



GROUPE CONSULTATIF ACTUARIEL EUROPEEN
EUROPEAN ACTUARIAL CONSULTATIVE GROUP

SECRETARIAT, MAISON DES ACTUAIRES, 4 PLACE DU SAMEDI

B-1000 BRUSSELS, BELGIUM

TELEPHONE: (+32) 22 17 01 21 FAX: (+32) 27 92 46 48

E-MAIL: groupe@gcactuaries.org

WEB: www.gcactuaries.org

MINUTES
of a meeting of the
INSURANCE COMMITTEE
held in Dublin
on 26/27 September 2013

PRESENT

Committee:

Esko Kivisaari (Chairman)

Eric Janssen

Mike Poulding

Lauri Saraste

Thierry Poincelin

Wilhelm Schneemaier

István Kerényi

Jim Murphy

Giovanni Sammartini

Henk Van Broekhoven

Arne Eyland

Robert Pusz

Ana Maria Martins Pereira

Félix Arias Bergada

Åsa Larson

Kathryn Morgan

Ad Kok

Michael Lucas

Suomen Aktuaariyhdistys

Institut des Actuares en Belgique / Instituut van

Actuarissen in België

Channel Islands Actuarial Society

Suomen Aktuaariyhdistys

Institut des Actuares

Deutsche Aktuarvereinigung

Magyar Aktuárius Társaság

Society of Actuaries in Ireland

Consiglio Nazionale degli Attuari

Het Koninklijk Actuarieel Genootschap

Den Norske Aktuarforening

Polskie Stowarzyszenie Aktuaruszy

Instituto dos Actuarios Portugueses

Col.legi d'Actuaris de Catalunya

Svenska Aktuarieföreningen

Institute and Faculty of Actuaries

Chief Executive, Groupe Consultatif

Secretary-General, Groupe Consultatif

Members of the Groupe Consultatif and other Committees:

Christoph Krischanitz

Karel Goossens

Jiří Fialka

Kristoffer Bork

Aktuarvereinigung Österreichs

Institut des Actuares en Belgique / Instituut van

Actuarissen in België

Ceská Společnost Aktuárů

Den Danske Aktuarforening

Thomas Béhar	Institut des Actuaire
Michael Renz	Deutsche Aktuarvereinigung
Birgit Kaiser	Deutsche Aktuarvereinigung
Gábor Borza	Magyar Aktuárius Táraság
Gábor Hanák	Magyar Aktuárius Táraság
Dermot Corry	Society of Actuaries in Ireland
Rokas Gyls	Lietuvos Aktuarijų Draugija
Wojciech Mojzduk	Polskie Stowarzyszenie Aktuaruszy
Luis Sáez de Jáuregui	Instituto de Actuarios Españoles
Malcolm Campbell	Svenska Aktuarieföreningen
Jan-Åke Persson	Svenska Aktuarieföreningen
Lutz Wilhelmy	Association Suisse des Actuaire
Chris Daykin	Institute and Faculty of Actuaries
Nick Dumbreck	Institute and Faculty of Actuaries
David Hare	Institute and Faculty of Actuaries
Siegbert Baldauf	Solvency II project team
David Paul	Solvency II project team
Colin Murray	Solvency II project team

Observers:

Seamus Creedon	EIOPA IRSG
Kurt Wolfsdorf	President, International Actuarial Association
Craig Hanna	American Academy of Actuaries
Helena Dumycz	Secretariat, Institute and Faculty of Actuaries

Apologies for absence:

Veselin Tonev	Bulgarian Actuarial Society
Irena Severin	Hrvatsko Aktuarsko Društvo
Christos Loucaides	Cyprus Association of Actuaries
Anu Hoop	Eesti Aktuaaride Liit
George Kravvaritis	Hellenic Actuarial Society
Steinunn Gudjonsdottir	Felag Islenskra Tryggingast Aerdraedinga
Claudio Tomassini	Istituto Italiano degli Attuari
Baiba Močāne	Latvijas Aaktuāru Asociācija
Ikram Shakir	Association Luxembourgeoise des Actuaire
Jean-Paul Shipley	Malta Actuarial Society
Fanel Plopeanu	Asocitatie Romana de Actuarial
Nenad Milikic	Udruženje Aktuara Srbije
Maria Kamenarova	Slovenská spoločnosť aktúárov

Pavel Gojkovic
Taylan Matkap
Elena Markova

Slovensko Aktuarsko društvo
Actuarial Society of Turkey
Society of Actuaries of Ukraine

1. Opening of the Meeting and Adoption of the Agenda

1.1 The Chairman welcomed members to Dublin, particularly those for whom it was their first meeting. He thanked the Society of Actuaries in Ireland for hosting the meeting. Åsa Larson and Kathryn Morgan pointed out that they were on the staff of their national supervisors and would withdraw for any items where their presence may be inappropriate.

1.2 The agenda, as circulated, was adopted and a copy is attached to these minutes as **Annex I**.

2. Minutes of Previous Meeting

The Minutes of the meeting of 12 April 2013, held in Edinburgh, were confirmed.

3. Update on European agenda

The Chairman gave a presentation (attached to these minutes as **Annex II**) summarising the mission, values and strategic objectives of the Groupe, and the Insurance Committee in particular. He outlined the European agenda as it affects the financial services sector, including current initiatives in insurance and banking, and highlighted EIOPA's work programme for 2013 and its regulations relating to standards and guidelines. He commended the Groupe's web site as a useful source of information on current EIOPA consultations. Finally Esko referred briefly to the broader global picture of insurers as systemic risks, which will be the subject of a special presentation by Paul Sharma (Deputy Head of the Prudential Regulatory Authority at the Bank of England) at the General Assembly.

4. Solvency II

The joint project managers, David Paul and Siegbert Baldauf, gave a presentation (attached to the minutes as **Annex III**) in which they gave an overview of the project, highlighting progress since their last report to the Committee in April. Particular reference was made to:

- some revision of working group membership: David emphasised the need to keep this under review, and for more volunteers
- responses to EIOPA's consultation papers (CP08 – CP11) on interim measures
- response to EIOPA pre-consultation on external audit
- response to EIOPA on calculation of technical provisions under the proportionality principle
- response to EIOPA on solo treatment of related undertakings
- response to FSB on principles for an effective risk appetite framework (to complement the IAA response with European aspects relevant to Solvency II)

- dialogue with CRO Forum on organising key functions
- comments on the European Commission consultation on application of Solvency II to pensions
- follow-up discussions with the Commission on the LTGA package

Siegbert described in greater detail (slides 8-37 of the attached presentation) the areas where the Commission would welcome actuarial advice from the Groupe on the LTGA package, and where there is likely to be diversity of views:

- calibration of volatility balancer
- credit risk adjustment of yield curve
- transitional arrangements need further analysis (perhaps national specifications required)
- extrapolation
- risk free interest rate curve vs. market consistency

In concluding the report from the project team, Siegbert outlined the political timetable. The trilogue parties met in July and September, and will meet again on 24 October. There is optimism that an agreement about Omnibus II will be reached and, with a plenary in the European Parliament in February 2014, it is still possible to achieve an implementation date of January 2016. EIOPA guidelines are expected to be published by the end of 2013. *[Received from EIOPA shortly after the meeting].*

Henk van Broekhoven reported his wish to step down as chair of the groups/cross-sectoral working group. Esko thanked him for his contribution to the project. David indicated that, going forward, it would be appropriate to review the working group structure so that they are more issue-based.

On behalf of the Committee, the Chairman thanked the project team and the working group volunteers for their continuing hard work and commitment to the project.

5. **Market Consistency**

David and Siegbert gave another presentation (attached to these minutes as **Annex IV**), updating their report to the previous meeting in Edinburgh. They explained that pressure of work in responding to consultations/requests from EIOPA and the European Commission had precluded further progress with the proposed follow-up paper on market consistency. In addition they pointed out that there is considerable overlap between the issues which would be addressed in a follow-up academic paper and the practical issues highlighted in the LTGA package where the Groupe has been asked to provide advice to the Commission. Consequently it was necessary to make a choice between completing the follow-up paper as an academic exercise, or reacting to the final trilogue proposals. Esko pointed out that there will be significant further work on L2/L3 for the project team once the trilogue discussions are concluded, and Jim Murphy observed that it would be counter-productive to produce an

academic critique of decisions which have already become fact. It was agreed therefore that the focus should be on reacting to the trilogue proposals and further L2/L3 work emerging from them.

6. Role of the Actuary / Actuarial Function

6.1 Ad Kok referred to his draft paper, and explained that it focussed on the external audit environment. The text is based on the Groupe's responses to EIOPA's recent pre-consultation on External Audit. He acknowledged that significant further work is required to integrate these responses into a coherent narrative structure, which he intended should seek to broaden EIOPA's narrow perspective of external audit and, in particular, to establish the public interest and transparency of having appropriately qualified professionals to audit the actuarial function report and the SFCR (where actuaries will have been significantly involved), and the expert judgement needed to prepare it. The audience for the paper should be all Solvency II stakeholders, including national supervisors and member associations. Ad emphasised the importance of involving local actuarial associations, who would be responsible for engaging and convincing national supervisors of the merits of an actuary in external audit. He also pointed out that a meeting with European accountants' professional body (FEE) is scheduled for late October, and that he hoped to have a more substantial draft available for discussion at this meeting.

Karel Goossens also highlighted EIOPA's narrow scope to the definition of external audit, and the need to provide practical help to national supervisors. Gábor Hanák stressed the importance of involving member associations, and Thomas Béhar urged that they raise the issue with their national supervisors. Thomas considered that EIOPA's concern was more with process than content, and he believed that they should recognise the need to have an expert who understands the Solvency II balance sheet and the risk profile in order to have the necessary comfort.

The Committee supported the development of the paper along the lines described by Ad. Further volunteers to support Ad and Karel were invited to contact Ad as soon as possible. Luis Sáez de Jáuregui and Gábor Hanák put their names forward. It was noted that a native English speaker would be particularly useful.

6.2 Jim Murphy referred to the letter/statement which he and Régis de Laroullière had drafted following discussion at the Committee's previous meeting on 'fit and proper' policies, to draw attention to the benefits of using actuaries who are members of Groupe Consultatif member associations to undertake the actuarial function (and report). He thanked other committee members who had submitted helpful comments. He explained that the letter would be distributed to associations to send to their members, encouraging them to bring the policies to

the attention of insurance companies. The text was intended to provide a template which could be translated and adapted for local circumstances.

Ana Maria Martins questioned whether it was realistic to expect an employee to approach a company in this way. Malcolm Campbell pointed out that it is incorrect to state that individual actuaries are subject to the Groupe's code of conduct. David Hare suggested that the letter was too subtle and not promotional enough. Thomas Béhar suggested that it would be more appropriate for local associations to make the approach to insurance undertakings, with specific reference to guideline 13, and to raise the issue with their national supervisors. It was agreed that Jim will revise the letter in the light of these comments, and it will be circulated to member associations who should translate and adapt it as appropriate for their local circumstances, which could include sending it to national supervisors and insurance undertakings.

The Chairman suggested that it would be useful to receive reports from associations on dialogue with their national supervisors about implementation of the actuarial function, and actuaries being the most appropriate professionals to undertake it. Kathryn Morgan referred to a letter from the Institute and Faculty of Actuaries to the Prudential Regulatory Authority in the UK: she agreed to send this to the Secretary for use as the basis for a questionnaire to member associations. (This letter is attached to these minutes as **Annex V**).

7. Actuarial Standards

Chris Daykin briefly summarised the work of the Standards Project Team (SPT) and the drafting team in responding to comments on the draft Exposure Draft (ED) for a model standard on Actuarial Reporting under Solvency II (GCASP2), and their further efforts to prepare a revised working draft in the light of these comments. Chris explained that a definitive ED could not be published until the Level 2 regulations and Level 3 guidelines had been finalised by the European Commission and EIOPA. However it was considered desirable to have available a working draft for promulgation to actuaries who may have the responsibility to prepare all or part of an actuarial function report in 2014. He regretted that it had not been possible, due to lack of resources, for the drafting team to complete this working draft yet. He explained the work required to structure the text to distinguish what is the standard from what is in the legislation. Since EIOPA will shortly issue their own guidelines on governance to national supervisors, to be brought into force in 2014, Chris hoped that the working draft would be available by the end of 2013.

Chris described in more detail the work which the drafting team has undertaken in response to comments about the structure of the standard to make transparent which requirements are based on the (draft) regulations and which are specific to the standard. Subject to comments

by the Standards, Freedoms and Professionalism Committee (SFPC), the SPT and the drafting team will proceed with the proposed format. Chris re-emphasised the urgent need for additional volunteers to join the drafting team, and he asked members to contact him as soon as possible with any suggestions.

Chris also referred to the proposed ED of GCASP1, and explained that it was virtually identical to ISAP1 except for references to Groupe Consultatif instead of IAA in the preface. Subject to a few minor amendments suggested by SFPC, this exposure draft will be circulated for consultation with member associations and other stakeholders between 1 November 2013 and 28 February 2014. In addition, Chris drew attention to the establishment of a new task force, chaired by Gábor Hanák, to consider whether the Groupe should develop one or more model standards of practice relating to the risk management function itself, the contribution of the actuarial function to the risk management function and the role of the actuarial function in contributing to the implementation of internal models. Volunteers were invited to join this task force: Chris and Gábor emphasised that membership of the Committee is not a pre-requisite, and they encouraged members to suggest others in their associations who have appropriate expertise. Volunteers will also be need to help with a potential standard on external audit.

The Committee noted the SPT's revised work-plan, which will be submitted to the General Assembly for formal approval.

8. EIOPA Insurance & Reinsurance Stakeholder Group (IRSG)

The Committee noted Seamus Creedon's report. He commented that the Stakeholder Groups were becoming more effective, with an increasing influence on EIOPA's work profile. Thomas Béhar reported that the recent selection process for new members of IRSG had re-appointed Seamus, and had also appointed Annette Olesen (representing the actuarial profession), and Jean Berthon (representing consumers). The Committee regretted that Thomas himself had not been re-appointed, but recognised that some turnover was inevitable and desirable. Thomas referred to the challenge within IRSG of convincing sub-groups of the actuarial viewpoint, and he emphasised the need to support the actuarial representatives. The Chairman pointed out that appointments to the Stakeholder Groups were as individuals offering personal expertise, and they were not strictly accountable to the Groupe: however, Seamus, Annette and Jean all have close links with the Groupe.

9. IASB / Financial Reporting Issues

David Paul gave a brief presentation (attached to these minutes as **Annex VI**) summarising the current situation in relation to the review of IFRS4 and the parallel process with the equivalent FASB standard. The Chairman noted the added complication represented by IFRS9, and highlighted the different concepts of the Solvency II vs IASB balance sheets. It

was noted that the Groupe would have an opportunity to comment on IFRS4 through EFRAG; additionally, it was suggested that there should be liaison with the European representatives on the IAA (Francis Ruygt and others) to ensure an appropriate and consistent message is conveyed in the IAA comments.

10. FSB consultation on Risk Appetite Framework

The Committee noted the consultative document by the Financial Stability Board (FSB) on Principles for an Effective Risk Appetite Framework and the Groupe's draft response, prepared by the Solvency II Pillar 5 working group. The Chairman pointed out that the main actuarial response on this consultation would be made by IAA: however it is appropriate for the Groupe to submit comments to address specific Solvency II issues. He also drew attention to the separate response being submitted by the Institute and Faculty of Actuaries.

11. Mortality issues

The minutes of the IAA Mortality Working Group meeting (24/25 May 2013) were noted. Henk Van Broekhoven drew attention to:

- Society of Actuaries work on international life mortality experience
- LTGs
- multi-year approach, and how to translate into Solvency II with a reasonable confidence interval

12. Consumer Protection and Anti-Discrimination issues

12.1 Jim Murphy referred to his report on consumer protection issues, drawing attention to EIOPA's more interventionist stance and the likelihood of greater product regulation in the future, and their paper on retail risks. He added that a meeting of the CP task force held the previous day had discussed EIOPA's request for the Groupe to assist on retail risks, in particular the development of an early warning system, risk indicators, and what risks to cover. The task force will prepare an inventory of possible indicators that can be used as a starting point for the discussion with EIOPA. The technical committees will also be asked to contribute to and review the response to EIOPA. Jim emphasised that it is not for the Groupe to take a position on what is fair, toxic, or sub-optimal – these are regarded as political issues. He pointed out that the chairman of the CP task force (Jean Berthon) will prepare an initial draft, including ideas on what role actuaries can play in consumer protection, by the end of October for discussion by the Officers in the first instance.

During discussion, a number of comment were made including:

- (Malcolm Campbell) – care should be taken not to become involved in US-style debate over how much profit entities make: a balance should be achieved with what is in the public interest

- (Michael Renz) – concern that EIOPA will expect quantitative results and risk-free profiles: do they have realistically achievable expectations?
- (Jim Murphy) – EIOPA need help to clarify what they want to achieve
- (Colin Murray) – are EIOPA starting from the right place?: others are better placed to provide early warnings
- (Chairman) – important for the CP task force to identify the actuarial role, where the Groupe can/cannot offer advice, and what may be appropriate risk indicators

12.2 Jim pointed out that there had been no further recent developments in the European Commission in relation to anti-discrimination issues, and he expected no progress in the short term. He will continue to maintain a watching brief on this area, and keep in touch with Insurance Europe.

12.3 The Chairman referred to the related issue of competition legislation, which was discussed during the last meeting (12 April 2013, Minute 10), and its potential impact on discussing or comparing commercially sensitive data. He described a discussion on this issue at the SFPC meeting earlier in the day, and encouraged members to study the presentation which had been given at the SFPC meeting (attached to these minutes as **Annex VII**) and which described best practice where such matters were likely to be considered.

13. **Green Paper on Long-Term Financing of European Economy**

The Committee noted this Green Paper and the Groupe's response to it. The Chairman noted that there were no indications from the Commission or European Parliament on what the next development may be: he will continue to monitor this issue.

14. **European System of Financial Supervision**

The Committee noted the European Commission's consultation on the *Review of the European System of Financial Supervision*, and the Groupe's response.

15. **Other Insurance issues**

15.1 The Committee noted the European Commission's Green Paper on Natural and man-made disasters, and the Groupe's response. The Chairman reported that he had also taken the opportunity to discuss this issue with the Finnish rapporteur.

15.2 The Chairman referred to emerging interest from the European Commission in insurance of ICT-based systems and cyber security, and a letter from the Commission to the main European insurance companies (**Annex VIII** attached to these minutes). This letter includes a questionnaire which he believed reflected a lack of understanding by the Commission of insurance and how it might apply to cyber risks. At the same time, several members of the

Committee pointed out that businesses themselves need to have a better understanding of the risks, and to recognise that insurance may not be the most appropriate (or first) solution. It was agreed that the Committee should prepare a response to the questionnaire: the Chairman, Lutz Wilhelmy and Thomas Béhar will undertake this.

15.3 The Chairman referred to NTNI (non-traditional /non-insurance), and pointed out that there are now five European undertakings on the FSB list of systemically important insurers. He reminded the Committee that Paul Sharma, the guest speaker at the General Assembly, would be giving his presentation on this issue. One particular aspect is maturity transformation via variable annuities which are hard to hedge. The Chairman pointed out that the Committee has previously undertaken a survey of variable annuities in different national markets. Luis Saez reported that there is a significant amount of VA business written in Spain; Jim Murphy reported that in Ireland VA business is subject to additional capital and reporting requirements by the regulator compared with other lines of business, and he suggested that it might be timely for the Committee to re-visit this survey. It was agreed to follow this matter up at the next meeting and in the light of Paul Sharma's presentation.

16. Meeting with Internal Market DG

The Committee noted the report of the meeting between the Officers of the Groupe and the Deputy Head of Internal Market DG Insurance and Pensions Unit, held on 5 June 2013. The Chairman drew attention to the large turnover in staff at the Unit, and the need to rebuild the previously well-established working relationship with them.

17. Meeting with EIOPA

The Committee noted the report of the meeting between the Officers of the Groupe and the Chairman and staff of EIOPA, held on 5 July 2013.

18. Report to Groupe Consultatif

The Committee noted and approved the report of its activities which the Chairman would present to the General Assembly.

19. Exchange of news on current issues

The Chairman drew attention to information from Ireland (attached to these minutes as **Annex IX**).

In addition Kathryn Morgan reported on the establishment of a joint forum of UK regulators and actuarial profession to consider future developments in the regulation of actuaries and effectiveness of standards (see **Annex X** attached to these minutes). Kathryn and Jim Murphy both reported increasing interest by the UK and Irish regulators in peer review.

Michael Renz reported that the German regulator will issue a statement by the end of 2013 on compliance with Solvency II Pillar 2 measures; he also drew attention to the DAV's strengthening of resources for international support, and its strong position on external audit.

20. Any other business

There was no other business.

21. Date of next meeting

It was noted that the next meeting of the Committee will be held in Vilnius on 25 April 2014 at the invitation of Lietuvos aktuarių draugija, (with a meeting of the Standards, Freedoms and Professionalism Committee on 24 April).

In addition arrangements will be made for one-hour conference calls in December and March – dates will be advised in due course.