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Notes of a meeting with EIOPA
18 June 2012

Present:

Groupe Consultatif	Gábor Hanák (Groupe Chairman) Karel Goossens (Vice Chairman) Falco Valkenburg (Chairman, Pensions Committee) Christoph Krischanitz (Chairman, IFR Committee) Jean Berthon (Honorary Treasurer) Seamus Creedon (Project Manager Solvency II) Pia Skaerbak (Public Affairs)
EIOPA	Gabriel Bernardino (Chairman) Carlos Montalvo (Chief Executive) Yvonne Schmerfeld (Senior expert, Solvency II) Daniela Rode (Director Regulations) Justin Wray (Pensions)

1. Solvency II

SC opened discussion by saying that purpose was to exchange views principally on the issues under discussion in the trialogue. The Groupe, like EIOPA, was a spectator of the trialogue but very much hoped for a successful outcome. Apart from the trialogue issues, few matters were contentious and the Groupe's volunteers were holding themselves in readiness for Level 3 consultation later in the year.

GB explained that EIOPA was contributing to the trialogue either on request or on its own initiative. On counter-cyclical premium (CCP), they accepted the probable need for such a premium in principle but had reservations about the practicalities of triggers etc. They were supportive of the concept of a matching adjustment but had grave reservations about the scope of application envisaged by the industry. They were also keen that while any such adjustment be linked to a minimum standard of asset quality it should not depend on externally assigned credit ratings any more than is absolutely necessary. At the other hand GB confirmed that the spread adjustment could be accepted in case of market adjusted surrender values.

Market consistency was not necessarily the principal justification for such an adjustment.

SC said there appeared to be agreement on CCP and that the Groupe was not hostile to the concept as it was introduced by the regulator. It was observed that a uniform CCP was of limited relevance to the diversity of issues across member states.

There is a diversity of views on the matching adjustment within the Groupe. In answer to a question GB confirmed that commitments with an unconstrained right to adjust surrender values could attract the matching adjustment. He felt that fiscal disincentives to encashment were of limited relevance, and CM mentioned that €1.5m - €2m of Spanish pension business had been cashed in recent months (a single figure percentage of total balances) despite fiscal and economic disadvantages.

GB then mentioned the need to find a solution to the problem of the 'back book' of long-term guaranteed business to which it would be very difficult to apply Solvency II in the context of present uncertainty. EIOPA was open to transitional measures, provided Solvency II applied to new commitments. Otherwise there was a risk of the legacy 'tail' wagging the framework 'dog'. They favoured optional transition and believed that this should be kept as simple as practicable and should be at Level 2 rather than Level 1.

The actuarial profession is willing to explore the idea as requested by EIOPA and the Commission. Work to date had suggested considerable difficulties in – for example – integrating with statutory profit-sharing systems. After discussion, GB strongly encouraged the Groupe to continue exploring the issues and how they might be resolved.

It had been mentioned that the Groupe is preparing a discussion document on "market consistent valuation". It is the intention to contribute to the understanding of the concept and to further explain the consequences of possible choices in the context of pragmatic implementation.

GH and CK mentioned that the Groupe was continuing its work on the appropriate treatment of sovereign risk, although it had proved impossible to gather data even on aggregated measures of exposure from either EIOPA or industry. GB mentioned that EIOPA's refusal to provide data was due to the high sensitivity of the data and that the European Parliament had required the Commission to conduct a study, but that the Commission was very reluctant to do this. GB expressed a personal view that he thought it unlikely that sovereign risk within the EU would form part of the framework any time soon and that EIOPA did not envisage requiring 'internal model' firms to model such risk.

2. Role of external auditor

GH raised the potential role of external audit in the Solvency II environment, noting that the accountancy profession is mostly concerned with traditional positions that can be established on the basis of past facts, whereas most of the Solvency II balance sheet positions and the SCR are determined on the evaluation of uncertain future events for which the actuarial skill set was particularly essential.

GB confirmed that this issue has not yet been elaborated and that different approaches were considered. There is no unanimous view within the supervisory bodies.

The motivation of the industry in resisting change to assurance requirements was discussed. GH said that the Groupe would be continuing to discuss such matters with the auditing profession and others and could hopefully reach a common approach to be presented to the supervisors.

GH said actuaries were best placed to provide the assurance, and KG underlined the need for independence of actuaries and their ability to take on responsibility. GB explained that the attitude of the industry in this domain was due to the many different regimes in Europe.

3. Daniela Rode and Communication

KG expressed the thanks of the Groupe for the presentation by DR at the ECA 2012. The presentation had received the Groupe's full attention and that is why the Groupe has some reactions.

The Groupe wants to make clear that the role of the actuary also in Solvency II is going beyond the AF. Although the ECA 2012 presentation could give this impression EIOPA fully supported the idea. Actuaries are indeed present during all stages of the insurance business cycle and have a role to play in the three lines of defence.

As soon as the position paper on the role of the actuary is finalised, EIOPA will be informed and asked for feedback. In the meantime EIOPA welcomed the brochure "Why Use an Actuary?".

The mission of EIOPA and of the Groupe has a lot in common which illustrates that the actuarial profession can help EIOPA achieving its objectives.

The Groupe strongly believes that the actuaries have a major role to play in risk management. EIOPA notes the extension of the professional scope to the Chartered Enterprise Risk Actuary.

GB said that actuaries' communication was a challenge and was an important point, especially in the context of Solvency II. Daniela Rode added that communication should be included in the actuarial education, to which GH confirmed that this already existed in the Core Syllabus of the Groupe and consequently of each member association.

In this context, GH said that in the Goupe's evolving strategy, communication would be included. He requested that once the draft strategy was ready to receive EIOPA's view on this. GB agreed to provide a reply.

4. Pensions

FV congratulated EIOPA for the extensive report to the Commission.

FV pointed out that it was clear from the Public Hearing on 1 March that Pillar 1 presented a big problem. The Groupe supported quantitative measures and more transparency, as the important point was risk and the transparency of risk in the context of a promise that was made between two parties (employer and beneficiary).

EIOPA and the Groupe agreed on the principle that same risks should be subject to the same solvency rules but in so far as risks differ the solvency rules have to acknowledge these differences.. It was recognised that the risks taken by the pension institution and the risks included in the pension promise needed to be considered separately.

Capital requirements brought in by supervisors at the level of the promise between the two parties would change the fundamentals of it.

To this GB asked how liabilities were to be evaluated.

The pensions industry is competing with the insurance industry, and reassurance was needed in pensions. On FV's question as to what level of assurance there should be, GB said that it should not be split between countries, but be based on risk; and that the worst thing is a false sense of security.

FV pointed out that pensions were perceived as a guarantee; however it had to be made clear to beneficiaries that this was not necessarily the case. CM said that the valuation of the promise had to be identified; whereas GB talked about transparency and the gap between assets and liabilities when talking about the HBS.

GB was concerned that in about 10 years there would be an inter-generational conflict; at the moment the generous pensions enjoyed by retirees today could not be sustained.

GB said that EIOPA would appreciate (and counted on) the Groupe's contribution to the Public Consultation of the Technical Specifications underpinning the QIS.

Apart from the Public Consultation EIOPA is asking the Groupe to provide a second opinion on sponsor support and everything that relates to that. Sponsor support is a new and unexplored territory and GB is hoping that the Groupe could provide an expert opinion on the current EIOPA thinking and could provide the next level of detail. FV informed GB that the Groupe is willing to do so and that the GC's QIS work group would have a call to discuss this on 20 June.

5. Actuarial Standards

GH reported that it was expected that the Groupe would have an exposure draft of a Groupe model standard on actuarial reporting under Solvency II ready by October, and that EIOPA would be invited to comment. The Groupe has been monitoring the developments of a general practice model standard of the IAA and depending on the outcome the Groupe will either adopt or adapt the IAA model standard.

GH mentioned that the Groupe's standards project team was considering developing guidance to actuaries regarding ORSA. GB encouraged this and suggested that the guidance would very usefully suggest how proportionality might be taken into account.

6. Consumer Protection

JB reported that the Groupe had established a task force to examine whether the actuarial profession could have a wider role in relation to consumer protection issue such as:

- Evaluation of a product including fairness of pricing
- Warning against unfair treatment or toxic products, audit of selling processes, disclosures and advice
- Product design
- Suitability of a product Evaluation fo the toxicity of a product
- Certification and evaluation of complex products
- Communication and selling practices
- Transparency and fairness (e.g. disclosure, distribution of surplus)
- Financial education

at the same time recognising the potential conflict of interest between consumer protection and other actuarial responsibilities to an employer.

JB raised also the issue of the KID (Key Information Document) that will be imposed for all PRIP's (Packaged Retail Investment Products) in 2013 and will also be requested for pensions products in the revised version of the IORP directive.

GB responded that there are two fundamental issues in this area

1) medium term : Product sustainability (and all that goes with it, namely, evaluation, toxicity ...)- asking that the Groupe put forward some ideas to EIOPA, adding that there is a joint (consumer) committee between the three supervisors, making it very clear that regulation on financial products would come “for sure”, and that the actuarial function (in a broader concept) should be used.
2) Immediate: Develop best practise, such as a KID on PRIPS, where the Commission is to issue a proposal in July 2012 and will be implemented in 2013.