**GROUPE CONSULTATIF ACTUARIEL EUROPEEN**
EUROPEAN ACTUARIAL CONSULTATIVE GROUP

**SECRETARIAT, NAPIER HOUSE, 4 WORCESTER STREET**

**OXFORD OX1 2AW, UK**

TELEPHONE: (+44) 1865 268 218 FAX: (+44) 1865 268 244

E-MAIL: mlucas@gcactuaries.org
WEB: www.gcactuaries.org

# MINUTES
**of a meeting of the**
# INSURANCE COMMITTEE
**held in Zurich**
**on 25/26 September 2008**

**PRESENT**

**Committee:**

| | |
|---|---|
| Karel Goossens (Chairman) | Association Royale des Actuaires Belges-Koninklijke Vereniging van Belgische Aktuarissen |
| Jiri Fialka | Ceská Spolecnost Aktuáru |
| Steen Ragn Andersen | Den Danske Aktuarforening |
| Esko Kivisaari | Suomen Aktuaariyhdistys |
| Thierry Poincelin | Institut des Actuaires |
| Ulrich Orbanz | Deutsche Aktuarvereinigung |
| Angeliki Mouratidou | Hellenic Actuarial Society |
| Jim Murphy | Society of Actuaries in Ireland |
| Giovanni Sammartini | Istituto Italiano degli Attuari |
| Claudio Tomassini | Istituto Italiano degli Attuari |
| Henk Van Broekhoven | Het Actuarieel Genootschap |
| Tor Eivind Høyland | Den Norske Aktuarforening |
| Robert Pusz | Polskie Stowarzyszenie Aktuariuszy |
| Hanspeter Tobler | Association Suisse des Actuaires |
| David Hare | Faculty of Actuaries |
| Kathryn Morgan | Institute of Actuaries |
| Seamus Creedon | Solvency II Project Manager |
| Manuel Peraita | Solvency II Project Team |
| Siegbert Baldauf | Solvency II Project Team |
| Annette Olesen | Solvency II Project Team |
| Thomas Schmidt | Solvency II Project Team |
| HansPeter Würmli | Solvency II Project Team |
| Rolf Stölting | Solvency II Project |
| Michael Lucas | Secretary |

**Members of the Groupe Consultatif and other Committees:**

| | |
|---|---|
| Heidi Delobelle | Association Royale des Actuaires Belges-Koninklijke Vereniging van Belgische Aktuarissen |
| Petr Mandl | Ceská Spolecnost Aktuáru |
| Norbert Heinen | Deutsche Aktuarvereinigung |
| Tarmo Koll | Eesti Aktuaaride Liit |
| Thomas Béhar | Institut des Actuaires |
| Gabor Hanak | Magyar Aktuárius Táraság |
| Bruce Maxwell | Society of Actuaries in Ireland |
| Ad Kok | Het Actuarieel Genootschap |
| Julian Oliver | Instituto de Actuarios Españoles |
| Fulco Lock | Association Suisse des Actuaires |
| Malcolm Campbell | Svenska Aktuarieföreningen |
| David Paul | Faculty of Actuaries |

**Apologies for absence:**

| | |
|---|---|
| Klaus Wegenkittl | Aktuarvereinigung Osterreichs |
| Mohamed Adlioui | Association Royale des Actuaires Belges-Koninklijke Vereniging van Belgische Aktuarissen |
| Veselin Tonev | Bulgarian Actuarial Society |
| M Colton/M Poulding | Channel Islands Actuarial Society |
| Irena Severin | Hvratsko Aktuarsko Društvo |
| Nicos Koullapis | Cyprus Association of Actuaries |
| Raine Talvet | Eesti Aktuaaride Liit |
| Istvan Kerenyi | Magyar Aktuárius Táraság |
| Dina Mikelsone | Latvijas Aaktuãru Asociãcija |
| Gintaras Bakstys | Lietuvos Aktuarijų Draugija |
| Ikram Shakir | Association Luxembourgeoise des Actuaires |
| Nela Kudlakova | Slovenská spoločnost' aktuárov |
| Pavel Gojkovic | Slovensko Aktuarsko druśtvo |
| Angel Marin | Instituto de Actuarios Españoles |
| Maria J Romero | Col.legi d'Actuaris de Catalunya |
| Asa Larson | Svenska Aktuarieföreningen |

**1. Opening of the Meeting and Adoption of the Agenda**

**1.1** The Chairman welcomed members of the Committee to Zurich, particularly those for whom it was their first meeting, and thanked the Schweizer Aktuarvereinigung for hosting the meeting.

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

**2. Minutes of Previous Meeting**

Thomas Béhar suggested that minute 4.11 did not adequately reflect the discussion of issues relating to governance of the Solvency II project, and the Chairman invited him to submit an alternative wording by 3 October. Subject to this amendment, the Minutes of the meeting of 18 April 2008, held in Oslo, were confirmed.

**3. Solvency II project**

**3.1** The Chairman gave a brief overview of the main issues on which the project team had focussed over the past six months, referring in particular to the appointment of Seamus Creedon to succeed Rolf Stölting as project manager.

Seamus gave a presentation (attached to the minutes as **Annex II**) which provided more detail on the key aspects of the project, and of the meeting of CEIOPS Consultative Panel which he had attended on 25 September. He referred in particular to the following issues –

- Principles of cross-border supervision, which had been the subject of considerable discussion by the European Parliament's ECOFIN Committee;
- Implications of recent developments in the financial markets;
- CEIOPS' work programme for 2009, on which stakeholders (including the Groupe) had been invited to comment by 6 October;
- QIS4, in which there had been good participation – there will be a meeting of stakeholders on 20 October to consider preliminary results, and the Groupe's project team will be strongly represented at this meeting;
- Internal governance and external scrutiny as elements of Pillar 2;
- Pension funds;
- Consumer issues;
- CEIOPS peer review process and panel;
- Standards of professionalism (discussed in greater detail in the reports of the individual working groups, below);
- CEIOPS' Call for Advice and mandate for coordination groups (discussed in greater detail in minute 3.10 below).

Members of the Committee raised a number of issues in relation to Seamus' report, including:

- Concerns over how group supervision would be dealt with;
- Continued difficulty in achieving consistent treatment of life participating business;
- How the Groupe might capitalise on its (free) technical advice to CEIOPS;
- Illiquidity premium

**3.2** The Chairman invited each of the working group chairmen to give a brief summary of their work since the last meeting of the Committee. (Copies of their presentations are attached as **Annex III**).

For working group 1, Seamus summarised the following key topics:

- Life participating business;
- (Risk-free) discount rates;
- treatment of future premiums;
- other QIS4 issues (longevity shock, operational risk component)

There was discussion on various aspects of the issue of discount rates, including further reference to the illiquidity premium, and it was suggested that the Groupe might publish risk-free curves. Ad Kok referred to a previous discussion on this latter point by the Groupe's IFR Committee, when it had been concluded that this was best left to various commercial agencies.

For **working group 2**, Annette Olesen referred in particular to progress with the preparation of the paper for CEIOPS' Financial Requirements Expert Group on best estimate reserving, a draft of which she hoped would be complete in the second half of October. This draft would be circulated both to the Insurance Committee and CEIOPS for comments before submitting the final version to CEIOPS' Financial Requirements Expert Group in November. Annette summarised the key aspects which the paper would stress – judgement (not a "cook-book" approach), knowledge and process. The paper would also include an overview and observations on current reserving practices. In discussion of Annette's report, Thomas Béhar raised questions on long-tail vs short-tail, and on big claims. Annette responded that the first of these points would be covered in the paper, at CEIOPS' request, and the second would be addressed under the area of judgement as a matter to be dealt with on a case-by-case basis.

Esko Kivisaari reported that his **working group** had focussed on further drafting of the Solvency Report, and he referred to discussions with the CEIOPS Internal Governance and Supervisory Review and Reporting (IGSRR) Expert Group on the solvency report. A CEIOPS' issues paper on governance was awaited, which would be relevant to further development of the solvency report. Esko also pointed out that CEIOPS were very interested in ORSA case studies. In discussion of Esko's report, a number of issues were raised including:

- the need to clarify the relationship between the actuarial function and the risk management function;
- what work is being undertaken in national associations regarding the actuarial function? – in particular, diversity of practice across both life and non-life in terms of any opinion/certification required to be given by an actuary on provisions or

other matters - private or public opinion / certification, scope (any matters additional to provisions), direct or indirect (e.g. to auditor), requirements as to independence;

- Emphasise independence as a professional quality;
- How is maximum harmonisation to be achieved?
- Relevant papers by FSA and Kathryn/Annette

In conclusion, it was agreed to undertake a short survey of Committee members and their national associations on the diversity of practice issue described in the second bullet point above.

For the **Internal Models working group**, HansPeter Würmli focused on the paper which addressed issues relating to professional judgement and which had been developed in response to a request from CEIOPS' Internal Models Expert Group. In discussion of this paper, several members of the Committee commented:

- Kathryn Morgan suggested that the Groupe/CEA Glossary definition of 'internal model' should be used;
- Rolf Stölting observed that the paper should refer to the standard approach / formula, not standard model;
- Thomas Béhar questioned whether the same internal model could be used for business planning and to calculate the SCR;
- Thierry Poincelin drew attention to the problem of how to measure divergence from the standard formula for small entities which cannot use internal models.

For **working group 5,** Henk Van Broekhoven identified the main issues as fungibility / transferability within diversification, and work with the Pillar 1 groups on correlation matrices in the standard formula. During discussion, Thomas Béhar suggested that further attention should be given to:

- actuarial function / risk management at group level
- Mutual groups
- Holding companies

The Chairman and Seamus thanked the working groups for their major contributions to the project, and reminded members that their national associations could keep up-to-date with developments through their representatives on the working groups and on the Insurance Committee, and via the Solvency II Newsletter and the Groupe's web site.

**3.3** Discussion of the paper *"The role of professional judgement in the internal model approval process"*, by the working group on internal models, is minuted in 3.2 above.

**3.4** Discussion of the structure and content of the Solvency Report is minuted in 3.2 above.

**3.5** Discussion of a draft discussion paper by the project manager on "*The roles of auditors and reviewing actuaries*" was deferred to the next meeting. The project team will consider this paper in the meantime.

**3.6** Discussion of the CEIOPS' issues paper on "*Supervisory Review Process and Undertakings' Reporting Requirements"* was deferred to the next meeting. The project team will consider this paper in the meantime and develop a draft response.

**3.7** The Committee noted the CEIOPS issues paper on ORSA and the Groupe's response.

**3.8** The project manager's report on discussions at CEIOPS' Consultative Panel is minuted in 3.1 above.

**3.9** The Committee noted the report on Proxies by the joint CEIOPS – Groupe Consultatif Co-ordination Group.

**3.10** The Chairman drew attention to the final version of the request from CEIOPS for advice in the development of Level 2 implementing measures which replaced the draft originally circulated with the agenda and papers for the meeting. The project manager explained that this request, together with the draft mandate for the establishment of a cordination group, had been drawn up by CEIOPS in consultation with himself and his predecessor, Rolf Stölting. Seamus emphasised the need for flexibility and pragmatism in responding to CEIOPS' requests for assistance, and that the request for assistance with Level 2 implementing measures required a different approach which balanced top-down principles and bottom-up participation by national organisations (actuaries, supervisors and the industry). In addition, the introduction of coordination groups would clearly have implications for integration with the existing project structure and governance.

In discussion of the CEIOPS' proposals, several members of the Committee made comments:

- Malcolm Campbell stressed the need to have well-defined task(s), and David Paul emphasised that these should be suited to a coordination group approach;
- Kathryn Morgan asked about the inter-relationship with the current working groups, and how coordination groups might affect their links with CEIOPS, and she expressed concern over the reporting and accountability of coordination groups. She suggested that the working group leaders should be closely involved in the definition of tasks for the coordination groups. Seamus pointed out that existing relationships with CEIOPS would continue, and coordination groups would include some representation from the working groups: this would

ensure good liaison with the project team and the Insurance Committee; in addition, the chairs of the coordination groups would join, and be accountable to, the project team;

- The Chairman drew attention to the importance of the role of Committee members in organising national coordination groups, and the need for CEIOPS and CEA to promote involvement through their national organisations;
- Karel also pointed out that the Groupe would not be obliged to accede to CEIOPS' requests - we should be selective and be sure we can deliver; he also emphasised the temporary, ad hoc, nature of coordination groups;
- The importance of communication / circulation of information was stressed by several members

Against this background, the Committee gave cautious approval in principle to CEIOPS' request (see also minute 3.12 below).

**3.11** In the light of the appointment of Seamus Creedon as project manager, the Committee approved the recommendation that Siegbert Baldauf (DAV, Germany) be appointed as chairman of the Pillar 1 Life working group. The Committee noted that one or two new members of the working group were being sought.

**3.12** Discussion of the governance issues arising out of the development of co-ordination groups is noted in minute 3.10 above. In addition, however, the Committee specifically noted and agreed to adopt the addition to the Terms of Reference for the Solvency II project of the section *"What should be the organisation of the coordination activities of the Groupe?"* set out on page 3 of Annex VI for the meeting.

**4. Investment Fund Guarantees**

Norbert Heinen gave a brief presentation on issues relating to harmonisation of the regulatory framework for investment fund guarantees. He described

- how recent new savings and insurance products offering investment guarantees had succeeded in the German market;
- the Capital Requirement for life products with guaranteed benefits differ significantly and often rely on the regulation of investment funds;
- a directive issued in 2007 by BaFin defining capital requirements for "Guaranteed Funds";
- some obvious shortcomings of the BaFin formula for guaranteed investment funds;
- a DAV proposal for a more appropriate formula which was rejected by BaFin and the Ministry of Finance;

- With the solvency formula proposed by DAV, statutory accounting requirements would still have been disadvantageous for insurers;
- In a rapidly changing financial market environment, solvency requirements for different types of players should converge.

Norbert concluded his presentation by expressing concern that this development could become a problem in other jurisdictions through regulatory arbitrage. David Hare commented that it was important to make clear who gives the guarantee - the investment fund or the insurer? He also wondered whether there was a legal risk (of counterparty default). It was agreed to bring this matter to the attention of the European Commission at the next meeting with them.

**5. Gender Differentiation in Insurance**

The Committee noted Jim Murphy's preliminary report on the extended and updated survey, which included information on implementation of the Gender Directive. Jim apologised for the omission of the German response from the DAV. He pointed out that he hoped to have more complete data for presentation to the UK Life Convention in November: the Chairman emphasised the importance of having complete data, and he asked all members who had not yet responded to Jim to do so by mid-October. It was agreed that the final report should receive wide circulation: Manuel Peraita pointed out that the results were eagerly awaited by the European Commission.

**6. IAA Mortality Task Force**

Henk Van Broekhoven gave a brief presentation on the establishment of the IAA Mortality Task Force (a copy of Henk's presentation is attached to these minutes as **Annex IV**). Henk summarised the task force's first meeting; its membership, Terms of Reference and goals; key issues - social/demographic stratification; pandemics; uncertainty; data availability; analysis of cause of death, etc. He also referred to the Interest of several other organisations.

In discussion, Thomas Béhar drew attention to the discrepancies across Europe – a point which Henk confirmed would be addressed by the task force.

The Committee agreed to set up a working party to provide input to Henk: the Chairman invited interested members to contact him or Henk.

**7. Reinsurance Issues**

The Committee noted the publication by IAIS of its draft Standard on the Evaluation of Ceded Reinsurance. Since this is an IAIS (international) matter, comments by the actuarial profession have been formulated by the IAA.

## 8. IASB / Financial Reporting Issues

The Committee noted that, in April 2008, the Insurance Working Group of the IASB had its ninth meeting. At this meeting the Working Group provided input for a number of issues relating to insurance contracts that followed from the responses to the discussion paper. The IASB expects to discuss the project next in September 2008. The next meeting of the Insurance Working Group will take place in November 2008.

The Chairman commented that it was important that the Committee could obtain expert input on IASB / financial reporting issues and regretted that Nigel Masters was no longer able to provide this. Members of the Committee suggested that Stefan Engeländer and/or Matt Saker might be willing to help in this capacity. David Hare agreed to approach Matt Saker.

## 9. Strategic Planning

The Chairman drew attention to the request from the Freedoms Committee and the Officers that the other committees of the Groupe should draw up action plans to provide the basis for the Groupe's strategic business planning. This input was required by early December. Karel pointed out that the survey which he had undertaken in 2007 when he became Chairman of the Committee provided a good basis for an action plan: he gave a brief presentation of its main points (copy attached to these minutes as **Annex V**). He observed that the Solvency II project was a good example of what needs to be planned for, and he raised the question of whether this could continue at its present level without any financial cost to the Groupe. Karel suggested setting up a small task force to prepare the Committee's action plan.

Thomas Béhar commented that it was important to prioritise what can be achieved, how, and at what cost; he also suggested that it might be useful to consult with others if appropriate (e.g CEA, CRO Forum). Manuel Peraita expressed concern over the non-participation of several countries / associations, and questioned whether proposals for an action plan would be truly representative; he also referred to issues of resourcing, governance and subsidiarity which would require careful consideration by the Officers and the Groupe.

It was agreed to set up a small task force comprising the Chairman, Seamus Creedon, Henk van Broekhoven, Manuel Peraita, Esko Kivisaari, Thierry Poincelin and David Hare to develop proposals.

## 10. Meeting with Internal Market DG

The Committee noted the report of the meeting between the Officers of the Groupe and the Solvency II project sponsor, and staff of Internal Market DG Insurance Unit, held on 26 May.

**11. Meeting with CEIOPS**

The report of the meeting between Officers of the Groupe and the Chairman and staff of CEIOPS in Frankfurt on 6 June 2008was noted.

**12. Report to Groupe Consultatif**

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

**13. Exchange of news on current issues**

**13.1 Draft Directive on Equality**

Ulrich Orbanz referred to the Commission's proposal for a Directive on Equality and, in particular, actuarial implications for, e.g. life insurance, on which the DAV had written to the German government to express concern. On behalf of the DAV, Ulrich urged the Groupe to support this and issue a general position statement. It was agreed that it was important to ensure that any statement which it issues on this subject is well-supported by evidence and is entirely objective. In the first instance, therefore, Ulrich and Jim Murphy (who supported taking an active interest in this issue) agreed to draft a wider paper for comments by the Committee. It was also agreed to raise this matter with the European Commission at the next meeting with them.

**13.2 Transitional steps to Solvency II**

Jim Murphy reported that the Society of Actuaries in Ireland had established a working party to investigate possible transitional steps to Solvency II. He asked if any similar initiatives were being taken or had been taken in other member states. Because of lack of time, it was not possible to discuss this item at the meeting. Jim agreed to draft a request encouraging national representatives to share their local experience, in particular regarding recently-introduced changes in provisioning practices intended to move closer to best estimate provisioning in anticipation of Solvency II.

Kathryn Morgan drew attention to a recently-published FSA discussion paper on Solvency II; a pre-application process for internal models; BAS actuarial standards for data quality and models.

**14. Date of next meeting**

It was noted that the next meeting of the Committee will be held in Budapest on 26/27 March 2009, in conjunction with meetings of the Freedoms, Pensions and IFR Committees.