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Notes of a meeting with EIOPA 1 July 2015

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1. Insurance issues

Solvency II outstanding issues

Pamela Schuermans reported that SII is still on track and there are no outstanding issues. EIOPA is now working on a reporting package ("a prudent relevant package"). Guidance on XBRL taxonomy will follow shortly.

Set 2 of SII Technical Standards and Guidelines will be published on 6 July. Endorsement by the Commission is expected within three months.

EIOPA will be working on three major projects the coming years. EIOPA will be the source of consistent information required by undertakings to calculate their liabilities, including the relevant risk free rate term structure needed to calculate the best estimate, the application of the so-called equity dampener, and of the volatility adjustment.

EIOPA will be organising a 'risk free rate' workshop and will issue a consultation in the next few days in order to improve the model. The end goal is that anyone should be able to replicate the risk free rate. The consultation period will be limited to two months max. GB would particularly welcome input from the actuarial profession. **ACTION AAE**.

Esko commented that it looked like Solvency II is now 'business as usual'. GB replied that there will remain sufficient on-going work: infrastructure investments, the 2018 review, the annual report on long term guarantees etc. etc. The focus for the coming years will be on consistency.

GB plans to involve the AAE in next year's review of calibrations. **ACTION AAE**.

Stress test alignment with the nature of insurance

Esko commented on the stress test that it seems to be more liquidity (banking) driven than solvency (insurance) driven. This led to a request from GB to produce a note with concrete ideas on how to improve these tests. **ACTION AAE**.

Low interest rate environment and threat to life companies

Esko reported on the recently held AAE survey. The situation varies per country, but it seems to be clear that the risk lies with companies that can hardly bear this. He also indicated that companies potentially could go bankrupt as a result of current local accounting principles, whilst at the same time being solvent according to SII.

GB encouraged the AAE to go even deeper in the second stage of the survey to include options in contracts and free future contributions with a guaranteed rate. Potential policyholder behaviour deserves special attention in this environment as some customers already have taken up bank loans to subsequently invest the money in guaranteed insurance contracts. GB also asked for further analysis in the area of liability restructuring. Especially when there will be a resolution on EU level enabling the local supervisors to act. **ACTION AAE**.

GB also asked attention for more clarity on the impact of Solvency II and the interference with the various local accounting rules (as earlier indicated by Esko). **ACTION AAE**.

GB also emphasized the necessity for a structural change in product development otherwise the transition period would be useless. He has tried to create a more consistent approach amongst the various supervisors. He stressed that there is no stigma on this topic, but at the same time there needs to be sufficient transparency.

GB continued that, in the transition period, countries with a risk based capital system in place seemed to be looking for capital reduction. He finds it difficult to understand that a 20% ratio under SII could suddenly change into a 400% ratio. Credibility will be very important.

Infrastructure Investments

Christoph explained that the calibration problems were caused by data issues (various definitions in place which are all differing from the EIOPA definitions) and different approaches per country.

GB expected to be able to publish the results soon.

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Tomas reported that politicians do not want to wait any longer. Counterparty and spread risk seem to be OK. A probability re a potential future sale of the company should be included.

GB referred to the enormous amount of work that needs to be done due to the many assumptions. In the end the politicians will take a decision. The less data, the more expert judgment will be involved. The industry is expected to come forward with proposals re counterparty default risk.

GB asked the AAE to look into the consequences of increased expert judgment and asked the AAE to comment on the consultation not later than 8/9 August. **ACTION AAE**.

Global ICS

Esko explained again that this topic is taken care of primarily by the IAA and it currently is not a top priority for the AAE.

GB reported that currently the IAIS are busy defining milestones. The first version is postponed until 2016 and the second version planned for 2019. Carlos explained the outstanding discussions re valuation methods. EIOPA complained again about the opinion from the actuarial profession which is too much US biased. GB regards this to be an important issue: "It must be possible to get this discussion into a different direction". He felt that now is the time to take action.

Esko followed up that ICS seems to be too far away for our members associations on which GB reposted that ICS touches everything that is now on the table. ICS will have an impact on SII and as a result there will be an SIII!

IBER (Insurance Block Exemption Regulation)

Esko indicated that this regulation is always temporary and will expire unless renewed. Especially cooperation in data collection is essential to the working of S II.

EIOPA is especially interested in a renewal of the data collection part and GB added that it is the intention to look at all consequences as a consequence of using big data.

Esko expected that Big Data would lead to more granularity together with a lot of unknown correlations. Especially it could lead to a situation where the owners of Big Data could drive all other players out of the market. This would emphasize the need of IBER to make joint collection of data possible. Esko has written a paper on this topic and would be happy to forward it. **ACTION AAE**.

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2. Pensions issues

Clarity before Solvency

GB thanked the AAE for the discussion paper. Barthold Kuipers (EIOPA) will be organizing a 'day for dialogue' in September 2015. Falco's approach would be to start from what the various stakeholders have in common and not where they differ. GB liked that approach and supported the direction.

IORP II

Philip reported on the recent talks with Hayes and Lenaers, both MEPs. In those talks the AAE had pointed out the necessity to copy the Actuarial Function wording from SII into IORP. GB stated that EIOPA had earlier advised to do so.

Philip explained the issues around X-border activities that would only be allowed for fully funded schemes. GB expected that it would be very difficult to change this and pass it through Council as many member states find this not acceptable.

Transferability

AdJ reported that EIOPAs approach will be published shortly and thanked the AAE for their contribution. Alexandra informed us about the contents. EIOPA did not follow up on taxation suggestions as this falls outside their mandate (although EIOPA supported the view).

Consultation on 2nd regime for personal pensions

Philip informed that we will comment on the consultation. GB supports this and would like to see even more from the AAE and stated that we are only at the beginning of this development. **ACTION AAE**.

Decumulation

Falco reported that the AAE report on decumulation has been published and CPO urged the AAE to push on the EU Parliament to take action as the demand for these kind of services will only increase. Philip replied that also here taxation will be an issue.

Tracking services

Falco reported that the second AAE report on tracking services has been published. CPO informed us that EIOPA follows the developments as well as the TTYPE activities, which are supported by the Commission.

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3. Capital Markets Union

GB reported that he is aiming for more consistency and standardization and pledged for a European regime. With respect to SMEs he would welcome some more AAE input towards the Commission, preferably an action paper not later than September. **ACTION AAE**.

4. Risk management issues

Actuaries in Risk Management

David introduced the memo prepared by the TF Roles of Actuaries. GB welcomed the memo and encouraged the AAE to continue the research as he is interested in the broader picture. GB welcomed the move from actuaries into risk management. Starting 2016 EIOPA will review how these functions have been implemented. GB emphasized the importance of how the Risk Management Function (RMF) and Actuarial Function (AF) can be combined to minimize conflicts of interest. He asked the AAE to do further work on this. **ACTION AAE**.

Risk Management Qualification

Christoph reported he is preparing a paper on the fit & proper criteria for the RMF. He would circulate the draft within the next few weeks. **ACTION AAE**.

5. Roles of Actuaries and Actuarial Standards

David explained the current status of the AAE standard setting process (ESAP3 and ESAP4) and noted the total of sixteen actuarial standards - IAA and AAE together – that are currently active. He also referred to the four work streams currently in place in the AAE TF Roles of Actuaries.

6. Consumer Protection

Conduct Risk Indicators

GB commented on the problem of the interpretation of the various ratios. He would encourage the AAE view on this especially based on risk based analyses and less on financial analyses. **ACTION AAE**.

Key Information Documents

Product Oversight and Governance

Further consultations by EIOPA

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