

e-Newsletter – November 2009

This e-Newsletter provides a summary of the discussions at the Annual Meeting in Lille at the end of September, and the associated Autumn meetings of the Groupe's committees. Full details of these meetings are available on the [members-only page](#).

The Groupe's 32nd Annual Meeting was hosted by the Institut des Actuaire, and attracted a large number of delegates and partners. As well as a full business agenda, described in the following paragraphs, Participants enjoyed some excellent French cuisine, particularly at the historic *Hermitage Gantois* (a listed building dating back to the fifteenth century). In addition, there was a lively and well-attended presentation on implementation of Solvency II by Patricia Plas (CRO Forum)

General Assembly

One of the major issues for the Groupe over the past six months has been professional standards in relation to the Actuarial Function under the Solvency II Directive. As reported in the last (May 2009) e-Newsletter, the Actuarial Standards Task Force was set up to address this issue, and the Task Force submitted a draft report (for CEIOPS) to the General Assembly. The timescale for a submission to CEIOPS was significantly shorter than initially expected, with CEIOPS requiring comments from the Groupe by 30 September. The Task Force focussed on:

- the key features of Article 47 of the Solvency II Directive, and CEIOPS CP33 on System of Governance;
- existing standards;
- the nature and scope of actuarial standards
- developing, endorsing and ensuring compliance with standards;
- the Groupe's role in the development of standards;
- dissemination of the submission to CEIOPS;
- the future of the Task Force.

A number of points which had arisen in discussion of the report by the Freedoms and Insurance Committees included:

- the need to ensure buy-in by local associations (it may be necessary to amend the Groupe's Statutes to require member associations to commit);
- the capacity to deal with monitoring, enforcement and due process would be a significant resource issue for associations and the Groupe – although CP57/58 put the responsibility on undertakings and supervisors;
- it is possible the legal status of the Groupe will need to be changed;
- it will be necessary to convince national regulators and industry that this is the way forward;
- standards must apply to all persons carrying out the actuarial function, not just members of actuarial associations;
- it is important that principles-based standards are not at too high level, to avoid risk of ambiguity.

The report was submitted to CEIOPS and a press release issued on 26 September. In addition, the paper was distributed to the European Commission and other stakeholders, and to national associations to bring to the attention of their local regulators and industry. It is hoped that there will be an early opportunity to discuss the paper with CEIOPS and the Commission. The Task Force will continue for the time being, to fulfil other aspects of its Terms of Reference: the situation will be reviewed at the Freedoms Committee's next meeting in Spring 2010.

Progress on the global ERM qualification was noted as follows:

- the Society of Actuaries and Casualty Actuarial Society have decided to join the project;

- the designation will be called “CERA” (Chartered Enterprise Risk Actuary or Analyst);
- the proposed treaty is basically agreed, with the exception of details concerning the protection of intellectual property rights and a discussion about the extent to which the treaty conflicts with EC competition laws;
- it has been decided that a Swiss Verein should be used to own and control the intellectual property rights (in particular name “CERA”); it now remains to integrate this decision into the current treaty before it can be signed
- 10 countries represented in the Groupe have indicated that they would be interested in signing (although not all will be signing on day one);
- there are diverging views as to how intrusive the quality assurance process should be;
- a budget and principles for financing that budget are being discussed.

The Groupe’s Officers will continue their ongoing work on implementation of the Groupe’s strategy and the production of a business plan(s) which addresses the questions on structure, cost and efficiency that were raised. Draft proposals will be prepared for the Spring 2010 meeting of the Freedoms Committee, with a view to having firm proposals for the 2010 General Assembly. Proposals were approved for the establishment of a new “Development Officer” appointment to be responsible for:

- development of Groupe structures
- cross-committee long term projects
- marketing of the Group
- implementation of a legal status for the Groupe

A representative of the Young European Actuaries (YEA) gave a presentation on establishing links between the Groupe and YEA in order to:

- act as a network of young actuaries across Europe
- develop pan-European seminars for young actuaries
- help local associations develop local young actuary sections/networks
- help local associations create education programs directed towards young actuaries
- provide resources for Groupe activities (projects/task forces etc)

The Groupe welcomed the proposals, and the idea of trying to achieve greater involvement of young actuaries in Groupe affairs and within national associations, and sharing ideas from different associations.

The Groupe’s finances continue to be healthy despite a significant deficit in 2008 due to the fall in Sterling against the Euro. The annual fee will remain at Euros 16 for 2011. Alf Guldborg stepped down as Honorary Treasurer after seven years, and he was warmly thanked for his service to the Groupe and his excellent stewardship of its finances.

The Groupe approved the recommendation to accept the Actuarial Society of Turkey as an Observer Member.

Minor amendments to the Statutes were approved to reflect:

- the change from two Vice-Chairmen and Chairman, to one Vice-Chairman, Chairman and Immediate Past Chairman;
- the establishment of a Nominations Panel to consider the election of Officers.

Freedoms and Professionalism

The Committee’s discussion on Actuarial Standards and the draft report of the Task Force is captured in the General Assembly section above.

A small group has been set up to consider the issue of disclosure of information about disciplinary matters in relation to the Mutual Recognition Agreement. There are four key principles which the group will be examining in more detail:

- no information should be passed across between associations in any circumstances where a member has been cleared of any charges laid against him/her under a disciplinary procedure;
- when a member applies to join an association (a host association) in a different country from his/her own home association, the host association must ask the question; "Have you ever been found guilty of misconduct by the professional discipline scheme of any other professional body in any country?";
- where a country association makes a public statement (in a journal or otherwise) about a member who has been found guilty of misconduct, that statement should be made available to all other associations in the Groupe Consultatif (including a list of those so found in the past);
- where a country association does not currently make that information public, it should consider whether it has powers to do so under the laws of its country, and if so take steps to arrange informing the other country associations in the Groupe when members are found guilty (including a list of those so found in the past).

The working group will bring forward proposals to the next meeting of the Committee.

There was a lively discussion of the brand and strategy proposals, which highlighted the following points:

- the current structure works well, but there should be more emphasis on projects and task forces;
- the concept of Networks, to allow for increased networking of actuaries across Europe, and at the same time involve more actuaries in the work of the Groupe;
- the proposal to rename the IFR Committee "New Frontiers" in order to emphasise a broader remit;
- a part-time resource to boost PR activities;
- an additional new officer ("Development Officer"), to facilitate further strategic development of the Groupe and cross-committee projects;
- projects should look for sponsorship if they perceive a need to engage paid resources to retain momentum;
- In the longer term, review the location of the Secretariat.

There was some concern that action to develop the Groupe needed to be taken as a matter of urgency, in particular: a business plan, legal status, additional funding, and relocation of the Secretariat to Brussels. As reported in the General Assembly section above, the Officers will prepare draft proposals for the Spring 2010 meeting of the Freedoms Committee, with a view to having firm proposals for the 2010 General Assembly.

The Chairman gave an update on the current status of the global ERM qualification initiative (see the General Assembly section above). The Committee agreed to establish a small working group to consider implications for the Groupe of the introduction of CERA, including:

- issues relating to the Groupe's Mutual Recognition Agreement
- potential legal issues
- quality assurance

Insurance

The Committee's discussion on Actuarial Standards and the draft report of the Task Force is captured in the General Assembly section above.

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:

- the very demanding timeline for the project, with the Commission allowing no delays;
- the first and second waves of Consultation Papers – highlighting key aspects of CP33, CP40, CP46, CP49, CP53, CP58, where the Groupe had responded in considerable detail;
- some national associations had submitted their own responses to the second wave of CPs directly to CEIOPS***;
- third wave expected at the end of October – some issues will be very politically sensitive, and the Groupe will comment on some, and not on others.

*** It was suggested that local concerns should be raised with the national supervisor, wider (European) issues through the Groupe or global issues through the IAA. There is a risk that an association's submission to CEIOPS might be inconsistent with the Groupe's submission, and it was pointed out that the template for responses to CEIOPS consultation papers allows specific (national) issues to be included. The Chairman asked associations to copy to the Groupe any submission that they send directly to CEIOPS.

At a meeting of CEIOPS' Consultative Panel on 29 September it was proposed to highlight the following issues:

- concern over CEIOPS' departure from 'economic balance sheet' concepts;
- inappropriate margins for prudence in provisions;
- a need for translation of theory into practice;
- an over-reliance on data as opposed to judgement applied to inevitably incomplete data about the future.

Seamus also outlined the Commission's legislative proposals for financial supervision in the wake of the de Larosière report, in particular EIOPA to succeed CEIOPS, with additional powers including development of technical standards.

It was noted that CEIOPS' FinReq Expert Group proposed to wind up the coordination group: the consensus of the Committee was that it had served its purpose and should be wound up.

In a 'tour de table', members of the Committee reported briefly on the status of the Solvency II project in their country, in particular:

- the involvement of the association in discussions and preparation with national regulators and industry;
- the status of the Actuarial Function (AF) in their legislation.

The Committee considered proposals by the Chairman to establish a task force to consider the Role of the Actuary / Actuarial Function. Terms of Reference are being drafted, and it was agreed to undertake a survey/questionnaire to build a clear picture of the Actuarial Function across Europe.

Chinu Patel from the Pensions Committee, who is chairing a working group examining solvency issues from the pensions perspective which has just produced a draft report on "Pension security in IORPs", gave a presentation of the key findings of his working group and highlighted the main differences and similarities in solvency for insurance undertakings and pension funds. It is important to maintain dialogue between the Insurance and Pensions Committees to ensure a consistent Groupe position.

Jim Murphy has given a presentation on the survey on Gender Differentiation in Insurance to a European Commission Forum. This Forum has a wider perspective which includes the whole area of equality / non-discrimination in insurance. The Commission has retained consultants to

undertake a survey on practical implementation of Directive 2004/113/EC (which includes reference to actuarial issues), and these consultants have requested the Groupe's help to understand insurance aspects and to identify the three most important insurance products which could be susceptible to discrimination. The Committee agreed that these were disability, life and motor. It was agreed to provide advice to the consultants, but recognised that it is essential to maintain a professional distance from them, and the results of this survey are awaited before deciding on any further input by the Groupe.

A Mortality working party has now been set up under Henk van Broekhoven and will focus on educational aspects, e.g. minimum requirements for a mortality model. The membership of this working party is:

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|--------------------------|-------------------------|
| Henk van Broekhoven (NL) | George Kravvaritis (GR) |
| Thierry Poincelin (FR) | Chresten Dengsoe (DK) |
| Chinu Patel (UK) | Frédéric Planchet (FR) |
| Marcus Christiansen (DE) | Jan Koristka (CZ) |
| Erik Alm (SE) | |

Eleven associations have so far responded to the survey of current national practices and interest in Variable Annuities – these reflect mostly nil returns, or insignificant market in this area. However, Belgium, Germany and Ireland have significant involvement. It was noted that the products available in Germany are largely written in Ireland and Luxembourg, and that problems have arisen because of inconsistent interpretation of the Third Life Directive across different jurisdictions. There is a consultation paper by the Irish regulator on the capital requirements of Variable Annuities, and specific reserving methodologies have been developed for Variable Annuities by Irish actuaries in consultation with the Financial Regulator within the framework of the existing legislation and regulations in Ireland. A further attempt will be made to obtain a more complete response to the survey from member associations before deciding whether the Groupe should seek to establish a common position.

Pensions

The Committee was updated on key IAA issues notably the need to be consistent between insurance and pensions regarding solvency within the actuarial profession. A thorough review of IAS 19 is pending, key to which is a comprehensible discount rate. IAA plans to prepare for the review in 2011 by collecting global ideas. The IASB is expected to publish an exposure draft in March 2010.

Latest developments within the European Commission and CEIOPS which may impact on the regulation of IORPs were noted, particularly proposed amendments to the Budapest Protocol and the report on the Commission's public hearing on pensions on 27 May 2009.

Also discussed were recent and forthcoming changes to membership of the European Parliament and Commission, leading to diminished impetus for change in the short term allowing for the Groupe to make a submission on the future pension security framework.

Chinu Patel presented the draft report from the IORP/Solvency working group, focussing on the following headings:

- Objectives of working party
- External constraints
- Possible EC objectives to address
- Principal proposition: Security as a soft benefit
- Elements of security
- A framework for establishing the right balance
- Best practice principles to underpin the framework

The report will be finalised in the spring, when it will be submitted to the European Commission as input for the development of the Commission's Green Paper.

The Chairman reported on the Pensions Forum, held on 19 June 2009, where the main topics had included:

- Lack of progress on the Portability Directive
- The De Larosière report and the effects of the financial crisis on pensions
- An update on the Insolvency Directive
- A brief report on the Public Hearing on 27 May

Henk van Broekhoven (Chairman of the Groupe's newly established Mortality Working Party) outlined the Working Party's agenda. Work is expected to start by early October 2009, with a conference call to agree the data and minimum standards for mortality models. A mortality table comparison for the IAA and Groupe is planned.

Ken Forman presented the report of the Defined Contributions working party. (The report is available in the [Publications](#) section of the web site). The key message of the report is

- Improving longevity, volatile investment markets and inflation uncertainty can present significant risks for DC scheme members unless mitigated by careful scheme design and product choice. Policymakers can help raise awareness of the risks and help members achieve maximum benefits by removing infrastructure barriers to efficient design and product pricing

The report also identifies:

- main risks in the decumulation period;
- products to mitigate DC member risks; and
- how policymakers can help DC members.

A joint meeting of the Pensions and IFR Committees in April will consider what further work might be undertaken, perhaps in the following areas:

- how to transfer or hedge longevity risk;
- inflation risk transfer; and
- risk sharing products.

Investment and Financial Risk

It was noted that several countries had undertaken their own local quantitative impact study in order to be better prepared for QIS5 in the summer of 2010.

The Committee considered a paper on liquidity risk: it was agreed that this is an important area for further work, possibly in collaboration with the Pensions and Insurance Committees. The establishment of a joint working group will be discussed at the next meeting.

The latest developments in relation to the global ERM qualification (CERA) were noted – see above General Assembly and Freedoms and Professionalism sections. Particular concerns were raised by the Committee in relation to:

- the designation CERA requires clearer definition
- the word "Analyst" may not convey the right impression, and it could diminish the brand value of actuaries working in ERM
- fears that CERA will raise expectations and it cannot meet needs.

Christoph Krischanitz reported on his work towards development of a web portal on Market Consistency. Further work is required to ensure that there are adequate controls in place to

ensure appropriate updating and to avoid any commercial conflicts. It is hoped that the portal will become available as part of the Groupe's web site next spring.

The Committee considered a draft report by the joint IFR/Pensions working group on Defined Contributions. In the light of comments made during the discussion (and in a similar discussion at the Pensions Committee), a number of amendments were made to the report, and the final version was published to coincide with the Colloquium in Vienna on 23 October at which Ken Forman gave a presentation on the report. (The report is available in the [Publications](#) section of the web site). There may be scope for further work in this area, and this will be considered at the next meeting.

Education

The Committee discussed the comparison that had been made between the IAA Syllabus and the Groupe Core Syllabus and agreed the following:

- add Professionalism
- strengthen the modelling section (incl. Solvency)
- split stages 1 and 2
- allocate subjects to stages, map theoretical and practical subjects

Under the Groupe's Mutual Recognition Agreement (MRA) all fully-qualified actuaries should be educated according to the Core Syllabus. The current situation shows that there is no assessment procedure to assess the various educational structures of member associations. It was agreed to refer this issue to the Freedoms and Professionalism Committee, to consider the topic of MRA/recognition/regulation, and the possibility of a subsequent discipline process.

Regarding the overview of ECTS points allocated to the various stages of the Core Syllabus, it was noted that it reflects the desired situation with the outcome of the ECTS survey as a guideline.

The Committee considered the draft report of the Actuarial Standards Task Force and suggested a number of minor amendments to the Education sections.

The latest developments in relation to the global ERM qualification (CERA) were noted – see above General Assembly and Freedoms and Professionalism sections.

The Chairman gave an oral update on the current situation in relation to the International Actuarial Education Programme. At the IAA meeting in Tallinn in June it was decided that the project will be put 'on hold' if there is no development in the area of sponsorship. At this point no progress can be reported. The status will be discussed at the next meeting in Hyderabad in November.

It was agreed that, following the restructuring of the Core Syllabus, a formal assessment procedure is necessary. This should be broader than 'education', considering the various types of education among the Groupe member associations. It was suggested that, if an association complies with the Groupe Core Syllabus and the education is assessed according to an established procedure, then it is automatically assessed according to the IAA Syllabus. The next meeting of the Committee will consider:

- outlining an assessment questionnaire based on the question: 'How can you become an actuary in your country being compliant with Groupe Core Syllabus?'
- drafting an assessment procedure

The joint IAA / Groupe education seminar held in Tallinn was a modest success. Although the topic - 'Bridging the gap between theory and practice' – was an important one, the competition with other events resulted in the number of participants being lower than expected. The Committee will review whether to continue with the existing practice of holding a joint education seminar every 3 years.

The 22nd Colloquium, held in Vienna on 23 October on the theme of Pensions and Security, was very successful with an audience of 60 participants; on this occasion the financial risk for the Colloquium was accepted by the Austrian association. The Summer School held in Utrecht from 8-10 July on the topic 'Are you ready for Solvency II?' was a success and attracted 40 participants from 17 countries, although the fee was considered a little expensive. The next Summer School will be organised by the Hellenic Actuarial Society and will take place on the island of Samos in Greece from 29 June - 2 July 2010. The topic will be 'Enterprise Risk Management for Actuaries'. Details of the programme and speakers are available on the Groupe's web site.

The Committee has recommended the restructuring of Colloquia in the format of a two day Congress every 4 years instead of the current annual Colloquium. It was noted that the proposed schedule would take into account the dates of the IAA meetings. The first Groupe Congress could take place at the beginning of May or the second half of June 2012. (IAA meetings in Los Angeles, USA, 23-26 May 2012). It was agreed that the content of the Congress should focus less on academic papers and provide a good mix of parallel sessions which include life, insurance, etc (theory and practice).

New Groupe Chairman and Committee Chairmen

The Annual Meeting marked the end of Peter Prieler's (Austria) term of office as Chairman of the Groupe. Peter is succeeded as Chairman of the Groupe by Bruce Maxwell (Ireland). Chris Daykin (UK - Institute) becomes First Vice-Chairman, and Gabor Hanak (Hungary) was elected as Second Vice-Chairman. Peter now becomes the first Immediate Past President under the revised Statute on appointment of Officers

Malcolm Campbell (Sweden) and Ron Hersmis (Netherlands) were re-appointed chairmen of the Freedoms and Professionalism Committee and the Education Committee respectively, for a second three-year term. Jean Berthon (France) was appointed Honorary Treasurer for three years.

Meetings ahead

The next Groupe regular bilateral meeting with the Commission's Internal Market DG Insurance Unit in Brussels will be held on 14 December, at which a number of issues reported above will be discussed. In addition, there will be an initial meeting with CEIOPS in Frankfurt on 17 December to discuss the Groupe's proposals on professional standards.

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

- Freedoms, Insurance, Education – 15/16 April (Madrid)
- Pensions and IFR– 30 April (Warsaw)