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Notes of a meeting between representatives of Internal Market DG and the Groupe Consultatif held in Brussels, on 23 November 2012

PRESENT:

Internal Market DG

Karel Van Hulle	Alessia Angelilli
Charlotte Paterson	Ulf Linder
Ramon Carrasco	J Rocha
Eelke Postema	Anna Kadar

Groupe Consultatif

Karel Goossens	Christoph Krischanitz
Gábor Hanák	Jean Berthon
Esko Kivisaari	Michael Lucas
Falco Valkenburg	Pia Skaerbak

1. Pensions issues

1.1 *Review of IORP Directive; QIS*

Karel Van Hulle highlighted the following points in relation to the Directive:

- there is pressure for a Directive proposal by mid-2013, in advance of the run-up to the 2014 European Parliament elections
- Lamfalussy principles have been abandoned: consequently significantly more detail will be included
- the delay in the Solvency II project is likely to result in some L2 measures being included in the new Directive, and consequently a more detailed text

KVH also identified the main issues in relation to the QIS:

- how to include long-term guarantees
- industry concern that one QIS is not enough
- is the holistic balance sheet workable?
- specification of a confidence level which recognises differences between countries and plans

Falco drew attention to the Groupe's concerns

- the need to provide risk-based supervision, strong governance, transparent reporting, and to address unsustainability
- affordability and knock-on effects on investment, capital markets and Europe 2020 growth agenda must be considered fully
- elements of the `market consistent` approach remain under review
- timescale is unrealistic and risks conclusions based on unclear, incomplete and unreliable data from a single QIS
- differences in national systems will present serious challenges
- the value of sponsor covenant is important - how to recognise in the HBS?
- should pension protection schemes be included in the HBS?
- the absence of any indication of supervisory actions

1.2 ***Sustainability/Social Security sub-committee***

Falco referred to the Groupe's position paper *Sustainability of pension systems in Europe – the demographic challenge*, which demonstrates the value that actuaries can add in relation to Pillar I pensions. He described the establishment of the SSSC and the establishment of two task forces to deal with

- Methodology and projections (to provide input to DG ECFIN for its 2015 Ageing Report); and
- Disclosure of information/tracking (to develop systems of information on 1st pillar pensions and subsequently on 2nd pillar pensions) – KVH indicated that the output from this latter group will be of particular interest to the Commission

1.3 ***Portability***

Falco noted that the Portability dossier is being resurrected under the Cypriot presidency. He explained that the Groupe has a draft position paper in preparation, the highlights of which include

- enforcing transferability of pension rights would not protect mobile workers if the rules governing vesting and revaluation of acquired rights were not at an appropriate level
- for practical reasons it is not unreasonable to have some minimum waiting/vesting periods so that short service employees do not have very small preserved rights which may be eaten away by charges
- transferability is not "technically difficult"
- principles for the calculation of transfer values from defined benefit plans
- two alternative approaches: (a) leaving and receiving scheme use their own local valuation rules and employee accepts any difference in pension value as a result; (b) leaving and receiving scheme use a standard valuation rule and preservation of right for mobile employee. Profit/Loss is borne by transferring/receiving scheme and/or sponsor
- the disparity in funding levels which in practice will inhibit the payment of a "full transfer value" in many cases

KVH indicated that it was hoped to produce a draft Directive before the end of the Irish presidency in June 2013.

1.4 ***Third Pillar pension scheme***

Falco enquired about a proposal by Gabriel Bernardino for the introduction of a well-governed, Europe-wide collective third pillar pension scheme which had been aired at the recent EIOPA conference. He considered this to be a very good idea. KVH reported that the suggestion had originally come from the Commission, and would be an issue for the next Commission to develop.

2. Solvency II

2.1 ***Current position at Commission***

KVH regretted the continuing delay with Omnibus 2 and the LTG impact assessment: he noted that the same disagreements affected both. He suggested that, if Terms of Reference for the LTG impact assessment can be concluded by the end of November, it may be possible for EIOPA to report by the end of June. However, there remains concern over the issue of the extended matching adjustment, which is opposed by Germany.

On Omnibus 2, Esko noted that -

- uncertainty makes things very difficult, and it is essential to have a credible timetable to which all parties are committed
- it is already clear that different markets are moving with different speeds - some markets have more or less adapted to Solvency II compliant practices, while others are only now starting to realise that changes are needed
- national Solvency 1.5 initiatives in some countries may include elements incompatible with final Solvency II which would then be an obstacle to implementation
- the financial crisis created new difficulties in relation to confidence levels

As regards the LTG issue, Esko pointed out that –

- we consider the assessment to be very important
- it should be started as soon as possible so as to have time to do the assessment properly
- the extent and the timing (overlapping with year-end accounts and with the EIOPA stress test) makes the assessment demanding: if there are unrealistic scenarios these should be dropped and also enough time should be given
- work in this area remains with our Pillar I life working group - there have been some communication problems with contacts from the Commission and EIOPA

Esko reported that we are taking steps to appoint a successor to Seamus Creedon as project manager, and a new project sponsor, and we will notify the Commission of the outcome as soon as possible. The overall working group structure of the project remains unchanged, and the intention is to safeguard a balanced representation in the project and to maintain our role as an independent expert group.

In response to a question from Esko about areas for further assistance from the Groupe, KVH identified the following:

- reducing volatility of calculations
- introduction of Solvency II in "blocks" - Pillars II and III then return to Pillar I (note: KVH does not personally support this idea)
- calibration of investments, and whether certain types can be favoured taking into account the macro-economic impact and the impact on the level of protection to policyholders

2.2 ***Market Consistency***

Christoph reported that the first stage paper ('educational' and theoretical background) was now complete, and a copy of the paper was presented to KVH. Work will now start on the second stage, which will look at practical applications of market consistency in specific areas.

Christoph also outlined the review of the Groupe's Market Consistency web portal.

2.3 ***Role of the Actuary***

Karel (Goossens) presented a copy of the Groupe's paper on the Role of the Actuary, *Solvency II: raising the bar on insurance technical expertise*, to KVH. It was noted that neither the Groupe nor the Commission could promote exclusivity for the actuarial profession in this context: it will be for the market to decide on the necessary comfort and reassurance regarding the appropriate level of expertise. Gábor explained that a further paper is in preparation, which will look at the wider roles of actuaries in, for example, modelling and reporting.

3. Actuarial Standards

Gábor reported that the Groupe had issued the Exposure Draft of a model standard on Actuarial Reporting under Solvency II for consultation, both to member associations and external stakeholders. KVH confirmed that he had received the ED and the invitation to comment, and confirmed that it was his intention to submit comments. Gábor also referred to the approval and publication of ISAP1, the IAA model standard on General Actuarial Practice, and explained that the Groupe will consider whether to adopt/adapt it as GCASP1.

4. Consumer Protection issues

Jean reported that a recent survey of member associations showed that a majority believed that there is a role for actuaries in consumer protection, although few of the associations have taken any steps here. The task force established by the Groupe will seek to define this role; Gábor pointed out that "fair treatment of consumers" is preferred to "consumer protection" in order to avoid any conflict of interest for the actuary. KVH commended this development, where he believed that there is a role for the Groupe as an "honest broker" in identifying risk for the consumer (for example, in LTG, market consistency, the Life Directive), and objectifying some of these political issues

5. Retirement of Karel Van Hulle

KVH confirmed that he will retire at the end of January 2013. In addition, Ulf Linder will transfer to another unit at the same time. With a number of other recent staff changes in the Insurance and Pensions Unit, it is vital that the Groupe makes early contact with KVH's successor in order to maintain and develop our existing good relationship.