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# MINUTES OF MEETING OF THE AAE RISK MANAGEMENT COMMITTEE ('RMC')

## HELD IN WARSAW, POLAND

## ON FRIDAY 4 MAY 2018 FROM 09.00 – 16.00

**Present:**

| Name | Country | Association |
|---|---|---|
| Malcolm Kemp (Chair) | United Kingdom | Institute and Faculty of Actuaries |
| Marc Arias Bellot | Spain | Col.legi d'Actuaris de Catalunya |
| Siegbert Baldauf | Germany | Deutsche Aktuarvereinigung |
| Thomas Behar | France | Institut des Actuaires |
| Kristoffer Bork | Denmark | Den Danske Aktuarforening |
| Richard Deville | France | Institut des Actuaires |
| Žana Kraucenkiene | Lithuania | Lietuvos Aktuaru Draugija |
| Christoph Krischanitz | Austria | Aktuarvereinigung Österreichs |
| Tomasz Krylowicz | Poland | Polskie Stowarzyszenie Aktuariuszy |
| Roberto Muscogiuri | Italy | Istituto Italiano degli Attuari & Consiglio Nazionale degli Attuari (ISOA) |
| Tibor Párniczky | Hungary | Magyar Aktuárius Táraság |
| Gábor Pásztor | Hungary | Magyar Aktuárius Táraság |
| Annina Pietinalho | Finland | Suomen Aktuaariyhdistys |
| Frank Schiller | Germany | Deutsche Aktuarvereinigung |
| Eduardo Trigo Martínez | Spain | Instituto de Actuarios Españoles |
| Jolanta Tubis | Switzerland | Association Suisse des Actuaires |
| Jana Zelinkova | Czech Republic | Ceská Spolecnost Aktuáru |
| Marcin Zwara | Poland | Polskie Stowarzyszenie Aktuariuszy |

**Apologies:**

| Name | Country | Association |
|---|---|---|
| Daphné De Leval | Belgium | Institut des Actuaries en Belgique |

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

The chair welcomed attendees, including those that had not previously attended a meeting of the RMC. The Agenda previously circulated was adopted, with the following additions:

- An agenda item 5.9 was added, involving an update from Gábor on the CRO/RFH group
- Additional items for discussion under 6.2 were suggested, including calibration of ESGs and GDPR

## 2. MINUTES OF PREVIOUS MEETING

The minutes of the previous face-to-face meeting and subsequent telephone conference meetings were agreed with the following additions:

- Feb 2018 call: Marcin was present
- Jan 2018 call: Jolanta was present

## 3. INTERNAL ISSUES

3.1 *Inclusion of the activities of the TF on Risk Management*. The RMC noted the decision of the Board to merge the activities of the IFRC and the Task Force.

3.2 *Terms of reference*. No further changes to the RMC's Terms of Reference were considered needed at present.

3.3 *Committee objectives*. No further changes to the RMC's current objectives were considered needed at present.

3.4 *Vice-chair*. Malcolm introduced this topic and explained that so far one volunteer had come forward. It was agreed to revisit this topic at the end of the meeting, in case others wanted to volunteer during the day or find out more about the role from Malcolm.

3.5 *Committee structure*. Malcolm introduced a discussion on this topic based around a slide setting out the tentative approach agreed at the last meeting. A variety of views were aired including:

- The structure articulated in the slide involving specific sections focusing on specific practice areas was likely to provide a better interface with other AAE committees (e.g. Frank, Marc, Richard)
- Conversely, the structure might be viewed as cumbersome (e.g. Eduardo)
- A downside of splitting into subcommittees was a possible loss of a holistic view (e.g. Jolanta)
- Conversely, smaller groups were potentially more effective at delivering results (e.g. Anina and Gabor)
- Permanency could be important, i.e. it might be easier for some individuals to remain involved if they could be members of specific permanent sub-committees or equivalents (e.g. Christoph)

A further consideration was that AAE sub-committees (and task forces) formally need their own terms of reference and to follow certain other AAE defined protocols.

It was agreed that, if possible, Malcolm would refine the committee structure in a way that ideally retained the advantages of splitting activities (including liaison with other AAE committees) into smaller more focused sections, but which avoided some of the complexities involved in establishing formal sub-committees or task forces (**Annex 3.5).**

## 4. CLOSED PROJECTS

4.1 *EIOPA Discussion paper on the review of specific items in the Solvency II Delegated Regulation*. The AAE's response to this paper was noted. RMC members noted areas where further input was desirable, including approach to fire risks (Marcin) and credit risk (Gábor). Attendees were encouraged to pass on these suggestions to Siegbert, who was coordinating the AAE's activities in this area, see below.

## 5. OPEN/ONGOING PROJECTS WITH PLANNED SPRING 2018 DELIVERABLE

5.1 *Promotion of actuaries in Risk Management*. Frank introduced this topic. Points raised included:

- Actuaries were typically good at quant areas, but less good at communication
- Stakeholders need comprehensive analysis
- Often problems actuaries get involved with combine big data with risk management
- Frank was keen to identify how we should go forward and promote the paper and any associated material
- Currently the paper was an internal paper

Various suggestions were given to Frank to refine the paper, including:

- Identifying the target audience was important
- Maybe the paper could be reworked into a paper whose primary target audience was actuaries wanting to become CROs? E.g. how should such actuaries make it most likely that their employers will value them? The I&FR Committee's earlier paper on what makes a good risk manager might also then contain some useful insights
- Roberto thought that there were probably other stakeholders to consider in addition to the ones most focused on in the paper
- COSO had changed its stance recently to become more orientated towards risk-return trade-offs, i.e. it was important not to underplay upside risk

5.2 *Prepare role actuaries can play in risk management under IORP II*. Susanna Adelhardt was unable to attend this meeting, so discussion on this topic was deferred until the next meeting.

5.3, 5.4, 5.6 and 5.7 *Modelling of low / negative interest rates*, *(Other) topics raised in EIOPA's 2nd Set of Advice on Solvency II*, *Interaction between interest rates and lapse rates* and *LTG Review*. Siegbert gave a presentation on topics raised in EIOPA's 2nd Set of Advice, how AAE had responded to this consultation and some of the successes achieved (i.e. areas where EIOPA had specifically taken note of AAE's comments). He also summarized the presentation on low interest rates that he had given to the Insurance Committee in Lisbon. Points raised included:

- There had been some areas, e.g. interest rate stress, where AAE appeared to have been successful in getting EIOPA to change its opinion
- There were some areas such as the risk margin where there had been no specific change of opinion from EIOPA, but EIOPA had in effect agreed to look at the topic in more detail further down the road
- There was likely to be a lot of work for the AAE's Solvency II Working Group, especially with the forthcoming LTG review.

- There were fears that the existing LTG elements potentially suffered from undergranularity, made it difficult to get a proper overview of LTG measures (leading to dwindling support for the compromises that had led to the LTG measures in the first place), and that the ideal structure was highly dependent on specific products in specific countries
- The Group was keen to retain / leverage support both from the RMC and the Insurance Committee
- There was currently some debate within AAE over reporting lines for the Group (currently it reported into the Insurance Committee), and RMC members were requested to give their feedback on this topic to Siegbert. The Group would in any event be refining its TOR shortly bearing in mind its likely future activities.
- EIOPA and others were giving increasing focus to systemic risk and macroprudential topics, and the Solvency II working group was envisaging that it would need to do likewise

5.5 *IFRS 17*. Daphné was ill and as a consequence it was agreed to defer substantive debate on this topic until the next meeting. It was agreed that this topic was appropriate for the Committee to consider, provided a European dimension could be established (which was felt very likely, given that the AAE has already set up an IFRS 17 Taskforce, the AAE has been asked to comment on the topic by EFRAG and it was likely that there would be inconsistencies between IFRS 17 and Solvency II etc.).

5.8 *Duration management of insurance contracts*. Christoph briefly introduced a paper (**Annex 5.8**) he had prepared, noting that it was still work in progress. It was suggested that some of the issues noted in the draft paper might be addressed by referring to DV01 instead of duration (loosely, referring to sensitivity of the portfolio value to a small movement in interest rates rather the ratio of this to the portfolio value), since DV01 remained well defined even when the portfolio value was zero or switched sign.

5.9 *CRO/RFH Forum*. Gábor provided an update of the discussions the group had had on how to progress this topic. The following was proposed:

- Aiming to have an initial meeting in Q3 or Q4 2018
- Invite c. 1 or 2 actuaries per member association, picked centrally and involving direct invitation
- Meet in Brussels (at the AAE offices or nearby)
- Likely budget of c. EUR 2 - 4k
- Action plan for delivery included first Gábor proposing the idea at the RMC, then Kartina doing so at the AAE Board
- Still need to identify some good topics, suggestions welcome, and possibly one or two external speakers

## 6. OTHER OPEN/ONGOING OR PROPOSED PROJECTS

6.1 *Workplan*. The Committee ran through all items on the current workplan not already covered under 5. Points noted include:

- On ORSA, Anina and Yanitsa will continue to work on this
- Interaction between lapse and low interest rates. Earlier in the year, as agreed by the RMC, Loes had contacted Siegbert on the topic of low interest rates and lapses, but at the time there had not been much progress on this topic. The importance being given

to this topic was likely to rise as the LTG review neared. Frank has some thoughts on this topic and will pass them on to Siegbert

- Remuneration. Malcom will ask Marios if he is still keen to pursue
- Sovereign risk. Eduardo was unsure whether this was worth pursuing (given the abatement of sovereign debt stresses within the Eurozone). Christoph mentioned work that had previously been done on this topic by an AAE group and agreed to send Eduardo a copy
- Operational risk. Malcolm will ask Eddy if this is progressing

Malcolm will update the list accordingly (**Annex 6.1**).

6.2 *New Projects*. A range of possible new topics was discussed, including:

- Reputational and Conduct risk. Some members thought it was particularly important to pursue this topic. There was broad support for this stance. Individuals interested in taking this forward included Tomasz, Frank (and Eddy?)
- Cyber risk. Is being looked at by Esko but principally at IAA
- Value of Risk Management. It was seen as important to demonstrate that Risk Management added value. Malcolm had come across a paper that sought to do this, i.e. Farrell and Gallagher (2014) The Valuation Implications of Enterprise Risk Management Maturity, see:
  https://onlinelibrary.wiley.com/doi/abs/10.1111/jori.12035 or
  https://web.actuaries.ie/sites/default/files/event/2016/06/mark_farrell.pdf
- Systemic risk. Siegbert's earlier presentation had highlighted the increasing importance being given to this topic by regulators including EIOPA. Eduardo is potentially interested in pursuing this topic. Malcolm noted that he had recently written a book on this topic (published by Palgrave Macmillan) and was potentially conflicted in what AAE might do given his role at ESRB, so would prefer someone else to take a lead from the RMC's perspective
- Calibration of ESGs. Anina was interested in this topic, but would like someone else to be involved
- GDPR. Richard briefly summarised a short presentation he had given on this topic to the Pensions Committee. His overall conclusion was that it would impose significant extra effort on the day-to-day activities of many actuaries, e.g. in the pensions area, where significant amounts of personal data were often processed in what actuaries did in this field. He will provide a copy of his presentation. Philippe Demol is also interested in this topic.
  Attached as **Annex 6.2a and 6.2b** are the 2 presentations Richard referred to (in French).
- Insurance stress test when applied to pensions business (and assisting pension committee on EIOPA stress test for pensions business). This might be a suitable topic for the joint committee meeting in Utrecht and also might be of interest to just the risk management committee
- PEPP. Malcolm summarised a conversation he had had with Gábor Borza, the vice-chair of the AAE Pension Committee. Susanna had indicated that the RMC's pensions group were not sure that PEPPs fitted well in their area, being largely or wholly non-DB in nature. Conversely, Gábor used the same point to argue that AAE input to PEPPs (which had been requested by Gabriel Bernardino) was principally investment related and therefore fell best within the scope of the RMC (albeit probably the part focusing on investments rather than on pensions)

## 7. MEETING WITH EXTERNAL ORGANISATIONS AND STAKEHOLDERS

The list of meetings circulated by the Secretariat as part of the Agenda was noted. Christoph noted that some of the contacts the I&FR Committee had with ECB and EBA had appeared to have slipped from the radar.

## 8. EXCHANGE OF INFORMATION ON CURRENT ISSUES

The following were raised:

- Banque de France had circulated a Financial Stability Review (No 22) that covered some interesting topics (Non-bank finance: trends and challenges). Richard will circulate it. See: https://publications.banque-france.fr/sites/default/files/medias/documents/financial_stability_review_22.pdf
- Christoph referred to the establishment of a Data Science Working Group by the Austrian association

## 9. PLANNING FOR NEXT MEETING

The general consensus was to meet as one, rather than in separate sub-groups at the RMC's next face-to-face meeting. As a result, the meeting would be split into a part meeting Thurs morning and a part meeting Friday morning. There would be scope for breakout meetings on Thurs afternoon if needed. Malcolm had yet to discuss topics that might be covered in the joint meeting with the Insurance and Pensions Committees. Given the likely numbers involved in such a joint meeting, it was expected that they would be less interactive than, say, one of the RMC's own meetings. Malcolm noted that he was unlikely to be able to attend the Thurs morning session. He proposed that it be chaired by Frank in his absence, see below.

## 10. ANY OTHER BUSINESS

Two topics were raised:

- *Can insurers use ratings supplied by ECAIs?* Marcin raised a concern from Poland that insurers were unable legally to use ratings supplied by ECAIs without having relevant (and expensive) licence agreements in place. Some Solvency II standard formula SCR calculations effectively required use of such ratings. Some other RMC members questioned whether this was actually the case. It was noted that the position might differ between situations where the ratings were being sourced from the ECAI's own website versus cases where the ratings were being sourced via e.g. Bloomberg, since the relevant licence agreements would then be different. Conversely, Richard noted that firms like FTSE were able to collect material licence fees for use of their indices, and some firms had taken commercial decisions to shift away from using such indices as a consequence.

- *Vice-chair*. It was agreed to propose Frank Schiller to the Nominations Panel, for the Panel to recommend to the Board for this role. Kristoffer explained that as the RMC appeared to have agreed amongst themselves on a suitable candidate it was unlikely that the Nominations Panel and Board would disagree with this recommendation.

## 11. DATE OF NEXT MEETING

In the light of 9 above, this will be on 20 / 21 September 2018 in Utrecht, The Netherlands at the invitation of Het Koninklijk Actuarieel Genootschap.

Malcolm Kemp
15 May 2018