

MINUTES OF THE VIRTUAL MEETING OF THE RISK MANAGEMENT COMMITTEE

HELD ON THURSDAY 2 APRIL 2020 FROM 15.30-17.30 CEST
AND ON FRIDAY 3 APRIL FROM 10.30-13.00 CEST

AGENDA

The participants' lists are attached at the end of these minutes as **Annex 0.1**.

1. OPENING OF MEETING AND ADOPTION OF THE AGENDA

Short introductory round.

2. MINUTES OF PREVIOUS MEETING

2.1 No comments or additions to the minutes.

2.2 Matters arising from Joint Meeting to put on the agenda: Feedback to be provided to "Low Interest Rate" working group.

3. REPORT ON RECENT MEETINGS

Siegbert Baldauf and Lutz Wilhelmy briefly reported on the main topics of the meeting with EIOPA in December 2019:

- European view on International Capital Standard
- expectation on implementation of ESG criteria
- pension stress test to be implemented
- status of PEPP
- status of Solvency II Review 2020
- update on digital ethics in AI and Big Data
- AAE Risk Margin paper was well received
- Discussion on issues stemming from low / negative interest rate environment

4. OPEN/ONGOING PROJECTS

4.1 *Risk management implications of COVID-19*

The situation changes quickly. Hence, the RMC provided a variety of links for regular updates on current developments. In addition, Frank Schiller provided a simple SIR epidemic model (documentation can be found on Wikipedia¹) with exemplary data from Kaggle² that can be used to define risk scenarios for health and life insurance companies. We observe that some countries (e.g. South Korea) are already successfully flattening the curve by reducing infection rates. Key measures to that end are social distancing, broad but also focussed testing, monitoring of potential contacts of infected using smartphones and consistently quarantining infected persons.

¹ https://en.wikipedia.org/wiki/Compartmental_models_in_epidemiology#The_SIR_model

² <https://www.kaggle.com/sudalairajkumar/novel-corona-virus-2019-dataset>

Additionally, as Lutz Wilhelmy noted, effects on capital markets will impact insurance companies heavily: a heavy impact on the stock market could already be observed and we must also expect a further reduction in interest rates as a result of the ECB's additional measures.

As information changes so quickly, it is not reasonable for the AAE RMC with its limited resources to provide additional research or documentation on the development of COVID-19. One of the biggest issues is data quality and limited comparability between countries due to different methods to measure rates. At this point in time and based on the available data it is only reasonable to calibrate risk scenarios. Due to the data issues and the instability of the models it is not possible to effectively assess the future development of COVID-19.

Siegbert noted that this situation might also allow to extend the Solvency II recovery period and we could address the topic with EIOPA.

Eduardo Trigo asked if mortality bonds to protect (re)insurers are now at risk of defaulting or might be unable to mitigate the current risk of COVID-19. As we are still far away from typical trigger points, this is currently difficult to assess.

4.2 *CRO Round Table*

Topic skipped as nobody from the organisers of the round table participated.

4.3 *Solvency II Working Group*

Siegbert Baldauf briefly gave a status update on the 2020 Review and the Holistic Impact Study. Due to COVID-19 the timeline has been extended and now we could have the possibility to extend the research on the depth and liquidity of the capital market and provide some more detailed feedback on other topics (e.g. new VA proposals, interest shock scenario calibration).

Volunteers for the working groups are always welcome. No new members were interested during the meeting but could get in contact with Siegbert after the meeting.

4.4 *Risk management aspects for IORPs*

Philip Shier briefly reported on the situation in Ireland. The regulator is increasing the focus on pension funds and requesting more detailed analysis, e.g., additional stress scenarios and more detailed reporting. RMC wants to support the Pensions Committee on risk management and would be happy to cooperate on specific topics. To be carried forward to the next meeting and gather potential joint projects with Pension Committee in the meantime.

4.5 *IFRS 17*

IASB has deferred the implementation again. Hence, the topic was skipped for today. Maria Kamenarova noted that actuaries should also be involved in IFRS 9 topics and asked if the RMC should also support writing a paper on that topic and hence position actuaries as experts also in this field. As no volunteers could be found during the meeting, Malcolm will take this up with Maria after the conference and discuss how the RMC or the IFRS 17 working group could be involved.

4.6 *Sustainability and Environmental, Social and Governance Issues*

Marcin Zwara and Philip Shier gave a brief update on the implementation of a European Actuarial Climate Index by the AAE. Main question is how to find adequate data sources for setting up the index. Target is to provide a quarterly update on the

index and use that for marketing actuaries as experts also on climate change topics starting in 2021 if possible.

4.7 *Systemic risk and macroprudential policy*

Malcolm Kemp briefly introduced the topic and gave the context as part of the Solvency II Review 2020 and statements coming from the ERSB (white paper “Enhancing the macroprudential dimension of Solvency II”, Feb 2020, circulated before the meeting). Main topics of potential interest for European actuaries:

- Symmetric adjustments: improve implementation to make them symmetric and apply a longer-term average in VAs, equity, spread and interest rate risks
- Liquidity tools: especially addressing margin practices and hedging
- Horizontal tools: loans to (re)insurers

Eduardo Trigo asked if regulators have an industry wide model to assess the overall systemic risks of the insurance sector and potential effects on the economy. Malcolm indicated that he thought some national supervisory authorities are trying to develop such models.

Frank Schiller wondered how this paper can be used to enhance the reply of AAE to the Solvency II Review 2020. As most of the topics of the paper should already be addressed there, the paper should help the Solvency II Working Group to lead the discussion with EIOPA and they should also oversee the general discussion on the topic.

Richard Deville asked if the proposed measures might already help to manage the effects of the COVID-19 related risks. As the paper was published before the pandemic, it was not meant to directly mitigate any of these risks. But it implicitly addresses several related topics. And COVID-19 might be a proof point / benchmark for the effectiveness of some of the concepts.

4.8 *IBOR transition*

Malcolm Kemp referred to the presentation given in the Joint Meeting and discussed how the RMC should react to the discussion paper published by EIOPA (shared before the meeting). Siegbert Baldauf proposed to prepare a first structure of how to address EIOPA’s questions and discuss with the Solvency II Working Group during its next call on 14 April how to tackle the topic.

Any further comments on the topic are welcome and might be given either to Malcolm or directly to Siegbert.

4.9 *Forward workplan*

The RMC went through the list of topics as shared before the meeting and discussed priorities and next steps.

- Risk Margin Paper: Could the AAE provide a recommendation for the different options for improving the Risk Margin? This topic is currently controversial, and it will be difficult to agree a recommendation. However, the AAE paper has been well received as a valuable overview (e.g. used in the meeting with EIOPA) and we should promote it as such more broadly. And we should tackle the open topics (e.g. interest rate sensitivity).
Could be a topic for the next CRO Round Table (to be discussed with the organiser).
- IORP risk management: as discussed in 4.4
- CRO round table: as discussed in 4.2

- ORSA support material: Anina Pietinalho will prepare a note on potential topics to discuss / address for the next RMC meeting
- IFRS17: as discussed in 4.5
- Sustainable finance: as discussed in 4.6, further topic “ESGs for assets” to be addressed in the future, Anina Pietinalho and Marcin Zwara will prepare a presentation, potentially also for the Autumn 2020 RMC meeting.
- Model risk: open, carried forward
- Reputational and Conduct Risk: Jana Zelinkova stated that a survey had been prepared and will be carried out in April. Results could be presented in the autumn meeting.
- World beyond finance and insurance risks: open, carried forward
- European Safe Assets: Malcolm Kemp stated that work is ongoing, presentation will be given at the forthcoming (virtual) actuarial colloquium. Feedback and a further iteration of the paper could be available for the Autumn 2020 meeting.

5. **CONSULTATIONS**

Members have contributed to the Solvency II Review 2020 and also further work is going to be organized via the Solvency II working group as above.

6. **WEBINARS**

6.1 First webinar of the RMC last December 2019 was successful, and we received very positive feedback from the participants. Generally, the members of the RMC agree that we should try to leverage on results and presentations from the RMC working groups and use them for future webinars. The next autumn meeting and other virtual presentations on actuvie or the conference in Paris could also be used.

6.2 *Potential future webinars*

The next webinar Frank Schiller will again organise together with the EAA. The following topics could be on the agenda:

- Richard Deville will share the presentations given in Paris
- Anina Pietinalho and Marcin Zwara: European Climate Index

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

The list of meetings had been shared before the conference. No further comments or additions.

8. **EXCHANGE OF INFORMATION ON CURRENT ISSUES**

No topics were exchanged.

9. **JOINT MEETING INSURANCE, PENSIONS AND RISK MANAGEMENT COMMITTEE**

Topics were already addressed under 4. No further comments or additions.

10. **FUTURE MEETINGS**

The next physical meeting is planned for autumn in Munich. No further comments.

11. **CHAIRPERSON**

Malcolm Kemp applied for a second 3-years term. The members value the work very much so far and would be very happy that Malcolm continues in his role for the next term.

12. **ANY OTHER BUSINESS**

No points raised.

13. **DATE OF NEXT MEETING**

To note that the next meeting of the Risk Management Committee will take place in Munich, Germany, on Thursday 8 October 2020 (to be confirmed) at the invitation of Deutsche Aktuarvereinigung.

To note that the next Spring Meetings will be held in Bratislava, Slovakia, from 14-16 April 2021 (dates to be confirmed).

Annex 0.1

Participants Risk Management Committee Part 1 - Virtual | 02 April 2020

	First name	Family name	Country	Nominating association	Role
1	Rob	De Staelen	Belgium	IA BE	Delegate
2	Andreja	Radic Blazin	Croatia	Hvratsko Aktuarsko Društvo	Delegate
3	Jana	Zelinkova	Czech Rep.	Ceská Spolecnost Aktuáru	Delegate
4	Conor	O'Byrne	Denmark	Den Danske Aktuarforening	Alternate
5	Annina	Pietinalho	Finland	Suomen Aktuaariyhdistys	Delegate
6	Richard	Deville	France	Institut des Actuaire	Observer
7	Frank	Schiller	Germany	Deutsche Aktuarvereinigung	Vice-Chair
8	Siegbert	Baldauf	Germany	Deutsche Aktuarvereinigung	Observer
9	Philip	Shier	Ireland	Society of Actuaries in Ireland	Observer
10	Aldo	Balestreri	Italy	ISOA	Delegate
11	John	Oost	Netherlands	Het Koninklijk Actuarieel Genootschap	Delegate
12	Trond	Killi	Norway	Den Norske Aktuarforening	Delegate
13	Marcin	Zwara	Poland	Polskie Stowarzyszenie Aktuaruszy	Delegate
14	Ana	Martins Pereira	Portugal	Instituto dos Actuarios Portugueses	Delegate
15	Yvonne	Lynch	Rep.Ireland	Society of Actuaries in Ireland	Observer
16	Maria	Kamenarova	Slovenia	Slovenská spoločnosť' aktuárov	Observer
17	Eduardo	Trigo Martínez	Spain	Instituto de Actuarios Españoles	Delegate
18	Xavier	Gomez	Spain	Col.legi d'Actuaris de Catalunya	Observer
19	Lutz	Wilhelmy	Switzerland	Association Suisse des Actuaire	Observer
20	Malcolm	Kemp	UK	Institute and Faculty of Actuaries	Chair
21	Carmen	Suro-Bredie	USA	American Academy of Actuaries	Observer

Participants Risk Management Committee Part 2 - Virtual | 03 April 2020

	First name	Family name	Country	Nominating association	Role
1	Rob	De Staelen	Belgium	IA BE	Delegate
2	Jana	Zelinkova	Czech Rep.	Ceská Spolecnost Aktuáru	Delegate
3	Annina	Pietinalho	Finland	Suomen Aktuaariyhdistys	Delegate
4	Richard	Deville	France	Institut des Actuaire	Observer
5	Frank	Schiller	Germany	Deutsche Aktuarvereinigung	Vice-Chair
6	Aldo	Balestreri	Italy	ISOA	Delegate
7	John	Oost	Netherlands	Het Koninklijk Actuarieel Genootschap	Delegate
8	Trond	Killi	Norway	Den Norske Aktuarforening	Delegate
9	Marcin	Zwara	Poland	Polskie Stowarzyszenie Aktuaruszy	Delegate
10	Tony	Jeffery	Rep. Ireland	Society of Actuaries in Ireland	Observer
11	Jozef	Ducky	Slovakia	Slovenská spoločnosť' aktuárov	Observer
12	Eduardo	Trigo Martínez	Spain	Instituto de Actuarios Españoles	Delegate
13	Lutz	Wilhelmy	Switzerland	Association Suisse des Actuaire	Observer
14	Malcolm	Kemp	UK	Institute and Faculty of Actuaries	Chair
15	Craig	Henna	USA	American Academy of Actuaries	Observer
16	Carmen	Suro-Bredie	USA	American Academy of Actuaries	Observer
17	Tom	Wildsmith	USA	American Academy of Actuaries	Observer