ACTUARIAL ASSOCIATION OF EUROPE
ASSOCIATION ACTUARIELLE EUROPÉENNE

1 PLACE DU SAMEDI
B-1000 BRUSSELS, BELGIUM
(+32) 2 201 60 21
INFO@ACTUARY.EU
WWW.ACTUARY.EU

MINUTES OF THE JOINT MEETING OF THE AAE INSURANCE COMMITTEE ('IC'), PENSION COMMITTEE ('PC') AND RISK MANAGEMENT COMMITTEE ('RMC')

HELD IN SOFIA, BULGARIA

ON THURSDAY 11 APRIL 2019 FROM 10.30-13.00 EEST

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

The participants list is included at the end of these minutes as **Annex 0.1.**

1. Opening of the meeting and adoption of the agenda

The Chair (Malcolm Kemp) welcomed the attendees. He briefly introduced the meeting objectives and agenda.

2. Solvency II Working Group update covering 2020 review, call for advice and upcoming consultations

The meeting received and discussed an update from Siegbert Baldauf (**Annex 2**). Siegbert presented a comprehensive overview on the status of the Solvency II 2020 Review and the activities of the AAE's Solvency II Working Group.

He summarised the recent request from the EU Commission to EIOPA for technical advice on the Solvency II review and a first prioritisation of topics for AAE preparatory work. He asked for additional support from participants of the meeting (or from their Member Associations) on the following topics:

- Extrapolation of risk-free rate curve
- Matching adjustment and volatility adjustment
- Transitional measures
- Risk margin
- Capital markets union aspects
- Solvency Capital requirements and Standard Formula
- Macro-prudential issues
- Reporting and Disclosure

Siegbert also referred to a greater role for EU Commission in setting risk-free rate, to sustainable finance, to illiquidity and to a request relating to a possible change in extrapolation beyond current last liquid point.

Siegbert thanked especially Ireland, Germany and Finland for their support in the work done so far in the Working Group and will approach the participants for volunteers later during the meetings.

Long-term equity is generally seen as a strange concept to have been added to the draft Delegated Regulation and should be added to the list of topics to be further observed.

3. Report on work on review of the design of the Solvency II Risk Margin including assessment of differences between Solvency II and IORP II

The meeting received and discussed an update from Malcolm Kemp (**Annex 3**). Malcolm presented the current status of work on the topic done by the Solvency II Working Group work stream on Risk Margin. He thanked as chair all the participants of the work stream.

EIOPA is being asked to assess the appropriateness of the design and calibration of the risk margin as part of their advice for the 2020 Review (see above). The work stream has therefore prepared a paper which it aims to circulate shortly to assist the AAE in responding to an expected consultation from EIOPA in this area. The paper introduces the current methodology and calibration underlying the risk margin, sets a framework of desirable criteria for its design and discusses seven identified topics relevant to a risk margin that aims to reflect a cost component for transferring the respective portfolio. These are:

1. Overall magnitude and interest rate sensitivity
2. Interactions with current developments, esp. IFRS 17, ICS 2.0 MOCE
3. Risk coverage, esp. with respect to operational risk, potentially remaining interest rate risk, changed risk profile for pure portfolio run-off for typical buyers
4. Cost of Capital, calibration of CoC rate and discount rates to be used, time variation of CoC rate or discount rates. It is not fully clear if and how capital market leverage of companies could be considered. The general concept underlying Solvency II follows the logic of ability to hedge market risks and not being able to generate value out of taking on additional market risk. Compared to other industries insurance does not seem to stick out as able to generate additional profits. However, based on recent research the currently applied CoC rate seems to be rather high.
5. Handling of multi-year dependencies (e.g. handling shock scenarios like mass lapse in the projection of the SCR for the risk margin). Ignoring multi-year dependencies currently leads to a higher risk margin. Some suggestions were made relating to tapering the CoC rate or adjusting the discount rate, but other more detailed approaches are considered likely to be less practical.
6. Handling of tax and LAC-DT
7. Interaction with concepts of LTG measures (esp. VA and MA) and UFR. Transitional measures out of scope as driven by political decision

In comparison to Solvency II the IORP risk margin seems to default to 3% of the gross best estimate of non-pure DC obligations.

Further questions/comments by the participants:
- How can risk margin be handled between group versus solo view on companies
- Liquidity requirements are not considered in risk margin – which seems to be ok to avoid additional complexity
- Can risk margin be a measure for expected future profits of a portfolio – hence being seen as more closely linked to the IFRS 17 concepts?

- Interaction between risk margin and macroprudential topics

4. Presentation on cash flow methodologies for pensions

The meeting received and discussed an update prepared by Falco Valkenburg (**Annex 4**). Maitane stood in for Falco to present an approach for IORPs involving use of cash flows to assess if future pension payments can be met. The presentation aimed to ask if these concepts are consistent with already existing concepts in Solvency II for Insurance.

The premise of the presentation was that the presented sort of cash flow analysis would give additional information to the companies and regulators on if and when the IORP might ‘default’, on the amount of the shortage when ‘defaulting’ and on the probability of such a ‘default’. The committees represented at the joint meeting have been asked by the AAE Board answer whether the presented approach was consistent with Solvency II.

First comments of the participants:

- Obviously, the presented approach is a first step towards requirements as under Solvency II (as Solvency II does e.g. require reporting of cash flows), but as currently proposed does not yet as comprehensively and consistently address risk capital requirements.
- Especially, the assessment of the existing asset portfolio is lacking.
- Further on, as the basic framework is not based on a risk-free valuation, also the cash flows cannot be directly compared to similar cash flows produced under Solvency II.
- On the other hand, it may enable more extensive scenario and stress test analysis than is typically done at present within the IORP world and hence also improved risk management without directly introducing a Solvency II framework to IORPs.
- Everybody should be aware that after this first step there may be further steps requested by EIOPA over time to close the gap between IORPs and insurance companies by introducing more requirements.

After a brief discussion, the consensus of the meeting in terms of answers to the questions raised seemed to coalesce towards:

- Is the proposed cash flow analysis consistent with Solvency II? *No, as the design of the presented approach is by construction different, particularly on the asset side. But is it realistic / reasonable that this should be achieved already at this stage in time?*
- Could a cash flow analysis add insights in addition to a valuation? *Yes*
- If there are no harmonised Pillar 1 requirements (IORP II), could a cash flow analysis deliver a harmonised European approach to pension risk? *This needs to be discussed in more detail at a later stage and in part depends on how the presented approach is developed to handle the asset side of the balance sheet.*

Participants are welcome to share further views with the Chair and/or Falco if they so wish, preferably by end April.

5. Presentation on EIOPA priorities

The meeting received and discussed an update from Lauri Saraste (**Annex 5**). Lauri briefly gave an overview of EIOPA priorities highlighting the ESA’s review process, objectives on sustainability, PEPP, Solvency II Proportionality, conduct of business supervision strategy, IDD, big data / machine learning, cost and past performing reporting. EIOPA seems not to want IFRS 17 to have a leading position.

6. Any other business

Esko asked participants if many of them read the AAE newsletter. Many in the room did but it was less clear whether many outside the room did so too. Esko's underlying question was to ask: does the AAE newsletter provide valuable overview on the topics covered by the newsletter and is it worth the effort?

Conclusion: the newsletter is seen as useful, but it is questionable if it is worth spending c. €20k per annum on it. We also should think how to increase the reach of the format.

As for previous joint meetings, participants are asked to feed back their views (to individual committee chairs) on the merits of the Joint meeting (to assist in planning future meetings).

Malcolm Kemp
18 April 2019

ANNEX 0.1

	First name	Family name	Country	Nominating association
1	Paul	Buchner	Austria	Aktuarvereinigung Österreichs
2	Karel	Goossens	Belgium	IA|BE
3	Philippe	Demol	Belgium	IA|BE
4	Yaneva	Yanitsa	Bulgaria	Bulgarian Actuarial Society
5	Jan	Svab	Czech Republic	Ceská Spolecnost Aktuáru
6	Lauri	Saraste	Finland	Suomen Aktuaariyhdistys
7	Annina	Pietinalho	Finland	Suomen Aktuaariyhdistys
8	Richard	Deville	France	Institut des Actuaires
9	Matthias	Pillaudin	France	Institut des Actuaires
10	John	Woodall	France	Institute and Faculty of Actuaries
11	Nadia	Lamari Mfitih	France	Institut des Actuaires
12	Thomas	Béhar	France	Institut des Actuaires
13	Jean-Francois	Gavanou	France	Institut des Actuaires
14	Susanna	Adelhardt	Germany	Deutsche Aktuarvereinigung
15	Siegbert	Baldauf	Germany	Deutsche Aktuarvereinigung
16	Frank	Schiller	Germany	Deutsche Aktuarvereinigung
17	Michael	Renz	Germany	Deutsche Aktuarvereinigung
18	Gabor	Borza	Hungary	Magyar Aktuárius Táraság
19	Tibor	Parniczky	Hungary	Magyar Aktuárius Táraság
20	Gabor	Hanak	Hungary	Magyar Aktuárius Táraság
21	Istvan	Kerenyi	Hungary	Magyar Aktuárius Táraság
22	Ferenc Gábor	Pásztor	Hungary	Magyar Aktuárius Táraság
23	Giovanni	Sammartini	Italy	ISOA
24	Falco	Valkenburg	Netherlands	Koninklijk Actuarieel Genootschap
25	Jeroen	Bosch	Netherlands	Koninklijk Actuarieel Genootschap
26	Hans-Michael	Overgaard	Norway	Den Norske Aktuarforening
27	Marcin	Zwara	Poland	Polskie Stowarzyszenie Aktuariuszy
28	Robert	Pusz	Poland	Polskie Stowarzyszenie Aktuariuszy
29	Ana	Martins Pereira	Portugal	Instituto dos Actuarios Portugueses
30	Rita	Marques	Portugal	Instituto dos Actuarios Portugueses
31	Philip	Shier	Rep. of Ireland	Society of Actuaries in Ireland
33	Cathal	Fleming	Rep. of Ireland	Society of Actuaries in Ireland
34	Bryan	O'Higgins	Rep. of Ireland	Society of Actuaries in Ireland
35	Octavian	Cosenco	Romania	Asociatia Romana de Actuariat
36	Maria	Kamenarova	Slovak Republic	Slovenská spolocnost' aktuárov
37	Jozef	Ducky	Slovak Republic	Slovenská spolocnost' aktuárov
38	Maitane	Mancebo	Spain	Instituto de Actuarios Españoles
39	Sáez De Jáuregui	Luis María	Spain	Instituto de Actuarios Españoles
40	Eduardo	Trigo Martinez	Spain	Instituto de Actuarios Españoles
41	Anders	Munk	Sweden	Svenska Aktuarieföreningen
42	Lutz	Wilhelmy	Switzerland	Association Suisse des Actuaires

43	Lionel	Candaux	Switzerland	Association Suisse des Actuaires
44	Kartina	Thomson	United Kingdom	Institute and Faculty of Actuaries
45	Malcolm	Kemp	United Kingdom	Institute and Faculty of Actuaries
46	Charles	Cowling	United Kingdom	Institute and Faculty of Actuaries