

e-Newsletter – May 2008

The Spring meetings of the Groupe's five committees were held in April. The Pensions and Investment and Financial Risk (IFR) Committees met in Lisbon at the beginning of the month (including a joint meeting to discuss areas of mutual interest), while the Freedoms, Insurance and Education Committees met in Oslo two weeks later. This e-Newsletter provides a summary of the main issues considered at these meetings. Full details of the meetings can be found on the [members-only page](#).

Freedoms and General Purposes

One of the main issues continues to be the Role of the Actuary / the Actuarial Function. Over the past six months, the Groupe has submitted comments to the European Commission, CEIOPS and the European Parliament's rapporteur for Solvency II on the relevant paragraph (Article 47) of the framework Solvency II Directive. It now seems fairly certain that the Parliament and Council have accepted this Article, and it is now up to the Groupe and the actuarial profession to capitalise on the provisions of this Article. The provisions of the Solvency II Directive in general, and of Article 47 and the proposed Solvency Report in particular, will require an increase in demand for actuaries. This implication is recognised by, and of concern to, both the European Commission and CEIOPS. It is very important, therefore, that the Groupe demonstrates to these European institutions that we have the infrastructure and initiatives in place to meet the demand for actuaries and to provide appropriate governance. In addition, it was agreed to undertake a survey of national associations and industry in order to try and establish a picture of the supply and demand for actuaries. The results of this survey and the estimated demand will be compared in a short paper for the Commission and CEIOPS.

On the related topics, marketing the actuarial profession and branding the Groupe Consultatif, arrangements for production of a brochure to describe the European actuarial profession and the role of the Groupe are almost complete. Copies of the brochure will be printed shortly and sent to member associations for distribution to all stakeholders. Most associations will adopt the English brochure, with an insert where appropriate translating the text into the local language; one or two associations prefer to translate and re-print the brochure in their own language. The Freedoms Committee considered a discussion paper on branding and strategy: a final paper, incorporating comments from member associations, will be discussed at the next meeting.

The Committee considered a report on the activities of the UK Board for Actuarial Standards (BAS) and, in particular, the development of a conceptual framework for technical standards. This raised the wider issue of the Groupe's position in relation to European actuarial standards, where it was suggested that the draft Solvency Report proposals being prepared within the Insurance Committee (see below for more details) provided a good example of what the Groupe might present as European guidelines. In this and certain other areas there is an important opportunity to influence CEIOPS in defining standards which, if the Groupe does not grasp it, then national regulators (in particular the FSA in the UK) will. Several members of the Committee expressed concern over the conflict in trying to apply different standards – national, European and international. It was pointed out, however, that companies can and do operate with different standards already: if managed properly, conflict should be avoidable. In conclusion, it was agreed that the Groupe should take the initiative and open discussions with CEIOPS.

A questionnaire on implementation of the Mutual Recognition Agreement was agreed and has been circulated to member associations to initiate the statutory five-yearly review.

The Committee agreed to recommend to the General Assembly that the Society of Actuaries of Ukraine be admitted as an Observer Member of the Groupe.

Proposals for the procedure for the nomination of the next Second Vice-Chairman were approved. It was noted that Philip Shier (Pensions) and Falco Valkenburg (IFR) were willing to be considered for a second three-year term of office of these committees.

Insurance

At the meeting in Oslo, Rolf Stølting formally stepped down as manager of the Solvency II project after some four years in this role. Rolf was warmly thanked for the enormous energy and enthusiasm which he had brought to the project, his clarity, dignity and professionalism. The high quality and productivity of the Groupe's contributions have ensured recognition of the Groupe as a full stakeholder in the Solvency II project. Following Rolf's resignation as project manager, procedures are now under way to find and appoint a successor – it is hoped that this can be achieved by the end of June. The result will be posted on the Groupe's web site as soon as possible.

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](#). Over the past six months work has focussed in particular on:

- preparing comments on the proposed Solvency II Directive
- public hearing of the European Parliament ECON committee, and interaction with the European Commission and CEIOPS (CP23, CP24, CP25)
- project team meeting
- QIS4

Going forward, there will continue to be considerable time pressure on the project as the Commission and CEIOPS endeavour to achieve adoption of the Directive in late 2008 or early 2009 – before the next European Parliament elections in 2009. The main issues for the Groupe will include:

- participating business
- best estimate reserving
- internal models
- diversification
- further QIS exercises
- solvency report

With regard to the Solvency Report, the Committee is finalising a draft for discussion with CEIOPS and the European Commission. The intention is to create a document which is not prescriptive, but which provides guidelines and a template for supervisors.

The Committee plans to extend and update its earlier survey of gender differentiation in insurance, led by Manuel Peraita and Jim Murphy, to include information on implementation of the Gender Directive. The European Commission will also find this information very valuable. A questionnaire will be circulated to member associations in June.

Another topic which the Committee will be investigating is harmonisation of the regulatory framework for investment fund guarantees. There is concern that the Capital Requirements Directive does not capture these issues and, consequently, that there is scope for regulatory arbitrage between different financial sectors and countries.

Pensions

The Committee's survey on the use of mortality tables, although still to be completed with responses from some member associations, has highlighted the differences in actuaries' assumptions. It is interesting to note that auditors have become much more interested in mortality tables in the last couple of years. Once all responses have been consolidated, a high-level summary and conclusions will be prepared and circulated to the member associations for comments. Going forward, it is proposed to assist CEIOPS in determining who has responsibility for selecting the mortality tables used in calculating technical provisions.

There has been a shift in the European Commission's views in relation to solvency for IORPs, and it has decided that there would have to be a good business case for adopting Solvency II for pension funds. It is anticipated that the Commission will adopt a less structured approach to Solvency II for pensions.

The Solvency sub-committee of CEIOPS' Occupational Pensions Committee (OPC) is investigating the meaning of fully-funded schemes and other security mechanisms and how they function in practice. It is unlikely that there will be a role for our Pensions Committee in the short term, but we expect it will be consulted and make a contribution if and when a call for advice is issued by the Commission. Within CEIOPS, further analytical work by the Solvency sub-committee of its Occupational Pensions Committee has been proposed in the following areas:

- reserving methods and component parts of technical provisions;
- standards of funding: more precise statement of the liabilities to be covered;
- specific quantitative rules for reserving + solvency buffers and stress testing vs a principles based approach.
- recovery periods: specified time limits vs. a case-by-case approach with different degrees of intervention by the regulator
- adjustments to funding/benefits: new capital vs. potential decreases in benefits vs. additional payments by plan sponsor or employee
- other means of protecting the pension promise to members: supplementary solvency buffers, statutory powers to call upon the employer covenant,
- insolvency protection mechanisms, (ring fencing?).

While there is a lull in the political arena, the Committee will take the opportunity to prepare for future calls for advice by CEIOPS and the Commission by considering how pension schemes are run, their differences, and where convergence might be possible. This might not result in the formulation of a common position but in the recognition of the differences. The Committee will maintain close contact with CEIOPS, asking them what work has been carried out already and how the Groupe might further assist them. It is interesting to note that OECD has commissioned a German research organisation, Risk Lab, to produce a study on the quantitative impact of Solvency II for pensions. Risk Lab has prepared analyses for several model schemes and has submitted its report to OECD and, although a decision has not yet been taken on how to use the information, it is expected that Risk Lab will publish the report separately in the next few weeks.

The European Pensions Forum has spent a considerable amount of time under the Finnish, German, Portuguese and Slovenian presidencies discussing the draft Portability Directive, which has now been considerably watered down. The draft text is still being worked on, with the vesting period proving a particular sticking point. Transferability has been excluded, and it is likely that, in practice, the final Directive may have little impact since, by trying to satisfy all, it is likely to be reduced to the lowest common denominator. If approved, the Directive will become effective from 1 July 2013. The Pensions Forum's term has recently been extended and the Groupe was asked to confirm it wished to continue its participation in the Forum. It is

considered to be worthwhile for the Groupe to continue its involvement, as we have the technical expertise that many of the other representative bodies lack and we can correct any misapprehensions that other members might have.

Investment and Financial Risk

The working group on market consistency has prepared draft proposals to establish a web portal which would facilitate the sharing and dissemination of information on the wide range of issues related to market consistency. There is a wealth of sources on market consistency topics, but these are not always readily accessible: the aims of the web portal would be to bring all these sources together in one place, and to provide a platform for connecting people interested in this area. The Groupe's web site should be able to host the proposed portal.

There has been some delay in progressing the work of the working group on Defined Contributions while Rokas Gylys took over the leadership from Gijs van Ijssel Smits. Having now considered five possible areas for investigation, the group has decided to focus on issues related to the decumulation stage, which it was considered had received least attention and development. The group proposes to review the products available in selected EU countries, investigate the current issues, consider alternative options, and perhaps suggest best practice (or identify obstacles to best practice under current legislation). The main audience for the survey would be actuaries, regulators and legislators, but it is hoped that it would also be of interest and provide added value for a wider cross-section of society since there is a need for beneficiaries to have a better understanding of what DC schemes involve, particularly during the pay-out phase. An initial draft report should be available for the Committee's meeting in Spring 2009.

The Committee decided to postpone further work by the working group on ALM since Armin Holzmüller has had to stand down as leader of the group and little progress has been made since its establishment at the meeting in Barcelona in October 2006. There may be opportunities in relation to the Solvency II project and, in particular, its Internal Models working group, and the situation will be kept under review with the new Solvency II project manager.

At a joint meeting of the IFR Committee and the Pensions Committee, Falco Valkenburg gave a presentation on his views on Solvency for IORPs. In his presentation, Falco examined the current solvency arrangements for IORPs, the transition from Solvency I to Solvency II for insurers, and asked the question whether the difference between the solvency regimes for IORPs and insurance companies was justified. He referred to the "same risk = same capital" principle which underpins Solvency II, and suggested that the same principle could also be extended to the banking sector. Falco firmly believes that the actuarial profession should be taking the initiative to identify the similarities and differences between the solvency regimes, and to put a value on, for example, the contractual extra degrees of freedom and security which IORPs might have. More concrete proposals for a project will be considered the next meeting.

Education

The Education Committee has completed survey of member associations to obtain information in relation to the Core Syllabus and CPD. The Committee is continuing with its review of the Core Syllabus. A discussion paper based on the Dutch Competence and Professional Profile has generated a number of points to follow up, and a working group has been established which will:

- compare the existing Core Syllabus with the discussion paper
- extract all common qualities in order to define the core.
- define the specialist qualities
- define what is missing in the Core Syllabus (for example, professionalism, depth/level of knowledge maybe quantified in hours?)

The CPD working party has been reviewing the Groupe's existing CPD strategy document and has proposed a number of amendments, in particular in relation to the intention to introduce mandatory CPD in the future. It is recognised that this aspiration has to be tempered by the fact that every member association is in a different stage of development and deals with different legislation.

Looking forward

There will be a bilateral meeting with the Commission's Internal Market DG Insurance Unit in Brussels on 26 May, at which a number of the issues reported above will be discussed, including Solvency II and the Actuarial Function. In addition, there will be a further high-level meeting with CEIOPS on 6 June.

The Groupe's Summer School, on '*Solvency II and ERM*', will be held in Lyon from 21-23 July.

The Solvency II project team meets in Brussels on 2 September.

The 21st Colloquium will now be held in The Hague, Netherlands, on 21 November. The provisional theme is a topic related to Solvency for Pension Funds. Further details will be made available on the web site as soon as possible.

The Autumn meetings of the Groupe's committees will be held in Zurich on 25-26 September in conjunction with the 31st Annual Meeting.