GROUPE CONSULTATIF ACTUARIEL EUROPEEN
EUROPEAN ACTUARIAL CONSULTATIVE GROUP

SECRETARIAT, MAISON DES ACTUAIRES, 4 PLACE DU SAMEDI
B-1000 BRUSSELS, BELGIUM

TELEPHONE: (+32) 22 17 01 21 FAX: (+32) 27 92 46 48

E-MAIL: groupe@actuaries.org.uk
WEB: www.gcactuaries.org

Notes of a meeting between representatives of Internal Market DG and the Groupe Consultatif held in Brussels, on 5 June 2013

PRESENT:

Internal Market DG

Stephen Ryan

Groupe Consultatif

Karel Goossens
Gábor Hanák
Esko Kivisaari
David Martin
Michael Lucas
Pia Skaerbak

1. Introduction

Stephen Ryan outlined the recent changes in personnel at the Insurance and Pensions Unit, in particular the recent appointment of Klaus Wiedner and himself as Head/Deputy Head of the Unit in succession to Karel Van Hulle and Ulf Linder. Most of the other staff (seconded from national regulators) changed at the same time, and Charlotte Paterson and Lars Dieckhof with whom we have had close contact previously will also be leaving the Unit by the end of June and December, respectively. Consequently there has been a demanding period as new staff have familiarised themselves with key issues. Stephen himself has some experience in Financial Services, including Insurance Block Exemption and the establishment of the European Supervisory Authorities.

Gábor gave an overview of the Groupe, its structure and purpose, emphasising its independence from industry and highlighting areas where we have provided assistance in the past to the Commission. He expressed the hope that we would continue to have a close working relationship with the Insurance and Pensions Unit.

2. Solvency II

SR reported that a draft EIOPA report on Long-Term Guarantees (LTG) had just been received by the Commission: publication of the final report is scheduled for 14 June, and the report will be considered by the Council in July, with trilogue discussions on Omnibus 2 in September. He

pointed out that progress in other areas of Solvency II had been held back while EIOPA had concentrated on completing the LTG exercise. Although not in a position to disclose any details of the draft report, SR identified the main issues –

- third country equivalence
- extrapolation/transitional arrangement
- weak position of life insurers in Germany, for whom it would be essential to have appropriate transitional measures / countercyclical premium (CCP) / extrapolation
- extended matching adjustment results were disappointing and unlikely to provide a basis for progress
- 'classic' matching adjustment results were more acceptable (although disappointing for Spain where mortality is an issue)
- CCP (to be referred to as "volatility balancer" in future being a symmetric adjustment) works quite well. There is concern over triggering and the responsibility of EIOPA, and possible knock-on effects outside insurance: an alternative formula-based mechanism which does not need a subjective decision, and which can also be triggered in a strong positive market, is required
- concern that breaching the SCR, with the consequent requirement to develop a recovery plan, although considered normal if a healthy solvency ratio is regained within a year, could put too much pressure on national supervisors (e.g. 2011 data) – there is a need to build political confidence amongst Member States

SR explained that if the Commission consider the EIOPA LTG proposals to be the way forward they will prepare a short report and modest legal re-drafting of Omnibus 2 for the trilogue discussions. If there are concerns over the LTG report then the Commission will review the position, which will result in further delays. SR also indicated that if EIOPA suggests a redesign of some of the LTG measures tested then a re-test may become necessary in respect of these newly designed measures.

Esko indicated that the Solvency II project team would welcome the opportunity to review the LTG report, and Karel encouraged the Commission to identify key areas where they would appreciate the Groupe's help. SR provisionally suggested –

- robustness of testing of modified versions of transitional measures
- eligibility of assets
- applicability of mortality

and indicated that the Commission will contact the Groupe after their analysis of the EIOPA report.

SR also identified other Solvency II related key areas for the Commission –

- Long-term Investment Green Paper – in particular risk calibration of assets. This will require a delegated act, and the Commission will be looking for quick progress (first half of 2014) if Omnibus 2 is agreed in September/October 2013. Esko pointed out that standard formula vs internal model remains an issue here.

- Sovereign debt – how to take it into account is still a major political issue. Gábor described the Groupe's efforts to produce a paper on this topic, which had been frustrated by the unwillingness of EIOPA and industry to provide data.
- Equivalence – Esko pointed out that this is an area dealt with by IAIS and IAA and not the Groupe.

Gábor referred to the Groupe's ongoing work on Market Consistency, describing the initial theoretical paper and work on follow-up papers on practical applications.

3. Pensions issues

SR referred to the recent decision by the Commission to postpone the implementation of Pillar 1 in the revised IORP Directive, and to focus on governance, transparency and reporting requirements. He highlighted a number of points –

- no detailed solvency rules but perhaps a capital charge for operational risk (cf UCITS)
- requirement of an ORSA-like process within governance – after some discussion SR agreed that this could be rather an ORA as an assessment of the solvency position is too strongly linked to Pillar 1
- detail for reporting requirements
- transparency to scheme members: should this be generic or personalised? Governance requirements should include an awareness of risk environment
- clearer definition of what constitutes cross-border activity
- drafting of impact assessment
- higher level of minimum harmonisation
- divergence of DB and DC makes it a challenge to create a single Directive which covers both
- similarity between DC and UCITS

Karel drew attention to the significant contributions by the Groupe to EIOPA's work on the IORP Directive, in particular in relation to sponsor covenant, holistic balance sheet and QIS technical specifications. He also observed that the Groupe strongly supports greater transparency. David referred to the emergence in the UK of Defined Ambition pension funds.

It was agreed that the Groupe can offer assistance with most of these concerns. SR will coordinate the interaction with the Groupe in this area while the ongoing contacts with Jung Lichtenberger can be continued.

Gábor also referred to the Groupe's work, through the Social Security Sub-Committee, on sustainability and adequacy of pensions.

4. Standards, Freedoms and Professionalism issues

David outlined the Groupe's professionalism principles, Code of Conduct and Mutual Recognition Agreement. He highlighted the development of model standards (ISAP1/GCASP1

and GCASP2) and pointed out that, while the Groupe cannot promote exclusivity for the actuarial profession in the context of the Actuarial Function under Solvency II, membership of one of our member associations will ensure that the 'fit and proper' requirements of the Directive are met. He pointed out that member associations are being encouraged to draw this to the attention of national supervisors, given EIOPA's expectation in the Guidelines for the System of Governance that supervisors will implement the actuarial function report for 2014.

David also referred to CERA and to competition legislation issues (compulsory training and discussion of commercially sensitive information).

5. Insurance Mediation Directive (IMD)

SR reported that there will be further discussion and a vote on the IMD in the Parliament ECON committee in July. Although Parliament is supportive of the Commission's proposals there is some resistance from the Council, and the Commission proposals are likely to be diluted; progress with the IMD will depend on early conclusion of Omnibus 2. Outstanding issues include

- potential burden on SMEs to provide information – suggestion that this should be on request rather than automatic for non-life insurers
- remuneration of independent intermediaries; as SR put it: Independent intermediaries may not get commission; commission ruins independence.
- transfer of PRIPs from IMD to MIFID
- loss adjusters will not be in scope

6. Consumer Protection issues

Gábor referred to the increasing importance of consumer protection issues in the Groupe's agenda, and the establishment of the Consumer Protection Task Force, whose remit he outlined. He pointed out that priorities will include key information documents (KIDs), PRIPs regulation, the toxicity of financial products and their suitability for consumers.

7. Further contact with Insurance and Pensions Unit

With the imminent publication of the EIOPA LTG report (14 June), and the short timescale for reviewing this before the trilogue discussions (early September), we were encouraged by SR's suggestion to schedule a further meeting in August to discuss this and the other issues identified above. He was also supportive of continuing our regular meetings, possibly more often than twice a year.