



Insurance Committee Meeting – 27 March 2009

Report on Solvency 2 and related
developments

Directive



- Parliament drops demand 'group support' in face of Council opposition but inserts a clause requiring issue to be revisited later
- France retains a member state option to take a longer view of equity risk in relation to pensions contracts underwritten by insurers (citing competition from pension funds outside the scope of Solvency 2)
- COREPER expected to approve 25 March following which it will return to Parliament for approval in plenary (approved in political terms subject to technical tidying-up)
- A considerable number (150+) of amendments of lesser significance have been accepted in trilogue
- Expected to be passed finally in early May

Meeting with Commission – 2 December 2008



- “noted that there is a trade-off between flexibility and the consistency required to achieve harmonisation and supervisory convergence.”
- Commission and Parliament inclined to push for very high level of harmonisation
- Commission to carry out ‘impact assessment’ on Level 2 measures – invitation to consultants to tender issued
- Impact assessment is a mandatory requirement, but scope and purpose not always so clear – Commission may use this as basis for deciding on complex unresolved issues in a dynamic manner (Groupe subsequently provided high-level input on scope of assessment)
- Commission staff alerted Groupe to threat to eliminate reference to professional standards in directive

Meeting with CEIOPS – 19 March 2009



- CEIOPS fed back positively on Groupe contribution – implicit demand for continuing input at a high level on advantages and disadvantages of possible implementing measures. We welcome growing move by CEIOPS towards informal consultation at working group level.
- CEIOPS sees joint co-ordination activity directed primarily but not exclusively to Level 3 measures. Open to establishing parallel activities in life/health, but not now.
- CEIOPS is aware of tension between maximum harmonisation and flexibility and encourages Groupe to point out need for flexibility as it deems fit.
- CEIOPS encourages Groupe to continue discussion of standards and standard-setting with Pillar 5 expert group
- Discussion of implications of crisis – to be dealt with in implementing measures.
- Other business:
 - CDS supervision
 - Governance of risk management
 - Variable annuities
- Encouragement for 6-monthly meetings, ideally to include Commission

CEIOPS Consultative Panel – 26 February 2009



- De Larosiere report (welcomed)
- Current developments and financial stability
- Occupational Pensions
- Consumer protection
- Supervisory co-ordination survey
- Culture development
- 3L3 co-ordination activity and resource implications
- **Solvency 2 – working group reports and plans**

Positive comment on contributions by Groupe Consultatif....

IAIS Observer Panel – 5 March 2009



- Most observers are trade associations, in contrast with IAA professional status
- Meeting was to cover implications of crisis for:
 - Group supervision
 - Accounting
 - Solvency and liquidity supervision
- Key messages input by IAA (mainly on third topic):
 - Need for a contracyclical influence in the management of frameworks;
 - Importance of stress testing and dialogue with supervisors re failure contingencies;
 - Need to professionalise enterprise risk management
- Broad high-level consensus on need for contra-cyclicity
- Growing interest from North America in group supervision

De Larosiere – key points for Commission (1)



▪ Framework

- *Regarding macro-prudential supervision, measures to establish a **European body** to oversee the stability of the **financial system as a whole***
- Regarding micro-prudential supervision, proposals on the architecture of a **European financial supervision system**

▪ Regulation

- A comprehensive legislative instrument establishing regulatory and supervisory standards for **hedge funds, private equity** and other systemically important market players (April 2009)
- A White Paper on **tools for early intervention** to prevent a crisis (June 2009)
- On the basis of a report on **derivatives** and other complex structured products (June 2009), appropriate initiatives to increase transparency and ensure financial stability
- Legislative proposals to increase the quality and quantity of **prudential capital** for trading book activities and tackle complex securitisation (June 2009) and to address liquidity risk and excessive leverage (Autumn 2009)
- A rolling programme of actions to establish a far **more consistent set of supervisory rules** (to be launched in 2009)

De Larosiere – key points for Commission (2)



- **Public confidence**
 - A communication on **retail investment products** to strengthen the effectiveness of marketing safeguards (April 2009)
 - *Further measures to reinforce **bank depositor, investor and insurance policy holder protection** (Autumn 2009)*
 - Measures on **responsible lending** and borrowing (Autumn 2009)
- **Risk management**
 - Strengthen its 2004 Recommendation on **remuneration of directors** (April 2009)
 - *Bring forward a new Recommendation on **remuneration in the financial services sector** (April 2009) followed by legislative proposals to include remuneration schemes within the scope of prudential oversight (Autumn 2009)*
- **Counter market abuse**
 - Review the **Market Abuse Directive** (Autumn 2009)
 - Make proposals on how **sanctions** could be strengthened in a harmonised manner and better enforced (Autumn 2009)

UK bids for leadership with Turner review



- Published 18 March
- Scope is banking only.....for time being
- Key points:
 - Need for contra-cyclical accounting (provision for economic cycle) and capital requirements
 - Highly critical of VAR
 - Critical of inadequate supervision of cross-border groups
 - Banks need much more capital, especially for trading activity
 - Supervision will be much more intrusive
 - Enhanced macro-prudential supervision
 - Increased emphasis on competence in governance
- Not consistent with positions in relation to Solvency 2 nor with de Larosiere recommendations (although considerable overlap)

Current insurer solvency concerns



- Continuing pressure on life insurer stock prices mainly because of concerns re asset risk exposures – corporate bond and commercial mortgage defaults and valuations of property investments
- Specific concerns re risk of contagion from uncertain treatment of bank debt securities
- In North America concerns exacerbated by difficulties with programmes intended to hedge guarantees
- Non-life insurers relatively strong
- Some risk to life insurers and pension funds from measures being taken to relieve crisis – potentially higher inflation and lower real interest rates

Actuarial function



- German amendment threatened to delete reference to ‘professional standards’ in Article 47
- Groupe lobbied Commission, CEIOPS, and stakeholders in support of Committee on Legal Affairs amendment – with apparent success
- Groupe stance is that knowledge requirements, ethical standards, and potentially technical standards are in the interests of stakeholders and public
- GDV feedback to Pillar 5 working group of CEIOPS:
 - “The actuarial function should be in line with general accepted principles. A reference to self defined standards of professional organisations, which do not have an external legitimization, generates a lot of concern.”
- Need to think through:
 - Appropriate scope of standards / guidance with reasons
 - Options for development/adoption of standards, including approaches to consultation
 - Transition from present national contexts
 - Enforcement

STOP PRESS – Governance consultation 26/03/09



- “The actuarial function shall rely on European technical standards to be developed and endorsed by a body of representatives of different stakeholders, including CEIOPS.”
- “In order to ensure the appropriateness of the underlying methodologies and models used in the calculation of the technical provisions, the actuarial function not only has to assess the general suitability of the methodology or underlying model for the calculation of technical provisions as such, but also has to decide whether they are appropriate for the specific lines of business of the undertaking, for the way the business is managed and for the available data.”
- “Informing the administrative or management body of the reliability and adequacy of the calculation of the technical provisions is not limited to expressing an opinion on these points, including on the degree of uncertainty about the ultimate outcome and the circumstances that might lead to a significant deviation from the provisions made. The actuarial function must set out how it arrived at its opinion and clearly state and explain any concerns it may have as to the technical provisions being sufficient.”

STOP PRESS – Governance consultation 26/03/09



- “Regarding the overall underwriting policy, the opinion to be expressed by the actuarial function should at least include the following issues:
 - a) Sufficiency of the premiums to cover future losses, notably taking into consideration the underlying risks (including underwriting risks), the impact of expenses directly associated with future claims and of unallocated loss adjustment expenses and the impact of embedded options and guarantees on future liabilities;
 - b) Considerations regarding inflation, legal risk, change of mix, anti-selection and adequacy of bonus-malus system(s) implemented in specific line(s) of business.”
- “Regarding the overall reinsurance arrangements, the opinion to be expressed by the actuarial function should include an opinion on the adequacy of the reinsurance and other mitigation techniques strategy in relation to the underwriting policy and the adequacy of the calculation of the technical provisions arising from reinsurance.”
- “In forming and formulating its own actuarial view the actuarial function shall be objective and free from influence of other functions or the administrative or management body. In order to be able to provide its opinions in an independent fashion, the actuarial function should be constituted by persons who verify a sufficient level of independency between them in order to appropriately form their own actuarial view in the exercise of the function’s tasks.”

Joint CEIOPS / Groupe Co-ordination Group



- Narrowly focused on best estimate leading to recent consultation paper issued to other stakeholders
 - the conceptual side of premium provisions is in scope - not just simplified methods for premium provisions
 - the general concept of how to interpret 'proportionality' is in scope
 - methods to test appropriateness of best estimates is in scope
- Known to be supported by active input from local co-ordination groups in Belgium, Germany, Netherlands, Czech Republic, Italy and (prospectively) UK, but local co-ordination elsewhere ranges from ad-hoc to non existent (e.g. Denmark, Ireland, Slovakia)
- Valued by CEIOPS (FinReq) for anticipated delivery of Level 2/3 input re best estimate
- Project team to comment on current consultation via David Paul
- Agreed with CEIOPS that we both will do our best to encourage broad tri-partite input from each country

Life Pillar 1 Working Group



- Apologies from Siegbert Baldauf – attending Board meeting re accounts approval
- Working group has produced outline high-level input to CEIOPS on a limited range of issues, including management actions and assumption calibration
- Workgroup participation has been insufficient for various reasons:

Active	Semi-active	Passive / Inactive
Czech Republic Germany Ireland Switzerland(HPW) UK	Denmark France Netherlands Sweden	Belgium Finland Italy Spain

- Physical meeting planned for May 2009 to discuss response to April consultation paper ‘wave’
- Need to identify reliably active new members and to support those who are semi-active (because of understandable pressures of work)

Looking forward



- Voluminous waves of consultation materials on implementing measures expected from CEIOPS in April, July and autumn 2009
- April wave expected to include:
 - · Methods and statistical techniques for best estimates
 - · Counterparty default risk
 - · Assumed future management actions
 - · Ancillary own funds
 - · Treatment of future premiums
 - · Financial mitigation
 - · Segmentation
 - · Approval process for internal models
 - · Governance
 - · Valuation of assets and 'other' liabilities
 - · SPVs
 - · Transparency of supervisory authorities
- Timetable for response to these has been shortened to two months
- Industry expecting that these consultations will warrant extensive detailed critical feedback
- Need to keep Commission's dynamic impact assessment exercise clearly in view
- Lessons from financial crisis expected to be overlaid on consultations and responses to these
- Groupe to argue for incorporation of appropriate use of professional judgement supported by legitimised standards
- Likely to be appropriate to interact with CEIOPS and Commission both together and separately
- Continue to encourage member associations to contribute both at local level and by supporting their members within project team and within working groups
- Active interaction with fellow stakeholders is desirable
- Groupe should respond to consultation on de Larosiere independent of, but having regard to Solvency 2
- Rapid response cycle likely to be important



Immediate issues

- Need to allocate responsibility for review of consultations and development of responses:
 - High priority lead responsibilities:
 - Best estimates techniques (Pillar 1 Non-life)
 - Assumed future management actions (Pillar 1 Life)
 - Governance (Pillar V)
 - Internal model approval procedure (Internal models)
 - Others – within team
- Need to review paper: “***Valuation of the non-life Best Estimate using simplified methods - Issues to consider regarding level 2 measures***” issued by joint co-ordination group (Pillar 1 Non-life)
- Need to provide speaker on actuarial function to CEIOPS seminar on 24 April in Budapest (SC and EK unavailable)

Working group reports