

**MEETING OF THE RISK MANAGEMENT COMMITTEE
HELD IN ROME
ON THURSDAY 6 OCTOBER 2022 FROM 14:00-17:30 CEST**

MINUTES

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

1. OPENING OF MEETING AND ADOPTION OF THE AGENDA

Malcolm Kemp (Chairperson) welcomed attendees. Attendees also introduced themselves.

2. MINUTES OF PREVIOUS MEETING

2.1 There were no comments or additions to the [Minutes of the meeting](#) held on 31 March 2022. Malcolm noted that a handful of the agenda items for the 6 Oct meeting would be reordered to fit presenter availabilities.

2.2 There were no further matters raised not already covered in the agenda and no conflicts of interest were declared by members of the RMC.

3. OPEN/ONGOING PROJECTS

3.1 *Sustainability and Climate Related Risks WG (SCrR WG)*

Daphné de Leval provided an update on the activities of the Sustainability and Climate-Related Risks WG based on the agenda that was planned for its meeting on 7 October 2022.

Tasks that sub-groups of the SCrR WG had initiated included:

1. Reviewing models. RMC members commented this could be useful for supervisors as well as firms
2. Paper on ORSA scenarios, hopefully by year end 2022. This involved working through representative pathways and their impact on macro-economic variables. This had proved quite challenging
3. Communication and responding to consultations. Daphné described some of the output the SCrR WG had recently helped to produce
4. Exploring what might be deemed “sustainable” products.

Also mentioned was how the AAE was exploring its own response to climate change and other sustainability issues.

There was a discussion on different positions potentially coming out of the Solvency II review (see agenda item 3.2), including in some cases the possibility of the prudential framework referring to a (sustainability) reporting framework. Daphné noted that the SCrR WG would liaise closely with the Solvency II WG when developing AAE responses

on such topics. Malcolm explained how the SCrR WG and Solvency II WG reported into the RMC and the AAE Insurance Committee (IC), with the primary reporting line for the SCrR WG being into the RMC, but the primary reporting line of the Solvency II WG being into the IC.

Daphné also briefly noted:

- The EIOPA sustainable finance conference on 7 Dec
- The emphasis placed on sustainability in EIOPA's work programme
- A planned review of the NatCat formula
- Developments in relevant EU taxonomies
- The proposal that the IORP II Prudent Person Principle should include a "double materiality" criterion
- Macro and micro-prudential assessments from e.g. ESRB.
- Work on protection gaps

Karel wanted to know if pension funds were covered by these developments. Daphné confirmed that some topics like CSRD which were entity specific would be relevant to any suitably-sized organisation including pension funds but some topics like SFDR which were product specific would depend on whether the pension fund (IORP) was offering a relevant sort of "product".

Malcolm Kemp thanked the working group for their excellent work done so far.

3.2 *Solvency II Working Group*

Siegbert Baldauf provided an update on recent developments in the Solvency II review process. He explained the different steps that the triologue parties (EU Commission, EU Council and EU Parliament) were following and the multiple views that seemed to have been expressed by the different Parliament rapporteurs and others in ECON (the EU Parliament Economic Committee). Parliament's views are the least well developed but ECON is expecting to vote on its position in December 2022. Multiple possible directions still seemed possible for many topics under discussion (e.g. risk margin and interest rate extrapolation). In the light of these uncertainties, the AAE could perhaps only at this stage provide generalised input such as the need for adequate consideration of new risks. Siegbert noted that the Council stance now included reference to biodiversity risk.

Siegbert also mentioned a potential Parliament proposal involving insurers needing to prepare a transition plan covering climate change and for possible capital add-ons to apply if the insurer then failed to keep to this plan.

Also covered in Siegbert's presentation were:

- A proposed risk management / ORSA article covering definition of long-term equity assets
- A proposed low risk profile category for undertakings and the development of harmonised simplified scenarios for such undertakings (see annex).

Malcolm thanked Siegbert and the rest of the Solvency II Working group for their extensive work in this area. He also reiterated the willingness of the group to accept new volunteers.

3.3 *Reputational and Conduct Risk*

Malcolm Kemp noted the publication of a paper by Clara Armengol Vivas, Jérôme Crugnola-Humbert, Tomasz Krylowicz, Matthew Modisett, Frank Schiller and Jana Zelinkova on Sustainability Issues and Reputational Risk for Insurance Companies and Pension Funds. He thanked the authors for their great work.

3.4 *Pension Risk Management Working Group*

Martin Melchior described the structure, recent work and planned near term future direction of this newly established working group. There was general approval for the proposed direction of travel. Malcolm confirmed that the Terms of Reference of the WG had been agreed by the AAE Board (see annex).

One of the WG's planned activities is to issue a survey on pension risk management to members of the RMC and members of the PC. Karel Goossens explained in broad terms what the survey would cover. He also explained that the wording was in the process of being finalised and would be circulated shortly for approval by the RMC. Malcolm proposed giving RMC members 2 weeks from date of circulation to propose changes, after which the survey would be circulated for completion.

3.5 *Inflation risk*

Sam Achord and Alex Dotterweich gave a summary of the presentation given to the Joint Committee meeting earlier in the day. Malcolm noted that the IFoA had recently issued a Risk Alert, highlighting to IFoA actuaries that they should be giving careful thought to inflation and inflation risk in their actuarial work.

In response to one of Sam's questions to the meeting "how bad could it get?", Jason Wiebe noted that the last time inflation had spiked, in the 70s, it had lasted c. 15 years.

The RMC thought that the topic was important and had a link to LDI issues that had also been highlighted at the earlier Joint meeting. Jason Wiebe and Sam Achord and potentially others indicated a willingness try to put together a short paper highlighting the relevant issues. Jason indicated that he had anyway had to consider inflation issues in recent ORSA work he had been involved with.

Richard Deville noted that the stance of the ECB (and the politics around this stance) would be particularly important.

After the meeting, Marcin Zwara shared with Malcolm the idea of analysing inflation risk from a "VUCA" perspective along the lines Frank Schiller had previously used to explore risk management reactions to Covid-19.

3.6 *ERM beyond the financial sector*

Malcolm Kemp gave an update of recent discussions he had had with Aldo Balestreri, Salvatore Forte, Flaviano Bruno and Paola Scarabotto. This had mostly focused on whether it might be practical to explore further the issue of cyber risk from a broader (i.e. non-financial sector) perspective. However, there was as yet no consensus within the group (who were mainly Italian actuaries, i.e. from ISOA) about whether this was the best "wider field" topic to explore or whether we should aim to develop something in an area closer to what we might think of as our core expertise

but with organisations outside the financial sector. Malcolm noted that there had also been an ISOA session on “wider fields” at the Convention A online conference in September 2022 and that one of the group had been planning to give a presentation on cyber risk to that forum.

A wide-ranging discussion then occurred about whether the ways in which cyber risk should be managed did or did not align closely with relevant actuarial skillsets. Jason Wiebe thought that it was more via actuarial thought processes than actuarial mathematics per se that actuaries might add value in this area. He also suggested approaching other organisations that were well plugged into this area and volunteered to link Malcom with someone who used to chair IRM and who now worked for him (done). Christoph Krischanitz suggested that we could potentially build on the Operational Risk paper that the RMC had previously prepared and/or consider the problem from a supply chain vulnerability or complexity perspective, topics which his firm had explored and published papers on. He volunteered to circulate some relevant papers to the RMC. There was a suggestion to link up with activity that Olivier Lopez was apparently already undertaking for another part of the AAE.

3.7 *Other topics the RMC could usefully discuss and develop*

Malcolm Kemp referred to discussions the RMC had previously had regarding model risk. Supervisors (particularly in the banking industry) appeared to be keen on this topic, see e.g. [CP6/22 – Model risk management principles for banks | Bank of England](#). Whilst previous RMC meetings had de-prioritised this area, there seemed renewed enthusiasm to explore this topic further. Malcolm will seek more clearly articulated expressions of interest after the meeting.

There was also some enthusiasm to try to write a post-mortem on industry experience in relation to Covid-19, highlighting the most important lessons learnt.

Jason Wiebe noted that there were significant new risks in the post Covid-19 world, e.g., mortality seemed noticeably higher than before and the risk of an (extended) recession seemed larger. He also noted that two topics high up on the regulatory agenda (in both Ireland and UK) were:

- Recovery planning
- Operational resilience

4. **COMMUNICATIONS, INFLUENCING AND COMMUNITY DEVELOPMENT**

4.1 *Convention A*

Malcolm Kemp noted that Loudina Erasmus had given a presentation on sustainability topics on behalf of the AAE RMC and SCrR WG to Convention A in September 2022. Malcolm had moderated this presentation. Malcolm expressed thanks to Loudina and others involved in the SCrR WG for their involvement in this activity. Whilst a success, it was noted that fewer individuals appeared to have joined this presentation (when first given) than had joined the RMC webinar held on 1 February 2022 that had also been on a sustainability topic. This seemed to mirror experience with other AAE contributions to Convention A and was being looked at further by the AAE Communications Group.

- 4.2 *Blogs, articles and conference presentations etc.*
Malcolm again encouraged individual RMC members to propose to him topics for potential blogs, articles, webinar sessions, conference presentations etc. that might assist with AAE communications and influencing goals or that might help the European actuarial risk management community.
5. **JOINT MEETING INSURANCE, PENSIONS AND RISK MANAGEMENT COMMITTEE**
Feedback on the topics chosen for (and format of) the Joint meeting held earlier in the day was positive. Malcolm explained that typically such topics were agreed a few weeks before the relevant meeting by the chairpersons of the three committees. He encouraged members of the RMC members to share with him suggestions for future meeting topics.
6. **CONSULTATIONS, PRESS RELEASES, BLOGS AND OTHER PUBLICATIONS**
A list of consultations, publications and blogs was shared before the meeting.
7. **MEETINGS WITH EXTERNAL ORGANISATIONS AND STAKEHOLDERS**
A list of meetings was shared before the meeting.
8. **EXCHANGE OF INFORMATION ON CURRENT ISSUES**
Malcolm floated the idea of having, on a rotation basis, representatives of individual member associations share what was happening in their own member associations in the area of risk management. Jason Wiebe agreed to find someone from the Irish Society of Actuaries to give such a presentation to the next full meeting of the RMC.
9. **APPOINTMENT OF COMMITTEE VICE-CHAIR**
Malcolm explained that Frank Schiller was being proposed to join the AAE Board. Assuming this is approved at the General Assembly the following day, this means that Frank will be standing down as chairperson of the Sustainability and Climate Related Risks Working Group (to be replaced by Jérôme Crugnola-Humbert) and also as vice-chairperson of the RMC. Malcolm explained in broad terms the processes involved in finding replacements (and, indeed, that would be followed when replacing himself as RMC chairperson over the slightly longer term). He encouraged individual members of the RMC to let him know if they wished to be considered as vice-chairperson of the RMC or to share with him suggestions of others they thought would be suitable for this role.
10. **ANY OTHER BUSINESS**
None
11. **DATE OF NEXT MEETING**
The next meeting will be held in Bratislava Slovakia, on 20 April 2023 (tbc) at the invitation of the Slovak Society of Actuaries and in conjunction with the AAE Spring Meeting. The following meeting will likely be held sometime between 4 – 6 October 2023 in Cologne (tbc).

**Participants Risk Management Committee meeting
Rome | 6 October 2022**

	Family name	First name	Member Association	Country	Role
1	Knapp	René	AVÖ	Austria	Delegate
2	Krischanitz	Christoph	AVÖ	Austria	Observer
3	Goossens	Karel	Institute of Actuaries in Belgium	Belgium	Observer
4	Melchior	Martin	Danish Actuarial Association	Denmark	Delegate
5	Mannonen	Hillevi	Suomen Aktuaariyhdistys	Finland	Observer
6	Deville	Richard	Institut des Actuaire	France	Observer
7	Baldauf	Siegbert	DAV	Germany	Observer
8	Ptakauskas	Paulius	Lietuvos aktuaru draugija	Lithuania	Delegate
9	Erasmus	Loudina	Netherlands	Netherlands	Alternate
10	Tjia	Marjon	Koninklijk Actuarieel Genootschap	Netherlands	Observer
11	Kakunze	Patrick	Den Norske Aktuarforeninger	Norway	Alternate
12	Zwara	Marcin	Polish Society of Actuaries	Poland	Delegate
13	Cronin	Sinead	Society of Actuaries in Ireland	Rep. Ireland	Observer
14	Wiebe	Jason	Society of Actuaries in Ireland	Rep. Ireland	Delegate
15	Armengol	Clara	Col·legi d'Actuaris de Catalunya	Spain	Alternate
16	Kaufmann	Roger	Swiss Association of Actuaries	Switzerland	Delegate
17	Kemp	Malcolm	Institute and Faculty of Actuaries	UK	Chair