

## **e-Newsletter – November 2006**

This e-Newsletter provides a summary of the discussions at the Annual Meeting in Barcelona 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 29<sup>th</sup> Annual Meeting was hosted by the Col.legi d'Actuaris de Catalunya 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 culminating in the Gala Dinner in the cloisters of the Santa Ana monastery.

Although the Annual Meeting was characterised by the usual "buzz" of old friends coming together, there was also a shadow of sadness over the absence of one particular old friend – Peter Clark, who died suddenly earlier in the year. Peter had a long association with the Groupe, and his contributions both to the business and social aspects will be greatly missed by all who knew him. It is only fitting that the Groupe unanimously agreed to elect Peter posthumously as Honorary Chairman. The [attached newsletter of the Cyprus Association of Actuaries](#) is dedicated to his memory.

### **Freedoms and General Purposes**

The work of the Freedoms Committee has been dominated by the development of proposals for the Role of the Actuary, particularly in relation to the forthcoming Solvency Directive. This work has been taken forward by Committee chairman, Ad Kok, and a small working group. It has been greatly encouraged by comments from the Head of the Insurance Unit at the European Commission's DG Internal Market that the actuarial function will become more important with the advent of a risk-based solvency system. In the course of meetings with CEIOPS and the Commission, the Groupe has been invited to draft a high-level framework of principles for the Directive to ensure a consistent approach to the actuarial background required for the Solvency Report. Since the Groupe will be meeting the Commission in early December to discuss this issue further, and the Commission are working to a timetable of February 2007 for publishing a draft framework Directive, there has been some urgency to obtain input from member associations to help prepare appropriate text for the Commission. Of course, there is much more detailed work which requires further development, and this has been delegated to other committees or small working groups of the Freedoms Committee as follows –

- Solvency Report;
- Governance;
- Guidance Notes;
- Actuarial Standards;
- Continuing Professional Development;
- Relationship between actuary and auditor

The Committee discussed proposals for the amendment of Article 13 of the Statutes, to clarify procedures for dealing with lack of consensus and diversity of views. The question of reviewing guidance notes and the Code of Conduct has been referred to a small working group of the Committee as part of its work on the Role of the Actuary.

It is gratifying to note the view expressed by the Commission's Regulated Professions Unit that the Groupe's Mutual Recognition Agreement is consistent with the new Directive on Recognition of Professional Qualifications, and that there appears to be no benefit in pursuing a common platform for the actuarial profession in Europe. However, in some countries, mutual recognition is hampered by national legislation and the Committee will be examining this issue further to see whether adopting a common platform might address the problem. It was also noted that the adoption of a common platform might help with the concern raised by the proposal in the draft Services Directive that a visiting actuary would not have to register with the host association.

The Groupe's financial position at the end of 2005 was healthy, with an accumulated reserve equivalent to more than one year's expenditure. However, the Groupe will, in future, incur corporation tax liability. Despite this, the annual fee will remain at Euros 16 for 2008. The Committee agreed guidelines for reimbursement of expenses to Officers of the Groupe and others representing the Groupe in an official capacity (subject to approval in advance).

The strategy task force which was established at the 2003 Annual Meeting in Athens has been discontinued. However, the Committee will continue to keep the Groupe's strategy under review and, in particular, will further consider draft proposals for restructuring as two separate committees – one dealing with professionalism matters, and one with business and executive issues.

## **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 central topics have been –

- Third wave of calls for advice from the Commission to CEIOPS;
- Methodologies for the calculation of the risk margin, where there was significant diversity of views within the project team;
- Diversification – the Groupe's paper on this topic has profoundly influenced CEIOPS' thinking;
- Calculation of the best estimate for technical provisions, where there was tension between the task-force and working groups 1 and 2;
- Responses to CEIOPS consultation papers CP13 and CP14;
- Input to QIS2;
- The joint Groupe / CEA Glossary of Solvency Terminology.

On the Glossary, it is planned to extend this on a world-wide basis with IAA, IAIS and the insurance industry, but with care taken to maintain a European dimension and not to allow overall control to pass to IAIS, which might jeopardise the balance and perspective of the content. It is hoped that the Groupe will continue to have some role and influence in the future development of the Glossary. (The Glossary is available on the [Solvency II page](#) of the web site).

The Committee had hoped to have an opportunity to consider the IASB discussion paper on a new accounting model for insurance contracts. However, publication of this paper has been delayed until December 2006, although the remaining timetable is unchanged, with an exposure draft expected in mid-2008 and a final standard in mid-2009. The Committee are aware of the key issues which are likely to be addressed in the discussion paper and, as soon as it is published, Solvency working group 4 will take the lead in preparing a response to it. It is worth remembering that the new accounting standards, when introduced, will not be obligatory for all – e.g. not for smaller companies. In addition, it seems that the application of IFRS4 has not really achieved a great deal, although it has made embedded values more popular for life companies.

The survey of gender differentiation which was started in Spring 2004 has not yet been published because the necessary data has not been received from some member associations. However, a renewed effort to complete the survey is about to be made. The Insurance Unit of the Commission's DG Internal Market are still anxious to have a quality objective survey of gender differentiation in insurance.

## **Pensions**

It was noted that the European Commission is now taking action, including legal action, to ensure compliance with the IORP Directive. The Committee will maintain a watching brief on compliance in the member states and will keep the Commission informed.

A number of concerns have been expressed, both by members of the Committee and elsewhere, that the results of the Cass Business School mortality research project are not entirely consistent with other published data, or indeed with the Committee's own informal survey amongst member associations. Members of the Committee have been asked to review the validity of the Cass data for their own countries. In addition, the Committee's own survey will be formalised and extended to address issues such as –

- Who decides which mortality tables are used;
- How often these tables are revised;
- To what extent allowance is made for expected future trends in mortality

Once the survey is complete, the Committee will consider how the results might be used (e.g. a guidance note, best practice principles, etc).

It was noted that there are a number of issues still to be resolved by the Commission in relation to the draft Portability Directive: it is likely that there will be changes in the draft Directive as a result. The Groupe's advice, and the results of the Committee's updated survey of actuarial principles for transfers, will be particularly welcomed by the Commission.

The third edition of the survey on financial assumptions used in valuing occupational pensions liabilities (as at December 2005) will be published shortly on the Groupe's web site; this material will help to show trends following implementation of the IORP Directive. For the next edition (December 2006), it is proposed to extend the survey to include the new EU member states and to add some further questions.

The Committee will be liaising with the Investment and Financial Risk Committee to develop and update the survey on Defined Contribution arrangements.

## **Investment and Financial Risk**

After a long period in preparation, the survey of risk management practices is now complete and ready for publication.

The Committee contributed comments on a number of finance and investment terms defined in the Solvency II Glossary (see above). A small working group is being established to draft a response to the forthcoming UCITS White Paper on investment funds.

Following a survey of Committee members on the most appropriate areas on which work should be focussed, a number of small working groups have been established in –

- ALM, in particular from a supervisory perspective; it was hoped to produce a paper for discussion with CEIOPS/CESR;
- Market-consistent values;
- Defined contribution pension schemes (jointly with the Pensions Committee), examining in particular types of risk before and after retirement

It is hoped that the establishment of these working groups will encourage more members to participate in the work of the Committee. In addition, it is planned to have a series of invited presentations from members from central / eastern Europe, where economic development is at different stages, and their key issues and priorities, and to invite presentations, possibly from external speakers, on enterprise risk management, and the Dutch financial integrated risk model.

## **Education**

The pace of development of the International Actuarial Education Programme (IAEP) has been slower than expected. A small steering group, including the new chairman of the Committee, was established at the recent IAA meetings.

As already reported in the Freedoms Committee section above, there are concerns over mutual recognition in countries where the government defines the profession (Spain in particular, also Italy and Greece). It is possible that adoption of a common platform for the actuarial profession in Europe (under the new Directive on Recognition of Professional Qualifications) might make it easier to address this problem. It was noted that the European Commission has offered to intercede on a bilateral basis where there are mutual recognition problems.

In response to the challenges which are expected to be posed by new Solvency requirements and IFRS for appropriate governance and technical skills, the Committee is setting up a small working group to develop a matrix of CPD requirements and provision. The Committee will explore the most effective ways of delivering CPD, including use of the Internet. It will be important to bear in mind the CPD requirements of more senior actuaries.

Both the 19<sup>th</sup> Colloquium, held in Edinburgh on 22 September as part of the 150<sup>th</sup> anniversary celebrations of the Faculty of Actuaries, and the Summer School held in Parma from 29 August – 1 September were successful, and generated very favourable feedback from delegates. More recently, a joint Groupe / IAA Education Seminar, also in Edinburgh, attracted an audience from around the world and across the actuarial spectrum. As part of its 50<sup>th</sup> anniversary celebrations, the Instituto de Actuarios Españoles will host a Summer School in Madrid in July 2007, and a Colloquium in June 2008. It is anticipated that there will be strong demand in particular for the Summer School, given its topic (Technical Aspects of Solvency II), and the Committee will ensure that the teaching materials from the Summer School are made as widely available as possible.

The Committee will review the Core Syllabus again, particularly in relation to solvency and financial condition reporting.

## **New Groupe Chairman and Committee Chairmen**

The Annual Meeting marked the end of Costa Koutsopoulos' (Greece) term of office as Chairman of the Groupe. Costa also intimated that he was retiring as the membre titulaire for the Hellenic Actuarial Society after 25 years, and he was warmly thanked by the Groupe for his long and devoted service. Costa is succeeded as Chairman of the Groupe by Jukka Rantala (Finland). Ad Kok (Netherlands) becomes First Vice-Chairman, and Peter Prieler (Austria) was elected as Second Vice-Chairman.

Also at the Annual Meeting, Chris Daykin and Ad Kok relinquished office as chairmen of the Education Committee and the Freedoms Committee respectively. They have been succeeded by Ron Hersmis (Netherlands) and Malcolm Campbell (Sweden) respectively, Bart De Smet (Belgium) was nominated to continue as chairman of the Insurance Committee for a second three-year term; unfortunately, however, work commitments preclude him from fulfilling this appointment and procedures have now been put in place to appoint a successor as soon as possible. Bart will continue as chairman for the time being until his successor is able to take up the role.

## **Looking forward**

There will be a bilateral meeting with the Commission's Internal Market DG Insurance Unit in Brussels on 5 December, at which a number of issues reported above will be discussed, including Role of the Actuary and Solvency II. 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 – 29/30 March (Brussels or Amsterdam – to be confirmed)

Freedoms and Insurance – 3/4 May (Reykjavik)