

e-Newsletter – May/June 2005

Over the past few weeks the Groupe has been very active with its regular half-yearly committee meetings, a seminar on the Independence of the Actuary, and the 18th Annual Colloquium. This newsletter provides a summary of the main issues discussed at these meetings. More comprehensive information can be found in the minutes of the appropriate committees on the members-only page; for the seminar and Colloquium, the presentations are available on the Groupe events page.

Freedoms and General Purposes

The Freedoms and General Purposes Committee met in Eisenstadt on 14 April. Some final minor amendments were made to the Mutual Recognition Agreement (MRA) and to the Heubeck letter (the guidelines on implementation of the MRA), and these will now be circulated to all full member associations for signature. This revised MRA will replace the previous version (1997), and will include a number of member associations from the 'new' EU countries for the first time. The new MRA will be reviewed in five years' time. During discussions on the Heubeck letter, the issue of migrant actuaries reporting to their home association was raised. The Freedoms and General Purposes Committee may undertake a survey of the different practices relating to official or compulsory contact between actuaries and their home association. Although the MRA appears to work well within the EU, there is anecdotal evidence that members of some associations are experiencing problems gaining acceptance in actuarial positions in several Asian countries. The Committee will consider a proposal for action in the light of the evidence from member associations.

A few final amendments were adopted for the revision of the Groupe's Statutes, and the final version will now be circulated to the member associations for the necessary three month exposure period and, it is hoped, formal adoption at the Annual Meeting in Cyprus in October. At the request of Jean Berthon, the Statutes will also be translated into French.

The task force which has been reviewing the Groupe's future strategy and development identified three options -

- continue with present informal structure;
- form a Federation or Association of associations with a formal legal structure;
- form a single European Actuarial Association.

The majority view amongst those associations which responded to the task force was in favour of option 2. (The full text of the responses received is available in the Freedoms page of the members-only section.) The task force is now continuing with its next priorities -

- identify and define the Groupe's mission and aims clearly;
- distinguish the role of the Federation/Association, and of the member associations;
- establish a decision-making process based on majority rather than consensus, without marginalising smaller associations;
- prepare a business plan and budget;

and developing committee restructuring proposals put forward by Groupe Chairman, Paul Grace. Formal proposals from the task force will be circulated to member associations for consideration and discussion at the next meeting of the Committee.

Issues relating to the independence of the actuary came to particular prominence with the publication of the report of the Morris review into the Actuarial Profession in the UK. It is unclear to what extent the changes proposed by the Morris Report, and being implemented in the UK, may have consequences in other countries. For example, the external review of the actuarial syllabus proposed by the Morris Report could filter through to the Groupe's Core Syllabus, as could compulsory monitoring of CPD. The Groupe organised a half-day seminar on the Independence of the Actuary, which attracted some 40 participants. The seminar included a provocative opening presentation by Professor André Bindenga, an overview of the Morris report by Harvie Brown, a thoughtful insight by Esko Kivisaari, and a vigorous group breakout session and plenary discussion. (The presentations from the seminar are available on the Groupe Events page).

The 18th Annual Colloquium in Lisbon on 27 May, on the theme *New Challenges to the Actuarial Profession: Implementation of the International Accounting Standards and New European Solvency System*, was very successful and attracted a capacity audience of 140 delegates – the highest attendance for several years. The presentations of the six speakers – from Portugal, Belgium, Netherlands, UK, European Commission and Canada – are available on the Groupe Events page. The general format of the Groupe's Colloquia has remained unchanged since its inception in 1982 and, although this year's event was very successful, it is

time to review the format and arrangements for the Colloquium. A small working group will look into issues such as registration fee, length and level of the Colloquium, closer liaison with national and regional events, extending target audience, etc, and report to the next meeting.

The forthcoming summer school in Trieste in July, on the theme *Modelling mortality dynamics for pensions and annuity business*, looks like being every bit as successful as the Colloquium - registrations closed in April, several weeks ahead of schedule.

A second actuarial association, Associação de Actuários Profissionais, has been established recently in Portugal, largely for the purpose of developing actuarial education.

Those who were present at the Groupe's meetings in Manchester in October 2004 will recall that several of the meetings were recorded by a university researcher as part of a study into the use of English in a business context by non-native speakers. Participants were also invited to complete questionnaires on their abilities in, and business use of, English. The analysis of these questionnaires is included with the minutes of the 14 April meeting on the Freedoms page of the members-only section. A more comprehensive report based on analysis of the video and audio recordings, should be available at the Annual Meeting in Cyprus in October 2005.

Insurance

The Insurance Committee met in Eisenstadt on 15 April. Its activities continue to be dominated by the Solvency II project – which has its own Newsletter and Solvency II page on the website where more extensive details of the project are available. Recent changes in personnel at the Commission's Internal Market DG Insurance Unit have had an effect on the Solvency II timetable: for instance, the proposed new draft framework Directive is now expected in October 2006 instead of October 2005, and a clearer schedule of milestones for the project has been defined. The CEA also has its own substantial Solvency II project, although with an industry bias rather than the Groupe's professional interest. The Groupe and the CEA will be collaborating to produce a Glossary of terms in common use, which will be shared with the Commission, CEIOPS and the IAA. The Groupe also hopes to establish closer links with the CRO/CFO Forums which are also undertaking their own work on Solvency II. Summaries of the activities of the five working groups were presented to the Committee, and these presentations are included with the minutes of the 15 April meeting on the Insurance page of the members-only section. Working groups 1 and 2 (Pillar I life and non-life) are being merged, in line with what is happening with the corresponding CEIOPS groups. The Groupe has been invited to give a presentation on Solvency II to European Supervisors at a plenary meeting of CEIOPS on 27 June. (This meeting will also include shorter presentations on issues relating to implementation of the IORP Pensions Directive and independence of the actuary). It is also proposed to organise a Groupe workshop on Solvency II at the IAA Congress in Paris in June 2006.

Another important area concerns IASB/Financial Reporting. The main issues of Phase I of the implementation of IAS/IFRS have been addressed through the fair value option and the EU 'carve-out', although there is a need for further amendments to the disclosure requirements until Phase II is developed. The time-scale for Phase II is too long for the purposes of the Solvency II project, and consequently the Commission and CEIOPS propose to develop their own reporting requirements. Although CEIOPS intend to follow IFRS as closely as possible, it is recognised that the requirements of European regulators will differ from those of IASB. Consequently, the Solvency II reporting requirements will be different from those of Phase II. The Groupe's response to CEIOPS consultation paper CP-03/04 (Implications of IAS/IFRS introduction for the prudential supervision of insurance undertakings) sets out the major concerns over the suitability of IAS/IFRS as a strong basis for Solvency measures. The general feeling is that, in principle, IAS/IFRS do not provide a strong base for Solvency measures but, in practice, the industry will have to live with them for the time being.

The survey of gender discrimination in insurance is almost complete and will be reported at the next meeting of the Committee in October before submission to the Commission. At this stage, it is already clear that there is some degree of differentiation in insurance premiums by gender in all EU member states. It may therefore be useful to add a question to the survey to examine how each member state would implement the Directive.

With regard to the introduction of a Directive on Reinsurance Supervision, the European Parliament and Council have reached agreement that like reinsurers will use the solvency margin calculations applicable to non-life reinsurers (at least until any further changes when Solvency II is introduced). There are political differences between the EU and North America over collateral requirements, with the US in particular insisting on very stringent requirements which are not widely accepted in Europe. The Commission is in favour of abolishing such collateral requirements as anti-competitive for EU reinsurers, although some Member States have requested a lengthy transitional period. A recent report on reinsurance market

statistics produced by IAIS shows EU reinsurers to be very proactive in comparison to the US, and also proved that allegations by the banking industry that reinsurance is a 'black hole' are unfounded. These statistics will continue to be refined and extended, and will provide a useful reference source and demonstrate transparency.

Pensions

The Pensions Committee, which met in Hamburg on 18 March, continues to keep under review progress in individual countries with implementation of the IORP Directive. At present there is no evidence of supra-national problems which the Groupe might draw to the attention of the Commission. The first edition of the survey of financial assumptions used in valuing occupational pensions liabilities will be published shortly on the Publications page. This is based on 2003 data; work will now begin on the second edition, based on 2004 data. The intention of this survey is to build up a comparative picture which reflects changes year-on-year as the IORP Directive is implemented. This will assist the Commission and CEIOPS with monitoring convergence after the two-year implementation period.

In the Mortality Research Project, the final report will cover both phases of the project (in-country analysis and cross-country comparison) since there is significant overlap between the two phases. Although there have been some local problems regarding availability of the most appropriate data, it is hoped to be able to resolve these for the final report.

In addition to a number of other surveys which have been updated on the Publications page, the Committee will also shortly publish Guidelines on Implementation of the Prudent person Principle. Considerable interest has already been expressed by the Commission, CEIOPS and OECD.

The survey of gender discrimination in insurance, to which reference has been made above, is also of interest to the pensions Committee, and every effort will be made to ensure that relevant pensions aspects are covered by the survey.

Investment and Financial Risk

The IFR Committee met in Copenhagen on 13 May. The main focus of interest continues to be the survey of Risk Management Practices. So far, just under half of the responses have been received, and member associations are being reminded and encouraged to submit their responses. It is recognised that the survey questionnaire is long and complex, and a specimen answer prepared from selected sections of the replies already received will be circulated in order to help others with completion. There will ultimately be a considerable volume of data to analyse, and this will be undertaken by a small group of experts.

The Committee continues to keep a close eye on the Solvency II project, where it would like to have a more active role. The results of the Risk Management practices survey will provide valuable input to the Solvency II project, and could possibly be extended into other risk areas.

The Committee believes that there should be closer liaison with the Insurance and Pensions Committees, with whom there are significant areas of overlap (e.g. solvency, risk management, asset liability mismatching), and possibly a review of its Terms of Reference is required in order to achieve this. Clearly this could be linked to the current strategic review of the Groupe.

It is hoped to look more closely at how best to develop the role of the actuary into the broader fields of financial and enterprise risk management, if the profession is not to lose out to other professions in these areas.

Looking forward

There will be a bilateral meeting with the European Commission's Internal Market DG Insurance Unit in Brussels on 3 June, to discuss the Solvency II project, and a meeting with the Insurance and Pensions Supervisors (CEIOPS) in London on 27 June at which the Groupe's representatives will give presentations on Solvency II, issues relating to implementation of the IORP (Pensions) Directive, and the position and independence of the actuary.

We are also looking forward to the Groupe's 28th Annual Meeting, and its associated Committee meetings, in Nicosia, Cyprus, on 20-21 October.