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REPORT
of the
Standards, Freedoms and Professionalism Committee
to be presented to the
meeting of the General Assembly
in Bucharest on 25 September 2015

The Committee met once during the year, in Paris on 27 March, and presents this report to the General Assembly on its activities over the past year and issues of current concern. The Chairman will provide an oral report of the Committee's meeting in Bucharest on 24 September.

1. Actuarial Standards

- Following the promulgation of the final Level 2 measures and Level 3 EIOPA Guidelines, a few further comments were received on the working draft of a model Standard on Actuarial Reporting under Solvency II (ESAP 2), which was circulated to member associations and other stakeholders. A final Exposure Draft was published at the beginning of June, with a view to seeking adoption by the General Assembly at its meeting in Bucharest in September.
- The initial draft of a proposed model standard (ESAP 3) relating to actuarial practice in connection with preparing an ORSA is being revised in the light of comments. It is hoped to submit a formal Exposure Draft to SFPC at the Bucharest meeting. An educational note (EAN) is being prepared by the Insurance Committee to provide guidance on ESAP 3.
- The IAA is considering amending ISAP1 to include modelling: this would have a knock-on effect on ESAP1, and is likely to delay the adoption of ISAP1/ESAP1 by associations. This concern was made clear at the IAA meetings in Zurich in April and, as a result, the amendments will be added in a separate ISAP (ISAP 1A).

2. Code of Conduct

Draft proposals for an updated Code of Conduct were considered. A number of issues were raised and amendments suggested. The task force will prepare a revised draft taking account of these issues and suggestions.

3. Roles of Actuaries/Actuarial Function

Progress by the RoA task force includes:

- agreement of Terms of Reference

- establishment of four workstreams
    - Actuarial Function and other actuarial roles under Solvency II
    - Roles for actuaries in the Actuarial and Risk Management Function under IORP2
    - Roles for actuaries under risk management and/or the risk management function
    - Independence of actuaries under the various roles
- memo on roles of actuaries sent to EIOPA
- input to position paper on independent review of Solvency II reporting
- input to discussion and advice to Italian associations on loss of Appointed Actuary role

Attention is also drawn to the OECD Guidelines on Insurer Governance, in particular the 'fit and proper' requirement that the actuary/AF should be a member of a professional association with standards of actuarial practice and ethics.

4. AAE Strategy and Action Plan

Each of the committees has been asked to update their section of the Action Plan, in particular their priorities for 2016. This input will be used as the basis for a rolling update process from which progress can be reported to member associations at the Annual Meeting.

5. Continuing Professional Development (CPD)

The Officers will consider -

- should CPD be mandatory? (noting that some national regulators require mandatory CPD for certain responsible roles, and will expect it if the profession is to be able to fulfil the 'fit and proper' requirement.)
- recording and monitoring CPD, and related data protection issues

6. Meeting with Commission Insurance and Pensions Unit

The Chairman and other Officers represented AAE at a meeting with the outgoing Head (Klaus Wiedner) and staff of the Commission's Insurance and Pensions Unit in January, and with the new Head (Nathalie Berger) in July..

7. EIOPA

The Chairman and other Officers represented AAE at a meeting with the Chairman and senior staff of EIOPA in July. A full note of this meeting appears with the agenda for the Standards, Freedoms and Professionalism Committee meeting on 24 September.

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REPORT
of the Insurance Committee
to be presented to the
Meeting of the General Assembly
in Bucharest on 25 September 2015

The Committee met formally once during the year, in Paris on 27 March. In addition, conference calls were held in January, March and June and August. The Chairman will present an oral report of the meeting in Bucharest on 24-25 September.

1. European agenda

Recent developments in the European agenda as it affects the financial services sector include:

- the new DG structure, nomenclature and Commissioner appointments within the European Commission – financial issues are spread across several DGs, in particular DG FISMA (Financial Stability, Financial Services and Capital Markets Union)
- the new Commission's work-plan, in particular an Investment Plan for Europe (jobs, growth and investment)
- Solvency II review clause, which requires EIOPA to report annually to the Parliament, Council and Commission on, inter alia, LTG measures and sovereign exposures
- EIOPA's work programme and implications of budget cuts
- falling interest rates – could interest rate guarantees in contracts be reduced?
- Commission request to EIOPA for technical advice on infrastructure investments – consultation paper published on 27 March: AAE response has been led by Solvency II project team, consulting also the IFR Committee
- Capital Markets Union – AAE response to Green Paper has been led by IFR Committee
- EIOPA letter to Commissioner Hill on recovery, resolution and Insurance Guarantee Schemes
- monitoring implementation of Directives – what happens if Solvency II is not fully implemented?

2. Solvency II

The main issues here have been:

- Level 2 Delegated Acts and EIOPA Guidelines – loss of quality in translation of DA into national languages
- EIOPA stakeholder meetings

- EIOPA discussion paper on Infrastructure Investments
- outcome and follow-up of EIOPA 2014 Insurer Stress Test – noted that results were dominated by the 30 largest companies
- risk-free interest rate term structure

Since Solvency II will be live on 1 January 2016, the role of the Solvency II project team will be reviewed and redefined at the next meeting.

An update to the mini-survey on implementation of Solvency II, particularly in relation to the Actuarial Function and Responsible/Appointed Actuary, was presented. It is hoped to create this as a continuously updated information resource on the AAE web site.

A position paper on the Independent Review of Solvency II Reports was published in November. Meetings to discuss this paper have been held with Insurance Europe and CRO Forum.

A successful webinar on implementation of Solvency II was held on 17 April: our thanks to DAV for their assistance. Feedback from the event was positive, and we intend to run similar webinars on topical issues on a regular basis.

3. Roles of Actuaries/Actuarial Function

See report of Standards, Freedoms and Professionalism Committee.

4. Low interest rate environment

Thomas Béhar gave a short presentation on the impact of low interest rates, highlighting some of the measures being taken in the current environment by EIOPA, some national supervisors and industry. The Committee considered whether and how AAE might be able to contribute to the understanding of the problems faced and how to deal with these, and agreed that:

- sensible regulation can buy time in minimising adverse consequences
- supervisors need help to understand the issues facing the industry and society
- non-executive directors need help to be able to make better informed decisions
- the actuarial profession should be seen to be taking positive action

A small task force was set up to review the position and draft appropriate advice and papers. As a first step, a survey of member associations has been undertaken.

5. Actuarial Standards

See report of Standards, Freedoms and Professionalism Committee.

6. Consultation on Insurance Block Exemption Regulation (IBER)

The European Commission is currently analysing the responses to its survey, and is due to report in 2016 whether to renew the IBER in 2017. At a meeting with the Commission to discuss the AAE response to the survey, we emphasised that the current criteria for granting exemptions still apply, actually encourage competition by giving small and new companies access to pooled data,

and provide reliable information for setting technical provisions. It was noted that there is a shortage of information within the Commission on insurance pools to justify exemption; a further survey on pooling is likely. However the need for joint compilations and studies seems to be understood by the Commission. .

7. Anti-Discrimination issues

It appears likely from the current draft text that differentiation based on age and disability will be allowed in financial services when there are sound actuarial bases for this.

8. EIOPA Insurance and Reinsurance Stakeholder Group (IRSG)

Seamus Creedon gave a brief overview of the work of EIOPA's IRSG, highlighting –

- responses to EIOPA consultation papers – actuary members of IRSG particularly active
- importance of consumer protection
- what happens once Solvency II is fully operational?
- low interest rate environment – Pillar I likely to have to change
- Karel Van Hulle's appointment as chair of IRSG

9. OECD

A presentation on OECD's work in the insurance sector, and its Insurance and Private Pensions Committee, highlighted –

- monitoring and reporting, including insurer investment activities in the low interest rate environment
- guidelines on Insurer Governance, and the 'fit and proper' requirement that the actuary/AF should be a member of a professional association with standards of actuarial practice and ethics (which AAE should seek to build on)
- G20/FSB insurance mandates to IAIS, and OECD liaison on market-related policy issues to complement IAIS
- contrast between the attitudes of pensions funds and insurance companies to infrastructure investments
- difficulty in obtaining LTI data from European insurers – we suggested OECD contact CRO Forum and CFO Forum
- the actuarial profession could assist OECD by commenting on reports

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REPORT
of the Pensions Committee
to be presented to the
Meeting of the General Assembly
in Bucharest on 25 September

The Committee met once during the year, in Berlin, on 20 March. The Chairman will present an oral report of the meeting which will be held in Bucharest on 24 September.

1. Review of IORP Directive

There are now three versions of the draft IORP II Directive – Commission, Council of Ministers, Parliament – and there will be negotiation between the three (trilogue) with a view to reaching compromise. We expect to provide material/position paper on IORP II to MEPs in advance of their deliberations. AAE has participated in a confidential informal consultation by EIOPA on the technical specifications and spreadsheet of the QA and Stress Test for IORPs, and Falco Valkenburg was asked to moderate the Stress Test and QA launch event on 19 May in Frankfurt. Participation in the QA is voluntary, but EIOPA is very keen that schemes participate, and wants 50% coverage by asset value. Given that quantitative requirements will not feature in IORP II, it is unlikely that many schemes will be keen to volunteer and those that do are likely to be larger schemes, with the concomitant impact on any conclusion/results that EIOPA draws. EIOPA's current intention/plan is to report on the stress test by the end of 2015 and to do likewise for the QA early in 2016

2. Market Consistency

The discussion paper "Clarity before Solvency" was published on 19 May to coincide with the launch event for EIOPA's QA and Stress Test for IORPs.

3. Social Security Sub-Committee

The second Tracking Services report was published on 28 February. This report gives an overview of the available pension tracking services in Belgium, France, Germany, Hungary, Ireland and the United Kingdom. The first report was published in October 2013 and looked at Denmark, Finland, Sweden and the Netherlands. There will be a presentation of the report's findings at the September Pension Committee meeting in Bucharest.

The Adequacy of Pensions TF is developing a paper that will consider indicators for assessing adequacy. The aspiration is that this should be available mid-year.

Responding to interest from the European Commission on mortality issues, the SSSC is also considering whether to establish a further TF to address this topic.

4. Portability/transferability of pensions

The European Commission concluded the Portability Directive only last year, having stripped out transferability because it was too contentious an issue and jeopardised agreement. However, EIOPA has since published a consultation paper on "Good Practices on individual transfers of supplementary occupational pension rights" which references previous work by AAE. We submitted comments in response to this consultation.

5. Decumulation

The Committee noted with sadness the death of Ken Forman who chaired the task force during much of its work. The report by the task force was published in February.

EIOPA is also working on decumulation and produced its own report last year. This does not overlap to any significant degree with the work of the AAE task force.

6. EIOPA OPSG

Philip Shier has been elected Chair of OPSG. Current topics under discussion in OPSG include –

- Solvency , in particular what might be in the QA and stress test: EIOPA acknowledges that the biggest challenge is likely to be getting IORPs to engage
- the infrastructure initiative – how Solvency II caters for infrastructure investments, which have no market value.
- EIOPA's exploratory work in establishing cross-border personal pensions. The Capital Markets Union green paper gives tacit support to this, suggesting that a cross-border personal pension could help growth across the EU. A consultation paper is expected at the beginning of July
- Investment options for DC, transferability, costs and charges

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REPORT
of the
Investment and Financial Risk Committee
to be presented to the
Meeting of the General Assembly
in Bucharest on 25 September 2015

The Committee has met once during the year, in Berlin on 20 March, and presents this report of its activities to the General Assembly. The Chairman will report orally on the meeting of 25 September.

1. Ken Forman

The Committee noted with sadness the death in November of Ken Forman, who had been a very active member of the Committee.

2. Market Consistency

Draft Terms of Reference for the web portal steering group have been agreed in principle, subject to some minor amendments. These ToR will be reviewed after one year. It was hoped that the portal would be in operation during the summer.

3. Review of Markets in Financial Instruments Directive (MiFID II)

AAE submitted a response to this ESMA consultation. An addendum to the original consultation has been published but, since this contained similar questions, it was agreed that no further response would be submitted.

4. Interconnectivities between financial sectors

The three key issues are:

- increased focus on systemic risk following the financial crisis
- increased scepticism among regulators/governments that different sectors of financial services are inherently different
- continuing societal change driven by IT and other technical developments, and by how society perceives “fairness”

There was a wide-ranging discussion on whether a new actuarial role might emerge in response to these factors. Particular issues included –

- the introduction of a systemic risk actuary employed by the regulator/government: this would require -
    - the systemic risk function to be defined
    - identify skills needed by those exposed to systemic risk, and how a FQA can fulfil these (e.g. ability to handle dependency; professionalism)
- relate the actuarial profession to other risk management groups, and identify where the actuary is more suitable
- definition of "fairness" is subjective and will change over time: AAE should propose a definition

5. Green Paper on Capital Markets Union

The Committee drafted the AAE response to the Commission's Green Paper on Capital Markets Union.

6. Risk Management qualification

In the light of remarks by a former member of staff of the Commission's Insurance and Pensions Unit, who suggested that it would be useful for the ESAs to have a clearer idea of the skills required to be a good risk manager, the Committee is drafting a paper which will –

- analyse what defines a 'risk manager'
- analyse and compare the 'fit and proper' requirements for risk managers in several regulations (especially Basel III)
- identify what actuaries can deliver as a profession
- map the above to risk management, to get a comprehensive profile for risk managers
- look for synergies with the Roles of Actuaries Task Force

7. Participation at IFR Committee

The Officers are increasingly concerned at the chronically poor attendance at meetings of the IFR Committee. It is essential that member associations appoint representatives who can, and will, participate actively in the work of the Committee. This is particularly important at a time when topics such as Capital Markets Union, Infrastructure Investments and Market Consistency are at the top of the EU financial stability agenda, and AAE is seeking to establish its position as a source of independent professional advice in these areas.

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REPORT
of the Education Committee
to be presented to the
Meeting of the General Assembly
in Bucharest on 25 September 2015

The Committee met once during the year, in Berlin on 20 March. The Chairman will present an oral report of the meeting which will be held in Bucharest on 24-25 September.

1. Assessment Procedure

Responses to the self-assessment of education programmes show substantial compliance but with some gaps – this is being followed up with the associations concerned.

2. Core Syllabus

Review of the AAE Core Syllabus was deferred until reaction to the IAA syllabus review emerges. It is intended to use the IAA core syllabus review, particularly in relation to the use of learning objectives, as a base for the AAE Core Syllabus review. Our review will start over the summer, and it is hoped that there will be an initial report to the Bucharest meeting in September. The AAE Education Committee supports the learning objective approach but there could be practical difficulties for countries with a university based approach. It is important that actuaries do not lose their technical expertise by moving too much towards an MBA type syllabus. Hitherto the AAE Core Syllabus has been set at a higher level than that of the IAA but topics could be added to the IAA syllabus once finalised. The AAE also has to consider mutual recognition which is a very important additional requirement not needed by the IAA. The need to ensure that the work of actuaries remains relevant to senior management in business, for example in the area of risk management, is essential.

3. CERA - Global Designation Enterprise Risk Management (ERM)

There are now over 2500 holders of the award and Denmark, India and Chinese Taipei have become award signatories in the past year.

The Spanish association is interested in joining but there are legal complications and the Chinese association is known to be considering an application, as is the Finnish association.

4. CPD Strategy

In a review of national CPD schemes, it was noted that 12 are not mandatory. The Committee are strongly in favour of CPD being compulsory, although aware that reservations have been expressed at SFPC: this matter has now been referred to the Officers.

5. Certified Actuarial Analyst (CAA)

Two exam sessions for this new UK IFoA qualification have now been held successfully and a growing number of employers have expressed interest in the qualification. Entries have been received from over 30 countries to date with the UK, Africa and India being the main target markets. The World Bank had recently recommended the qualification in their circular to Insurance Regulators.

A letter from the CEO of the IFoA regarding the CAA qualification was discussed, and how the AAE could or should be involved. The Committee agreed to be kept informed of the development by including an agenda item at each meeting. Some members are concerned that the technician level qualification might cause confusion in the market for actuaries.

6. European Congress of Actuaries (ECA 2016)

The Committee has ownership of ECA 2016 and has proposed a range of topics for presentations within the overall theme “The Actuarial Profession spreading its wings – New Challenges, New Opportunities”. Input from smaller associations is important to ensure the proposed content is appropriate for them.