actuarial association of europe

ACTUARIAL ASSOCIATION OF EUROPE
ASSOCIATION ACTUARIELLE EUROPÉENNE

1 PLACE DU SAMEDI
B-1000 BRUSSELS, BELGIUM
(+32) 2 201 60 21
INFO@ACTUARY.EU
WWW.ACTUARY.EU

VIRTUAL MEETING OF THE INSURANCE COMMITTEE

HELD ON FRIDAY 3 APRIL 2020 FROM 08:30-13:00

MINUTES

The participants list is attached at the end of these minutes as **Annex 0.1.**

1. **OPENING OF THE MEETING AND ADOPTION OF THE AGENDA**

The Chairperson welcomed the members and expressed disappointment that it had not been possible to hold the meeting in Bratislava as scheduled due to the COVID-19 pandemic.

The agenda was approved.

Delegates, alternates and observers introduced themselves.

2. **MINUTES OF PREVIOUS MEETING**

2.1 The minutes of the meeting held in Vienna on 10 October 2019 (**Annex 2.1a**) were approved and the note from the teleconference held on 13 January 2020 (**Annex 2.1b**) was confirmed.

2.2 Any matters arising not covered elsewhere as substantive items on the agenda were taken under Agenda item 23 "ANY OTHER BUSINESS"

3. **CHAIRPERSON**

The Committee noted that the Chairperson would step down after the meeting in Munich (8 October 2020, to be confirmed) and that a call for nominations had been issued.

4. **VISION AND VALUES OF AAE**

The Chairperson asked all Working Group chairs to add a section to the terms of reference for their Working Groups which would clarify how they will seek to contribute to the wellbeing of society and to show concern for the public interest. He proposed in addition to include an additional piece in the Insurance Committee terms of reference, for approval.

5. **WEBINARS**

5.1 The Committee noted that the next webinar to be provided by the Insurance Committee will be in Q3 2020. Topics which were discussed as being potentially suitable for the webinar included:

COVID-19 - implications for actuaries arising from the pandemic
Longevity - developments in life expectancy and rates of improvement
Low interest rates - issues emerging from Working Group
IFRS 17 - issues emerging from Working Group and developments in standard
Non-life issues - issues emerging from Working Group
Solvency II developments - 2020 review – final advice and implications

The Chairperson proposed to move forward with up to 4 of these issues, identify speakers and put arrangements in place for the webinar.

6. **PROPOSED PLAN**

6.1 The Committee discussed the plan which had guided the activities of the Committee up to September 2019. The Chairperson sought comments and thoughts on adjustments that would be appropriate for the next 2 year plan.

The Chairperson noted that, since the meeting in Vienna, a Working Group on Low Interest Rates had been established, led by Matthias Pillaudin, as had been proposed at that meeting.

The following issues were raised for consideration as part of the next plan:

- Identify and communicate implications of COVID-19 for actuaries and insurance, raising related aspects with key stakeholders
- Need to be cautious in relation to the number of Working Groups and strands of activity, given the significant work required for each of these. There are currently multiple WG's under the Insurance Committee, including overlaps of participants, which could bring difficulties in terms of communication. The issue raised concerned the efficiency within the WG's and how this is ensured.
- Continue to input on Solvency II review, and communicate implications for profession
- Remove GDPR from issues to be addressed
- Focus on communicating activities of Committee to stakeholders
- Coordination with IAA work
- Incorporating the work of the Consumer Protection Working Group, for instance in relation to PRIIPS/PEPP and Key Information Documents

The work plans of the Non-Life, IFRS 17, Consumer Protection and Solvency II Working Groups were noted as an important part of the work plan for 2020.

The Chairman committed to preparing a draft of the work-plan for the period to September 2021, with a view to finalising the plan well before the meeting in Munich.

7. **CONSULTATIONS**

7.1 The Chairperson noted that the IC responded to the following consultations:

- Consultation on EIOPA's advice on the harmonisation of national insurance guarantee schemes
- CP on proposals for Solvency II 2020 review
- DP on Methodological principles of insurance stress testing
- Consultation Paper on the Opinion on the 2020 review of Solvency II
- Joint CP concerning amendments to the PRIIPs

7.2 Outstanding consultations were discussed:

- EIOPA's Discussion Paper on IBOR transitions (deadline extended from 30 April 2020 to 30 June 2020). EIOPA will produce a consultation paper with policy recommendations on the subject of IBOR transition based on feedback to the discussion paper
- EIOPA's review of technical implementation means for the package on Solvency II supervisory reporting and public disclosure (deadline 1 June 2020)
- European Commission's consultation on review of Non-Financial Reporting Directive (NFRD) (deadline 11 June 2020)

Siegbert Baldauf explained that the Solvency II Working Group was considering whether to respond in relation to IBOR and highlighted that there would be a follow on consultation. He said that the Working Group did not intend to respond on the second paper above which largely relates to XBRL and taxonomy.

Lauri Saraste sought volunteers to contribute to the NFRD consultation and volunteered to lead the response.

8. **COVID-19**

The Chairperson provided an introduction to COVID-19 and its implications for the insurance industry. He raised the following aspects:

- COVID-19 stresses many key areas of exposure for insurers at once (e.g. asset prices, interest rates, bond spreads, mortality, morbidity, business retention, efficiency, level of operational risk). The resulting economic slowdown will impact on claims and new business. It will be important for insurers to have a developed picture of the actual and potential impact across the full range of affected areas. In order to create this picture, they may need an ad hoc ORSA, and/or can use results of existing relevant stress tests from previous ORSAs.
- The pandemic affects many areas of a company's operations, including financial and capital related impacts. Other areas impacted include customer and business growth, people and operations, and strategy and performance management.
- The reaction of insurers to claims made by customers and requests for customer support will act to shape the reputation of the industry.
- EIOPA and European regulators have been responsive to the crisis and have rescheduled required regulatory submissions, postponed non-urgent work, and have been open to implementation of tools which could mitigate risks and impact. EIOPA is focused on the information provided to customers and has encouraged fair, explicit and flexible treatment of customers.

A discussion followed.

A number of contributors noted the importance of the continued professionalism of actuaries in this environment, covering the following points:

- Supporting firms to think about the needs of their customers, considering the public interest, and mindful of the reputation of the insurance industry and its practitioners. Postponement of premiums for a period of 3 to 6 months was quoted as a specific example of providing flexibility to customers.
- Need to coordinate provision of effective interpretation of information and presentation of statistics, which could otherwise be misinterpreted and lead to ineffective actions
- Need to ask ourselves what we can do as professionals to improve outcomes

Regulatory aspects were considered, including possibility of extension of recovery periods. Siegbert Baldauf observed that there has not been specific relief from valuation requirements but suggested it could be possible to look for relief from certain elements of the Solvency II framework, e.g. the 1 in 200 level of certainty. He also mentioned that this could give undertakings needed flexibility for their approach to customers. Heightened levels of regulatory scrutiny are in operation.

The value to be placed on Loss Absorbing Capacity of Deferred Taxes (LACDT) was discussed, including whether a less conservative approach might be appropriate at this time.

Operational risks are heightened with additional stresses from heightened customer activity, employees working from home, and market shocks all impacting.

Dividends are likely to be postponed by insurers. More focus will be brought to bear on variable remuneration.

Concerns were also expressed relating to activities of the profession, e.g. exams, events, face to face meetings, and the operation of codes of conduct.

Other issues raised for the Insurance Committee to consider were:

- Impact on Solvency II 2020 review and the level of "risky" assets held by insurers
- Consumer protection, and the need for Insurance Guarantee Schemes
- Macroeconomic impact in the short to medium term, with likely depressing impact on interest rates which are already at very low levels

The Chairperson undertook to collate the issues raised and ensure action is taken where required, as well as to bring the discussion to the attention of the Board.

9. **NON-LIFE ISSUES**

9.1 Robert Pusz gave an update on the activities of the Non-Life Working Group which included support for the Solvency II Working Group in its input to EIOPA on the 2020 review, USPs and Risk Mitigation Techniques.

Robert mentioned that there have been significant changes in the NLWG with Declan Lavelle taking over from Matthias Pillaudin as Chair, and a number of new members.

Robert agreed to take the issue of non-life claim payments related to COVID-19 to the Working Group, reflecting the earlier discussion on that subject.

10. **LOW INTEREST RATE WORKING GROUP**

Matthias Pillaudin gave a presentation on the results of the survey recently carried out by the Working Group. A discussion followed.

Florin Ginghina expressed a view that the impact on low interest rates is not as great as might be implied from the survey in light of the mitigants which insurers have in place. He considered that defaults and downgrades could ultimately be a greater issue for insurers.

In considering next steps, Lauri Saraste commented that COVID-19 may lead to regulatory changes and that the AAE must bring the important points to the debate. He urged the Working Group to identify the key issues. Matthias undertook to consider and address this with the Working Group.

11. **UPDATE ON EUROPEAN ISSUES**

11.1 The Vice-Chairperson gave an update on recent developments in the European agenda, particularly noting COVID-19 and sustainability as prominent issues.

11.2 The Chairperson gave an update on issues being considered by the EOPA Insurance and Reinsurance Stakeholder Group (IRSG).

12. **SOLVENCY II**

12.1 Siegbert Baldauf gave a short presentation on Solvency II issues, following on from the earlier presentation to the meeting of the joint committee.

Siegbert went through the areas which are in focus for the 2020 review and drew attention to the impact analysis which is underway. Key areas discussed were long term guarantees/interest rate risk, and risk margin.

In discussion, the different supervisory approaches to LACDT were raised.

The possibility of delay in the 2020 review due to COVID-19 was discussed. It was thought unlikely that EIOPA would be able to produce its statement for 30 June, the original timetable. It was also felt that the European Commission would not be in a position to move the issue forward fully this year and that, as a consequence, the deadline for the work was likely to be moved.

This delay is likely to allow scope for AAE work on low interest rates to be discussed with EIOPA.

12.2 Siegbert also mentioned the open and forthcoming consultations, covered under item 7 of the agenda.

12.3 Members of the Committee to report briefly on any important recent developments in relation to Solvency II in their country: no other issues were raised.

13. **IFRS 17**

13.1 Kristoffer Bork provided an update from the IFRS17 Working Group on its work and plans, including the latest output from IASB and EFRAG considerations and in particular the extension of introduction date to 1 January 2023.

13.2 Kristoffer introduced the draft paper prepared by the Working Group on the Roles of Actuaries in IFRS 17. This proposes the role of Reporting Actuary in preparers, to be responsible for the work relating to valuation of insurance liabilities, and to prepare an internal report supporting the outcomes. It also proposes a requirement for auditors of insurance undertakings which are accounting under IFRS 17 to have a report prepared by the auditor's actuarial expert in order to ensure that the nature and complexity of the actuarial contribution to the audit work is fully reflected.

The committee discussed the draft paper and its conclusions. Key elements of the debate were:

- Questions around the validity of the conclusions in some countries where formal/statutory actuarial roles already exist, e.g. Appointed Actuary, or where local GAAP may differ materially from IFRS 17.
- The different roles of first and second lines of defence and where the Reporting Actuary should sit (the Working Group proposal is that Reporting Actuary be a first line role).
- The addition of another formal role to the range of formal roles already required of actuaries in insurers.
- Lack of legal definition of actuary in Europe and the potential need for recognition to support these proposals.

The audience for the paper was questioned, and Kristoffer responded that it was expected to be both internal (to the AAE) and external, with external focused on parties which could provide meaningful support for, and legal implementation of, the proposals.

Kristoffer clarified that the Working Group is not proposing one model for the operation of Reporting Actuary, that the issue of proportionality was important, and that the Working Group would expect that there would be flexibility in implementation and that the Reporting Actuary would interact, and perhaps be integrated with, other actuarial roles. The proposal is not that the role would be entirely segregated or that it be a "one size fits all" model.

Following the discussion, Kristoffer agreed that the Working Group would work with the Professionalism Committee in seeking to liaise with Member Associations to establish the level of support for the proposals. He stressed that the time window for resolution of the IFRS 17 proposals is short as undertakings are currently implementing the standard and we must input quickly at policymaker level if we want to influence the debate.

The issue is already on the Board agenda and the Chairperson undertook to raise it at the next Board meeting.

14. CONSUMER PROTECTION WORKING GROUP

Valery Jost provided an update on the activities of this Working Group. Key activities were:

- EIOPA PRIIPS consultation input. This reflected the Working Group view of the PRIIPS KID as requiring excessively complex implementation and being of poor quality in terms of the standard of information which should be provided to customers. The Working Group also considered that standard implementation across countries was not appropriate, and that differences in markets should be reflected in adaptation of methodologies.
- Costs and Past Performance. The Working Group had been working with the Chairperson on reporting to EIOPA in this area and would be carrying out a survey to support provision of quantitative input on profit participation products in 2020.

15. SUSTAINABLE FINANCE

Lauri Saraste briefed the Committee on developments in relation to sustainable finance (**Annex 15**). He mentioned new reporting requirements, and the developing taxonomy which insurers need to consider and understand.

16. IAIS GLOBAL ICS INITIATIVE

This topic was covered under the Solvency II agenda item, during which Siegbert Baldauf briefed the Committee on developments on ICS.

17. JOINT COMMITTEE MEETING

The committee noted the Joint Meeting of the Insurance, Pensions and Risk Management Committees held on Thursday 2 April from 10.00 to 12.00.

18. PAN-EUROPEAN PENSION PRODUCTS (PEPP)

Philip Shier gave an update on PEPP developments to the committee (Annex 18). The development of Regulatory Technical Standards by EIOPA is likely to go beyond the deadline of 14 August 2020. AAE consultation response has focused on information documents, cost cap and risk mitigation techniques. The importance of KID consistency

between PRIIPS and PEPP was highlighted and the Consumer Protection Working Group has been providing input on the PEPP KID.

19. **ETHICS IN DIGITALIZATION**

Esko Kivisaari gave an update on the recent development in the area.

Esko noted that there are three sub groups under the umbrella of the EIOPA Expert Group on Digital Ethics, as follows:

- Fairness (chaired by Lutz Wilhelmy). Looking at impacts of new technology and discrimination.
- Transparency (chaired by Esko). Covering communication of information providing understanding of how fairness is achieved.
- Governance (chaired by Pedro Ecija Serrano, actuary based in Ireland). Looking at how insurers should govern operations to ensure that implementation is appropriate.

Reports from the sub groups are due at end May.

As previously noted, it will be important for the Insurance Committee to stay in touch with work in this area.

20. **MEETING WITH EXTERNAL ORGANISATIONS AND STAKEHOLDERS**

20.1 The committee noted the most recent overview of meetings held between delegations of the AAE and the respective stakeholders. (attached as **Annex 20.1**).

One pagers as shared with EIOPA and the European Commission can be found on the AAE website under Publications.

21. **ACTUARIAL STANDARDS AND EAN on ORSA**

21.1 The committee noted the report by Hillevi Mannonen on the work of the Actuarial Standards Subcommittee (ASSC) (**Annex 21.1a,** Workplan included as **Annex 21.1b**).

21.2 Lauri Saraste provided an update on the finalization of the EAN on ORSA. All comments have been included and all stages of approval have been passed, with the exception of final approval by Member Associations which is expected in coming weeks.

22. **COSTS AND PAST PERFORMANCE**

This was covered in agenda point 14.

23. **INTEREST RATE DYNAMICS**

This was covered in agenda point 10.

23. **EXCHANGE OF NEWS ON CURRENT ISSUES**

No additional points were made.

24. **ANY OTHER BUSINESS**

No additional points were made.

25. **NEXT MEETING**

The Chairperson invited everyone to the next meeting of the Insurance Committee which will take place in Munich, Germany, on Thursday 8 October 2020 (to be confirmed) at the invitation of Deutsche Aktuarvereinigung.

Annex 0.1

Participants Insurance Committee meeting
Virtual | 3 April 2020

	First name	Family name	Country	Nominating association	Role
1	Reinhold	Kainhofer	Austria	Aktuarvereinigung Osterreichs	Delegate
2	Karel	Goossens	Belgium	IA|BE	Alternate
3	Philippe	Demol	Belgium	IA|BE	Observer
4	Daphne	Deleval	Belgium	IA|BE	Delegate
5	Ksenija	Sajnkovic	Croatia	Hvratsko Aktuarsko Društvo	Delegate
6	Christos	Loucaides	Cyprus	Cyprus Association of Actuaries	Delegate
7	Martin	Jusko	Czech Republic	Ceská Spolecnost Aktuáru	Observer
8	Conor	O'Byrne	Denmark	Den Danske Aktuarforening	Delegate
9	Kristoffer	Bork	Denmark	Den Danske Aktuarforening	Chair IFRS17 WG
10	Esko	Kivisaari	Finland	Suomen Aktuaariyhdistys	Observer
11	Lauri	Saraste	Finland	Suomen Aktuaariyhdistys	Vice-Chairperson
12	Matthias	Pillaudin	France	Institut des Actuaires	Delegate
13	Valery	Jost	France	Institut des Actuaires	Chair Cons. Pro.
14	Siegbert	Baldauf	Germany	Deutsche Aktuarvereinigung	Chairperson SII WG
15	Michael	Renz	Germany	Deutsche Aktuarvereinigung	Observer
16	Birgit	Kaiser	Germany	Deutsche Aktuarvereinigung	Observer
17	Istvan	Kerenyi	Hungary	Magyar Aktuárius Társaság	Delegate
18	Ferenc Gábor	Pásztor	Hungary	Magyar Aktuárius Társaság	Observer
19	Giovanni	Sammartini	Italy	ISOA	Delegate
20	Evaldas	Valeisa	Lithuania	Lietuvos Aktuaru Draugija	Delegate
21	Mats	Sollie	Norway	Den Norske Aktuarforening	Delegate
22	Robert	Pusz	Poland	Polskie Stowarzyszenie Aktuariuszy	Delegate
23	Marcin	Zwara	Poland	Polskie Stowarzyszenie Aktuariuszy	Observer
24	Ana	Martins Pereira	Portugal	Instituto dos Actuarios Portugueses	Delegate
25	Philip	Shier	Republic of Ireland	Society of Actuaries in Ireland	Observer
26	Tony	O'Riordan	Republic of Ireland	Society of Actuaries in Ireland	Chair
27	Florin	Ginghina	Romania	Asociatia Romana de Actuariat	Delegate
28	Ana	Rubeli	Romania	Asociatia Romana de Actuariat	Observer
29	Mária	Kamenárová	Slovak Republic	Slovenská spolocnost' aktuárov	Observer
30	Xavier	Gomez	Spain	Col.legi d'Actuaris de Catalunya	Delegate
31	Malcolm	Campbell	Sweden	Svenska Aktuarieföreningen	Observer
32	Michael	Bamberger	Switzerland	Association Suisse des Actuaires	Delegate
33	Loes	De Boer	The Netherlands	Het Koninklijk Actuarieel Genootschap	Delegate
34	Falco	Valkenburg	The Netherlands	Het Koninklijk Actuarieel Genootschap	Chair AAE
35	Mike	Poulding	UK Channel Islands	Channel Islands Actuarial Association	Observer
36	Kartina	Thomson	United Kingdom	Institute and Faculty of Actuaries	Delegate