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Notes of a meeting between representatives of Internal Market DG and AAE held in Brussels, on 16 January 2015

PRESENT:

Internal Market DG
Klaus Wiedner (KW)
Yann Germaine (YG)
Andreas Viljoen (AV)

AAE
Jean Berthon (JB)
Malcolm Campbell (MC)
Karel Goossens (KG)
Esko Kivisaari (EK)
Falco Valkenburg (FV)
Christoph Krischanitz (CK)
David Martin (DM)
Michael Renz (MR)
Philip Shier (PS)

1. Overview of key issues

MR invited KW to give an overview of the subjects of interest for the Commission at the moment. The points of interest in general are :

- Solvency II and the implementation : the model approval procedures will be in place in 2016
- Long Term Investment and Capital Markets: high priority in 2015, a Green Paper on specific infrastructure provisions is prepared.
- Securitisation: a framework for the financial sector is required with explicit criteria.

2. Insurance issues

2.1 The work in the context of the Infrastructure Investment issue is carried out by EIOPA. EK points out that this work is expected to be finalised by the summer of 2015. The analysis of the quantitative impact study depends a lot on the available data and the impact on the Solvency II calibration will be complex. The AAE can play a role in this context.

2.2 The low interest rate environment is a concern for the sector. KW is of the opinion that the risk of failure is highest for smaller companies. It is obvious that the insurance sector needs adapted tools as the Financial Stability Act is only applicable for bigger companies. The Commission is in favour of one “big act”.

2.3 EK asked for the opinion of the Commission on the possibility of insurance union, and on the Insurance Guarantee Scheme. KW doubted whether insurance union would go forward. On the IGS question, there was discussion of differences between markets, which it was agreed is a political issue. In smaller and concentrated markets an IGS could take the whole market into bankruptcy whereas in larger and more diversified markets the market could more easily weather the consequences of one failing insurer.
It should be noted that the systemic risk and the cross border issues are not a specific European problem and that an exclusive European initiative could imply competitive distortions.

2.4 KW is rather pessimistic about the International Capital Standard development. Any solution needs to include comparability with the existing systems and such a solution seems not to be on the table today.

2.5 EK referred to the review of the Insurance Block Exemption Regulation and the question of whether and in what form it should be renewed. to be expected by March 2017 and the evolution in the data collection. IBER contains data collection and pooling arrangements. While actuaries especially see a need to renew the data collection part we also see grounds to renew the pooling part. EK promised to send KW the slides he had used in discussions on IBER.
Possible renewal of the IBER should also be seen in connection to Big Data which even more influences the so-called age and disability directive. Important players on the internet such as Google are collecting very detailed data on buying behaviour and lifestyle. It is therefore possible to identify a very detailed risk profile of the potential population to be insured and on this basis to bypass the discrimination rules issued by the European Union by replacing characteristics such as gender, age and other by a set of other risk factors not covered by the regulation.

Other trends in society will also have an impact on the need for insurance and therefore on the regulatory framework : cars could in the future be replaced by automated vehicles and therefore risks will be avoided and insurance will not be the same; all computers will be using the same kind of software so that possible bugs or other shortcomings will be fixed systematically and not be a real risk afterwards; cars will be shared more and more and ownership will be less explicit so that Motor Insurance will be affected. A bigger issue however is who is responsible for crashes by an automated vehicle (today international treaties require that there is a driver in every vehicle who is responsible).

The Commission IM is dealing with Consumer Issues and Big Data but does not seem to be fully aware of the consequences. These kinds of problems and Insurance Pools are shared with other parts of the Commission.

3. IFR issues

CK points out that connectivity between regulatory systems is changing and an adapted risk management may therefore be required. The Commission sees different issues such as securitisation, covered bonds, personal pensions.

KW refers to the investment plan known as the Juncker plan and the intention to raise a fund of over 300 billion €. The aspect of Infrastructure in this package has to be connected with the work of EIOPA in this respect mentioned above. KW sees here a role for the AAE.

There may be a change from regulation by provider to regulation by instrument.

4. Pension issues

PS refers to the draft IORP2 Directive and the connection between articles 14 and 28. The article on the Actuarial Function has copied SII except the paragraph about the requirements needed to be able to fulfil the role. The AAE is keen on a sound definition of the fit and proper requirements for the Actuarial Function. The Commission seems not to be aware and is not intending to take any action. It is mentioned that governance is a collective responsibility of the Board which has to consider the best way of dealing with this issue.

PS also points out that the governance system can be a burden for the IORP and insists on the proportionality principle.

The Commission refers to the fact that the compromise is now ready and that the present status does not require any delegated acts: it is the intention to avoid any solvency rule at the moment.

FV expresses a concern that prudential arbitrage is a real danger, the same pension promises are thus not funded in the same way. KW is nevertheless clear: there will be no pillar 1 before pillar 2 as the political risk is too critical.

5. Roles of Actuaries

The Commission has taken note of the memorandum presented by the AAE. KG underlines the potential issue around the different roles of actuaries under Solvency II in the different jurisdictions and the lack of harmonisation, the increasing costs, and the possible differences of quality. The Commission does not seem to be concerned and refers to the EIOPA framework for external audit.

6. Consumer Protection

JB refers to the paper under preparation of the AAE and will send this to the Commission when finalised.

Consumer Protection and the regulation on the Packaged Retail Investment Products (PRIIP) and any other developments helping the client to be informed on financial products continues to be on the agenda of the Commission. KW and team are focussing on the prudential framework related to the issue.

7. Actuarial Standards

DM gives an overview of the developments of the professional and technical standards in the context of the actuarial associations. The Commission takes note and encourages the profession to continue the efforts in this context.

8. Next meetings

The Commission shares the intention to have regular meetings and agrees in principle with a bi-annual exchange.