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Notes of a meeting with EIOPA
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1. Solvency II

GB expressed relief that there finally is certainty about the implementation date of Solvency II. The politicians have had their say, resulting in some parts of SII being less prudent than expected. There are still some remaining items on the EIOPA wish-list but generally speaking GB is satisfied with the outcome. There is now also recognition that SII is more than Pillar I and there will be annual reporting on Pillar III, which makes it easier for EIOPA to follow developments closely.

PS noted that Level2 will remain the basis for the delegated acts. The Commission is particularly keen on LT Guarantees and LT Investments issues. EIOPA will shortly start a consultation on various elements of LT Investment, such as calibration of certain asset classes and equivalence. This consultation will be carried out by Carlos Guiné's team.

GB reported the Commission will be meeting their expert groups in the first quarter of 2014. EIOPA will follow these developments closely. It is clear that the Commission does not want to reopen any SII issues (apart from Omnibus II and LTG changes) and expects every other stakeholder to behave accordingly. EIOPA also made it very clear that they do not want reopening of any issue unless an obvious mistake has to be corrected. This also implies that there will not be many changes to the Level2 text.

EIOPA expects the first (non-public) draft for the delegated acts by the end of March 2014. Publication is not expected before May-June. EIOPA will not issue more implementation standards than the existing twenty. Instead there will be some focused consultations. The first one will cover matching adjustments and will be issued around Easter 2014 (with a three month response time). In the summer there will be an industry consultation on the implementation of technical standards.

These consultations will depend on the final outcome of the delegated acts. Therefore EIOPA will include disclaimers as they cannot wait for the finalization of the delegated acts. If changes are necessary as a result of the delegated acts, EIOPA will make them. Until two years after the delegated acts EIOPA will still have the possibility to make changes through the revision of technical standards. Level3 documents will not be available earlier than the end of October 2014.

GB confirmed that member states continue to have many degrees of freedom. EIOPA will continue to steer on full harmonization but the temptation for member states to act independently will always be there.

PS confirmed that EIOPA will certainly push for convergence also through additional guidance. There are about thirty draft guidelines outstanding. EIOPA is currently checking whether this whole set needs to be maintained (also to limit potential translation costs). Simultaneous consulting for the remaining guidelines will not work. EIOPA aims to have two main consultation rounds, each with a three-month response time. The exact timeline for these consultations will be published in January 2014, but the first consultation can be expected in May 2014 and the second at the end of 2014. Obviously there is a big time constraint. EIOPA is aiming to finalise all the required documentation in April 2015, with six months remaining for translation. As the time schedule continues to lead, it could potentially result in shorter guidelines.

Referring to investments, GB expected that the end result will be in line with the principles stated in the discussion paper of early 2013. There will be no other advice on calibration unless there is really reason to do so. In consultation with Basel, EIOPA will submit proposals for securitization. The consultation - soon to be published - will aim at two main sorts of securitization and will include a number of criteria, such as interest alignment and the quality of the securitization. EIOPA will be interested in receiving our comments.

GB also noted that capital charges are not the most important item any more. More important are the various remaining non-regulatory options. He expects that on this subject something will come from the Commission. There will be a thorough EIOPA contribution to this subject although GB recognised that the politicians may change things.

Esko noted that the Omnibus II discussion has pushed the Groupe somewhat to the side-line of the (political) decision making arena. But the Groupe and its Solvency II project team continue to be watchful and active. Esko reported that Siegbert Baldauf and David Paul the day before had attended the reporting meeting of EIOPA.

The Groupe is willing to do additional work on the following subjects (not exhaustive)

- TS on standardised methods for USP's
- TS on contract boundaries[1]
- TS on reporting templates
- TS on quantitative disclosures
- TS on valuation (insurance liabilities)
- TS on partial internal models
- Guidelines on methodological consistency between probability distributions and technical provisions
- Guidelines on valuation of technical provisions
- Guidelines on health underwriting risk
- Guidelines on approval process and quality of data for USP's
- Guidelines on ORSA

[1] *EIOPA has set up a separate working group for this subject*

And perhaps at a lower priority

- TS on pooling arrangements for counterparty risk
- Guidelines on loss absorbing capacity of TP's and deferred taxes
- Paper on the assumption underlying the calculation of the SCR standard formulas

Esko confirmed that he will send the list to EIOPA.

In referring to this list PS notes that it will be important to prioritize. PS will be happy to assist. The Groupe should primarily focus on the matching adjustment and technical provisions. EIOPA intends to link SII to IAIS standards. Esko agreed to produce a list with 'must haves' and 'nice to haves'.

GB noted that the delegated acts are crucial. EIOPA will then follow up with guidelines. To prevent potential re-opening of issues, and as preparatory guidelines have been well discussed, not many changes can be expected from EIOPA. EIOPA will now focus on implementing the LTG decisions. EIOPA invites the Groupe to thoroughly study all these new elements.

GB notes the challenging importance of the upcoming EIOPA publication on yield curves, as this will be the first ever attempt by a supervisor. GB is worried about the underlying data and methodologies, although most of the elements have been already agreed in implementation measures.

GB reports that EIOPA has introduced a Q&A list on their website. The idea is to create transparency, to keep oversight of all questions and to create unique answers. Up until now about twenty questions - also from supervisors - have been received, mainly focusing on reporting issues. GB invites the Groupe to use this Q&A and to place our questions on that site.

Karel acknowledges the problem for supervisors to answer questions on implementation. On the other hand the market needs to know what EIOPA expects. Karel also inquires whether the questions will be shared with all supervisors (which will be the case). Karel emphasizes that actuaries are explicitly part of the SII implementation chain, with a limited number of them involved in SII from the beginning who have the knowledge. Does GB also expect a sort of Q&A from the Groupe since actuaries will also have lots of (implementation) questions?

GB reports that EIOPA are working on a Supervisory Handbook with best practices. As an example: in due course this handbook will include guidance on the application of proportionality. To achieve the same mind-set for every supervisor, five training sessions have been scheduled on SII implementation. Supervisory checks will be based on peer review and own independent assessment which hopefully will all lead to convergence.

Karel repeats that this will involve the same group of actuaries who have been there from the beginning.

GB requests our assistance to avoid ending up with various opinions from the local member associations.

Malcolm referred to the two standards the Groupe is currently developing, and Karel adds that we are also investigating standards for risk management, to which GB replies: "If you do not do this, somebody else will".

2. External Audit

Malcolm questions how the approach taken in the pre-consultation fits with the Actuarial Function, as this is all about expert judgement. Audit review cannot simply follow the usual processes used for end-of-year financial reporting. It is not just 'ticking the box'. Ad adds that we also have to be careful that work already done for end-of-year financial reporting should not be done all over again. The Groupe is trying to achieve transparency about the scope of the review and disclosures, specifically with respect to the judgement process and the explanation of the outcome. Only then can we realize some of the most basic principles of SII such as transparency and disclosure to policyholders.

GB agrees with this approach and emphasizes the importance of defining the right scope; he is less interested who actually will do the work. So far GB is not pleased with the approach taken by the auditors, who seem happy to take the work, charging fees but not giving assurance.

3. Pensions

Esko explains that the Groupe is hoping for inclusion of the ORSA process in the revised IORP directive.

BK reports that in the coming years (but not in 2014) EIOPA will work on Pillar 1 solvency elements. The intention is to present a first draft to the Commission by the end of 2015. There will be a new 'supervisory' approach to the holistic balance sheet. EIOPA will issue a consultation paper based on the Q1 2014 issues paper on personal pensions.

BK continues that a number of issues have been identified after the recent QIS exercise. More work is necessary on five areas:

- Sponsor support (ref discussion paper summer 2013)
- Supervisory responses
- Discretionary decision making process
- Benefit reductions (will be a mapping exercise)
- Contract boundaries

On all subjects EIOPA will issue consultation papers, probably in a phased way throughout the summer of 2014, and each with a three-month response time.

There will be condensed qualitative impact studies with few concrete options (including LTG issues) to be tested. EIOPA will be open to all kinds of suggestions as far as they align with the basic principles. Work from the Groupe, especially from Falco, is and will be highly appreciated.

FV is happy with EIOPA's report but has hardly seen any real discussions in markets so far, more a denial attitude. EIOPA aims to move the discussion in the right direction, starting from Q1 2014. For EIOPA it is important that there is sufficient harmonization and that people have trust in pensions. FV referred to a draft paper on market consistency that is currently in preparation by the Groupe. GB is interested in receiving a copy despite the draft status of the paper.

4. Consumer Protection

JB gives an explanation on the draft paper on indicators.

GB welcomed our effort to come to a provisional list in this difficult area. He emphasizes that that there will be tighter regulation/legislation of consumer protection and it is good that the profession also gives an opinion. KW joins in thanking the Groupe for producing this draft paper and invites the Groupe to jointly work on further development.

The Groupe paper may be used within the EIOPA committee but we emphasize that this paper has not gone through the Groupe's due process and therefore cannot be distributed any further.

SK adds that it will be difficult to obtain supporting market data as few data are currently available. The EIOPA committee intends to do further work on pricing of products, but are not convinced yet that this will be useful. The committee also wants to explore the usefulness of setting up a database for recurring financial reporting information. KW is prepared to share the internal document of the EIOPA committee with the Groupe and suggests scheduling a meeting for January 2014. JB will follow up on this request.

5. IAIS Capital Standard

CG reports on the IAIS initiative to develop a global capital standard ("ICS"). IAIS are seeking a global "Basel for insurers" (there are about 20-30 IAIG's[2]). The same principle would apply as for SII: the more risk, the more capital. At the start the standard is expected to be principles-based with limited granularity, and certainly less granularity than currently under SII. The standard should be in place at the end of 2016 but will not be a copy of Solvency II.

GB added that to develop a global standard, there probably will be many different opinions and certainly ComFrame will change. IAIS will launch three QIS's. The first - around March 2014 - will focus on valuation and how to build a balance sheet. 'Best estimate' will be replaced by 'current estimate'. Still many questions remain: contract boundaries, discount rate, cash-flows, LTG etc.etc.

GB enquired how the Groupe is linked to IAA, as IAIS has asked the IAA for support. GB would like to see (much) more involvement from Groupe (European) actuaries in this development (through participation in IAA committees and working groups) to limit potential 'US bias'. As the ICS will not be a copy of Solvency II, it is likely that Solvency II would have to be adapted to align with the new global standard and an actuarial paragraph will be indispensable. EIOPA will be prepared to allow for some changes in SII in order to align with the global standard. GB also expects that, despite the fact there are only a limited number of IAIG's, the standard will be applicable to all insurance companies. This is the moment to secure what has been achieved in SII. GB makes a strong appeal to the Groupe to engage as "the actuaries are fundamental in securing the SII framework" and "we have to prevent opposition from the IAA". In achieving this we need a strategic approach, and he is open to all sorts of contacts, dialogues and reflections with the Groupe.

Esko replied that although the Groupe is not a member of the IAA - only local actuarial associations are - there is much overlap since many Groupe actuaries are also members of IAA committees and working groups in this area. He promised the Groupe will get back to EIOPA to further discuss.

[2] *International Active Insurance Groups*