

**NOTES OF A MEETING OF THE INSURANCE COMMITTEE
HELD ON THURSDAY 12 APRIL 2018
FROM 8.30 – 16.00 IN LISBON PORTUGAL**

Participants

The participants list is added as **Annex 0.1**.

1. OPENING OF THE MEETING AND ADOPTION OF THE AGENDA

The Chairperson welcomed the members to Lisbon and acknowledged the Committee's thanks to the Portuguese association for hosting the meeting. He also expressed the thanks of the Committee for the work of the previous Chairperson Esko Kivisaari, who stepped down recently. The agenda is attached as **Annex 1**.

2. MINUTES OF PREVIOUS MEETING

- 2.1 The Minutes of the meeting held in Copenhagen on 21/22 September 2017 were confirmed.
- 2.2 It was noted that teleconferences were held on 22 January and 9 March 2018: notes of these calls are available on the AAE web site.

3. APPOINTMENT OF VICE-CHAIR

The committee confirmed its proposal to appoint Lauri Saraste as Vice-Chair, subject to completion of other required approvals.

4. COMMITTEE TERMS OF REFERENCE AND PLAN

- 4.1 The Chairman opened discussion on the Committee's existing terms of reference.

Action: *It was agreed that the following updates were required:*

- (i) *to amend references to the "EU Institutions" to refer to European institutions more generally, particularly in the light of Brexit; and*
- (ii) *to include reference to the Risk Management Committee*
- (iii) *to ensure broad consistency with terms of reference of other committees*

- 4.2 Discussion then moved to the draft plan and plan and priorities for the next 18 months. The format of the plan and the idea of explicit KPIs were welcomed, and it was felt that it would be useful to co-ordinate with the other Committees regarding the content and structure of the plan.

In terms of the detail of the plan, the following points were made

- the draft plan targets the papers on USPs and GDPR towards SO3 (promoting a European community of actuaries). It was felt that this could also align with SO1 (enhancing relations with European institutions), and that this could also apply more generally for future similar work;
- the plan should recognise the work needed to prepare for the forthcoming joint meeting with the Risk Management Committee;

- we should add further granularity on the work needed on the Solvency II review and the need to link into EIOPA; and
 - we should add a new KPI on IFRS17, i.e. a paper to member associations.
- Two additional areas of interest to the AAE were discussed: *Data Science* and *Sustainability* and there is a need to “find a home” for them in the most appropriate AAE Committee.

Action: *Tony and Lauri to redraft the plan and circulate before the next meeting.*

5. UPDATE ON EUROPEAN AGENDA

- 5.1 Lauri Saraste gave presentation (attached as **Annex 5.1**) summarizing the European agenda as it affects the insurance sector.

Both the European commission and EIOPA have been quite active on publications. The EC in its mid-term review of the CMU plan called for enhanced investment in capital markets from insurers. EIOPA, in its reports, made several findings relating to the use of LTGA measures, capital add-ons and group supervision. It was noted also that SII guidelines will be under review and that the deadline for IDD had been postponed until 1st July 2018 (into force 1st Oct 2018). Further developments were left to agenda point 9 on Solvency II.

The Committee discussed the recent UK supervisory statement on the use of the Dynamic Volatility Adjustment (“DVA”) in internal models. It was noted that similar proposals are also underway in Germany, France and the Netherlands.

Action: *Florin Ginghina to consider what work the Committee should do in respect of these DVA developments.*

- 5.2 Esko Kivisaari gave an interesting presentation (attached to the agenda as Annex 17, start slides) comparing and contrasting the approach to regulation of the European banking and insurance sectors.

- Banking has some diversions from a purist risk-based approach, in the form of discounts on capital requirements, e.g. for investments in SMEs and Green bonds. There are, as yet, no such diversions in insurance.
- Macro-prudential risk is higher on the banking agenda (though also starting now to feature for insurance).
- The banking sector is moving towards banking union and risk sharing at a European level. Will the Insurance sector eventually move this way too?

The Committee discussed the idea of capital floors being applied to internal models in the banking context, and whether this could lead to a similar approach in insurance. It was felt that this was unlikely, at least in the shorter term.

6. CONSULTATIONS

- 6.1 The committee noted its recent responses to two consultations

- CP 2nd set of advice to EC SII Delegated Regulation ([Consultation](#) and [AAE response](#)); and
- European Commission - Duties regarding sustainability ([Consultation](#) and [AAE response](#)).

Discussion of the responses was deferred to the relevant agenda items below.

7. ACTUARIAL STANDARDS AND EAN on ORSA

- 7.1 David Martin, chair of the Standards, Freedoms and Professionalism Committee gave an update on the work of his Committee and the Standards Project Team. (attached to the agenda as Annex 7.1a, Workplan included as Annex 7.1b).

David explained the way standards are developed: proposed by Committees, developed by the Standards Project Team and overseen by the Standards, Freedoms and Professionalism

Committee. The Committee also discussed the difference between an EAN (European Actuarial Note) and an ESAP (European Standard of Practice).

It was noted that there are currently no new ESAPs in progress, although two potential ones had been suggested:

- GDPR - it was noted that the *Institut des Actuaire*s in France has developed a standard on the use of data. This topic is also covered under agenda item 12. It was felt that the first step here is to raise the level of awareness of actuaries of the new data protection standard and that consideration of an EAN or ESAP could come at a later stage.
- Economic Scenario Generators (ESGs). In this case the Committee felt that it was too early to develop an ESAP and that it was important not to be too prescriptive/restrictive on the work of actuaries.

It was also noted that, in both of these cases, any work on standards should recognise the relevance to both the Pensions Committee and the Risk Management Committee.

David asked whether there were any other areas where EANs/ESAPs might be developed.

IFRS17 was mentioned as a potential case, depending on how the accounting standard is ultimately adopted by the European Commission and member states. It was noted that the IAA is already working on a standard for IFRS17 and that the AAE would seek to align itself with this where possible.

- 7.2 The Committee discussed progress on the EAN on ORSA (as attached to the agenda as Annex 7.2a and 7.2b). The work to date was welcomed. It was agreed that further work was needed, for example on improving the consistency of the use of language and formatting, before the document would be ready for consultation. It was also important to clarify the relationship of the document with ESAP3, and to make clear that it is not an interpretation of the standard.

Action: It was agreed that Lauri would liaise with Sam to provide feedback on the changes needed, with the next version to be circulated for wider comments before the fuller approval process. Volunteers to read and comment are welcomed.

8. NON-LIFE ISSUES

- 8.1 The committee confirmed the appointment of Matthias Pillaudin as Chair of the NLWG and thanked the outgoing Chair Kartina Thomson for her excellent work since the WG was established.
- 8.2 Kartina Thomson and Peter Franken gave a presentation (attached to the agenda as Annex 8.1) on the activities of the WG.
- 8.3 Matthias Pillaudin presented a paper on Undertaking Specific Parameters (attached to the agenda as Annex 8.2). From the 2017 survey carried out by the Committee, it was noted that (i) few non-life insurance companies are using USPs in their calculations; (ii) the understanding of USP is relatively weak, possibly due to the lack of guidance from national regulators; and (iii) obtaining approval is perceived to be quite difficult due to data requirements. Considering the next steps, two options were proposed:
- A paper to be shared with EIOPA on the findings of the survey and discussing the barriers to use of USPs; and/or
 - An EAN on the use of USPs to promote the use of USPs for regulatory or economic capital and to help harmonise practice across Europe.

Action: The Committee agreed that the first step should be to share findings with EIOPA. NLWG to progress this.

- 8.4 Kartina Thomson introduced a proposal for a study of risk mitigation practices. (attached to the agenda as Annex 8.3). This Committee agreed that this would be a valuable study and that the work should link in with the Risk Management Committee.

Action: *NLWG to proceed with the study of risk mitigation practices and link in with the Risk Management Committee.*

9. **SOLVENCY II**

- 9.1 The Chairperson updated on the current status of the AAE's Solvency II project. It was agreed that the work needs to continue but that the structure of the project should be reviewed. The new structure also needs to link in with the Risk Management Committee. The Committee welcomed the fact that Siegbert Baldauf, Solvency II project manager, is willing to continue his work in this area through to 2020.

Action: *To propose a new structure for Solvency II work, in conjunction with the Risk Management Committee.*

Volunteers: Florin Ginghina, Matthias Pillaudin, Nils Dennstedt, Lauri Saraste, Declan Lavelle

- 9.2 Siegbert Baldauf gave a detailed update from the project (Annex 9.2). The main focus was on EIOPA's recently published EIOPA's second set of advice to the European Commission on specific items in the [Solvency II Delegated Regulation](#) and the Long-Term Guarantee Review planned for 2020. The key points were:

- A new role for actuaries to "Assess and validate the underlying assumptions applied for the projection of future profits" for the purpose of calculating the Loss Absorbing Capacity of Deferred Taxes (LACTD): the committee discussed the need to have an AAE view on whether actuaries should simply be required to assess assumptions or validate assumptions, and the important difference between these requirements.
- The piecemeal EIOPA approach to the inter-related issues of Ultimate Forward Rate, Last Liquid Point, Convergence Period and Interest Rate Risk: Siegbert Baldauf explained the need for a holistic approach to all of these issues and that any proper impact assessment must allow for the combined effect of all measures rather than piece-by-piece assessments.
- The lack of theoretical basis for applying the instantaneous interest rate shock to the long term UFR.
- The methodology used to determine the Cost of Capital Rate for the Risk Margin: the committee discussed the need to marshal the relevant arguments and not to simply restate the same points made in the AAE submission earlier this year.
- The fact that EIOPA's impact assessment did not adequately recognise the very different effects on different countries: relying on simple pan-European average impacts does not adequately communicate the situation to the Commission.

Siegbert's update also covered:

- SFCR: a brief update on EIOPA-BoS/17-310, EIOPA's Supervisory Statement "Solvency II: Solvency and Financial Condition Report"
- Insurance stress test 2018: Siegbert outlined the timetable and scenarios to be tested. The exercise will apply to 42 large groups and will be launched in early May. Groups will submit results in July and EIOPA will publish overall results in December. Despite the imminent launch, a full specification is not yet available. Two concerns are (a) the requirement / difficulty to calculate a post-stress SCR and (b) the expectation from EIOPA that groups will disclose their individual results.
- Systemic risk and macroprudential policy: EIOPA has recently published two papers on this topic. These recognise that insurance and banking are very different in terms of their

macroprudential risk effects and recognise the macroprudential impact of LTG measures in insurers. Next step: await further output from EIOPA. This is an area for future shared work with the Risk Management Committee.

- 9.3 The Committee discussed how to respond to EIOPA's second set of advice on the SCR. The key areas in respect of the 2018 review of the SCR were identified as (i) Risk Margin; (ii) Loss Absorbing Capacity of Deferred Taxes (LACTD); and (iii) Interest Rate Risk

Action (Urgent): Over the next month (to mid-May) to draft a paper for AAE board on the AAE's priorities in responding to EIOPA's advice and to influence where possible the European Commission.

Volunteers: Matthias Pillaudin, Lauri Saraste, Peter Franken, Daphné Deleval

The Committee then discussed how to approach the 2020 LTG review.

Action (by next meeting): When the immediate response to EIOPA's advice is complete, Solvency II Project to work on an AAE position paper on the LTG issues, stressing the inter-related nature of all of the different strands.

- 9.4 To consider other Solvency II related developments.
Covered in 9.2 above.

- 9.5 Members of the Committee to report briefly on any important recent developments in relation to Solvency II in their country.

Thomas Behar raised a concern about harmonisation of Solvency II and the need for a level playing field. Thomas itemised 8 areas where approaches are potentially mis-aligned:

- (i) Contract boundaries;
- (ii) LACDT;
- (iii) Items used to cover SCR;
- (iv) Expense allowance in Technical Provisions;
- (v) Scope of application of 22% shock for equities (participations);
- (vi) Approaches to valuing guarantees: stochastic vs deterministic;
- (vii) Allowance for negative interest rates in Economic Scenario Generators;
- (viii) Use of Matching Adjustment, Volatility adjustment, Dynamic Volatility Adjustment

Other example areas of lack of harmonisation raised in the discussion were the scope of the actuarial function and the application of audit to the Solvency II balance sheet. The committee discussed the idea of a survey of member associations to identify the areas where practice may diverge.

Action: Solvency II Project to carry out a survey of Member Associations, identifying areas where Solvency II practices diverge across Europe.

10. IFRS 17

The Chairperson discussed the ongoing work of EFRAG in building towards an Endorsement Advice by the end of the year, and the opportunity for the AAE to input to the issues being considered by EFRAG. He mentioned Alexander Dollhopf's involvement in the EFRAG work, and the work done to date by the IFRS17 Working Group led by Jean-Michel Pinton in supporting Alexander's input.

The Chairperson presented the outcome of a survey of member association views of IFRS17 conducted in March 2018 (attached to the agenda as Annex 10). The key issues arising from the survey which counter the anticipated benefit of consistent and comparable accounts for

insurance businesses are (i) the risk of a lack of consistency of application of the standard; and (ii) the risk that the cost may outweigh the benefits.

In the ensuing discussion it was noted that three notable absences from the respondents to the Survey were the UK, France and Germany, and that it is important to seek their views.

Action: *The next steps for the Working Group are to*

- *Seek views from UK, France and Germany;*
- *Update aspects of the survey with follow-up clarification of key points raised; and*
- *Provide comments to EFRAG in time for its end May board meeting.*

11. ORSA WEBINAR

Lauri Saraste gave an update on the ORSA webinar scheduled for 27 April. The invitation was added to the agenda as Annex 11. Participants have now been identified. The programme will include three elements: (i) a session on the perspective of the practitioner presented by Clemens Frey and Elsa Renouf; (ii) a view from EIOPA presented by Manuela Zweimueller; and (iii) a presentation on ESAP3 by David Hare.

12. GENERAL DATA PROTECTION REGULATION

Kirsten Sasady introduced a paper prepared by the GDPR Task Force (attached to the agenda as Annex 12). A key driver of the paper is to raise the awareness of GDPR among the actuarial profession across Europe. A key concern for actuaries is that they need to be part of the discussion within companies particularly in relation to the deletion of data. Retaining suitably anonymised data is essential for actuaries, e.g. when deriving assumptions from historical data. In discussion it was noted that this issue is of wider interest than just the Insurance Committee. In particular, it also of relevance to the Pensions Committee. With some minor amendments, it should be possible to adapt to paper so that it is relevant to both Insurance and Pensions actuaries.

Actions (tight timeline):

- *GDPR Task Force to link in with the Pensions committee to see what adaptations are required in the paper. Note the next Pensions Committee meeting is in Warsaw in early May;*
- *Circulate the paper as an alert to member associations in advance of GDPR coming into force on 25 May;*
- *Examine possibility of following up with a webinar on GDPR.*

As a future step, consider developing an EAN on data/data protection, potentially using the recently developed French Standard as a start.

13. THEMATIC REVIEW ON REMUNERATION

The Chairperson updated that EIOPA had issued an Opinion on monetary incentives and remuneration between providers of asset management services and insurers in December. National competent authorities are now required to provide guidance to insurers on how to apply the principles included in the Insurance Distribution Directive and Solvency II Directive when it comes to conflicts of interest arising from monetary incentives.

14. NEGATIVE INTEREST RATE/IMPACT OF LOW INTEREST RATE ENVIRONMENT

Wilhelm Schneemeier and Nils Dennstedt provided an update on negative interest rates and the impact of a low interest rate environment (attached to the agenda as Annex 14). The update outlined the previous position papers produced by the AAE in this area.

Nils then referred to the 2015 paper “*Lethal lapses - how a positive interest rate shock might stress German life insurers*”. The AAE view is that the paper’s approach is too simple to model management actions, portfolio structure and policyholder behaviour, and therefore leads to an overestimation of the risk exposure of undertakings. However, despite the AAE view, the paper’s results were quoted in the financial stability report.

The Committee discussed how to deal with this issue. Clearly it is related to the Solvency II work but may justify a separate group. Volunteers: Nils Dennstedt (Lead), Lauri Saraste, Matthias Pillaudin.

Action: Group to do further investigation concerning this issue and to draft a strong and clearly articulated AAE position. Work should tie in with the Risk Management Committee and the issue of Liquidity Risk more generally.

15. PAN-EUROPEAN PENSION PRODUCTS (PEPP)

The Committee noted the [PEPP discussion paper](#) prepared by the PEPP Working Group.

16. EIOPA INSURANCE & REINSURANCE STAKEHOLDER GROUP (IRSG)

The Chairperson updated on the activity of the IRSG (slides attached at **Annex 16**). He stated that Annette Olesen had stepped down from the IRSG following a change in her role and that a new IRSG term (2.5 years) would commence in September.

There was some discussion on issues relating to IRSG views of the 2018 stress test and to the proposed review of PRIIPS in 2018.

In response to a question from the Committee, the Chairperson confirmed that issue of EIOPA audit had not been discussed at IRSG.

17. COMMISSION HIGH LEVEL EXPERT GROUP ON SUSTAINABLE FINANCE

Esko Kivisaari briefed the Committee on the work of the HLEG, final report was attached to the agenda as Annex 17.

The HLEG considered ESG (Environmental, Societal and Governance) issues, with a focus on climate change and its consequences, e.g. uninhabitable areas and mass population migrations. The group considered the financial adaptations that will be required to address such issues, and in particular how to marshal private sources of financing. The HLEG’s report has now gone to the European Commission and the next step is a Commission action plan. Esko has found this work very personally rewarding and the Committee congratulated him on his involvement to date and committed to support his continuing work in this area.

18. IAIS GLOBAL ICS INITIATIVE

The Chairperson updated on progress with the IAIS proposals for a global insurance capital standard, namely the commencement of a 5 year monitoring period in 2020 following the introduction of Comframe, including ICS 2.0 as a confidential reporting requirement.

19. RISK MANAGEMENT COMMITTEE

The Committee noted the need to co-ordinate its work on issues of joint interest with Risk Management Committee. [RMC terms of reference](#) were attached to the agenda as Annex 19.

Action: Chairperson to contact and discuss plans with RMC Chairperson, with a view to Committees working together in the short term.

20. **BIG DATA**

The Committee noted Esko Kivisaari's involvement with the IAA on this topic, and that there are no developments to report from the EU or EIOPA.

21. **MEETING WITH EXTERNAL ORGANISATIONS AND STAKEHOLDERS**

21.1 The Committee noted the overview of recent meetings held between delegations of the AAE and the respective stakeholders. ([2018 Q1](#) was attached to the agenda as Annex 21.1).

22. **PRESENTATION FROM MEMBERS ON SURVEYS**

22.1 Maria Kamenarova gave a presentation on a survey of member associations on taxation of life insurance (attached to the agenda as annex 22). This survey helped the Slovakian association in its engagement with government on proposed premium taxes in Slovakia (**Annex 22.1**).

22.2 Ksenija Sanjkovic gave a presentation on a survey of member associations on Solvency II reporting requirements (attached as **Annex 22.2**). This survey helped the Croatian association to influence its regulator on local reporting requirements.

The Chairman thanked both for their presentations and noted the resource that is available within the committee to support member associations in this way.

23. **EXCHANGE OF NEWS ON CURRENT ISSUES**

Kirsten Sasady noted that Denmark is proposing to remove the role of the Life Assurance Appointed Actuary. This may trigger a request for a survey of member associations.

24. **ANY OTHER BUSINESS**

There was no other business.

25. **NEXT MEETING**

The next meeting is scheduled to take place on Thursday 20 September 2018 in Utrecht, The Netherlands in conjunction with the 41st AAE Annual Meeting. It is expected that two tele-conferences will be held before this meeting.