

MINUTES OF THE RISK MANAGEMENT COMMITTEE ('RMC')

HELD IN SOFIA, THE NETHERLANDS

ON FRIDAY 12 APRIL 2019 FROM 10.30-16.30 EEST

Venue: InterContinental Sofia, 4 Narodno Sarbine Sq, Sofia, Bulgaria

Participants

	First name	Family name	Country	Nominating association	Role
1	Christoph	Krischanitz	Austria	Aktuarvereinigung Österreichs	Observer
2	Paul	Buchner	Austria	Aktuarvereinigung Österreichs	Alternate
3	Philippe	Demol	Belgium	IA BE	Alternate
4	Yaneva	Yanitsa	Bulgaria	Bulgarian Actuarial Society	Observer
5	Jan	Svab	Czech Republic	Ceská Společnost Aktuáru	Alternate
6	Annina	Pietinalho	Finland	Suomen Aktuaariyhdistys	Delegate
7	Richard	Deville	France	Institut des Actuaire	Observer
8	Nadia	Lamari Mfitih	France	Institut des Actuaire	Delegate
9	Frank	Schiller	Germany	Deutsche Aktuarvereinigung	Delegate
10	Ferenc Gábor	Pásztor	Hungary	Magyar Aktuárius Társaság	Delegate
11	Peter	Franken	Netherlands	Koninklijk Actuarieel Genootschap	Alternate
12	Marcin	Zwara	Poland	Polskie Stowarzyszenie Aktuariuszy	Delegate
13	Ana	Martins Pereira	Portugal	Instituto dos Actuarios Portugueses	Delegate
14	Bryan	O'Higgins	Rep. of Ireland	Society of Actuaries in Ireland	Delegate
15	Octavian	Cosenco	Romania	Asociatia Romana de Actuarial	Alternate
16	Jozef	Ducky	Slovak Republic	Slovenská spoločnosť aktuárov	Alternate
17	Eduardo	Trigo Martinez	Spain	Instituto de Actuarios Españoles	Delegate
18	Marc	Arias Bellot	Spain	Col·legi d'Actuaris de Catalunya	Delegate
19	Lutz	Wilhelmy	Switzerland	Association Suisse des Actuaire	Alternate
20	Kemp	Malcolm	UK	Institute and Faculty of Actuaries	Chair

1. OPENING OF MEETING AND ADOPTION OF THE AGENDA

Malcolm opened the meeting, welcomed everybody and everybody briefly introduced themselves. The meeting agenda was agreed.

2. MINUTES OF PREVIOUS MEETING

Minutes of the meeting held in Utrecht on 20-21 September 2018 were approved. No matters arising were noted that were not covered elsewhere as substantive items on the agenda.

3. REPORT ON RECENT MEETINGS

An overview of recent meetings as summarised in the agenda was provided by Malcolm, Siegbert and Lutz.

4. OPEN/ONGOING PROJECTS

4.1 CRO Round Table

Gábor gave a brief presentation on the idea of having a CRO Round Table and the first RT organised in November 2018. Gábor and Roberto had agreed to develop further the format of the CRO RT. Ideas contained in Gábor's presentation included:

- CRO and Actuary Network.
 - To be established with further meetings of the CRO Round Table
 - Create a web page as a landing page for CROs and risk managers on the AAE web page
- Promote actuaries and further develop skill set of actuaries for being a risk manager:
 - Together with Educational Committee adapt syllabus and provide additional training (e.g. as per CERA)
- Profession:
 - Leverage on formal requirements to be met by actuaries and relevant for risk managers

Gábor proposed establishing a small task force to organise annual meetings and to design and maintain the web page. He asked for volunteers to join the task force. RMC participants are requested to respond to Gábor or Malcolm.

Comments from RMC and answers from Gábor:

- Should all risk managers or only actuaries have access?
 - We expected to restrict ourselves principally to actuaries
 - Depending on specific topics we might want to focus on CROs / RMFs (meetings, close exchanges) or to focus on all interested actuaries (developing skill set, maintaining available material on risk management).
- The financial and organisational aspects should be checked with an AAE board member (e.g. the treasurer)
- We should try to leverage already existing material and training from AAE and make this available to the community via the proposed webpage

Depending on the available budget and the size of the task force, the currently rather ambitious plan might need to be refocussed.

4.2 Solvency II Working Group

Siegbert gave a brief presentation of the current work and future plans of the Solvency II working group. Preparatory work has been done on the following topics:

- Interest rate topics: Lauri
- Risk margin: Malcolm
- Macro-prudential issues: Siegbert

The Working Group had agreed to focus over the next few months on the following topics. Siegbert requested for further volunteers from the member associations:

- 3.1: Extrapolation
- 3.2: Matching adjustments, volatility adjustments
- 3.3: Transitional measures
- 3.4: Risk margin
- 3.5: Capital markets union aspects
- 3.7: SCR and standard formula
- 3.10: Macro-prudential issues (urgent)
- 3.15: Reporting and disclosure

Interdependencies between the above topics should be considered.

4.3 Sustainable Finance

Malcom introduced this topic and the related topic of the Actuaries Climate Change Index by referring to papers in the Agenda pack.

Sustainable Finance:

- Objective is to position the AAE as an expert in this area. More specific targets need to be proposed by the working group.
- Annina is happy support the work of the working group. One interested person will be introduced by Eduardo
- Richard Deville proposed that his firm could assess a given list of funds claiming to be 'sustainable' provided someone else was willing to prepare the list

Climate Change Index:

- Annina and Marcin are happy to support the work on this topic.

4.4 Operational risk

Malcolm thanked the working group members and presented briefly the current draft version of the paper. Comments from RMC and answers from Malcolm and Christoph:

- Add more details on how to manage operational risks when there is a lack of quantitative information
- Propose a solution on how to extract relevant material risks out of the full set of all operational risks, to make those accessible for the top management
- Propose a solution on how to sort and group such risks
- Show ways to quantify model risk.
- Provide – if possible – access to an operational risk loss database.

4.5 Short-termism

Malcom introduced the topic based on the shared call for advice of the European Commission. The RMC de-prioritised this topic.

4.6 Risk management aspects for IORPs

Three topics were discussed by the RMC:

1. EIOPA informal consultation on IORP II (incl. operational, outsourcing, cyber)
2. Cash flow approach as presented by Falco 11 April
3. What other topics could the RMC offer support on to the Pension Committee?

On topic 1:

- Phillip and Gábor agreed to support the work on this topic.

On topic 2:

- Approach is helpful as it gives more information and possibilities to analyse the risk situation
- However, interpretation of these cash flows might be difficult as a standardised framework to do so is lacking
- The approach lacks a view on the asset side, thus leaving a very relevant topic for risk management untouched

Participants were encouraged to share more detailed responses with Malcolm until end April. So far, feedback to him has included questioning the validity of the example assertion given on page 12 that “IRR < 4%: OK, IRR > 7%: measures needed, 4% < IRR < 7%: discuss” given current levels of Eurozone risk-free yield curves.

On topic 3:

- Can RMC support the Pensions Committee with helpful advice on risk management topics?
 - We should try to help – e.g. by supporting the more formal consultation expected to follow on from topic 1.

4.7 Solvency II Risk Margin

Malcolm referred to the presentation given at joint meeting 11 April. The backing paper will be shared with RMC once further developed. Comments from RMC and answers from Malcolm:

- Document derivation of CoC rate based on beta in more detail.
- Calculation needs to be linked to the price for selling and running the company, hence methods are restricted.

4.8 IFRS 17

In Daphné’s absence Malcolm gave a brief status report. Comments from RMC:

- We should comment on the possible use and comparison of different risk measures in IFRS 17 versus Solvency II.
- The topic should generally be left with the Insurance Committee.

4.9 EAN on ESAP3

Malcolm and Lauri asked for feedback on the paper after Lauri had given a brief presentation on it. The EAN now has a more mature status with a close link to ESAP3. However, Lauri proposed that it should be considered a living document. Comments from the Professional Committee and the ASSC have been included in the version presented to the RMC. The presentation will be circulated after the meeting.

Comments from the RMC and answers from Lauri:

- As it is understood to be a living document, it might be difficult to implement as a ‘standard’. However, it should help member associations and actuaries apply ESAP3.
- Currently, there are no other topics with a close link between Insurance Committee and RMC like the EAN on ESAP3.

The RMC provisionally approved the document subject to any further comments from members to be given to Malcolm or Lauri prior to the end of April.

4.10 Promotion of actuaries in risk management

Frank gave an update on the current work and thanked Zana, René and Roberto for their support:

- The establishment of CRO Round Table was supported by providing a two-pager and Gábor and Frank will further coordinate the communication for that format.
- At the conference in Lisbon a presentation will be given to promote actuaries in risk management and the CERA training for developing the respective skills for actuaries.
- Frank is happy to support any other specific request on promoting actuaries in risk management and RMC members are invited to approach him.

The two-pager should be published for more general use on the AAE web page. Malcolm or Frank will approach the AAE Board for agreement to this.

4.11 RM Article Database

Bryan gave an update on the RM article database in Ireland. It will now only be supported for a relatively short time. It is then likely to be closed down or at least no longer actively managed, given the high effort needed to maintain it versus its apparently limited actual usage by actuaries, unless there is some additional support from the AAE or member associations.

One idea raised during the discussion of the CRO Round Table (see 4.1) was to establish a web-based forum associated with the Round Table. In this context, lessons may need to be drawn from the experience of the Irish RM article database.

4.12 Duration management of insurance contracts

Christoph reported that no progress has been achieved and that work should be stopped on the topic for the time being. However, some attendees thought there was still merit in pursuing this work.

4.13 Failures and near failures of insurers

Malcolm flagged for discussion the document shared by a link in the agenda. However, the RMC concluded that it does not wish to actively contribute to this topic at the current time, given other activities it thought should take higher priority.

4.14 Systemic risk and macroprudential policy

Malcolm introduced this topic and asked for volunteers to support this work. Yanitsa and Lutz volunteered to support the work on this topic.

4.15 Forward workplan

The workplan (attached as **Annex 4.15a**) was discussed and will be updated and a revised version circulated by Malcolm with the minutes. Based on volunteer availability and appetite the following decisions were reached:

- Modelling of low / negative interest rates: de-prioritised
- ICS: needs to be kept on the list, but will be picked up later in the future
- Duration Management of insurance contracts: currently de-prioritised, but Gábor to share material on duration management in Hungary

- Promoting consistent approaches amongst European RM actuaries: to be taken up by the Solvency II working group once it is addressed by EIOPA
- Liquidity risk: de-prioritised
- Model risk: to be taken up with a target for Spring 2020
- Calibration of ESGs: thoughts to be shared by René and to be circulated by Malcolm with the minutes, with the aim of finding wider support for working on this topic in the RMC (proposal attached as **Annex 4.15b**).

Malcolm also noted that Tomasz had prepared a proposal to work on conduct risk, which he would also circulate with the minutes (attached as **Annex 4.15c**).

5. WEBINARS

These were generally seen as important and helpful. Positive feedback on the webinar on ORSA was especially given from Portugal. We should wait till we have relevant topics closed which we can share. Ideas for topics for a forthcoming RMC-supported webinar included:

- Solvency II Review, e.g. Risk Margin
- Promotion of Actuaries in Risk Management

The plan would be for moderation to be undertaken by Frank given logistical considerations.

6. MEETING WITH EXTERNAL ORGANISATIONS AND STAKEHOLDERS

An overview had been prepared and shared by Monique.

7. EXCHANGE OF INFORMATION ON CURRENT ISSUES

No topics were shared.

8. JOINT MEETING INSURANCE, PENSIONS AND RISK MANAGEMENT COMMITTEE

Feedback from RMC:

- How can we make sure that discussion and results come back to respective committees?
 - Idea is to have more efficient and broader discussion and we need to make sure that topics are then addressed properly in the RMC.
- It is helpful to share different perspectives from insurance, pensions and risk management.
 - We need the time and the joint meeting should not be shortened
 - Material should be shared as pre-read for committees and discussions need to be discussed deeper in specific committees
- A closer link to the Education Committee is still missing.
- Having the joint meeting before the individual committees seemed to work well, particularly for the RMC as there was little duplication with its Agenda

9. FUTURE MEETINGS

It was noted that the next meeting of the Risk Management Committee will be held on Thursday 10 or Friday 11 October (tbc) 2019 in Vienna, Austria at the invitation of the Aktuarvereinigung Österreichs. There were no specific additional discussions about the format of that meeting or subsequent ones other than feedback on the Joint meeting as per Agenda item 8. As previously,

please provide any feedback you think is appropriate to the Chair as well as suggestions if any for topics to discuss at the next meeting.

10. ANY OTHER BUSINESS

None

11. DATE OF NEXT MEETING

See Agenda item 9.

Malcolm Kemp
30 April 2019

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