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**Notes of a meeting between representatives of
Internal Market DG and the Groupe Consultatif
held in Brussels, on 11 June 2012**

PRESENT:

Internal Market DG

Karel Van Hulle
Charlotte Paterson
Ramon Carrasco
Kathrin Blanck-Putz

Benoit Hugonin
Ulf Linder
Eelke Postema
Aglika Tzvetanova

Groupe Consultatif

Gábor Hanák
Karel Goossens
Malcolm Campbell
Falco Valkenburg

Christoph Krischanitz
Jean Berthon
Michael Lucas
Pia Skaerbak

1. Pensions issues

1.1 Review of IORP Directive

Falco referred to the Groupe's input to EIOPA, in particular in relation to the technical specifications for the QIS, where there was concern that these are too detailed; he also raised the question of the timing of the public consultation on the technical specifications which appeared to have been delayed. He also identified sponsor support as a problem area where the Groupe had been invited to contribute further. Falco emphasised that perhaps the most important achievement of the new IORP Directive could be increased transparency about the levels of risk and security for beneficiaries.

KVH explained that the draft proposal for a revised Directive had been postponed until mid 2013. He explained that the QIS was very detailed since it was likely to be the only one: there would not be time for a further one before the end of the current Commission. He expected the deadline for the public consultation to be end-July, and EIOPA would be asked to report back on the QIS by January 2013. He pointed out that the Commission are also working on Pillar 2 and Pillar 3 issues. KVH identified particular concerns in relation to –

- problems of regulatory arbitrage if the balance between prudential supervision and growth is not correct

- the need for a transitional period
- recovery period and time horizon
- greater transparency
- testing different confidence levels proposed in the technical specifications

Falco offered the suggestion that supervision should be on the basis of 99.5% confidence even if the level of confidence in the promise is lower.

Malcolm raised the question of whether the SCR should be seen as a target or a minimum: KVH believes it should be a target.

1.2 ***Portability***

Falco noted that the issue of portability had recently re-appeared on the pensions agenda. KVH explained that this had political momentum, driven by DG Employment, with the idea of introducing a tracking system. It was noted that there is no time-line for this at present.

1.3 ***Shortage of actuaries; Actuarial Function***

Falco asked KVH about the reference, during his presentation to ECA 2012, to there being a shortage of actuaries. This was not borne out, at least in respect of pensions actuaries, by the Groupe's previous survey - particularly since the trend from DB to DC tended to reduce the demand for pensions actuaries – although the picture varied from country to country.

Falco suggested that a pension scheme actuary might have a wider role under Solvency II, looking not only at the IORP but also the sponsor covenant and the risks borne by the beneficiaries. This had a consumer protection dimension, as described by Jean later in the agenda (item 4 below). KVH indicated that the definition of the Actuarial Function for IORPs might be different from that of Solvency II to reflect this.

2. ***Solvency II***

2.1 ***Current position at Commission***

KVH reported that it was intended to complete the trilogue discussions before the end of the Danish Presidency at the end of June. There was a delicate balance between political and technical issues: KVH was hopeful that there would be broad agreement, but he referred to some key areas where it is proving difficult to reach a compromise, including –

- back book/grandfathering
- counter-cyclical premium/market adjustment
- discount rate extrapolation – is it a political or a technical issue?

KVH pointed out that one outcome of the trilogue discussions would be that certain issues would move from Level 2 to Level 1, the consequences of which would have some advantages and some disadvantages.

KVH drew particular attention to two aspects relating to extrapolation of the discount rate which were exercising the Commission – the starting point (20 years for euro), and the speed of convergence. On this latter point, the Commission view was 40 years, but the Parliament wants to include 10 years in Level 1. Charlotte Paterson asked whether the speed of convergence might be phased. In reply, Christoph pointed out that speed of convergence would depend on market conditions and on the concept and definition of market consistency. It would be very difficult to enshrine this in L1 text. Christoph went on to describe the Groupe's current project to produce a short paper on market consistency, which it is hoped to develop and expand by examining applications to practical scenarios. KVH confirmed the Commission's interest in this and concluded that, even though a firm decision seems desirable at a political level, the requirements should be defined in an adequately flexible way.

2.2 *Sovereign risk*

Christoph outlined the Groupe's project to produce a paper on sovereign risk, pointing out that it had been delayed since EIOPA are unwilling to provide data from the QIS exercises, and there has not been support from Insurance Europe. Christoph also referred to the related (draft) paper which compared Basel 2 and Solvency II. KVH asked that he be sent a copy of this paper.

2.3 *Relationship between actuary/auditor*

KVH confirmed that there were no L2 requirements relating to the statutory auditor's opinion. It was noted, however, that there was pressure from supervisors to address this, and EIOPA has proposed draft guidelines on external audit. Gábor raised the question of whether the external auditor should have an actuarial function, and suggested that this could be covered by the independent actuary.

3. *Actuarial Standards*

Gábor reported that the Groupe was making good progress with drafting its model standard on Actuarial Function reporting under Solvency II: he expected an Exposure Draft to be available following the Annual Meeting in October, on which the Commission and other stakeholders would be invited to comment. He also referred to the IAA's work on a general practice standard which, if and when it is published, the Groupe might adopt instead of drawing up a standard of its own in this area. Gábor also explained that the Groupe would be considering the possibility of drafting other standards, including the ORSA and the SFCR.

Gábor presented the Groupe's brochure '*Why use an Actuary*', and thanked KVH for his endorsement of it. Karel Goossens asked what lay behind the statement in KVH's endorsement "I welcome the initiatives of the Groupe Consultatif aiming at a further professionalization of the actuarial profession". KVH explained that this was intended to encourage the development of self-regulation and standards.

Gábor referred to the Groupe's review of its mission, objectives and strategy, to which input

from external stakeholders (as well as the Groupe's own members) on how they perceived the role of the Groupe would be welcome. KVH confirmed that the Commission would be happy to receive and comment on the draft strategy document.

4. Role of the actuarial profession in other consumer protection issues

Jean 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 issues, for example -

- solvency of undertakings
- commercialisation and certification of financial products (design and pricing; is a product useful, toxic, in the interest of consumers?)
- what effects new products might have on financial markets
- transparency and fairness (e.g. disclosure, distribution of surplus)
- financial literacy of customers and intermediaries

at the same time recognising the potential conflict of interest between consumer protection and other actuarial responsibilities to an employer. KVH encouraged this development, and suggested collaboration with EIOPA's consumer protection committee (Jean confirmed that he is in contact with the chairman of the committee, Pauline de Chatillon).
