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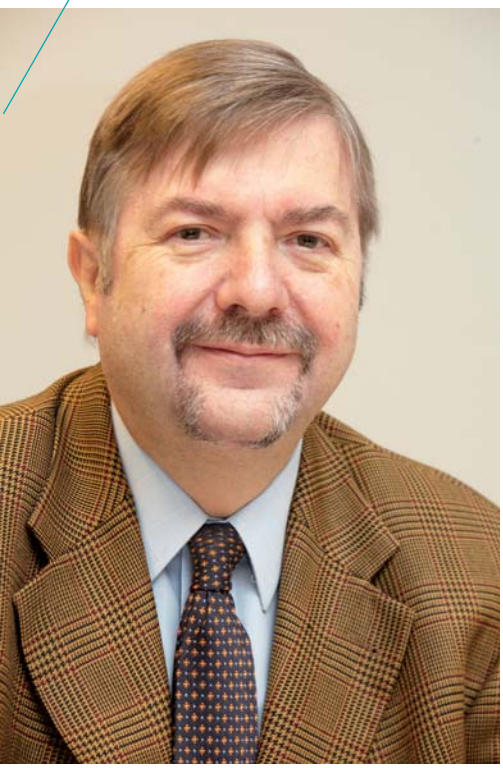
Karel Van Hulle is working day and night on a system for supervisory authorities

'The EU is taking the lead with Solvency II'



Karel Van Hulle: "It's not the law that changes things, it's the mentality."

By Paul Jurriëns

As Solvency II approaches its implementation date of 2013, doubts and criticism are mounting. 'However, before we write it off,' says Prof. Karel Van Hulle (1952), 'the system deserves a chance.' As head of the Pensions and Social Insurance Unit of the Directorate-General for the Internal Market and Services of the EU, he is responsible for Solvency II. 'It is a reliable system.'

"Guess how many people work in my unit, for all of Europe, 27 Member States,' asks Van Hulle, with some pride. He has a fringe of beard, an amiable voice and an inquiring gaze. Even with careful guesswork, the interviewer's estimate turns out to be far too high. 'Only 20 people. That is all we have to work with. Contrary to what people assume, there are not that many bureaucrats at the European Commission. In total, 30 thousand work here. That may sound like a lot, but it is actually a smaller staff than at a large European city like Antwerp.'

'Solvency II is the most important reform of the insurance supervision system in 30 years. I'm working on it 24 hours per day, seven days per week. We are currently preparing the implementation measures, on which the European Commission will have to decide next year. This involves many hundreds of pages of legal text.'

This touches on a point of criticism about Solvency II. According to critics, the updated set of regulatory requirements for insurance firms is too big and too complex. Before Van Hulle addresses this criticism, he enthusiastically lists the benefits of Solvency II.

'First of all, it covers all the risks. In that respect, Solvency II is superior to Basel II, which neglected, among other things, the liquidity risk. Solvency II is also better because it is based on three foundation principles or pillars. The first pillar concerns the capital requirements based on an internal model or a standard formula that we are currently testing. The second pillar deals with management and prudential supervision. The third pillar is transparency. The combination of an all-risk-based regime, the three pillars and >

> – for the first time – the use of group supervision will make Solvency II a reliable system. That will also be true in practice. Not on the first day, of course, but certainly after a few years. After all, it's not the law that changes things, it's the mentality.'

But won't the insurers have to provide too much irrelevant information to the authorities?
'No, Solvency II speaks the same language as management about the same economic reality. This stands in contrast to Solvency I, which was actually nothing more than an administrative formality. We are working together with the sector to develop that common language. Solvency II is the first project in the insurance sector that is being built from the bottom up in full cooperation with all stakeholders and with full transparency.


Karel Van Hulle

"The risk assessment itself is the important part"

Of course, the devil is in the detail, but the principles are sound. The administrators who apply Solvency II must first understand these principles thoroughly. For example, how do you assess the risks of an equity investment? Whether you end up with 32%, 33% or 34% is not the point. The risk assessment itself is the important part.'

How will Solvency II impact the competitive position of EU-based insurers towards insurers based outside the EU?
'We want them to continue to offer their services in the EU and we want our companies to continue to offer their services in countries outside the EU. In that case, EU operators may face difficulties in companies outside the EU. It is therefore important that we convince our main trading partners that only a fully risk-based solvency regime is capable of creating healthy and sustainable insurance companies.
That is how we are promoting Solvency II. The responses have been very positive. Everyone is impressed by its characteristics, which are entirely to the point. However, not everyone is happy with the use of internal models. There is also criticism of the risk capital requirement of 99.5%, which people tend to think is either too high or too low. But Solvency II is clearly seen as the first application of a new international system. The EU is taking the lead in this area.' Van Hulle laughs, 'We are setting a good example in financial services.'

Do you expect new insurance products as a result of Solvency II?
'Naturally. I believe in the creativity of insurers. Because Solvency II is more risk sensitive, there is fear that it will cause insurers to sell even more products that put the risk entirely on the insured. This cannot be allowed to happen. If that were the case, then we might as well shut down the sector.'

What is the expected impact of Solvency II on small insurers?
'Initially there was the idea of exempting small insurers from the scope of Solvency II. But who were the biggest opponents of that approach? The small insurers themselves. They thought it was not to their competitive advantage.

The legislation takes into account the size, complexity and nature of insurers and their activities. The simplified calculation of technical provisions for small companies is a good example of this approach. The supervising authority will also begin treating small insurers as small insurers.

So I don't think that small insurers will enter the danger zone due to Solvency II. The smaller insurers are often specialists, such as hail damage insurers or local automobile insurers. They know their markets perfectly, and after Solvency II they will probably be able to work with less capital than is the case today. Large insurers don't get involved with these specialised markets.

I foresee more problems with medium-sized insurers who take all kinds of risks and are not experts in a specific field. For them, the risk assessment under Solvency I could have been too low; as a result their risk capital requirement in the new system will be higher. They will then have to decide if they should merge with other insurers or try to attract more capital themselves.'

Consolidation decreases competition. That is contrary to the principles of Solvency II.
'Consequently, we will have to monitor consolidations closely. For that matter, consolidation is already taking place due to other reasons.'

"But there is also a future for risk managers and accountants"

Is there a profession that already has all the knowledge and capabilities to ultimately sign off on the MCR/SCR and ORSA?
'Solvency II does not aim to grant a monopoly to certain professions. In coming years, actuaries will undoubtedly be much sought after. But there is also a future for risk managers and accountants. In any case, the management of the insurer is ultimately responsible for all decisions. Therefore it is important that sufficient expertise is present at the management level. They must thoroughly understand the principles of Solvency II, so they can ask the real experts the right questions.'

Are you doubtful about this?
'Of course, because that expertise is currently not available everywhere.'

How do you guarantee a level playing field for all insurance companies in a local market?
'People do not yet fully understand that Solvency II will lead to uniform regulations that are uniformly applied. Uniform application will have to be reviewed at the European level. To this end, CEIOPS is being transformed into the European Insurance and Occupational Pensions Authority (EIOPA). This authority has clear competencies; for example, it can establish binding technical standards for capital surcharges. In addition, EIOPA can issue non-binding guidelines. All supervising authorities have nevertheless committed themselves to applying these guidelines. This commitment will be monitored by means of peer reviews, where the supervising authorities examine each other's processes. If they fail to comply with the European regulations, appropriate measures will be taken. Solvency I is a minimum harmonisation system, which each Member State can apply as it sees fit. But after Solvency II comes into force, the regulations will have to be applied uniformly. The solvency regime is currently 40% European and 60% national. In the future it will be 99% European.'

Short Introduction of The European Actuary

The character of the actuarial profession is becoming more and more international. Just like their clients, consultancy firms and financial institutions like insurance companies, pension funds, asset managers and banks, have entered the international arena during the last decades.
As a consequence of this globalization process, regulation and supervision follow at high speed and actuaries are working more and more on a European and global level.
Developments like the recent credit crisis underline the importance of having 'state of the art actuaries'. At the same time efforts are still necessary to ensure that the voice of actuaries is heard in the relevant supranational institutions and that the actuarial profession is recognized as a major contributor to sound and objective decision making in the financial sector.

As there is no doubt that international developments will more and more affect the actuarial profession in the near future, actuaries need to be well informed about the changes in the economic and social area to keep pace with these developments. Applying new international rules and insights requires actuaries to broaden their horizon in order to play a significant role in a dynamically evolving environment.

To facilitate the international awareness of the actuarial profession, stimulate contacts with key stakeholders in Europe and inform actuaries about relevant international developments, the German 'Deutsche Aktuarvereinigung', The United Kingdom's 'The Institute and Faculty of Actuaries' and the Dutch 'Actuarieel Genootschap & Actuarieel Instituut' initiated the launch of a new European magazine called 'The European Actuary' (TEA).

The Editorial Board, which is currently composed of representatives of the participation associations, will be responsible for the development and quality of TEA. In the Editorial Board there is a balanced mix of experience, seniority, new élan and creativity.

The aim of The European Actuary is to inform, disclose and share new business-critical, global and local developments, viewpoints and the latest successful principles and practices that are of significant interest to corporate board members, politicians, actuarial professionals and captains of industry in the financial, actuarial related, arena.
More than ever, 'managing risk' is key in creating company and customer value in a competitive increasingly global environment. Actuaries are the pre-eminent professional 'risk managers' and 'risk communicators' in the managerial field; they are thought leaders. They combine the latest multidisciplinary insights into practical sustainable business advice. As a bi-yearly magazine, publishing articles, interviews and view points from a European perspective, TEA's objective is to promote and support actuarial thought leadership by sharing best practices and new insights at the interface of actuarial and business practice.

Peter van Meel
Member of the Editorial Board

GROUPE CONSULTATIF WELCOMES 'THE EUROPEAN ACTUARY'

On the occasion of the launch of 'The European Actuary' (TEA), the Groupe Consultatif Actuariel Européen wishes TEA, and all those involved in publishing it, every success in their aim to promote the international awareness of the actuarial profession, stimulate contacts with key stakeholders in Europe and inform actuaries about key international (European) developments.

The Groupe Consultatif has been at the forefront of the European actuarial profession for over 30 years. Established in 1978 to represent actuarial associations in the countries of the European Union, the Groupe's purpose is to provide advice and opinions to the various organisations of the European Union (EU) - the Commission, the Council of Ministers, the European Parliament, and their various committees – on actuarial issues in European legislation. At the same time, the Groupe provides a forum for discussion amongst all actuarial associations throughout Europe, with thirty-five actuarial associations from thirty-three European countries on the Groupe, representing over 18,000 actuaries. The actuarial associations in 24 of the 25 Member States of the European Union (Malta does not have an actuarial association) are currently members of the Groupe, along with associations in EEA countries, Switzerland, and a number of EU candidate states.

Since it was established, the Groupe Consultatif has built up an enviable record in providing professional actuarial advice which has influenced the European Commission and the policy-makers in Brussels and CEIOPS in Frankfurt, as well as developing the profession and its standards across Europe. In the past the Groupe has influenced the drafting of legislation such as the Third Life Directive and the Directive on Institutions for Occupational Retirement Provision (IORPs). Currently we are providing detailed technical actuarial advice to both the Commission and CEIOPS on Solvency II, and seeking to promote professional and technical standards as part of the implementation of Solvency II.

Through its Core Syllabus for actuarial education, Mutual Recognition Agreement, and code of professional conduct, the Groupe has in place a robust governance framework which ensures the objectivity, integrity and independence of actuaries. Advice and comments provided by the Groupe on behalf of the European actuarial profession are totally independent of industry interests.

The Groupe regularly publishes, via its web site (http://www.gcactuaries.org), surveys amongst its member associations on issues of topical relevance in pensions, insurance and investment and financial risk.

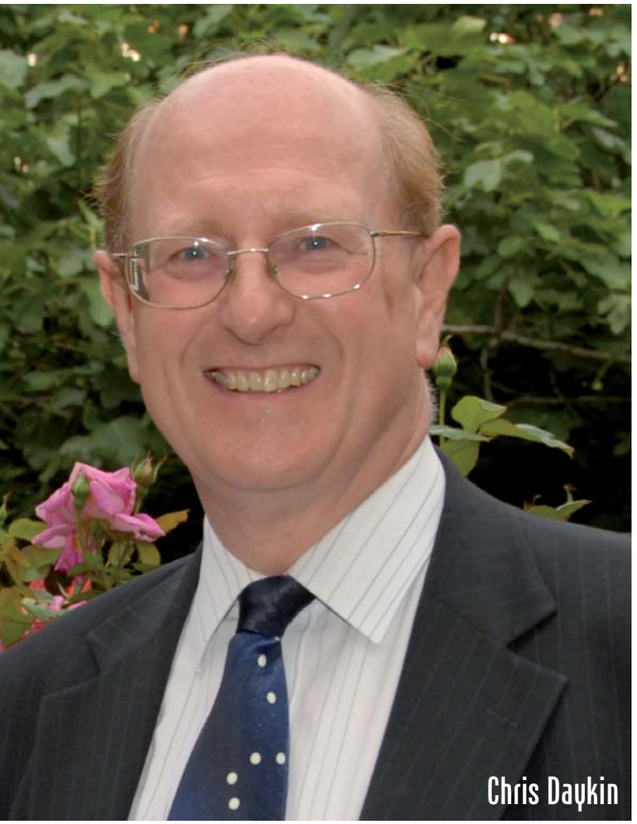
We warmly welcome the publication of 'The European Actuary', and we look forward to reading – and, indeed, contributing to – what we hope will be a lively and stimulating magazine.

Michael Lucas
Groupe Consultatif Actuariel Européen

Actuarial standards for Solvency II

By Chris Daykin

Article 48 of the Solvency II Directive requires all insurance companies to establish an 'actuarial function'. The actuarial function must coordinate the calculation of technical provisions, ensure the sufficiency and quality of the data, express an opinion on the overall underwriting policy and on the adequacy of the reinsurance arrangements and contribute to the implementation of the risk management system.


Chris Daykin

Article 48(2) states that '*The actuarial function shall be carried out by persons who have knowledge of actuarial and financial mathematics,.....and who are able to demonstrate their relevant experience with applicable professional and other standards.*'

In recent months the Commission has been drafting the next layer of regulation underneath the Directive. The wording refers to CEIOPS (Committee of European Insurance and Occupational Pension Supervisors) adopting European actuarial guidelines on technical issues. This suggests that they will be largely technical in nature and that they will be recommended practice rather than mandatory standards.

CEIOPS is expected to take the lead in preparing these guidelines, consulting with the industry, and with the actuarial profession through the *Groupe Consultatif Actuariel Européen*.

In its response to earlier consultation by CEIOPS on governance issues under Solvency II, the Groupe recommended that both *public interest standards* and *technical standards* should be formulated, in order to ensure high quality protection of policyholders and to facilitate convergence of professional practice throughout the European Union.

Public interest standards would include qualification standards, ethical standards, governance standards and communication standards. The Groupe recommended that the qualification standards should include requirements for a specified minimum level of education and for a period of relevant practical experience, as well as mandatory continuing education requirements for those carrying out the actuarial function.

Ethical standards should address competence, integrity, objectivity, confidentiality and avoidance of conflicts.

The Actuarial Standards Task Force (ASTF) has been working for 18 months on developing the Groupe Consultatif's position on actuarial standards. Currently there is considerable variation across the EU on the matter of standards. Some actuarial associations have issued numerous actuarial standards which their members are required to follow; others have issued just a few such standards and some have not yet issued any. In some countries it has been the regulator who has issued standards. In the United Kingdom there is an independent standard-setting body, established with government backing, which sets technical standards (the Board for Actuarial Standards).

At its Annual Meeting at the beginning of October, the Groupe will discuss a paper from the ASTF which will propose setting up a Standards Committee. The ASTF believes that it is essential for the Groupe to contribute effectively to the development of European actuarial standards and guidelines, whether these are prepared under the auspices of CEIOPS (or its successor body EIOPA, the European Insurance and Occupational Pensions Authority) or by the Groupe itself. This will mean providing advice and comments to CEIOPS on the development of guidelines but is also expected to involve developing additional professional and other standards to support actuaries in carrying out other work in relation to Solvency II.

The motivation is to serve the public interest, by promoting high quality actuarial practice and convergence of practice between actuaries in the member states of the EU. The Groupe Consultatif brings together the collective resources of all the actuarial professional bodies in the countries of the EU and has more than 30 years of experience of operating at the European level.

The requirement of the Solvency II Directive for all insurance firms to establish an actuarial function is an important step forward in improving financial control and strengthening the protection of policyholders. The actuarial profession in the EU is committed to making a success of the Solvency II legislation through the many different roles which actuaries will play.

Chris Daykin is Chairman of the Actuarial Standards Task Force and will become Chairman of the Groupe Consultatif in October 2010. He is a Past President of the Institute of Actuaries.

Getting around in Brussels

By Mark Heijster

She knows which way the wind's blowing and how to get them on her side. That goes without saying because Lieve Lowet has been running around in Europe for about twenty years. A specialist in the field of political lobbying. Her secret? 'Make them smart!'


Lieve Lowet

She feels compassion for them, knowing her parliamentary committee customers only too well: with their overflowing agendas and huge piles of documents, they really do need help. For them, it may be nice to share the lift with an experienced lobbyist who unfolds what a particular topic is all about before they reach the last floor.

'The lift test can be really important', says Lowet. 'In that short period of time you can sometimes have more influence than by forwarding large documents and sending emails back and forth.' Familiarity with a certain case is an effective weapon. Lowet: 'I mostly prefer lobbying for a case when I have a substantial mandate on the table.'

'Such a mandate implies a degree of mutual trust between the customer and me. In fact, not only is it required that you know the files and are aware of which way the wind is blowing, but also that you do everything to defend the customer's position. This goes far beyond doing data research or monitoring certain developments of a particular case.'

And where does that lobbying take place? The European field of the lobbyist is broad. Traditional parties such as the European Parliament or the European Commission are major stakeholders. 'Recently there was a vote in the parliamentary committee that prepared their dossier for the plenary meeting. In the space of two hours about eight hundred amendments were voted.'

'This is only possible if a certain procedure is followed. It needs hard thinking in a structured way for a few months, sometimes years before any ink is put to paper. Lowet: 'At the beginning of this century, the European Commission started thinking about improving the solvency system for insurers. The result was the Lamfallusy procedure. A committee was created, called CEIOPS, which includes the supervisory authorities of the twenty-seven member states.'

'As part of that procedure the Commission questioned CEIOPS, calling for advice. From that moment on individual insurers and pension funds started lobbying to gain influence on the advice to the Commission. Open consultations were taking place. These meetings were being announced, but a well-addressed invitation should be sent to a stakeholder who is cooperative with the people he is working for.'

'One day in a working party, when I had just started as a lobbyist, I couldn't hold back the tears. After all, it is true that a good lobbyist must be there before a single letter is put down on paper. Someone told me: 'Lieve, you have to earn the right to sit at the table '. I took that advice very seriously. Systematically, we started participating in the talks and hence we were gradually recognized as an interested participant. The point is that you should not only comment on the documents that concern you, but also think about the documents of concern to other parties.'

'We closely follow the issues that take place in the sector of insurance and pension funds. This is a very important market for the Actuarial Society. At the moment, we have noticed that the voices are mainly coming from the insurers themselves, on the supply side. If we look at the future regulatory environment we see a more important role for actuaries. Having a vote is certainly important, it should not just come from insurers and large groups.'

'You decide how visible you are in Brussels. You can keep a very low profile, but that depends on the client's Actuarial Society's level of ambition. Whatever their ambitions are, I have the means to achieve them. But on the other hand, I can not fill in a mandate when there is no input. The idea that there's someone in Brussels who solves the problem is not enough, because that person is not going to make things up. It should be a cooperative society so to speak.'

'So no us-and-them situation: we are together in the same boat. You want to have results that are acceptable to us both? Persuading is not my style. That often means that people think others will listen to the person with the loudest voice. Pieter Winsemius, a former Dutch politician, one day taught me that it is all about empathy. You provide the knowledge to make them smart, then let them profile themselves while you quietly stay in the shadows.'

Lieve Lowet is partner at ICODA European Affairs. She has been active in lobbying and consulting for the past 20 years.

RISK MANAGEMENT

An interview of Jean-Christophe Menioux, chairman of the CRO Forum and AXA's chief risk officer, and Ulrich Orbanz, past-president of Deutsche Aktuarvereinigung (DAV) and member of the CERA review panel.

Ulrich Orbanz

Enterprise risk management in insurance companies is becoming increasingly important, especially with regard to the risk-management function in article 44 of the Solvency II Framework Directive. How do you envisage the role of actuaries in risk management?

Ulrich Orbanz: 'The Framework Directive introduces an actuarial function separate from the risk management function, and this may give the impression that risk management and actuarial work are quite different. But looking a little closer, you may argue that the distinction is somewhat artificial. The actuarial function in Solvency II mainly deals with valuing the technical provisions (reserves), which certainly is an important building block for risk assessment. On the other hand, certain tasks of the risk management function are based on actuarial methods, examples being asset liability management as well as the major part of measuring risk for insurance companies. So although there are important differences between the two functions, the overlap is considerable.

Jean-Christophe Menioux: 'As risk is our raw material, risk management in an insurance company is not limited to the risk management teams nor to the actuaries. Ideally, everybody in the company should feel and behave as a risk manager. Management of operational risk for example should be widespread and shared by all departments within the company. The reality, however, is often different and actuaries have a paramount role to play as they are involved in most of the critical phases in the life of a product: product design, pricing, asset-liability management, reserving, economic capital measuring etc. Besides, a few important functions in risk management are anticipation, forecasting and preparedness. By the very nature of their education, actuaries have adequate qualities for these tasks, and must therefore play a crucial role in risk management, whether they work in the risk management department or not.

The international community of actuaries has introduced a new designation CERA (Chartered Enterprise Risk Analyst) for enterprise risk management, based on the international standard for actuarial education and membership of an actuarial association. How do you value this new qualification?

Ulrich Orbanz: 'The new designation has two equally important components. One is knowledge and education. Actuaries are professionals in quantifying risk and these skills play a major role in enterprise risk management. The other component is ethical. Actuarial work is complex and difficult to understand, so the public needs an assurance of the trustworthiness of actuaries and their commitment to the public good. Therefore actuarial associations have an internationally standardized code of conduct combined with disciplinary procedures. These ethical standards apply to the CERA designation as well, allowing the public and the consumer to have high confidence in CERA designation holders and their work.'

Jean-Christophe Menioux: 'This new qualification shows that risk management is getting more and more visibility in our industry, which in my opinion obviously goes in the right direction. Although experience in risk management was already highly valued, now it's getting clearer and clearer that it can boost a career. And the CERA qualification is definitely a big advantage on a CV. On their website, it says 'a CERA provides a forward-looking, comprehensive approach to enable smart business decisions, […] and can offer practical solutions to complex business challenges'. This reference to business is key as a risk manager is both a business partner and a discipline guarantor. CERA will be valued only if it offers the right balance between these two indivisible components of enterprise risk management. '

At the European level the Groupe Consultatif Actuarial Européen, as an umbrella organization of national actuarial associations, plays a prominent role as contact for political decision-makers. Are there areas in which it would make sense for the CRO Forum and the Groupe Consultatif to work together more closely?

Ulrich Orbanz: 'The political process, be it national or international, needs independent technical advice. This has been constantly provided by the Groupe Consultatif, in particular in the development of Solvency II. Currently the development and the regulatory implementation of actuarial standards across Europe are being discussed, and the Groupe Consultatif as an independent body sees itself in a leading role for this discussion. Also the CRO Forum provides regular input to the current discussion where many topics are actuarial in nature, and it seems natural to consider a more formal dialogue between the CRO Forum and the Groupe Consultatif as far as actuarial matters are concerned.'

Jean-Christophe Menioux: 'The CRO Forum and Groupe Consultatif have already been heavily involved in the negotiations on the level 2 implementations measures for Solvency II, and on QIS5 specifications. As chairman of the CRO Forum, I was often given the opportunity to publicly present the opinions of the forum and I don't remember being in disagreement with the views expressed by the Groupe Consultatif. Both organizations have consistently proved their independence and fairness over the years by providing objective technical advice on various topics. It's good to have different organisations of such calibre, even if the CRO Forum is more focused on developing and promoting best practices in risk management globally. No doubt there are many technical areas which would deserve closer working.'

Jean-Christophe Menioux

European agenda

2010		
Quarter 4, 2010	CEIOPS formally consults on reporting templates	So as to arrive at final adoption of templates as Level 3 late 2011.
30 September 2010	CEIOPS consultative panel meeting	
October 2010	Presentation Omnibus II directive (once the supervisory package is agreed upon between EP and Council)	Will adapt SII to EIOPA's proposals; it is expected it will also include a change in the implementation date of SII from 1/11/2012 till 1/1/2013 and potentially other changes such as grandfathering measures and maybe other transition rules and reinforcement L1 text
28 October 2010 (TBC)	EIOPC SII WG meeting	To discuss synthesis document of all IM, more than one meeting foreseen in autumn
End Oct 2010	QIS5 deadline solo submissions	
9-10 November 2010	CEIOPS members meeting	
November 2010	CEIOPS expected to publish L3 draft guidance	Key future papers on the ORSA, Prudent Person Test, Governance and Valuation will be presented
15 November 2010	Pensions green paper deadline	Deadline for comments
17 November 2010	CEIOPS annual conference	Panel on Solvency II – are you ready?
November 2010	EIOPC meeting	
Mid November 2010	QIS5 deadline group submissions	
30 November 2010	Insurance guarantee schemes: end of consultation	Paper published by the EUC on 12/7
End December 2010	Results of QIS5 to be submitted to centralized database	
Nov - December 2010	Launch of second stress test?	2nd stress test announced at EIOPC meeting in March 2010 to be taken place after QIS5; date here is a guess, 1st stress test launched 12/22/2009
31 December 2010	End of Belgian Presidency	
2011		
1 January 2011	Start of Hungarian Presidency	CEIOPS
End March 2011	Finalization L3 supervisory guidelines	CEIOPS
April 2011	Final QIS5 report	4 months of discussion foreseen
First half 2011	Formal discussions in EIOPC and official opinion on implementation measures (L2) and guidelines (L3)	An official opinion needs to be presented
30 June 2011	End of Hungarian Presidency	

Disclaimer
This timeline has been written with the aim to give a fair representation of the most relevant issues discussed in the policy area concerned. There is a risk that they represent the calendar incorrectly or incompletely although such incorrectness or incompleteness is never intentional.

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The European Actuary (TEA) is a bi-annual magazine about international actuarial developments. TEA is written for European actuaries, financial specialists and board members. The magazine is published by a combination of three actuarial associations: Deutsche Aktuarvereinigung, The Institute and Faculty of Actuaries, and Het Actuarieel Genootschap & Actuarieel Instituut.
It will appear as an email newsletter, as well as in print. The Editorial Board welcomes comments and reactions you might have after reading this edition. Please feel free to direct them to one of the members of the Editorial Board.

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