

**Notes of a meeting between representatives of
Internal Market DG and AAE
held in Brussels, on 19 June 2014**

PRESENT:

Internal Market DG

Klaus Wiedner
Yann Germaine
Andreas Viljoen

AAE

Malcolm Campbell
Esko Kivisaari
Falco Valkenburg

Christoph Krischanitz
Siegbert Baldauf
Michael Lucas

1. Valuations

Malcolm referred to the links between valuation, risk management and transparency. He pointed out that the existence of several different standards for valuation led to inconsistency, eg. IFRS vs Solvency II vs local GAAP. Christoph noted that the different approaches were reflected in the AAE paper on Market Consistency, which provides a useful background on valuation; he highlighted a number of key aspects, including:

- current vs historic
- deep and liquid only, or also illiquid
- presentation of MCV, and best estimate + risk margin
- current value, exit value, fulfilment value

Christoph explained that we are developing further work on market consistency, which looks at applications in specific areas and scenarios. He also drew attention to our paper which compares Basel II with Solvency II, including accounting vs capital requirements, and the development of a MC web portal to provide information on financial values. It was agreed to send copies of the MC paper and the Basel II/Solvency II paper to KW.

KW confirmed that he would welcome AAE advice on how to achieve greater consistency: Christoph suggested that we could help to explain differences between different systems, and Esko suggested looking at the Insurance Accounts Directive for convergence to one set of accounts after, say, five years. KW also referred to the need to reconcile consistency with

proportionality: Malcolm noted that this question is different between life and non-life. Convergence/consistency can be achieved but it will take time will involve significant cost.

In conclusion it was agreed to continue dialogue on valuation, in particular regarding consistency within and between sectors.

2. Pensions/IORP

Falco referred to the AAE's involvement in EIOPA's OPC working groups and QIS on IORP2. He offered the AAE's help in relation to the Actuarial Function and risk evaluation for IORPs, and on communication of risks to consumers of DC schemes. Falco also raised the question of "Solvency II by the back door" which is a real concern for the industry and other stakeholders. He suggested that the holistic balance sheet could be a useful tool to explain to consumers how their pension is financed, and the 'soft' nature of the pensions guarantee which he believes is not well recognised yet.

KW indicated that the political landscape is not right for capital standards for IORPs and consequently that there is no immediate intention to introduce Solvency II rules. The Commission are more concerned at present with valuation of the sponsor covenant. He confirmed that the Commission would welcome a paper by AAE on risk evaluation: although many Member States do not want delegated acts, it would be useful to have some examples of what risk evaluation might look like.

3. Emerging issues in Insurance

Malcolm referred to the IAIS initiative to develop a global insurance capital standard (ICS), to which the IAA will contribute actuarial input. He pointed out that AAE has significant influence in IAA, and that EIOPA has encouraged AAE to exercise this influence to try to ensure that ICS will be consistent with Solvency II.

It was clear that the Commission have a number of concerns about ICS, in particular:

- will it require changes in Solvency II? – if so, in what areas?
- should the EU objective be to defend Solvency II wherever possible?
- can there be a common valuation system which will satisfy the US?
- should ICS be limited to globally systemic insurers?

Esko pointed out that ICS could be seen as a means of policyholder protection or addressing systemic risk, and that the issue of calibration/confidence level is political. He added that industry has invested a lot in Solvency II and is afraid of political compromise by EIOPA over ICS. Esko also noted that the BCR should be quick and simple, and he referred to the IAA's work on valuation and best estimate liabilities for the ICS. On the question of an 'ideal' valuation, the outcome of the EIOPA stress test will be relevant. Siegbert suggested that a pragmatic solution for Solvency II should include risk-free rate, credit risk and volatility adjustment, and that business has to be adjusted to valuation methods.

It was agreed to continue the dialogue on ICS and other global solvency standards as they emerge.

Esko also referred to insurance of cyber risks, led by DG Justice, to whom AAE has submitted comments in response to a questionnaire, and Big Data (DG Justice). We will be happy to provide further advice on these issues.

4. Actuarial standards

Malcolm referred to the AAE's work on actuarial standards relating to Solvency II and agreed to send KW copies of ESAP1 and the ESAP2 working draft.
