

e-Newsletter – May 2010

The Spring meetings of the Groupe's five committees were held during April. We are indebted to the Instituto de Actuarios Españoles for hosting the Freedoms and Professionalism, Insurance and Education in Madrid on 15/16 April, and to Polskie Stowarzyszenie Aktuariuszy who organised the Pensions and IFR meetings in Warsaw on 30 April. Full details of these meetings are available on the appropriate section of the [members-only page](#).

The meetings in Madrid were affected by the air traffic disruption caused by the dust cloud from the Icelandic volcano: several delegates were unable to travel to the meetings, while most of those who were able to reach Madrid found their return flights cancelled. A small group stayed on in Madrid for several days until flight schedules were restored, remaining in touch with their offices via Blackberry and wi-fi, but the majority managed to make alternative arrangements to travel home by circuitous routes using train, ferry, car hire and/or taxi. In addition, there was a lively and well-attended presentation by Seamus Creedon, the Solvency II project manager, on the recent report by the CEIOPS Task Force on the Illiquidity Premium. The Pensions and IFR meetings in Warsaw represented the Groupe's first visit to Poland, and a good attendance of members were made very welcome by the local association.

Freedoms and Professionalism

The first of the two main items on the Freedoms agenda concerned the ongoing work of the Actuarial Standards Task Force (ASTF). Revised Terms of Reference were approved, recognising the decision taken at the last meeting that the Task Force should extend its remit to take a broader perspective in relation to defining the role of the actuary / actuarial function.

During meetings with CEIOPS on 17 December 2009 and 31 March 2010 at which the Task Force's draft proposals on standards were discussed, it was clear that CEIOPS intends to deal with public interest standards through 'fit and proper' legislation (Article 42 of the Solvency II Directive). In response to the Groupe's concern that this approach was passive and did not address the need to ensure continuing competence, CEIOPS recognised the obligation to deal with this requirement and proposed that it should fall on firms. CEIOPS would provide guidance to them and benchmarks for supervisors to measure firms against. However CEIOPS has no plans to take this further until the Level 2 text has been finalised. During the Committee's discussion of the Task Force Fit and Proper paper a number of issues were raised, including:

- there is an opportunity for the Groupe to advise industry on interpretation and implementation of Fit and Proper, and demonstrate that a fully-qualified actuary who is a member of an association meets the Fit and Proper criteria;
- we need to market the profession better and ensure we can demonstrate monitoring/compliance/discipline in order to address any reputation risk;
- industry is too heavily involved with Pillar 1 / QIS5 / L2 text issues to have much interest at present in standards or Fit and Proper;
- there may be difficulties, and less influence with regulators, in less mature markets in the absence of clear standards;
- it is mandatory in some countries for a practising actuary to be a member of an actuarial association: others would like to see this across Europe, but acknowledged that the Commission will not recognise a monopoly for the actuarial profession;
- it is important to take into account proportionality / complexity of risk;
- CEIOPS' concern over the meaning of independence.

It was noted that the Task Force will not be undertaking any further development of the Fit and Proper paper for the time being. However the Task Force will prepare a paper on independence, for discussion with CEIOPS: this paper will be based on existing material on ethical standards and governance, and will also refer to communication and monitoring / compliance.

Discussions with CEIOPS have also revealed that CEIOPS/EIOPA will be responsible for technical standards, and will invite input from other stakeholders either through Calls for Advice or by means of a task force, or some combination of these. It should be borne in mind, however, that the European Commission prefer the idea that standards are developed by the profession and endorsed by CEIOPS/EIOPA. The Committee also noted that there is uncertainty about whether CEIOPS standards would be binding.

Against this background, the question arose: should the Groupe continue to set up a structure for developing standards/guidelines? If so, it would be possible to adopt a less resource-intensive approach, perhaps targetting gaps left by CEIOPS, and take the opportunity to promote the role of the actuary? Groupe standards could also extend beyond the Actuarial Function. During an extensive discussion, comments included –

- the relationship between a Groupe Actuarial Standards Board and member associations, and whether this might compromise the subsidiarity principle;
- how to ensure Groupe standards are adopted;
- concern at too many different, possibly conflicting, sets of standards and difficulty of adherence to them;
- in most cases national associations, particularly the smaller ones, do not have the resources to develop their own standards – but standards need to back the ‘badge of quality’ we seek to promote;
- perhaps create Groupe guidelines for more complex undertakings, and/or for interpretation of CEIOPS standards;
- a structure is needed to prepare input to CEIOPS on their standards;
- if the Groupe takes the initiative to produce standards for our own members it may influence CEIOPS;
- the issue of funding to undertake development of standards: smaller associations would be unable/unwilling to meet extra costs; Chris agreed that it would be a challenge to look for support to the Commission, industry, revenue-generating activities, additional volunteers;
- initially the Groupe might produce guidelines rather than binding standards (which could come later).

It was agreed to continue to develop the proposal for establishing a standard-setting structure, but more internally-focussed and less resource intensive: draft proposals will be brought forward at the next meeting and to the General Assembly in October. On behalf of the Committee, the Chairman expressed appreciation of the considerable efforts by Chris Daykin and the Task Force in moving this work forward.

Two professionalism issues were discussed:

- the work of the UK Board for Actuarial Standards, in particular
 - the heated controversy regarding pension scheme accounting standards, especially in relation to discount rates. The conclusion was that considerable effort would be required on the part of various parties to educate various stakeholders on what accounting results do and do not mean and that work should also be pursued on allowance for illiquidity;
 - the issue of an exposure draft of an insurance technical standard which is very broadly drawn as to the scope of work covered.
- revised proposals on the disclosure of information concerning the Mutual Recognition Agreement (MRA) and disciplinary proceedings. Several members of the Committee expressed concern about maintaining a database of names, where legal advice might be required. It was agreed to adopt the proposed five key principles into the MRA and the Heubeck letter, but remove any reference to a database; instead the suggestion would be included that a host association should ask the home association about any disciplinary proceedings against MRA applicants.

The second major issue considered by the Committee was the Groupe's draft business plan, on which the Chairman of the Groupe, Bruce Maxwell, gave a presentation. Bruce emphasised that the proposals did not include any allowance for a standards-setting structure, and he drew attention to the following key points:

- moving the Secretariat to Brussels, and the need for an immediate decision in order to take the opportunity to share with IA|BE: the Officers support the move;
- the appointment of a Public Affairs (PA) resource in Brussels;
- establishing a legal status for the Groupe as a Swiss Verein;
- an increase in fees, and the principle that all associations should contribute on an equal basis;
- technical assistance for projects, in particular Solvency II in the first instance.

It was agreed to proceed with arrangements to relocate the Secretariat to Brussels and to establish the Groupe as a Swiss Verein, subject to resolving terms and conditions and some other points of detail. There was general support for continuing to explore how a PA resource should be appointed, and the possibility of a fee increase, but it is essential to have a 'green light' from associations, particularly in respect of a fee increase. Member associations require more detail so that they can discuss and decide within their own Boards before the summer: Bruce has written to member associations with his presentation and with more detail on the issues which were raised during the discussion.

The Committee noted the report prepared by the small CERA working party which had been set up at the last meeting to consider implications for the Groupe of the introduction of CERA. The Chairman drew particular attention to the following issues:

- the need for clarification between 'actuary' and 'fully qualified actuary', and the Groupe's core syllabus vs the IAA core syllabus;
- the very detailed QA/accreditation process which is cumbersome and costly: the Education Committee will look at this, and whether the Groupe may be able to help with accreditation;
- the CERA designation fits well with branding/promoting the role of the actuary.

Insurance

The Committee's discussion on Actuarial Standards and the report of the Task Force is captured in the Freedoms and Professionalism Committee section above. It was agreed that it is important to develop the proposed survey of member associations on the current and expected operation of the actuarial function in each member state, including links with the present actuarial role/structure in insurance companies (eg Responsible Actuary or Appointed Actuary); it would help to provide support for local associations in dealing with regulators. The Chairman invited volunteers to help develop the survey.

The Solvency II project continues to be the main focus for the Insurance Committee. For full details of the project and the involvement of the Committee and its working groups, please refer to the [Solvency II page](#). Reviewing the past six months work the project manager, Seamus Creedon, drew attention to:

- third wave consultation responses
- discount rates task force
- comments on selected Level 2 drafts
- Level 2 stakeholder meetings
- impact assessment steering committee
- QIS 5 technical specification
- health task force
- ORSA
- reporting templates

- groups fungibility and transferability
- Level 3 guidance on internal models

Looking forward, Seamus identified the following key topics:

- input to QIS5, including joint workshop with CEIOPS (25/26 August)
- exchanges with CEIOPS on actuarial function and technical standards
- ORSA
- remaining Level 2 implementing measures
- transferability, fungibility and equivalence
- CEA annual conference
- EIOPA stakeholder arrangements
- involvement in further task forces

Referring to the CEIOPS' Consultative Panel meeting on 2 March, Seamus drew particular attention to:

- the fact that Council and Parliament are at odds over independence and authority for EIOPA;
- it has not been confirmed yet whether the actuarial and auditing professions will be included in EIOPA's stakeholder group;
- consumer issues will move up the Commission's agenda with the appointment of a new Internal Market Commissioner;
- increasing Commission urgency on pensions.

In a 'tour de table', members of the Committee reported briefly on recent developments in the Solvency II project / actuarial function in their country. Most representatives reported that the national supervisor/regulator has requested a status report from all companies on their preparations for Solvency II.

Henk van Broekhoven gave a short presentation on the work undertaken by the IAA Mortality Task Force, and identified issues on correlation in life expectancy which might form the basis of further work by the Groupe's mortality group.

The Chairman of the Groupe, Bruce Maxwell, highlighted the key points from a presentation on the Groupe's business plan which he had given to the Freedoms Committee (see above), and drew attention to the proposal to support technical assistance for projects, in particular Solvency II initially. The Chairman of the Insurance Committee and the Solvency II project manager will discuss what the role might include, and whether use of secondees, perhaps from professional services firms or from member associations is an option.

Pensions

The publication of the European Commission's Green Paper on pensions is expected towards the end of Q2 this year: the Green Paper will be a tripartite project, involving DGs Internal Market, Finance, and Employment/Social Affairs, and is expected to be very wide-ranging and address, inter alia:

- portability and transferability (vesting/preservation of rights)
- Insolvency Directive (in particular Article 8)
- some aspects of DC schemes as well as DB

The timescale for response to the Green Paper is uncertain, but it is important the Groupe is in a position to respond promptly with a core message which can be easily picked up and digested by the media.

Chinu Patel summarised progress with the report by his IORP/Solvency working group over the past six months, taking account of the reaction of the Insurance Committee when he presented the previous draft report to them in Lille, and presentations at the IAA meetings in Hyderabad and Cape Town. He pointed out that there were still some who saw pensions as a subset of insurance, but there was an appreciation of the social context and sharing of risk. In the light of any further comments received from the Insurance and Pensions Committee, the intention is to publish the final report and a press release in mid-May: the Chairman was optimistic that IPE would be willing to publish an article on the report.

Chinu highlighted the key messages of the report as:

- the European pensions landscape is uneven and needs to be settled before technical issues can be addressed
- we need to be clear on the political question and objectives
- establishment of a framework to address issues
- eight good practice principles
- security is a benefit

In setting out a proposed framework for dealing with these issues, the report proposed following the general Lamfalussy principles

In discussion, a number of comments were made by members of the Committee, including:

- Pillar 2 issues should be addressed more clearly and explicitly, and refer to similarities between pensions and insurance – Chinu commented that governance should be seen at EU, national and scheme level;
- the need to observe the principle of proportionality, against the background of the dichotomy between recognising that policy-holders in smaller schemes should not be less protected, yet smaller schemes are often those most exposed to risk;
- emphasis on governance and disclosure, and the need to bring this into the public domain;
- importance of a prescribed quantitative statement of risks, and the requirement to identify and disclose these;
- more could be included in the report on how to disclose risks: this raised the issue of the role of the risk committee and application of ERM principles in relation to pension funds;
- regulators should be encouraged to set dynamic benchmarks.

The final version of the report will take account of the points made during the discussion above and any comments from the Insurance and IFR Committees: in particular, the final version will place greater emphasis on disclosure and governance of risk, and how to address this. The final report, which will be sent to all associations (via membres titulaires and secretariats), appropriate European media, and a number of European and international bodies (including European Commission, CEIOPS, IOPS, OECD, EFRP), will comprise:

- the full report;
- a stand-alone summary (a slightly extended version of the Executive Summary);
- a supplementary report with details of the national pensions systems which had been studied – this could be extended to other countries to form the basis of a regularly-updated survey.

It may be appropriate to seek a separate meeting with the Commission to discuss the report – this will depend on the publication of the Green Paper and deadlines associated with it. Once the Commission's Green Paper is published, the Chairman will discuss with the chairman of the Insurance Committee and the Solvency II project manager the possibility of a joint Solvency project.

The Committee received a brief report on the EFRP DC Pensions Seminar on 15 March, including a survey by EFRP of DC schemes which highlighted a number of key points, including:

- recognition of growth of DC schemes
- survey of 42 schemes in 21 countries showed great diversity
- assets by country dominated by UK, Denmark and Switzerland
- significant proportion of scheme members in central European countries
- geographical variation between compulsory and voluntary schemes
- investment choice
- regulation
- payout phase solutions
- education and understanding of risk

During a subsequent joint meeting with the IFR Committee it was agreed that there is scope for further work in relation to DC schemes: the following areas were suggested as possibilities:

- investment choice (EFRP survey showed 59% of DC schemes offered choice, 41% did not)
- extent of guarantees
- pre-retirement phase investment issues
- issues identified by the forthcoming Green Paper, eg investment (including risk management) as well as solvency
- education of individuals about making an investment choice and spreading risk
- identify other types of investment that might be made available

It was agreed to defer a decision on further work until the Green Paper is published. The Chairman noted, with regret, that a number of countries which are prominent in DC (in terms of scheme membership) are not actively involved in the Pensions Committee.

A report on the main issues at the IAA Pensions and Employee Benefits Committee identified:

- discussion of the work of Chinu's group on pensions security
- accounting issues, in particular the review of IAS19, for which IASB had published its Exposure Draft on 29 April (with a comment deadline of 6 September)
- discounting and measurement of pensions liabilities
- ERM for pensions, on which the IAA are drafting a paper, which Esko will try to make available for the next meeting
- international actuarial standards for accounting for pensions – Irene Paterson is leading this work, and she emphasised the need to avoid conflict with overlapping standards in countries which already have their own standards
- links with OECD – the Chairman suggested inviting a guest speaker from OECD to the Committee's next meeting
- International Organisation of Pensions Supervisors, in particular their interest in ERM

Investment and Financial Risk

<Report to follow>

In a joint meeting with the Pensions Committee, Falco Valkenburg gave a presentation on work by the Netherlands regulator (DNB) into the implications of the financial crisis for Dutch second pillar pensions. He described how DNB had established three committees to investigate different aspects of the crisis:

- maximum risk premium in the continuity analysis;

- investment policy and governance;
- sustainability of the pensions system.

In the first of these there was no overall consensus. The second committee made the following key recommendations:

- improve identification, management and monitoring of risk
- Socially Responsible Investments (SRI) to be integrated into investment policies
- transparency about new pensions contracts
- strengthening of governance

The third committee identified a number of threats to sustainability which resulted in higher costs:

- increased volatility in returns
- sustained downward trend in interest rates
- rising life expectancy
- reduced efficiency of contribution steer

Against this background, the committee had proposed areas for change:

- reduce ambition level
- reduce certainty
- focus on real ambition rather than nominal guarantees
- benefits to be more conditional
- differentiate between age groups

However, with an imminent national election, the present government will not be taking any decisions on what are considered to be controversial pensions proposals. It will take some time after the elections for a new government to emerge. In the meantime, social partners aim to issue guidance on adapting existing pension contracts before Q4.

In concluding his presentation, Falco offered the personal view that the pensions system needs complete reorganisation, to recognise quantum changes in the demographic and economic environment, and the importance of socially responsible investment.

Education

The Committee continues with its review of the Core Syllabus, in particular identifying and distinguishing core (technical) topics from general “soft” skills (e.g. communication, language, computing) which are required to perform as a professional. It was agreed that ERM should be included in the Core Syllabus.

Several items on the agenda – including review of assessment procedures, and level of actuaries other than full-qualified actuaries – were deferred until the next meeting.

The Instituto dos Actuários Portugueses offered to organise the Summer School for 2011 on the topic of *Own Risk Models for Solvency Assessment*. The dates are most likely to be during the last week of May 2011.

The Committee’s proposal to restructure Colloquia in the format of a two day Congress every 4 years having been accepted by the General Assembly in Lille last September, the Instituto de Actuários Espanhóis has offered to host the first congress in June 2012. This offer will be considered at the next meeting.

Looking forward

There will be a bilateral meeting with the Commission's Internal Market DG Insurance Unit in Brussels on 3 June, at which a number of the issues reported above will be discussed, including Solvency II, Actuarial Standards, and security for IORPs.

The Groupe's Summer School, on *Enterprise Risk Management for Actuaries*, will be held on the island of Samos from 30 June – 2 July.

The Solvency II project team meets in London on 15 September.

The Autumn meetings of the Groupe's committees will be held in Brussels on 30 September and 1 October in conjunction with the 33rd Annual Meeting.