

e-Newsletter – November 2007

This e-Newsletter provides a summary of the discussions at the Annual Meeting in Hamburg in October, and the associated Autumn meetings of the Groupe's committees. Full details of these meetings are available on the appropriate section of the members-only page.

The Groupe's 30th Annual Meeting was extremely well organised by the Deutsche Aktuarvereinigung and was a great success, attracting a large number of delegates and partners. As well as a full business agenda, described in the following paragraphs, there was an interesting and varied social programme hosted by the DAV culminating in the Gala Dinner at the exclusive Hamburg Hafen Club. In addition, there were lively and well-attended presentations on Enterprise Risk Management (Per Linnemann, IFR Committee) and Risk Modelling (René de Vries, Dutch Supervisory Authority).

Amongst the participants it was a particular pleasure to welcome the President of the IAA, Hillevi Mannonen, and Lynda Clark, widow of Peter Clark. It is the Groupe's tradition to present a small token of appreciation to Honorary Members and Chairmen, and Lynda was presented with a modern plaster relief of a classical 15th century portrait by Robert Campin in recognition of Peter's posthumous election as Honorary Chairman.

Freedoms and General Purposes

The Role of the Actuary and the Actuarial Function continue to represent a significant interest for the Freedoms Committee, particularly in relation to the recently-published Solvency II Framework Directive. It is pleasing to note references in the Framework Directive (for example, in relation to the need for governance and standards) which clearly reflect the Groupe's contributions and strengthen the position of the actuarial profession in relation to Solvency II. At the same time, however, a CEIOPS issues paper on Risk Management and other Corporate Issues appears to represent a retrograde step in relation to the actuarial function and what the Groupe had achieved in the Framework Directive. The CEIOPS paper disconnects the actuarial function from the risk modelling and risk management functions, and the Freedoms Committee emphasised the need to clarify the links between these functions. It is important that the Groupe responds to CEIOPS on these points, and maintains the position which has been achieved through our previous submissions.

On related topics, marketing the actuarial profession and branding the Groupe Consultatif, the Committee is progressing with plans for

- a brochure to describe the actuarial profession and the role of the Groupe
- a seminar for EU Parliamentarians particularly in relation to Solvency II

The brochure will also help to support the work of national actuarial associations, who will be encouraged to include a local supplement, and a list of MEPs attending the seminar will be circulated to the member associations so that they can follow up at national level. In addition, a small working group has been set up to develop proposals on branding.

Revised Terms of Reference for the Committee, which divide its current responsibilities between a Freedoms and Professionalism Committee, the Education Committee, and the Officers / Secretariat were accepted by the Groupe. The revised Terms of Reference appear elsewhere on the web site. Once the corresponding changes in the Statutes have been approved after the required three-month exposure period, the Committee will become known as the Freedoms and Professionalism Committee. Also regarding the Statutes, the Committee's proposed amendment to Article 13, which deals with majorities and diversity of views, was approved by the Groupe.

The Groupe's financial position at the end of 2006 was healthy, with an accumulated reserve equivalent to more than one year's expenditure. However, it should be noted that there are increasing commitments (for example, marketing the actuarial profession, Solvency II, activities with the EU Parliament, review of Secretariat, tax liability), which will have a significant impact on the Groupe's accumulated surplus. The Officers will be seeking to

quantify the costs of these potential future commitments. Despite this, the annual fee will remain at Euros 16 for 2009.

Arrangements for the next five-year review of the Mutual Recognition Agreement (MRA) have been put in hand. It was agreed to establish a small working group, comprising (initially) the Chairman and representatives from the UK and France, to draft a questionnaire to assess the operation of the MRA. In the light of this assessment, the working group will make recommendations on any changes required in the MRA.

The Romanian Actuarial Association (Asocitatie Romana de Actuariat) was admitted as a new Observer Member of the Groupe. The actuarial associations in Serbia, Bosnia/Herzegovina and Macedonia are to be invited to apply for Observer Membership. Further consideration will be given to the position of the actuarial associations in Georgia, Russia, Turkey and Ukraine.

Insurance

The main activity of the Insurance Committee continues to be the Solvency II project, and the project team and its working groups deserve great credit for the enormous amount of work which they have undertaken during the year, including the preparation of a number of key papers.. (For more details of the project, see the Solvency II page). The project team made substantial contributions to both the European Commission and CEIOPS, and it is particularly gratifying to note from the publication of the Framework Directive that these comments and contributions have had a significant influence.

During the summer, CEIOPS restructured its Expert Groups as follows:

- Financial Requirements - covering the former Solvency II Pillar I Expert Group's responsibilities, and QIS execution, but excluding internal models and group-related issues.
- Internal Models - responsible for drafting technical validation standards for internal models.
- Internal Governance, Supervisory Review and Reporting - will combine the responsibilities of the former Pillar II and Pillar III Expert Groups, including pure accounting issues, but excluding internal model and group related matters.
- Insurance Groups Supervision - It will add to its present responsibilities, group aspects under Solvency II.

We have adjusted the structure of our own working groups to reflect these changes by merging working groups 3 and 4, which will now address internal governance, supervisory review and reporting, and establishing a new group on internal models. Going forward, we can expect to see continued close collaboration with CEIOPS, particularly in relation to QIS4, best estimates, proxy solutions and internal models. The project team will also be developing proposals for the structure and content of the solvency report, which will be linked to further work on the actuarial function. There are a number of areas in the Framework Directive where there is an opportunity for the Groupe to consolidate actuarial input to the implementing measures in relation to the structure and responsibility for reporting. It is also important that the Groupe should be able to offer guidance to member associations in this area.

At the suggestion of the European Commission and following a meeting with rapporteurs from the EU Parliament, arrangements are being made for the Groupe to provide a seminar on Solvency II for MEPs. This is likely to be held in Brussels in December 2007 or January 2008.

On financial reporting issues, the Committee considered a summary of the differences between the IFRS approach and the approach of the Framework Solvency II Directive. The main difference is that the IFRS approach is contract-based, whereas the Solvency II approach is portfolio-based; consequently there are a number of differences in definitions,

although it is considered that some of these could be reconciled. It is necessary to acknowledge the different starting points and objectives of the two approaches – IFRS is for financial reporting, Solvency II for policyholder protection. Consequently the two approaches cannot be completely reconciled. Particular areas of difference noted by members of the Committee included:

- service margin
- risk margin
- applicable prudential filters

In submitting its comments in the discussion paper, the Groupe should seek to identify the differences, and how they could be treated or reconciled in order to keep the differences to a minimum.

The survey of gender differentiation is ready for publication even though there are one or two countries for which data are not available. It is intended that the survey be kept under review, with assistance from a small working group, including representatives from the UK, Ireland and the Netherlands. The Insurance Unit of the Commission's DG Internal Market is still anxious to have an independent objective survey of gender differentiation in insurance and would welcome the report in connection with their review of the moratorium in 2009.

Pensions

There continues to be considerable debate and uncertainty over the question of whether the same Solvency II principles should be applied to occupational pension funds. This is an issue which will be addressed by the European Commission and CEIOPS in detail in 2008 and, in the expectation that the Groupe will be invited to make a submission on the key actuarial and technical issues, the Committee will be developing its earlier draft position paper. This will consider such issues as:

- Is it possible, in practice, to harmonise pension arrangements in Europe and create a common standard?
- Should the security of the promise be the same for pension schemes as for insurance contracts or is it acceptable for the security of promise to be less secure?
- Is it appropriate, technically, for the same Solvency II framework to apply to pension funds as well as to insurance undertakings?
- Should the level of capital established to meet the technical provisions be held within the pension fund, or can part of the capital be held by the employer or elsewhere?

Despite concerns expressed previously that the CASS study of mortality contained significant inaccuracies, only minor corrections had been received from members. As a follow-up to the CASS report, a brief survey was undertaken by the Committee for its meeting in Barcelona in October 2006. The survey showed that actuaries were under political pressure to ignore evidence of future longevity trends. This questionnaire will be updated and circulated to Committee members for response before the next meeting to enable a new version to be available for discussion in Lisbon in April 2008. Apart from this, no further work will be undertaken in this area by the Committee. The IAA is in the process of establishing a mortality task force, and it is hoped that there will be a representative of the Groupe Consultatif on this task force.

The Committee's ongoing survey of financial assumptions used in valuing occupational pension liabilities continues to show a very wide level of variation between the methods and assumptions in Europe; contrary to our previous expectations, it appears that implementation of Article 15 of the IORP Directive has not narrowed the range. There is, therefore, some scope to examine what the concept of harmonisation means in the IORP Directive, whether it is working and, if so, how. It is proposed to build on this work by considering questions such as:

- where does harmonisation already occur?
- what are the underlying principles and benefits?
- what security do pension funds have at present (e.g. the backing of an employer's business)?
- what is or should be the strength and quality of regulation?

which it is hoped will help to trigger further discussion on the future of IORP in the light of the Directive.

A proposal is being developed for a new survey on guarantees in pension schemes, following discussions with a representative of OECD, the Chairman of the IAA's Pensions and Employee Benefits Committee and a former Chairman of the Groupe's Pensions Committee. It is intended to look at the different kinds of guarantees in defined benefit schemes: who carries the risks; how they are financed; how they are secured. Defined contribution schemes may also be included in the survey.

Investment and Financial Risk

The Committee maintains an interest in the progress of the Solvency II project, and reviewed a number of financial / investment terms and definitions included in the joint Groupe/CEA Glossary of Solvency II terminology. Particular areas in Solvency II of interest to the IFR Committee include:

- Pillar I – Capital Requirements for Market risks
- Pillar II – ALM as part of Supervisory Processes
- Pillar III – Publication/Disclosure in relation to ALM.

The Committee also has an interest in Solvency II from a pensions perspective, and hopes to contribute to the ongoing discussions relating to the IORP Directive described above. It is difficult to achieve a common approach on risk in relation to pensions. It was suggested that appropriate areas for the Groupe to consider are: the analysis of risks; making recommendations on how the solvency of undertakings should be reported; and ensuring that there is a common standard for calculating the solvency of a fund.

Following Per Linnemann's presentation on Enterprise Risk Management (ERM), the Committee agreed to undertake a survey of the current regulatory requirements in the member associations in order to obtain an overview of the formal legal wording and the national supervisors' actual requirements. There was a strong feeling that ERM should be introduced as part of the core syllabus – a point which was picked up by the Education Committee (see below).

Education

The Committee has established a working group to review the structure and content of the Core Syllabus, with a view to submitting a draft at the Annual Meeting in Zurich in September 2008. The working group will focus in particular on:

- Integrating (Enterprise) Risk Management
- Short details on each subject
- Define what is mandatory/recommended
- Rearrange what is already in the Core Syllabus
- Do not copy structure of IAA Core Syllabus
- Base it on the Bologna process

As already reported in the Freedoms Committee section above, the Terms of Reference for the Education Committee have been slightly amended as part of the restructuring of the role and responsibilities of the Freedoms Committee. These revised Terms of Reference appear elsewhere on the web site.

The CPD working party has established Terms of Reference and will shortly be circulating a survey questionnaire to all member associations to ascertain current CPD requirements and practices. At the same time, the working party will review the current CPD strategy and highlight the areas in the document that need to be updated, improved or strengthened. A number of specific points which have been identified for attention include:

- Reference not only to the amount of CPD but more importantly the content of the CPD.
- The intention to aim for mandatory CPD in the future for all member associations.
- Explicit requirements which the Groupe will expect associations to comply with.
- Risk that associations might lose a number of members if the CPD requirements are too tough.
- Need for availability of externally organised (distance learning) CPD, including e-learning possibilities with a good programme and at moderate cost.
- Not all CPD points are earned by attending seminars, etc. Points are also awarded for work in the national association and participation in (international) working groups, reading and self-assessment.

Both the 20th Colloquium, held in Lillehammer on 21 September, and the Summer School held in Madrid from 17-20 July were successful, and generated very favourable feedback from delegates. The Instituto de Actuarios Españoles will host the next Colloquium in Madrid in June 2008 (exact date and title still to be confirmed). The Institut des Actuaire will host a Summer School in France in 2008 – the location, date and topic will be published as soon as possible.

New Groupe Chairman and Vice-Chairmen

The Annual Meeting marked the end of Jukka Rantala's (Finland) term of office as Chairman of the Groupe. Jukka is succeeded as Chairman of the Groupe by Ad Kok (Netherlands). Peter Prieler (Austria) becomes First Vice-Chairman, and Bruce Maxwell (Ireland) was elected as Second Vice-Chairman.

Looking forward

It is expected that there will be one of the Groupe's regular bilateral meeting with the Commission's Internal Market DG Insurance Unit in Brussels shortly before Christmas, 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 Spring meetings of the Groupe's committees will be held as follows –

Pensions and IFR – 4 April (Lisbon)

Freedoms – 17 April (Oslo)

Insurance and Education – 18 April (Oslo)