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Notes of a meeting of the Insurance Committee held on Thursday 21 September 2017 from 14.00 – 17.00 and on Friday 22 September from 09.00-12.30 in Copenhagen, Denmark

Participants

Igotz	Aubin	Belgium	member
Karel	Goossens	Belgium	Chair role of actuaries TF
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
Birgit	Kaiser	Germany	observer
Alexander	Schalk	Germany	observer
Gabor	Hanak	Hungary	Chair SPT
Istvan	Kerenyi	Hungary	member
Tony	O'Riordan	Ireland	member
Philip	Shier	Ireland	AAE Past President
Rokas	Gylys	Lithuania	observer
Astrid	Seltmann	Norway	member
Wojciech	Mojzuk	Poland	member
Ana	Martins Pereira	Portugal	member
Florin	Ginghina	Romania	member
Maria	Kamenarova	Slovakia	member
Josef	Ducky	Slovakia	observer
Aitor	Milner	Spain	member
Katarina	Östberg	Sweden	member
Lutz	Wilhelmy	Switzerland	member
Peter	Franken	The Netherlands	member
David	Hare	United Kingdom	observer
Kartina Tahir	Thomson	United Kingdom	member
Jeffrey	Schlinsog	USA	observer

1. **OPENING OF THE MEETING AND ADOPTION OF THE AGENDA**

The Chairperson welcomed the members to Copenhagen. He also acknowledged the Committee's thanks to the Danish association for hosting the meeting. The agenda is attached as **Annex 1**.

2. **MINUTES OF PREVIOUS MEETING**

2.1 The Minutes of the meeting held in Reykjavik on 11 May 2017 were confirmed.

2.2 It was noted that teleconferences were held on 4th July 2017 and 5th September 2017: notes of these calls are available on the AAE web site.

3. **UPDATE ON EUROPEAN AGENDA**

The Chairman gave a presentation (attached to these minutes as **Annex 3**) summarizing the European agenda as it affects the financial sector. It was noted that the Capital Markets Union mid-term review was published during the summer. Also a proposal for PEPP was released on 30th June, where the AAE had been quite active on. The recent ideas from EC on the possible renewal of the ESA's was published on 20th September where some main ideas were presented on funding, to integrate sustainability issues (the so-called ESG factors), and to promote developments in Fintech amongst other issues. The AAE has been dealing with the issue but it was noted that more work might be needed. On banking side some of the topics discussed were MREL, EDIS and Euribor rate where the future has some uncertainties (and the relation to Euro-swap rates). The committee had a discussion on bank internal models and the ALM, which differs quite a lot from what one can find in the insurance side.

4. **CONSULTATIONS**

The Committee had prepared since the spring meetings for the AAE input to several consultations as mentioned in the agenda. The Chairperson also noted that the AAE had responded to the consultation on sustainable finance where some an IAA response was supported while the AAE added some European points.

5. **ESAP3 and EAN on ORSA**

5.1 Gábor Hanak gave a report of the Standards Project Teams (SPT) work. ESAP3 has now been approved as the whole process including the due diligence is now over. From the AAE's point of view it is important to see which of the member associations will implement it and how. ESAP5, the independent review on solvency II is under discussion. A survey has been completed to find out how important this is for the FMA's. There was a mixed result from the survey (some in favour some not). The SFPC decided to ask whether this is of high importance to EIOPA. If yes then AAE will put more power to draft ESAP5 further. In addition, it will be checked whether there would be demands for the AAE to write an EAN on this. Gabor also told that he stepped down as the Chair of the SPT, new chair being Hillevi Mannonen (FI). He invited all people interest in joining the group to contact Hillevi. Insurance committee thanked Gabor for the fine work and the good relation there is between the IC and the SPT.

5.2 It was noted that ESAP3 is approved now and the future work is on the EAN.

5.3 Sam Achord, the chair of the EAN drafting team presented ideas – see **annexes 5.3 and 5.3a** - on what could be the main topics covered in the EAN. It was noted that the EAN should not be too long, that there seemed already to be the main topics in the draft and that it could be investigated in the drafting work whether EAN could be a living document that would be updated every now and then. On already performed ORSAs there exists a German paper and

also a UK paper. The drafting team will have a look at these. More resources are needed, especially persons who would have time to put into this. Volunteers can contact Sam or the chairperson.

6. **NON-LIFE ISSUES**

Kartina Thomson gave an overview of what has happened in the Non-Life working group – see **annex 6a**.

On the Undertaking Specific Parameters (USP) survey, led by Matthias Pillaudin, a good amount of answers was collected as 19 countries answered. A main result was that just few non-life companies were using USP's, the reasons mainly being the difficult approval process and companies being unfamiliar with UPS's. The team is preparing a short paper to answer some of the open questions. There was a discussion on the link into EIOPA's work. EIOPA had already stated during the ongoing SCR review that no new USP's will be 'created' at his phase. In some countries there seemed to be more emphasis to go for an internal model rather than USP. Also the linkage with the SCR seemed to be challenging as this is an ORSA requirement – see **annexes 6b and 6c**.

On the consultation on REFIT the aim is to submit the draft responses to officers on 20th October. Key messages would be on the portability of claims history, what happens in case of an insurer's insolvency, the scope on MID, autonomous vehicles, uninsured vehicles (a lot in some countries) and the minimum cover – see **annex 6d**.

7. **SOLVENCY II**

Siegbert Baldauf reported on the activity of the Solvency II Project Team, where the most important topics have been – see **annex 7**:

- SFCR - reports. EIOPA will produce an analysis on SFCR's by the end of 2017 – see **annex 7a**.
- LTG-measures. It was discussed that VA is negative in Romania, which is of course possible but this could be analysed more and possibly even discussed with EIOPA as it was a bit unclear what actually causes the Romanian negative VA value.
- SII regulation was amended in June 2017 with some additional text on infrastructure assets.
- SCR review. the AAE provided comments on the 1st set of the review by the end August. On the second set, a roundtable discussion will be held on 27th September where Siegbert, Lauri Saraste and Clemens Frey will participate. The actual consultation is expected to start at the start of November (and end before January). Main issues for the AAE are; premium and reserve risk, interest rate risk and LAC DT. AAE internal work can basically start after the 27th roundtable meeting. The project might try to set a face-to-face meeting on mid-October.
- On recovery and resolution where the AAE was also active it was noted that at this phase we just need to be prepared for the future work. An opinion has been published by EIOPA, where they call for a minimum framework for this. EIOPA also asks for designated administrative resolution authorities to each member state. This requirement already exists in banking. In some countries the FSA can have this role.
- Internal models. EIOPA will be the main body in the future to allow/not to allow the use of internal models.
- ESA's. There was a new governance proposed. Also the funding is to be changed so that the private sector should be one main payer here in future.

Lauri Saraste gave a short overview on what has been happening with the work on loss absorbing capacity of deferred taxes (LAC DT) – see **annex 7b**. With the help of a cross-sectoral SII working group and members from the IC (Tony O'Riordan, Kirsten Sasady and Ana Martins Pereira) there was a short paper drafted which was used when giving comments on the 1st set of the consultation. The focus was more on the principals based thinking.

On SFCR reports it was asked from the IC members that if there are any publications available that might sum up some of the main measures these could be sent to Siegbert.

8. **GENERAL DATA PROTECTION REGULATION**

Kirsten Sasady told about the GDPR – see **annex 8** - which is coming into force next spring. Companies need to comply with it before May 25th 2018. Core elements in the GDPR are defining the consent of the individual to use his data for a specific purpose, data portability and the 'right to be forgotten'. Potential issues are around data access, the documented purpose and a need for costumer consent. One key issue discussed was how data can be anonymised so that an individual can't be dug out from the end data. It might be needed to try to think how this new regulation affects the way data is now used in the actuarial work and what restrictions there might be. It was also discussed how much one needs to do to make the results (stemming from the data) own, not anymore customers. As this was considered a highly important topic, a task force was established with the aim of writing a short paper about this. Kirsten will take the lead, Lutz, Giovanni, Florin will participate also. France will also try to find somebody to join this task force. Other members are also welcome or then just provide input for the task force.

9. **THEMATIC REVIEW ON REMUNERATION**

Tony O'Riordan gave an update on this. One of the issues was the payments from Unit linked funds (Kickbacks) towards insurers, how open insurers are towards their customers and are they channeling part of the payments to the benefit of the customers. PRIIPS will be requiring that charges need to be fully opened towards customers but not the kickbacks. In Poland the regulator has already demanded some changes in the kickback structures (some 4 year transition period). It was discussed that kickbacks are highly important for insurers which will make it a hard issue also for AAE to decide what stance to take here. In Hungary the regulator has recommend that kickbacks should be channeled to the policyholder.

10. **NEGATIVE INTEREST RATE/IMPACT OF LOW INTEREST RATE ENVIRONMENT**

Wilhelm Scheemeier gave a short presentation of the resent issues with the low interest rates. A lower boundary could be found from a possibility of an insurer investing into cash when rates would become negative (at some point). It was noted that no concrete lower boundaries should be put up (in solvency II), mainly just the underlying principles which will drive the negative rates.

On lapse-risk, Siegbert Baldauf told about the risk of increasing interest rates – see **annex 10b**. Some scenarios of what could happen and how important this is was collected from UK, Finland, France and Germany. The result was that lapses might have substantial impact for insurers and it could be further investigated what is the link between economic-scenarios and policyholder behavior. This has been studied, but also policyholder options and the underlying legislation has an impact. The work will be continued, Florin volunteered also.

11. **ESAs' REVIEW**

This was already covered in the agenda point earlier.

12. **EIOPA INSURANCE & REINSURANCE STAKEHOLDER GROUP (IRSG)**
Annette Olesen and Tony O'Riordan gave an update – see **annex 12** - on the activity of the IRSG where some of the main topics have been the SCR review, both 1st and 2nd calls of advice where also IRSG gave response to the 1st set, the fintech consultation and supervisory convergence. On brexit, EIOPA is looking for ways for grandfathering rules on how to ensure service continuity after brexit on products being sold cross-the border. Also there seemed to be a growing interest on consumer protection aspects in EIOPA. Tony and Annette asked IC member to be active especially on possible findings from Solvency II as they might also have the possibility to further things in IRSG.

13. **PAN-EUROPEAN PENSION PRODUCTS (PEPP)**
Philip Shier told about PEPP and the press release AAE issued on July 7th – see **annex 13**. It looks like all PEPP's must be available in every member state, because the potential customer might move to some other country and there should be a continuation at this point – this seemed to be a big requirement. On the tax regime issue it was proposed that member states would apply the same tax regime for the PEPP that they have in place with other savings products they have in place. More people from IC could be involved in the project, at least Maria and Katarina will give their input into this project.

14. **COMMISSION HIGH LEVEL EXPERT GROUP ON SUSTAINABLE FINANCE**
The chair gave a brief note about the work of this group where his also a member. AAE could think whether there could be more visible role when it comes to environmental issues and the risks that might occur – see **annex 14**.

15. **IAIS GLOBAL ICS INITIATIVE**
Just noted that there has not been that much activity with this – see **annex 15**.

16. **RISK MANAGEMENT TASK FORCE**
Noted.

17. **CONSUMER PROTECTION TASK FORCE**
Michael Renz told about this task forces work. They had answered into two consultations and also had a meeting with EIOPA. On PRIIPS products EIOPA wants to see some historical data. The Task force will need some additional help from IC members.
István had also asked about some specific comment on PRIIPS before the meeting. He already got some answers but is happy to get more if possible.

18. **ROLES OF ACTUARIES TASK FORCE**
Karel Goossens told about the survey of the roles of actuaries and the next steps there. One of the important question seems to be what kind of work there is in the future. Also non-life side seems to be developing a lot and both risk management and data science are highlighted. The suggested action from the task force is that the AAE committees should take the angle (the roles of actuaries) into consideration in the work and then report something back to the task force. Also it would be good to find the right experts on the selected topics and possible come up with other topics also (such as health insurance).

19. **IASB / FINANCIAL REPORTING ISSUES**
Thomas Behar gave an overview of the work on IFRS17 – see **annex 19**. IAA has been highly active with this (and AAE has been supporting) but also it needs be thought whether AAE has

some special view here (e.g. the European standpoint). It was noted that EFRAG will have the important role here and AAE would need to impact/help on their work. A call of interest will be asked from IC-members later on.

20. **BIG DATA**
It was noted that a text "Insurance principle and actuaries in the age of fintech' will be published in the upcoming weeks.

21. **MEETING WITH EXTERNAL ORGANISATIONS AND STAKEHOLDERS**
The meetings held were noted.

22. **REVIEW OF COMMITTEE PRIORITIES**
It was noticed that a review of the priorities of the Insurance Committee in the context of the AAE strategy document and Action Plan will be needed in the near future.

23. **EXCHANGE OF NEWS ON CURRENT ISSUES**
In Italy a regulation, relating the system of governance has changed. The question being how to ensure the certain independency with calculating the values and validating the result. This seems to be a hard requirement as there seems to a lack of experts. Giovanni will send a mail to the IC members.

24. **ANY OTHER BUSINESS**
David gave an overview on what's happening on Brexit. The future seems to be really open with how brexit is being interpreted and what it will mean. Insurers are setting up subsidiaries under other jurisdictions (in EU) making sure they still can continue the business after (the possible) Brexit.

25. **DATE AND PLACE OF NEXT MEETING**
It was noted that the next meeting of the Committee will be held on 12 or 13 April in Lisbon at the invitation of Instituto Actuarios Portugueses. Few tel. conferences will be held before this meeting.