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 with EIOPA
5 July 2013

Groupe Consultatif:

Karel Goossens
Gábor Hanák
David Martin
Esko Kivisaari
Michael Lucas

EIOPA

Gabriel Bernardino
Andrew Mawdsley
Ana Teresa Moutinho
Daniel Perez
Barthold Kuipers
Katja Würtz

1. Solvency II

GB referred to the Long-Term Guarantee Assessment (LTGA) report which had recently been published by EIOPA. The report aimed to present a package aligned with the main concepts behind Solvency II, in particular

- economic balance sheet
- transparency and comparability
- link all three pillars
- proportionality and simplicity
- single market

He drew attention to the key issues raised in the report which require to be addressed –

- complexity in design
- volatility balancer (including application ratio and transparency due to being a separate own fund item)
- calibrations
- matching adjustment (and its practical management)
- transitional
- recovery period, and links to liability duration
- extrapolation, and dedicated Pillar 2 measures
- single market / country specific issues

Based on the data submitted for the LTGA, GB believed that EIOPA will be able to test the volatility balancer.

GB reported that there has already been some positive follow-up dialogue on the report's proposals with the trilogue parties, and he was optimistic that it provided a basis for negotiation and agreement in October.

Esko referred to the Groupe's press release welcoming the EIOPA report, and our recent meeting with Stephen Ryan, Deputy Head of the Commission's Insurance and Pensions Unit. Both the Commission and the Groupe would like to move forward with the report, and Esko noted that a further meeting has been arranged with SR and staff of his Unit, to discuss where our Solvency II project team might be able to provide further technical actuarial advice. He pointed out that we are undertaking further work on applications of Market Consistency relevant to the report, and that the Solvency II project team has contributed a lot of input to the Implementing Measures discussion papers. Areas where the Groupe could offer advice include:

- testing/calibration of the volatility balancer
- extrapolation on non-Euro currencies
- mortality risk methodology in classic Matching Adjustment
- proportionality and simplifications
- undertaking-specific parameters

GB reported that over 4000 comments had been received from stakeholders in response to the consultation on interim measures. The most critical of these (from industry) were in relation to reporting and ORSA, where it has been suggested that these might be delayed, or group reporting excluded. Other areas which drew substantial comments included:

- prudent person principle (too ambitious)
- threshold for key functions
- fit and proper requirements
- link to Omnibus 2
- relationship between Actuarial Function and Risk Management Function: GB acknowledged our concern over the need to clarify the contribution of the AF to the RMF

GB also noted that there are still some issues around date of implementation for reporting, which will depend on agreement on Omnibus 2 and L2. Advice will be provided to national supervisors, and it is expected that the majority will be able to comply - although in some of the member states the legal system does not allow the supervisor to implement such guidelines.

Gábor referred to EIOPA's recent pre-consultation on External Audit, and pointed out our concerns over the scope of the audit and the role for actuaries, emphasising the importance of the expert judgment to be made by internal actuaries and their auditors. He drew attention to the analogy with the MCEV report, and indicated that the Groupe is considering the need for a standard for actuaries undertaking external audit under Solvency II.

Karel confirmed that we will be submitting a formal response to the pre-consultation which will detail these and other points.

2. Review of IORP Directive/QIS

GB referred to the publication on 4 July of EIOPA's report on the QIS, and a follow-up discussion paper on sponsor support (deadline for comments: 31 October). He pointed out that there were a number of important changes since the preliminary findings were published in April, in particular the inclusion of benefit reductions and pension protection schemes. The report showed that there were some countries with significant shortfalls, and reflected the need for a market-consistent risk-based framework. GB emphasised the political (vs supervisory/technical)

dimensions of the report. He explained that EIOPA recognises that further technical work is required in a number of areas, including:

- sponsor support
- long-term guarantees
- supervisory responses
- recovery periods
- discretionary benefits
- long term nature of liabilities
- how to capture the discount rate

and this will be undertaken to EIOPA's own timetable. GB believed that the new Commission (2014) will pick up the DB funding issue.

GB indicated that it would be helpful to EIOPA to have a clearer position from the actuarial profession on Market Consistency, and on the ORSA for IORPs. Karel explained that we are working on second stage MC papers which will address practical applications in specific (insurance, pensions and IFR) situations. One area which is being considered in relation to pensions is differentiating the discount rate depending on the level of guarantee. Karel pointed out that ORSA is a challenge for pension funds: Esko observed that this is particularly true given the Commission's decision to postpone the implementation of Pillar 1 in the revised IORP Directive.

GB acknowledged that EIOPA sees a place for the Actuarial Function in relation to IORPs, subject to proportionality and appropriate relationship to the Risk Management Function. In answer to a question from David, GB expects the Commission to take on board EIOPA's proposals on governance and disclosure, again subject to proportionality.

3. Actuarial Standards

David reported on the progress of GCASP2 (Actuarial Function Report) following the consultation on the Exposure Draft. He pointed out that it is not possible to finalise this standard until Omnibus 2 has been agreed; however, in order to meet the needs of member associations, we will develop a "working draft". It was agreed that we will give EIOPA access to this.

David also reported:

- the Groupe will adopt as GCASP1 (Quality of Actuarial Work) the IAA's ISAP1
- the review of the Groupe's Code of Conduct, to ensure it is up-to-date, relevant and fit for purpose
- the proposal to encourage national actuarial associations to engage with their local supervisors over the Solvency II Directive's 'fit and proper' requirement, to emphasise how their members (actuaries) meet this requirement

4. Consumer Protection

GB referred to EIOPA's increasing interest in specific products and consumer detriment: he drew particular attention to the issue of PPI and EIOPA's recent report on this issue. He emphasised the importance of being able to identify retail risks at an early stage, and the need for indicators (e.g. claims ratios) to help with this. He suggested that there is a role for actuaries in this area, in relation to product design/pricing.

Karel pointed out that it is not for actuaries to say what is fair for consumers in terms of pricing (and commissions): this is a political issue. However he acknowledged that, with a more

structured approach, the Groupe could add value in specific areas such as an appropriate level of transparency and the development of indicators. It was agreed that we should establish closer contacts with EIOPA (Katja Würtz) to ensure a common agenda.

5. Review of Supervisory Authorities

GB referred to the review being undertaken by the European Parliament/ECON and the Commission into the three supervisory authorities. The report on the review will be published later in 2013, and any proposals for changes would be implemented at the end of 2014 or early 2015. From EIOPA's point of view, GB believed that the immediate key issues are:

- reinforcing operational (budgetary) independence
- challenging national competent authorities to go beyond stability/convergence
- access to data from national supervisors
- consumer protection, including legislation and the ability to ban/restrict certain products
- responsibility for private pensions
- (in the medium term) more centralised supervision of large cross-border groups

Gábor confirmed that the Groupe will submit comments to this consultation, in particular in relation to the Stakeholder Groups and representatives' status as individuals.

6. Further meetings

It was agreed that these twice-yearly high-level meetings are of mutual benefit. Michael will arrange the next one for December.