

## **Notes of a meeting with EIOPA 18 July 2014**

### **AAE**

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### **EIOPA**

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## **1. Solvency II**

GB reported that SII is still on track. The new Parliament needs to approve the Delegated Acts (no new discussion allowed) and the expectation is that the final text will be available in September. EIOPA expects no major changes despite some on-going discussions between the Council and the Commission. The various layers of ITS and additional guidelines are expected to be on time and will be available October/November.

Conclusions on the ITS consultation will be completed and sent to the Commission shortly. No major issues have been raised during the consultation. Some questions were raised on the processing time of supervisors and on the undertaking specific parameters. Nothing can be changed with respect to the Directive or the delegated acts. Despite this GB is willing to have a look at issues around non-life, underwriting and longevity.

The AAE will be asked for further assistance. The next consultation will follow on pillar 1 issues and will be open until March 2015. It is expected that everything can be finalized mid 2015.

EIOPA has formed a special project team on the risk free rate. Eventually AAE will be asked to react on the risk free rate basis and methodology.

GB noted that the implementation of the preparatory guidelines at national level happens at different paces and there is clearly a different way of working per supervisor. Some are pragmatic some want to define everything by law. This will not change easily. EIOPA is the centre of expertise with respect to guarding the consistency in the IM implementation. To achieve a level playing field more consistency will be necessary. EIOPA will deliver a package for supervisory reporting later this year.

## **2. Valuation**

EK pointed to the differences between the Solvency II valuation basis and the valuation basis as proposed in ED IFRS. GB indicated he had talked to auditors about this issue and would welcome any feedback from the AAE on this subject. Christoph noted that calculations will be carried out before the risk free rate will be available. MC and EK stressed the importance of a good connection between the various accounting standards. CK offered assistance regarding potential valuation inconsistencies.

## **3. IAIS Capital Standard**

EK asked whether the focus of ICS will be on policyholder protection or on systemic risk. GB responded it will be about level playing field. GB indicated that we will not get similar capital requirements. A proper link with Solvency II will be the key issue. Europe will solve this through using Higher Loss Absorbency (HLA).

GB explained that the first step will be comparability on BCR level. When ICS has its final capital requirement BCR will be abandoned and replaced by ICS for regular companies and ICS+HLA for systemic risk companies. In college of supervisors measures are under discussion to prevent that things will get out of hand.

GA noted that a resolution is under development for a recovery framework. IAIS and FSB are currently working on this. It is still to be seen whether ICS+HLA will be higher or lower than SCR. EK mentioned that the insurance industry would like to see SII as an implementation of ICS.

GB explained that Solvency II will not be equal to ICS. The strategy will be to take it step by step. When ICS will be there in 2106 EIOPA will start explaining what the effect will be. EIOPA does not expect a standard formula will be available in 2016. More fundamental will be a discussion on the basis for ICS (risk to be considered, matrix, confidence level etc.). 2016 will start with level 1 (not level 2) eventually followed by adaption of SII. There will not be two capital requirements at the same time, but it might take ten years before we have a global standard.

AAE input will be asked for valuation issues. Currently there is an agreement on BE as a basis. EIOPA will ask for assistance from AAE and IAA. GB indicated that it will be important that the IAA discussion is steered in this direction and that there is also sufficient representation from smaller companies in the IAA.

It was agreed that EK will have a separate meeting with EIOPA for input and background.

#### **4. Pensions**

FV referred to the discussion earlier in the week with the UK Pension actuaries on AAE's IORP discussion paper. GB indicated that EIOPA would be interested in the final paper. MC agreed to send the final draft.

EIOPA are currently working on a consultation document that will deal with refinements in the holistic balance sheet (HBS) calculations and the role of the HBS in a supervisory framework with respect to funding and risk management.

BK expressed the difficulty with getting to a risk evaluation without having a pillar one, and Katrina would welcome any AAE input. Basis cannot be the local accounting system. Important that it will be a risk based formula approach.

GB noted that - generally speaking - countries with DB systems do not want any change. This will be reflected in Council discussions except when there will be a push from the EU Parliament from a consumer protection point of view.

Stress test 2015 will be issued together with, but separate from, QIS. Goal will be to find out whether there are systemically important IORPs. BK explained the two objectives. Firstly: are there systemically important IORPs? And secondly what will be the resilience to adverse developments? What can be expected from sponsors and soft promises? The stress test will therefore be relevant to test resilience. The EIOPA Board has approved the approach and EIOPA is currently preparing the test.

The data analysis will be carried out through the EU supervisors and is aimed at individual IORPs with respect to their investment behaviour (pro cyclical or not). This approach is comparable to similar exercise carried out by the Bank of England.

One of the main questions in order to design the stress test will be what scenarios, what relevant risk factors to choose in order to make it relevant for pensions. The idea is to use HBS as a standard and also include national valuation standards. It will be a comprehensive stress test to be executed by all EU countries that have pension funds, including DC funds. Important is designing the stress test for DC funds with questions like: who will take the burden in a stress situation and what will be the impact in 10-20 years time? Contents of the stress test are not made public yet but BK referred to his recent presentation to the OPSG to get an idea.

GB invited AAE to actively give input in a "collegial" way. In particular, experiences from member associations would be welcome to avoid any duplication. The stress test will also be an important tool to check on sustainability.

#### **5. Personal Pensions**

Cees gave a historic overview. A Call for Advice was issued in 2012 to develop rules for X-border activities and to develop a second regime to increase harmonization. A preliminary report was published in February 2014 and Cees gave an overview of that report.

GB announced a significant call for advice to see whether a minimal level of harmonization would be possible including minimal disclosures. First problem is to define what a personal pension plan is. The call for advice could be carried out using a standard product or a list with product characteristics. Difficulty will be the various European tax systems. GB would welcome assistance from the AAE perhaps by updating our previous survey from 2004.

## **6. Stress Test Insurance Pensions**

GB reported that the final report will be published in November 2015. Individual company results will not be available but it will include a list of companies that have participated. EIOPA is being advised by economists of ESRB and ESMA/EBA for the economic scenarios. He noted that EIOPA is not the key driver. It is the intention that only EIOPA members (supervisors) will be consulted.

First validation will be done locally. Information will then be sent to EIOPA who will carry out its own validation. The idea is to have an insurance stress test every two years. Christoph indicated the willingness to provide information on how to best obtain the necessary data, which was welcomed by EIOPA.

## **7. Consumer Protection**

SK reported that EIOPA is actively using the AAE paper. The AAE paper has been well received. The action will now shift to local supervisors to further identify areas for consumer protection. The National Competent Authorities (NCA) will be ready end September. A report will be published with a proposal for a framework including using certain indicators for early warning purposes and to challenge companies.

## **8. Any other business**

GB responded to developments in Belgium and the UK with respect to certain independent tasks reserved for actuaries (on best estimates and technical provisions respectively that EIOPA is working on a supervisory handbook with good practices. Local supervisors can take independent actions with respect to reserved roles for actuaries.

## **9. Next meeting**

The next meeting will be held mid December (provisionally 15 December – tbc) at the EIOPA offices in Frankfurt.