

## **e-Newsletter – May 2009**

This e-Newsletter provides a summary of the meetings of the Freedoms, Insurance, Pensions and Investment and Financial Risk committees held in Budapest on 26/27 March, and the Education Committee meeting held in Lisbon on 3 April. Full details of these meetings are available on the appropriate section of the [members-only page](#).

The Groupe is indebted to Magyar Aktuárius Táraság and the Instituto dos Actuários Portugueses for their hospitality and the excellent arrangements, and to the local companies which provided the facilities for the meetings. Our Hungarian hosts have provided a gallery of photographs taken during our visit to Budapest - see [this link](#).

Members observed a minute's silence at the start of the meetings in tribute to Max Lacroix, whose death was reported in January. Max played a major role in the establishment of the Groupe Consultatif and was its first Chairman, from 1978-1988; after his retirement as Chairman, Max was elected Honorary Counsel to the Groupe.

### **Freedoms and Professionalism**

Previous newsletters have reported our concern over the role of the actuary and the actuarial function under the proposed Solvency II Directive. During the Directive's progress through the European Commission, Council and Parliament, the Groupe has sought to ensure reference to professional standards. Finally, after a period of doubt when it was feared that it might be deleted from Article 47, we are pleased to note that it has been retained and the Directive was adopted in the European Parliament by a large majority in mid-April. The issue of professional standards now presents a challenge and an opportunity for the Groupe. The Committee endorsed a proposal by the Groupe's Officers to set up a task force to take this matter forward: to review the current standards environment, and to report on what standards may be required, the process for developing them, consistency, and control. It should be stressed that this is a 'positioning' exercise only, and that it is not the intention that the task force should draw up standards. The task force will be chaired by Vice-Chairman Chris Daykin; membership will comprise Seamus Creedon (representing the Solvency II project) and one representative from each of the committees, observing geographical spread. Chris hopes that it would be possible to submit an initial report to the General Assembly in Lille.

The Chairman reported on a positive meeting with representatives of the UK's Professional Oversight Board (POB) to discuss matters of mutual interest: he pointed out that they were keen to ensure that proposals by the UK Board for Actuarial Standards (BAS) will be compatible with the best standards in Europe, and for the Groupe's feedback especially on Solvency II.

The Committee noted an updated report on the operation of the Mutual Recognition Agreement (MRA) which confirmed that, in general, the MRA is working well: there remain a few minor local issues although steps are being taken by the associations concerned to deal with these. There remains some concern over disclosure/sharing of information on disciplinary matters: it was suggested that applications to a host association should always be referred to the home association for confirmation that the individual concerned is in good standing, and that regulators be asked to inform the national actuarial association of disciplinary cases, but it was pointed out that the regulator may not allow this. A subgroup will try to resolve this matter and suggest an appropriate wording for the Heubeck letter. Proposals for any amendments to the MRA and the Heubeck letter will be considered at the next meeting.

The Committee considered its action plans and priorities for the Groupe's business planning exercise. A number of points emerged, in particular:

- possible need for Groupe to employ actuarial resource in order to deliver technical 'substance' - not universally supported
- need for part-time media/PR assistance for secretariat, to help promote the activities of the Groupe
- supply/demand for actuaries
- need for greater involvement by individual members

- consider producing an annual report, to promote image/branding

There was general discussion of the extent to which we can continue to rely on volunteer help - usually the same people. Several members expressed reservations over the proposal that the Groupe consider paying for actuarial resource: it was pointed out that there would be a precedent to consider over paying for assistance - which might discourage volunteers - and/or charging for work done on a project basis, which may be seen to compromise the Groupe's independence. There was more support for media/PD assistance within the secretariat, although little appetite, particularly among smaller associations, for increased annual fee to meet higher costs. The Chairman emphasised that it would be necessary to identify other means of meeting additional resource requirements, and, if resource requirements cannot be met, aspirations would have to be modified accordingly. The Officers will consider the action plans and priorities from each committee and will aim to prepare an outline business plan and resource proposals for the General Assembly in Lille, to include alternative plans / costings since the financial impact is likely to influence an ultimate decision.

Thanks to the efforts of the Chairman and Seamus Creedon, several constructive changes in the draft treaty for a global ERM qualification have been negotiated, in particular -

- Workability for smaller associations
- Dovetailing of XRX with actuarial qualification in Europe
- Removal of clauses favouring those associations which sign up initially

It was noted that the Terms of Reference for the review panel are now in draft, and the basic syllabus in place. The nomenclature for the qualification will depend on whether the Society of Actuaries is involved or not. The Education Committee reviewed the XRX syllabus at its meeting on 3 April to ensure it is embraced by the Groupe's core syllabus (see further details in the Education section below). It was agreed that associations should be encouraged to sign the treaty since this does not commit to becoming an award signatory. By signing up now, associations would be able to influence future development and ensure recognition of national actuarial qualifications. A letter has been circulated to member associations, with the draft treaty, review panel Terms of Reference and the syllabus, drawing a distinction between 'recognising associations' and awarding bodies, and recommending that they sign the treaty.

The Committee noted the de Larosière report and the European Commission's consultation exercise on financial market supervision in the light of the current crisis. The report provides a good analysis of the financial crisis and the failure of internal risk management, although it is largely based on the banking sector. The actuarial profession is not mentioned explicitly, but references to risk management, procyclicality, supervision of insurance companies, assessment of internal models by auditors, make it appropriate for the Groupe to comment, in particular on -

- improving risk-based models (use of judgement)
- avoiding procyclical events
- validation of internal models/processes
- improving quality of supervision
- coordination between European/national level

(The Groupe's response, submitted to the European Commission on 9 April, is available [here](#)).

The Committee approved the proposals to establish a Nominations Panel to be responsible for assessing and recommending nominations for Officers, and to modify the current 'succession' of Second Vice-Chairman - First Vice-Chairman - Chairman to Vice-Chairman - Chairman - Immediate Past Chairman. The Nominations Panel will be chaired by the Immediate Past Chairman. A number of amendments to the Groupe's Statutes will be required as a result of these changes: the Secretary will draft these and circulate them for the necessary three-month exposure period, with a view to having them approved by the General Assembly in September.

In a separate meeting to identify issues of mutual concern and, where possible, common views in relation to the IAA agenda, the following points were raised:

- IAA strategy review
- voting rights
- proposal to increase fees
- positioning of ERM designation
- nominations
- streamlined approach to Executive Committee
- IAA Congress - Berlin 2018 - noted that the Groupe has already submitted a letter of support
- draft publications policy
- IAIS consultation paper on relationship between actuary/auditor

On the question of voting rights, it was noted that the US associations are seeking to restore some of the voting power which they had lost as new, smaller associations joined the IAA: it was hoped that a system could be found which is not based simply on member numbers. The proposal to increase membership fees is a matter of concern to several associations: the Chairman reported that he would be writing formally to this effect on behalf of Svenska Aktuarieföreningen, and he agreed to circulate a draft of his letter and invite other Groupe member associations to co-sign it. Ad Kok drew attention to the IAIS consultation paper on the relationship between the actuary and auditor, and emphasised the need to respond on issues specific to Europe (e.g. ORSA), to encourage IAIS to look more to the future, to challenge the proposal that risk management should be controlled by auditors. It was agreed that the Groupe should respond to IAIS independently of IAA (who are dealing with this via fast-track procedure), keeping IAA informed. Ad and Seamus Creedon will draft the response.

## Insurance

The Chairman reported the news that political compromise had been reached on the Solvency II Directive by the European Parliament, Council and Commission: it was therefore expected that Parliament would formally approve the Directive at their next meeting in April. (*Note by Groupe Secretary - the European Parliament approved the Directive*).

The Committee approved the amended Terms of Reference for the Solvency II project, to include coordination groups.

The Committee were pleased to note in particular:

- recognition of the Groupe Consultatif as a full stakeholder;
- the quality of the work delivered (e.g. papers on Nonlife technical provisions for CEIOPS);
- success in retaining reference to professional standards in Article 47;
- the need to be clear in dealing with CEIOPS about the level at which we believe matters should be dealt with (L2 or L3);
- the need for the Groupe to define the scope of what we can do, make choices, and communicate with stakeholders.

The Solvency II project manager, Seamus Creedon, drew particular attention to the political compromise which had been reached on the Directive, and to the newly-published CEIOPS' consultation papers (CP26-CP37) on Level 2 implementing measures. He emphasised the importance of building on Article 47 and looking at the Groupe's role in relation to professional standards, and the considerable volume of work which would be involved in responding to CP26-CP37 – in particular, he highlighted governance and the importance of judgement as key issues.

The Committee supported the views expressed by the Freedoms Committee in relation to the de Larosière report and the European Commission's consultation exercise on financial market supervision in the light of the current crisis (above).

It was noted that the European Commission's DG Internal Market unit G4 (Financial Services Policy and Financial Markets – Asset Management) are aware of the issues relating to harmonisation of the regulatory framework for investment fund guarantees which were described by Norbert Heinen at the last

meeting. The Commission intends to deal with these issues through disclosure requirements. The Groupe communicated its concerns and forwarded a copy of Norbert's presentation setting out the key points.

The final report on the extended and updated survey on Gender Differentiation in Insurance, which includes information on implementation of the Gender Directive, was noted. The report has also been presented to the UK Life Convention in November, and it is available on the Groupe's [web site](#). The Chairman encouraged members, through their national associations, to bring the report to the attention of their national insurance industry bodies. The survey has also been submitted to the European Commission, who are due to review the Directive at the end of 2010.

The Committee endorsed strategic planning proposals drafted by the Chairman, Karel Goossens. Karel emphasised that the Committee had reached the point where further expansion of the activity on Solvency II required a formal budget and resources (project based compensation), and pointed out that, if appropriate resources were not available, then either we make choices and limit our scope or we invest.

There was discussion on the topic of variable annuities which was raised by CEIOPS at a meeting with them on 19 March. It was agreed to undertake a short survey to ascertain current national practices and interest. From various comments made, it appears that a variable annuity can mean slightly different things in different countries (and, indeed, the product does not exist in some countries), but is essentially a single-premium unit-linked investment product with guarantees. Variable annuities originated in the USA, where they have been a contributory factor in the current financial crisis. A short survey, including a question on how supervisors are dealing with the solvency requirements of variable annuities, will be circulated.

## **Pensions**

*Report to follow*

## **Investment and Financial Risk**

The Committee considers that liquidity risk is not adequately addressed in current discussions by the Commission and CEIOPS: the establishment of a Liquidity working group was discussed. It was agreed that the priority was to firstly define the meaning of "Liquidity" or "Liquidity risk". A definition will be prepared for discussion at the next meeting.

It was noted that a number of countries are revisiting QIS4 using 2008 data, and it is likely that there will be a QIS 5. The Committee noted the publication of a new round of consultation papers by CEIOPS (CP26-37), in particular CP36 on Special Purpose Vehicles which is of particular relevance to the IFR Committee.

It is hoped to provide, in the coming months, a portal on the Groupe's web site to published material on market consistency.

The joint working group (with the Pensions Committee) on Defined Contribution schemes has concluded that much of the work which they had proposed to undertake has already been done. It is therefore proposed to compile a bibliography of existing material and to identify any gaps in literature regarding the more innovative developments. In addition, other aspects which the working group might consider included:

- What barriers are there to implementing DC plans?
- Improving transparency of DC schemes for stakeholders

The Committee considered the role of the Actuary during recent developments in the credit / capital markets, and what the implications may be for the actuarial profession, for example:

- Should the Profession give guidance?
- Where were we during the crisis?

- Did we give sufficient warnings?
- Can we change our profile?

It was concluded that there is no common way to interpret the credit crisis but the facts of what has happened can be reviewed and interpreted for the future. The general consensus was to maintain an Actuary's and the Groupe's impartiality by delivering informed facts and defining consequences in a specific and detailed way.

The Committee reviewed action plans and priorities for the future and identified a number of key issues, including:

- Should the IFR Committee continue as a separate committee or should it be amalgamated into one of the other Groupe committees (Insurance or Pensions)?
- Should there be separate Risk and Investment Committees?
- The work of the IFR Committee tends to be process-oriented, as distinct from the product-oriented nature of the Insurance and Pensions Committee;
- There is no clear product link to the European Commission, CEIOPS, etc;
- The previous two points suggest that the Committee needs to identify projects / products, and work on the delivery model, to establish its position in relation to the European institutions similar to the Insurance and Pensions Committees. (It was suggested that solvency for banks and financial conglomerates might offer suitable scope);
- Should ERM be part of the Committee's scope? It was noted that ERM is much broader than Investment and Financial Risk (and, indeed, goes beyond the insurance / financial industry);
- Should the Groupe employ actuarial resource in order to deliver technical "substance"? A possible alternative, already identified during the earlier discussions on the working groups on market consistency and defined contributions might be to use actuarial students or recently retired actuaries;
- Should the Groupe consider charging for work done, e.g. for CEIOPS? It was noted that this could be seen to compromise the Groupe's independence, and in any case such work should be seen as an investment of long-term benefit to the profession.

It was agreed that the IFR Committee should continue as a single committee but identify how to support and interact with the other Committees.

## **Education**

As part of the Committee's review of the Core Syllabus, the results of the ECTS survey were discussed and the following action points agreed:

- Define the minimum of ECTS points and include the recommended/typical number of points;
- Compare the GC Core Syllabus with the IAA Core Syllabus;
- Add Professionalism to the Groupe's Core Syllabus.

In the light of growing resistance to surveys (by both the Groupe and the IAA) among member associations, the Committee agreed that, in the ideal situation, the Groupe Secretariat would have access to up-to-date information on actuarial education for each of the member associations, which could be provided to the IAA on request instead of another survey being undertaken. It was recognised, however, that in order to achieve this and to ensure the quality of information, the Groupe needs to establish an education assessment procedure.

It was noted that the EAA Advisory Board propose to request countries to provide information on regulation, code of conduct, etc. with the aim of improving their education programmes and to have a clear idea on what should be included in Professionalism courses. It was agreed that the results of the Groupe's Education survey should be made available to the EAA since they include the relevant information, and this would avoid associations receiving another rather similar survey to complete. The

survey results will also be made available on the Groupe's web site. In future surveys, associations will be asked to agree that information is exchanged with or provided to the IAA in order to avoid duplication of effort.

As reported in the Freedoms section above, a number of amendments to the proposed ERM Treaty have been suggested by the Officers and have been implemented into the Treaty. It was noted that the chairman of the Freedoms Committee had written to associations to encourage them to sign the treaty since this does not commit to awarding the designation. Concerns were raised over the added value of signing the Treaty. The Groupe's Officers believe it is wise to be part of the development at the start, in order to be able to influence the development. It could also provide a better basis for marketing the profession. There are no real disadvantages, but there might be advantages in future. Issues such as quality control and mutual recognition are still open and need to be defined in the Treaty.

The Committee discussed the current format for Colloquia and how it might be improved: it was noted that attracting participants is becoming more difficult due to increased competition with other events. One possibility, which will be considered further at the next meeting, is to hold Colloquia on a 4-yearly basis and to change the format into a 2-day congress. The Committee also considers that the content of Colloquia should focus more on practice rather than academic issues.

As part of the discussion on action plans and priorities for the future, the Committee agreed to prepare a discussion paper on the issue of the level of actuaries other than fully-qualified actuary, e.g. actuarial technician, actuarial function practitioners, etc. The Committee also plans to establish a permanent working group to review national actuarial education by means of an assessment procedure.

### **Nominations for Vice-Chairman of the Groupe, Committee Chairmen, Honorary Treasurer**

Nominations are invited (by 31 May) for the following appointments:

- Vice-Chairman of the Groupe
- Chairman of the Freedoms and Professionalism Committee (Malcolm Campbell completes his 3-year term in September: he is eligible and willing to serve for a further 3-year term)
- Chairman of the Education Committee (Ron Hersmis completes his 3-year term in September: he is eligible and willing to serve for a further 3-year term)
- Honorary Treasurer (Alf Guldberg is retiring)

### **Looking forward**

There will be one of the Groupe's regular bilateral meeting with the Commission's Internal Market DG Insurance Unit in Brussels on 3 June, at which a number of issues reported above will be discussed. In addition, it is planned that there should be further regular high-level meetings with the Managing Board of CEIOPS.

The 32nd Annual Meeting and the associated committee meetings will be held in Lille, France, on 24/25 September 2009. Initial details will be circulated to members shortly

The Spring 2010 meetings of the Groupe's committees will be held as follows:

- Pensions, Investment and Financial Risk - 19 March 2010 (location subject to confirmation - Netherlands)
- Freedoms and Professionalism, Insurance, Education - 15/16 April 2010 (Madrid)