

## **JOINT MEETING OF INSURANCE, PENSIONS AND RISK MANAGEMENT COMMITTEES**

**HELD IN VIENNA, AUSTRIA**

**ON THURSDAY 10 OCTOBER 2019 FROM 10.00-12.00 CEST**

### **MINUTES**

#### **1. Housekeeping**

Maitane opened the meeting and presented the agenda of today's meeting and the minutes of the last meeting

- Agenda accepted as presented
- Minutes agreed as share before the meeting
- The participants list is attached to these minutes as **Annex 1**.

#### **2. Solvency II Working Group**

Siegbert presented the current status of the ongoing Solvency II review (**Annex 2**). Some topics have already been consulted during this year as 1<sup>st</sup> wave (Sustainability, Reporting & Public Disclosure, Insurance Guarantee Schemes), the remaining topics will be organized in a 2<sup>nd</sup> wave starting mid-October and to be finalized till mid-January. In parallel, EIOPA supports the consultation by public events to explain their expectation and give a summary and their interpretation of recent consultations.

On Insurance Guarantee Schemes the question was raised what is the AAE position on that topic. It was concluded that it is important that policy holders have a solid protection of guarantees also when using freedom of services. For that a minimum harmonization should be targeted. The main work will have to be done by local regulators and the local actuarial associations might support them to establish a suitable solution.

Main topics to consider in the upcoming consultation:

- Risk-free interest rate curve  
possible change of volatility adjustment, extrapolation methodology and last liquid point (LLP): EIOPA will propose different options  
Depending on the impacts of these options we still need to derive an opinion of the AAE.  
Data on how to derive LLP is regularly assessed by EIOPA and can be used as a basis for this analysis.
- Interest rate down stress  
approach also to consider stress after LLP, AAE already proposed in last consultation a valid option.

- Insurance stress test  
Objective is to standardize and extend framework for different perspectives (e.g. sustainability, macroprudential issues)  
We have to avoid that models for stress testing diverge from models of the Solvency II framework.

Question to the auditorium: How to better support broad basis of European countries in Solvency II review. Further volunteers are welcome to the Solvency II Working Group, especially from eastern and southern European countries.

### 3. Intergenerational Fairness

Maitane presented the first ideas coming from a survey sent to representatives of the Pensions Committee and Social Security Subcommittee, triggered by Article 7 of IORP II directive (*"As a general principle, IORPs shall, where relevant, have regard to the aim of having an equitable spread of risks and benefits between generations in their activities"*). To further discuss (not a comprehensive list):

- Pension is an intergenerational benefit
- Different generations should receive fair contributions in direct comparison
- Avoid poverty for certain generations but also avoid double payments
- Consider also taxation

How can AAE add value in this field? Possible aspects and focus areas that could be tackled:

- Raise awareness on topic in public
- Provide best practises for product design
- Support clarity on the definition of the problem to also enable an objective discussion in society
- Discuss mandatory vs. facultative, individual vs. collective solutions and social responsibility of companies
- How can already existing issues be solved (e.g. asset-liabilities-gap on current book in low interest rate environment)

Maitane gave an overview on already existing work done by actuaries in the UK and by the Intergenerational Foundation in the UK too.

The Pension Committee will setup a task force for this topic and welcomes any further volunteers from other committees.

The main difficulty could be to identify the right focus and to find the right means to communicate the results with also the political environment in mind.

### 4. Interest Rate Dynamics

Lauri presented the first status update of a study on the recent interest rate developments and an analysis of the drivers of the changes (**Annex 4**).

- ECB actions are obviously one of the mains drivers.
- Re-allocation into cash have not yet limited the yields. Estimates are dropping from -0.7% to -2% now – also supported by experience in Swiss market.
- Digital currency might influence the situation – but not in short term.
- Possibility of arbitrage between countries might stabilize situation in Europa.

- Alternative investments like gold or commodities might reduce appetite to invest in negative interest rates.

The Holstin-Laubach-Williams (HLW) model might help to understand better the development of the rates, defining the concept of a “natural rate of interest” and better analyze the interest rate volatility.

The Euro swap market is not used for liquid investments but rather for hedging and option pricing. This different application has to be considered when calibrating models. Not properly reflecting this might lead to a vicious circle of even further lowering interest rates.

Remarks from the audience:

- To also consider the overnight market might help to better understand the drivers.
- These new insights and specially the negative interest rates should also be considered in the committees to enhance the existing analysis and to apply in reporting as, e.g., ORSA. Actuaries cannot just use negative interest rates just because they are applying the rules without explaining what it entails for the exercise they are producing.

## 5. Safe Assets

Malcolm presented on the current European Safe Asset Debate that will be further tackled in the Risk Management committee.

He started to explain the concept of safe assets as assets with minimal but normally not zero risks included (e.g. government bonds). Currently, the availability is rather limited in the Euro zone and the demand is high.

For manufacturing these assets, several options exist. First, it could mean that the most senior countries increase the issuance of debt. Second, pooling non-safe assets will diversify the risks but there will remain a minimal risk of failure in crisis. Hence, only tranching and structuring senior tranches might improve the situation. Third, adding budget to a pool, copying the concept of covered bonds, might also reduce effectively the risk of default of this structure.

## 6. Actuvieview

Lutz presented on the implementation of the strategic objectives to enable a European community of actuaries and support professionalism. Actuvieview is a tool to stream on demand presentations and videos from actuarial conferences and training sessions and, hence, support exactly these two objectives.

AAE will start a trustworthy, long-term, strategic partnership with Actuvieview. All members (including non-qualified and student) will receive access to the platform.

Details will be further discussed at the General Meeting on Friday.

## 7. Any Other Business

None

## ANNEX 1

### Participants Joint meeting Insurance, Pensions and Risk Management Committees Vienna, Austria | 10 October 2019

	First name	Family name	Country	Nominating association
1	Reinhold	Kainhofer	Austria	Aktuarvereinigung Österreichs
2	Christoph	Krischanitz	Austria	Aktuarvereinigung Österreichs
3	Philippe	Demol	Belgium	Institut des Actuairens en Belgique
4	Daphné	de Leval	Belgium	Institut des Actuairens en Belgique
5	Youri	Dolya	Belgium	Institut des Actuairens en Belgique
6	Cecilia	Thorn	Belgium	AAE
7	Tatiana	Bitunska	Bulgaria	Bulgarian Actuarial Society
8	Martin	Jusko	Czech Republic	Ceská Společnost Aktuáru
9	Jana	Zelinkova	Czech Republic	Ceská Společnost Aktuáru
10	Jan	Svab	Czech Republic	Ceská Společnost Aktuáru
11	Conor	O'Byrne	Denmark	Den Danske Aktuarforening
12	Esko	Kivisaari	Finland	Suomen Aktuaariyhdistys
13	Lauri	Saraste	Finland	Suomen Aktuaariyhdistys
14	Thomas	Behar	France	Institut des Actuairens
15	Nadia	Lamari Mfithi	France	Institut des Actuairens
16	Richard	Deville	France	Institut des Actuairens
17	Maitane	Mancebo	France	Instituto de Actuarios Españoles
18	Matthias	Pillaudin	France	Institut des Actuairens
19	Siegbert	Baldauf	Germany	Deutsche Aktuarvereinigung
20	Michael	Renz	Germany	Deutsche Aktuarvereinigung
21	Frank	Schiller	Germany	Deutsche Aktuarvereinigung
22	Wilhelm	Schneemeier	Germany	Deutsche Aktuarvereinigung
23	Gábor	Borza	Hungary	Magyar Aktuárius Társaság
24	Gabor	Hanak	Hungary	Magyar Aktuárius Társaság
25	Gábor	Pásztor	Hungary	Magyar Aktuárius Társaság
26	Giovanni	Sammartini	Italy	ISOA
27	Eugenija	Bieliauskiene	Lithuania	Lietuvos Aktuaru Draugija
28	Ptakauskas	Paulius	Lithuania	Lietuvos Aktuaru Draugija
29	Evaldas	Valeiša	Lithuania	Lietuvos Aktuaru Draugija
30	Hans Michael	Øvergaard	Norway	Den Norske Aktuarforening
31	Marcin	Zwara	Poland	Polskie Stowarzyszenie Aktuariuszy
32	Rita	Marques	Portugal	Instituto dos Actuarios Portugueses
33	Ana	Martins Pereira	Portugal	Instituto dos Actuarios Portugueses
34	Cathal	Fleming	Republic of Ireland	Society of Actuaries in Ireland
35	Declan	Lavelle	Republic of Ireland	Society of Actuaries in Ireland
36	Bryan	O'Higgins	Republic of Ireland	Society of Actuaries in Ireland
37	Philip	Shier	Republic of Ireland	Society of Actuaries in Ireland
38	Jozef	Ducky	Slovak Republic	Slovenská spoločnosť aktuárov
39	Maria	Kamenarova	Slovak Republic	Slovenská spoločnosť aktuárov
40	Mercè	Claramunt	Spain	Col·legi d'Actuaris de Catalunya

41	Eduardo	Trigo Martínez	Spain	Instituto de Actuarios Españoles
42	Anders	Munk	Sweden	Svenska Aktuarietföreningen
43	Malcolm	Campbell	Sweden	Svenska Aktuarietföreningen
44	Michael	Bamberger	Switzerland	Association Suisse des Actuaire
45	Lionel	Candaux	Switzerland	Association Suisse des Actuaire
46	Lutz	Wilhelmy	Switzerland	Association Suisse des Actuaire
47	Cenk	Yalcin	Turkey	Actuarial Society of Turkey
48	Malcolm	Kemp	United Kingdom	Institute and Faculty of Actuaries
49	Kartina Tahir	Thomson	United Kingdom	Institute and Faculty of Actuaries
50	Charles	Cowling	United Kingdom	Institute and Faculty of Actuaries
51	Craig	Hanna	USA	American Academy of Actuaries