the financial stability department of the ECB and to the insurance experts group of the ESRB, with the consequence that he was invited to give a Seminar presentation on the matter to both ECB and ESRB together with Esko Kivisaari, Chairman of the Insurance Committee.

3.3 Discussion Paper on the review of specific items in the Solvency II Deregulated Regulation

The comments from the AAE were provided. There was feedback from The Netherlands as Tjemme mentioned. Christoph raised concerns about included comments of the Irish association, who questions the SCR as such, which is not a common AAE opinion.

3.4 Joint Committee Discussion Paper on the Use of Big Data by Financial Institutions

The comments from the AAE were provided.

Can we do something in direction of Big Data? In the UK, there is a research committee working on this topic. Esko Kivisaari is leading the Big Data Working Group in the IAA and will follow-up on this topic at the IAA meetings in Budapest.

4. OPEN / ONGOING PROJECTS

4.1 Market Consistency Web Portal

A conference call took place on 16.11.2016 under the lead of Thomas Viehmann from Germany with respect to the Market Consistency Web Portal. Follow-up calls did not take place. The original plan was to provide the first version of the web portal by 1 April, which was not met. Thomas agreed on starting with the web portal by 1 July 2017.

Malcolm suggested the involvement of students to collate information. He mentioned that the issues to cover this topic are with resources.

We may want to look for the Web Portal with a Pan-European view.

4.2 UFR and low interest rates

The committee discussed the topic in length.

EIOPA organized a conference call right before the publication of their advice to the EC on a new methodology for UFR. AAE was invited and attended with Siegbert Baldauf, Project leader of the AAE Solvency II Project. The summary of the call was sent by Monique to the committee members with the last unofficial information.

Christoph mentioned there are some academic research papers on the eternal interest rates, and one can show that these eternal interest rates remain constant over time (in affine interest rate models). He will provide some material on this to the Committee.

Christoph presented the presentation he gave to ECB and ESRB together with Esko on the Rational for a Lower Bound in Interest Rate Models.

While negative interest rates have technical consequences, the questions are concerned with the impact of negative interest rates on scenarios, cash flows, discounting's and values of the capital.

The question to the committee members was raised, whether the IFRC should do something in this topic or whether the topic should be closed. The members of the committee have the opinion that there is no urgency to do anything right now. The decision was made, that there will be no actions from now pro-actively.

Note: The Netherlands have initiated a workshop on this topic and material has been sent to the IFRC.

4.3 PRIIPS and KID

Valéry Jost (supported by Thomas Béhar) from France is leading an AAE task force on PRIIPS to monitor and announce publications. The task force was recently renamed to Consumer Protection Task Force to be able to cover a wider range of relevant topics. The committee members suggest that the Insurance Committee should be in the lead. The committee members made the decision / proposal to wait and hold this topic until the Insurance Committee publishes a proposal. No member of the IFR Committee participates in the development of the proposal.

4.4 PEPP (Pan European Personal Pension)

This item will be discussed together with the topic Capital Market Union in 5.1.

5. NEW PROJECTS

5.1 Capital Market Union

The Committee members reviewed the consultation document “Capital markets union mid-term review 2017” and its six actions of the Capital Market Returns document.

1. Financing for innovation, start-ups and non-listed companies

- Proposal for pan-European view: No
- Revise EUVEC A: done
- Tax insensitive: No
- Feedback on Bank: Local
- Local or national support: No
- Crowdfunding: No

All of those topics are within regulations of finance. The UK has to come up with a new regulation to consolidate accounts. However, this is not a UK only topic.

The Committee member proposed No for all of them. There is no urgency, but follow-up discussion on this topic will be in Copenhagen.

2. Making it easier for companies to enter and raise capital on public markets

The Committee members agreed that there is a need for risk management standards and that there should be standards for every bank who deals with money. They raised the question how we can define such risk management standards.

The UK has new reporting requirements with respect to the question what the public companies list.

Two reports are being developed from the commission this year which will be published before Copenhagen.

The outcome is positive and therefore, this can become a topic for the IFR Committee.

3. Investing for long term, infrastructure and sustainable investment

In March, EIOPA has sent their inputs to the corporate commission.

If there are new changes on risk, then the IFR will be involved.

4. Fostering retail investment and innovation

The Committee members have agreed to take a look at the Green Paper, which has been published.

The Committee members decided that this is not a topic for the IFR and therefore there will be no actions.

5. Strengthening banking capacity to support the wider economy

No Discussion

6. Facilitating cross-border investment

Not a topic for the IFR Committee.

5.2 EIPOA Financial Stability Report

Tjemme raised the question whether we should write a statement with respect to the financial stability from an investor perspective.

Not any plans or proposals.

5.3 EIOPA Risk Dashboard

Action: Further remarks from the committee members to be sent to Christoph.

Not any plans or proposals.

5.4 EBA Consultation paper on draft RTS on the specifications of the nature, severity and duration on economic downturn

A conference call is proposed for end of April, deadline for submission of comments is 29.5.2017.

5.5 Investment Risk

Tjemme raised a discussion about interest rate hedging in Solvency II, which is difficult (impossible) because of the different correlation matrices in downward and upward scenarios.

5.6 Risk Management

Christoph reported about the Task Force on Risk Management for insurance and pensions which developed from an ERM roundtable on initiative of Karel Goossens. Purpose of this Task Force is to bring together actuaries who serve as risk managers in their firms to identify challenges and topics for the actuarial profession. The TF supports the overall aim of the AAE to get closer to a risk management profession.

The Committee members see a strong link to the activities of the IFRC and suggested to invite TF members to learn from them and to get an inside into their needs.

There was a short discussion on the different needs for first line and second line risk managers and Tjemme offered to provide the Committee with a short paper he recently had written.

The Committee members suggested to think more about “modern” risks such as Cyber, Pandemic, Climate, Terrorism, etc. and the impact on new risks.

The Committee members suggested to conduct a survey among the members on those “extreme risks”.

6. INTERNAL ISSUES

6.1 Strategic Review

Christoph reported about the proposal for the new AAE governance and strategy which should be confirmed by the general assembly in Copenhagen.

6.2 Nominations

Christoph mentioned that the term of the Committee Chairman will regularly end in Copenhagen.

7. LINKS WITH OTHER ORGANISATIONS

7.1 EIOPA

Christoph mentioned the meetings scheduled to take place in June and July.

7.2 European Commission

No meeting has taken place.

7.3 Others

Malcolm mentioned the Advisory committee for Academic Advice.

8. EXCHANGE OF INFORMATION ON CURRENT ISSUES

The Committee members discussed in general the role of UK for potential committee role – observers, member or others. Ad mentioned, that the AAE may widen their roles to become a European Association.

Malcolm mentioned the Financial Risk Committee in the UK to work on Cyber risk, Model risk and other extreme risks.

9. ANY OTHER BUSINESS

No issues were mentioned.

10. DATE OF NEXT MEETING

To note that the next meeting of the Committee will be held on 21 or 22 September 2017 in Copenhagen at the invitation of Den Danske Aktuarforening.