e-Newsletter – May 2007

The Spring meetings of the Groupe's various committees have been spread over a much longer time period than usual. The Pensions and IFR Committees met in Brussels at the end of March (including a joint meeting to discuss areas of mutual interest). The Freedoms and Insurance Committees met in Reykjavik at the beginning of May, and the Education Committee will meet in Amsterdam in early June. This e-Newsletter provides a summary of the main issues considered at the first four of these meetings. Full details of the meetings can be found on the members-only page.

Freedoms and General Purposes

The Freedoms Committee is concerned about the recently-introduced Services Directive and the absence in it of any requirement for a visiting professional (actuary) to join the host association of the country in which he/she is working. The Committee is to ask associations to review their members' activities annually, and to encourage those working in other countries to join the host association.

One of the main issues continues to be the Role of the Actuary / the Actuarial Function. At the beginning of April, the Groupe was invited to comment on a draft of the proposed Framework Directive for Solvency II – which includes reference to the actuarial function, and reflects to some extent earlier suggestions by the Groupe. (Full details appear on the Solvency II page). However, the draft Directive distinguishes two other functions – risk modelling and risk management – the first of which seems to overlap significantly with the actuarial function. The Groupe's response has been to suggest that the risk modelling function be incorporated into the actuarial function. There will be further opportunities to comment when the Groupe's Officers meet Internal Market DG at the European Commission on 23 May, and when the Framework Directive is formally published in July.

The Committee approved changes to Article 13 of the Statutes concerning majorities and diversity of views, and these will be circulated to member associations for a 3-month exposure period before the Annual Meeting.

The development by the UK's Board for Actuarial Standards of a conceptual framework for technical standards could ultimately be of broader relevance to the European actuarial profession, and the Committee is maintaining an active interest in this area.

The Groupe's financial position in 2006 showed a substantial surplus, due in no small part to the success of the 19th Colloquium in Edinburgh. The surplus will be used to provide a number of bursaries over the next 2-3 years for young actuaries from the 2004/2007 EU accession countries to attend the Groupe's Colloquia. However, not all of the financial report was so positive. Under recent changes in UK tax legislation, the Groupe is now liable for corporation tax. As a "mutual trading" organisation, our tax liability should be very limited, but the UK authorities are currently investigating this mutual trading status.

The Committee considered revised proposals to divide its current responsibilities between a Freedoms and Professionalism Committee, the Education Committee and the Officers / Secretariat. Amongst the reasons behind these proposals are:

- elimination of duplication between the Freedoms and General Purposes Committee and the Education Committee, and between the FGP Committee and the Groupe;
- to restore more authority and debate to the Groupe at the Annual Meeting;
- to delegate a number of routine 'housekeeping' tasks to the Officers / Secretariat.

There are still some areas to resolve, in particular to satisfy the member associations that they will still be kept fully informed and have a proper opportunity for open discussion on important issues.

In response to an initiative from Vice-Chairman, Ad Kok, a programme will be developed for marketing the actuarial profession, aimed particularly at EU decision makers (the European Parliament and Council, CEIOPS). The programme will include producing a brochure about the profession, and a conference on the role of the actuary for EU decision makers.

Insurance

At the meeting in Reykjavik, Bart De Smet stood down as chairman of the Insurance Committee and was succeeded by Karel Goossens. Bart was warmly thanked for his hard work during a particularly busy period for the Committee. As the new chairman, Karel proposes to invite members of the Committee to complete a short questionnaire to provide their views on the Committee's work and its future direction and priorities.

The Solvency II project has now been running for some three years, and 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.

Over the past six months, the main work on the Solvency II project has been in relation to CEIOPS Consultation Papers CP15 – CP20, QIS3, and the draft Framework Directive. The steering group on technical provisions has been wound up, and its members and work subsumed by the Pillar I working groups. Going forward, the next developments in the Solvency II project will include:

- the extent of diversification for the calculation of the SCR;
- calculation of the SCR and MCR, and whether MCR is defined as a percentage of SCR or by its own formula;
- definition and approval of internal models, including minimum principles and standards for use;
- use of partial models;
- consideration of risk of natural catastrophe;
- further group/conglomerate issues;
- small companies.

In addition, the Commission have indicated that they will be seeking considerable assistance from the Groupe once the Framework Directive is published in order to deal with technical questions, particularly from the European Parliament

The Committee endorsed in principle proposals to develop a worldwide Solvency II Glossary, based on the joint CEA / Groupe Consultatif Glossary published earlier this year.

The Insurance Committee clearly has a significant interest in the Role of the Actuary / Actuarial Function issue described above, and the Solvency II project team – in particular the Pillar III working group – will be developing proposals for the structure and content of the Solvency Report.

The recently-published (and long-awaited) IASB discussion paper on accounting for insurance contracts provides another major topic for the Committee over the coming months. Comments on this paper are being prepared by the Pillar II working group.

The Committee's survey of gender differentiation in insurance, led by Manuel Peraita, is almost complete and should be published shortly.

Pensions

The Pensions Committee continues to maintain an active interest in the trends in pension funds following the implementation of the IORP Directive, in particular through the ongoing survey of financial assumptions used in valuing occupational pensions liabilities. This survey, the latest version of which (May 2007) is available on the Publications page, is of considerable interest to the Commission and CEIOPS. It is hoped to develop the survey from a purely retrospective update of technical changes to obtain information in advance about more fundamental changes in principles and policy which may be under consideration in member states.

The Committee is considering how to address the issue of creating more clarity to the question of mortality, which has been highlighted by the anomalous results from the recent mortality research survey by the Cass Business School.

The draft Portability Directive has been watered down very significantly in response to criticisms and comments from various organisations. Areas affected included vesting periods, dormant rights and transferability. The vesting period has been increased from 2 years to 5 years, and the maximum age for vesting has been increased to 25; however, there remains considerable confusion about the interaction of these two requirements. Fair treatment of dormant rights will be retained, but it is not clear how this is to be interpreted. It has been proposed that the Directive should only apply to "new contracts". The lack of clarity over transferability, questions over its consistent implementation, and whether it might not actually improve workers' rights, have prompted the Commission to withdraw transferability from the draft Directive. It might in future be the subject of a separate Directive. Despite the removal of transferability from the draft Directive, the Committee will be updating its survey of actuarial principles for transfers.

The Committee is reviewing its draft position statement on the application of Solvency II principles to IORPs, to include a contextual introduction identifying the great diversity of occupational pension provision across the EU, and underlining the status of this pension provision as a social contract rather than a guarantee (as is the case with insurance). Care will be taken to ensure that this statement is consistent with the comments and advice which the Insurance Committee has submitted to the Commission and CEIOPS.

Investment and Financial Risk

The Committee continues to monitor development of the Solvency II project, and the progress of UCITS legislation. The chairman of the Committee is discussing with his Insurance Committee counterpart how the IFR Committee can contribute to the Solvency II project: areas such as internal models and their validation are a possibility.

The working groups which were established on ALM, market consistent values, and defined contribution risks (the latter jointly with the Pensions Committee – see below for more details) are developing project proposals and identifying key issues. Progress reports from these three groups will be submitted to the next meeting.

It is planned to arrange a presentation on risk management tools by the Dutch supervisor at the Annual Meeting.

In view of the IFR Committee and the Pensions Committee having a number of areas of mutual interest, the two committees also held a joint meeting in Brussels. This meeting looked in particular detail at the possible topics for the joint working group on defined contribution risks:

- review the existing Pensions Committee survey of DC schemes to identify the different types of promises;
- general information gathering from other (external) sources, e.g. OECD, UK Actuarial Profession;
- target audience: actuaries; European Commission; pensions regulators;
- both accumulation and decumulation stages to be addressed, identifying the various risks which companies should be required to describe to beneficiaries;
- valuing the asset management side (i.e. do GIPS rules really work?).

Looking forward

There will be a bilateral meeting with the Commission's Internal Market DG Insurance Unit in Brussels on 23 May, at which a number of issues reported above will be discussed, including Solvency II and the Actuarial Function. It is planned that there will be further regular high-level meetings with the Managing Board of CEIOPS.

The Groupe's Summer School, on '*Technical Aspects in Solvency II*', will be held in Madrid from 17-20 July.

The Solvency II project team meets in Munich on 11 September.

The 20th Colloquium, on '*The Insurance Industry and Solvency II: new actuarial challenges*', takes place in Lillehammer on 21 September.

The Autumn meetings of the Groupe's committees will be held in Hamburg on 4-5 October 2007 in conjunction with the Annual Meeting.