

e-Newsletter – November 2005

The Groupe's 28th Annual Meeting and its associated committee meetings were held in Nicosia, Cyprus on 20/21 October, hosted by the Cyprus Association of Actuaries. The meetings were attended by a large number of representatives, many accompanied by partners, who were attracted by a very full business agenda and by some late autumn warmth and sunshine. And it was not only the weather that was warm and sunny – the members of CAA provided excellent hospitality and a most attractive social programme.

The following paragraphs summarise the main issues which were discussed during the two days of meetings. The full minutes of these committee meetings are, or will shortly appear, on the [members-only page](#).

Freedoms & General Purposes

The Groupe has formally adopted revised Statutes (these are available, in English and French, [here](#)) which abolish the Associate Member category. Former Associate Members – Switzerland, Norway and Iceland – now become Full Members. In addition, applications from the Lithuanian Actuarial Society (previously an Observer Member) and the Slovak Society of Actuaries for Full Membership, and from the Bulgarian Actuarial Society for Observer Membership were also approved. The Groupe now comprises 33 member associations in 30 countries, representing over 14000 actuaries.

After a lengthy period of revision, a new Mutual Recognition Agreement (MRA) and the associated 'Heubeck letter' guidelines have been adopted by the Groupe. This new MRA, to which all Full Member associations must be signatories, is now with the associations for signature. Ironically, just as the new MRA was being finalised, the European Parliament has adopted a new Directive on recognition of professional qualifications – which is likely to require us to undertake a further review of the MRA in due course. This Directive introduces the concept of "common platforms" (which are vetted and approved by the European Commission) to facilitate mutual recognition, and it may be appropriate for the Groupe to follow this approach. The Education Committee will be exploring this issue. Certainly the current MRA and our Core Syllabus should provide a substantial basis for a common platform for the actuarial profession should it be decided to proceed in this direction.

The task force which was set up to review the Groupe's future strategy and structure has drafted a mission statement, aims and objectives, and a short statement on organisation and rules of operation. These will be made available shortly in a dedicated [discussion forum](#), along with a draft business plan and budget, and committee restructuring proposals. In the light of the comments which are received, the task force will develop formal proposals by mid-March 2006 for member associations to consider and discuss at the Committee's next meeting in April.

The most substantial issue for the Committee was that of the role and independence of the actuary, and the actuarial function. The importance of this topic has been brought into sharp focus by two events:

- An invitation from the Commission's Internal Market DG to formulate proposals for the role of the actuary, in the context of the Solvency II project; and
- The recent CEIOPS consultation paper CP7 (Draft answers to the second wave of calls for advice in Solvency II), which identified a number of areas where actuarial input is required – but at the same time suggested that such work need not be undertaken by an actuary. In an appendix to this consultation paper, CEIOPS sought to define the 'role of the actuarial function'. (This paper is available on the [Solvency II page](#)).

Committee chairman, Ad Kok, gave a presentation which developed his earlier work concerning the independence and professional responsibilities of the actuary. (This presentation is available, in pdf format, as an annex to the Committee's minutes on the [members-only page](#), and in a dedicated [discussion forum](#)). The thrust of Ad's presentation was that the Groupe now has a unique opportunity to be proactive in establishing, developing

and enhancing the role of the actuary in relation to the European regulatory and supervisory framework. Ad is now drafting a paper, which will set out key issues and principles, for discussion with the Commission on 7 December. Members are encouraged to participate in the development of this paper by joining the [discussion forum](#).

Plans for the 19th Colloquium, to be held in Edinburgh on 22 September 2006 as part of the Faculty of Actuaries' 150th anniversary celebrations, are well advanced. The theme of the Colloquium will be 'Risk and Capital Management in Insurance', with six leading speakers from across Europe. Full details of the Colloquium will be published on the website as soon as they are available.

Insurance

The main focus 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 – involving numerous meetings and presentations, both internally and with CEIOPS and Internal Market DG, and the preparation of a number of key papers. (For more details on the project, see the [Solvency II page](#)). The main issues have been:

- the Commission's revised framework for the Solvency II project;
- 10 key questions from CEIOPS on the second wave of calls for advice;
- Glossary project;
- response to first wave of calls for advice;
- response to second wave of calls for advice;
- response to proposed amendments in Insurance Groups Directive;
- a publication on Diversification.

The response to CEIOPS consultation paper CP7 (Draft answers to second wave of calls for advice) was a source of extensive debate. Traditionally the Groupe has operated by consensus but, in drafting the response to CP7, it was clear that there was a divergence of opinion in the project team over the architecture and calculation of risk margin, SCR and MCR. In order to meet the deadline for responses to be submitted to CEIOPS, the Committee chairman, Bart De Smet, opted for an interim response in which he reserved the Groupe's position pending a full discussion by the Committee. This discussion took place in Nicosia, where a supplementary response was eventually agreed. In addition, it was confirmed that, under the circumstances, it was appropriate – and, indeed, important – that CEIOPS should be made aware that there is no single answer to the questions involved. (It is interesting to note that CEA and CRO Forum each use different approaches). The full texts of both the interim and the supplementary response are available on the [Solvency II page](#).

Amongst the other specific aspects of the Solvency II project, it is worth drawing attention to:

- a technical paper on diversification issues, prepared by working group 5, which is available as a download [here](#), and which is being sent to a number of interested parties including the Commission, CEIOPS, IAA, CEA and CRO Forum;
- the draft Glossary of definitions, which are based as far as possible on existing definitions from other sources; these definitions are currently with members for comment;
- quantitative impact studies (QIS), where CEIOPS has requested advice and assistance, in particular in relation to:
 - definition of a common set of modelling assumptions and parameters concerning the distribution of the discounted ultimate loss per line of business.
 - investigation of the extent to which the calculation of reasonable proxies of the expected value and of the 75th percentile of distributions is possible per line and per

country for each company on the basis of simple available data only (i.e. balance sheet details). This could eventually be possible by making assumptions concerning typical development of claims per country and line of business. In this way companies without sufficient actuarial expertise could also deliver figures for their reserves and the risk margin without too much difficulty.

Whilst we are happy in principle to offer such assistance, this could be a significant undertaking. A small task force of experts will be set up in the first instance, and CEIOPS asked to provide more information on their requirements and timescale in order to try and establish some simple milestones. Interested individuals and companies are encouraged to contact their national actuarial association. There is concern within the Committee that many insurance companies will not have the resources or expertise to participate in the QIS, yet CEIOPS requires results from QIS in order to help develop Solvency II.

The question of applicability of Solvency II requirements to occupational pension funds, which was raised by CEIOPS during a meeting in June, is being considered jointly with the Pensions Committee.

The survey of gender differentiation in insurance, which has been undertaken over the past year, is nearing completion. The report, which is expected by the end of the year, will be made available on the [Publications page](#). Thereafter the survey will be extended to include occupational pensions aspects.

Pensions

The IORP Directive, which was adopted by the European Parliament in September 2003, should, in principle, have now been transposed into national legislation and implemented. However, the evidence is that the position varies across Europe: in some countries (eg Denmark, Germany, Ireland) the Directive has been fully implemented; in others (eg UK, Netherlands) implementation is almost complete, with only a few legislative details outstanding; others (eg Sweden, Italy, Finland) have not yet implemented it, although discussions are taking place at Government/Supervisor level regarding the necessary legislative changes.

The first two phases of the Mortality Research Project, which examines mortality tables used in occupational pension schemes in different European countries, are complete and the report will be available before the end of the year. In the light of the report, the Committee expects to consider further both mortality and financial assumptions, and the extent to which the Directive has affected the assumptions. The first edition of the Committee's survey of financial assumptions used in valuing occupational pensions liabilities (to December 2003) was published earlier this year, and the second edition (to December 2004) will be published shortly. Information for the 2005 edition will be sought soon, the results of which will be interesting now that the Directive is in force.

The Committee provides regular updates to a number of other surveys which are available on the [Publications page](#):

- Taxation of occupational pensions schemes
- Professional responsibilities of pensions actuaries
- Security of pension rights
- Defined Contribution arrangements
- Pensions aspects of corporate transactions

The Committee's survey on actuarial principles for transfers will be revised in the light of the new Portability Directive which has just been published. A new publication setting out guidelines on the Prudent Person Principle will be added to the [Publications page](#) shortly. The IAA has published a companion volume to the Groupe's survey of actuarial methods and

assumptions used in the valuation of retirement benefits, to cover a number of non-European countries.

Close links have been established with CEIOPS, and invited presentations on the implementation of the IORP Directive and technical provisions will be given at the CEIOPS Conference on 16 November and to the CEIOPS Pensions Committee on 30 November by Chinu Patel.

As reported above, the Pensions Committee and the Insurance Committee are liaising over the convergence of pensions and insurance solvency requirements, and gender differentiation issues.

Investment & Financial Risk

The majority of associations have now provided responses to the comprehensive survey of risk management practices which was launched a year ago. The analysis of the responses is almost complete and the survey report will be available on the [Publications page](#) of the website by the end of the year. Before publication, the survey report will be reviewed to include an understanding of the differences in terminology between banking and insurance. The survey will provide valuable input to the Solvency II project and its quantitative impact studies. The Committee will be comparing the way in which Basel II deals with asset, market and liquidity risk with the proposals on these issues in Solvency II.

The Committee is preparing a response to a Commission Green Paper on the enhancement of the EU framework for investment funds. The Green Paper reviews the functioning of the legislative framework for investment funds provided for by the UCITS Directive (Undertakings for Collective Investment in Transferable Securities), which seeks to enable a fund authorised in one Member State to be sold across the EU while assuring a high level of investor protection, and in particular considers the need for a coherent set of principles governing the sale and disclosure process for all private investment vehicles.

Education

Revision of the Core Syllabus is complete, and has been formally adopted by the Groupe – the new version is available [here](#). Although the Core Syllabus makes mention of professionalism it is not a requirement, and this is an issue which concerns the IAA. It may be that the review of the Groupe's strategy could provide an opportunity to place responsibility on member associations to ensure coverage.

As mentioned above (in the Freedoms Committee section), the Education Committee will examine the new Directive on recognition of professional qualifications and will consider whether it would be appropriate for the Groupe to establish a 'common platform' for actuarial education in Europe.

The Austrian, Dutch, German and Swiss associations have established the European Actuarial Academy to provide training courses for younger actuaries in central and eastern Europe, for which there is considerable demand.

The Committee is planning a new education survey. The last survey was three years ago, and the focus of a new survey will be linked to the Core Syllabus and recent and planned actuarial educational developments, including the professionalism issue. Member associations will be asked to provide a copy of the information submitted in the recent IAA survey and to focus on a further survey on supplementary information such as the role of universities in delivering actuarial education and the elements of the Groupe's Core Syllabus that go beyond topics in the IAA Core Syllabus. This work will be carried out once the working group on the common platform draft is under way and when the IAA has completed its accreditation exercise.

The Summer School on 'Modelling mortality dynamics for pensions and annuity business', which was held in Trieste on 25-27 July, was outstandingly successful and attracted many

more applications than it could accommodate, with registrations closing several weeks ahead of schedule. In view of this, the same programme will be offered again at the 2006 Summer School which will be held at the University of Parma from 29 August – 1 September.

New Groupe Chairman and Committee Chairmen

The Annual Meeting marked the end of Paul Grace's (UK – Faculty) period of office as Chairman of the Groupe. He is succeeded by Costa Koutsopoulos (Greece). Jukka Rantala (Finland) becomes First Vice-Chairman, and Ad Kok (Netherlands) Second Vice-Chairman.

Also at the Annual Meeting, Jean Berthon (France) and Paul Thornton (UK – Institute) both completed their second 3-year term of office as chairmen of the Investment & Financial Risk Committee and Pensions Committee respectively. They have been succeeded by Falco Valkenburg (Netherlands) and Philip Shier (Ireland) respectively.

Looking forward

There will be a bilateral meeting with the Commission's Internal Market DG Insurance Unit in Brussels on 7 December, at which a number of issues reported above will be discussed, including role of the actuary, Solvency II, implementation of the IORP Directive. The Groupe will also be represented at the CEIOPS Conference in Frankfurt on 16 November, to give invited presentations on Solvency II and the IORP Directive, and at a meeting of CEIOPS Pensions Committee on 30 November.

The spring meetings of the Groupe's committees will be held as follows:

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| • Freedoms & General Purposes | 6 April | Prague |
| • Insurance | 7 April | Prague |
| • Pensions | 3 March | Dublin |
| • Investment & Financial Risk | 28 April | Vienna |