

Insurance and Reinsurance Stakeholder Group meeting

14 March 2012

Venue: EIOPA, 14th floor, Westhafenplatz 1, 60327 Frankfurt am Main

Conclusions and Action Points

List of participants:

IRSG: Michaela Koller (IRSG Chair), Kay Blair (IRSG Vice-Chair), Rym Ayadi, Mads Braüner, Yannick Bonnet, Hugh Francis, Seamus Creedon, Paul Carty, Francis Frizon, Lars Gatschke, Pilar González De Frutos, Helmut Gründl, Maria Heep-Altiner, Raffaella Infelisi, Robert Jones, Asmo Kalpala, Marcin Kawiński, Damien Lagaude, Baiba Miltovica, Gerard van Olphen, Daniela Weber-Rey, Alexander Sadovski, Chris Verhaegen and Joachim Wenning.

EIOPA: Gabriel Bernardino (EIOPA Chair), Carlos Montalvo (EIOPA Executive Director), Daniela Rode (Director of Regulations), Justin Wray (Head of Policy Unit), Giulia Conforti, David Cowan, Pamela Schuermans, Tilmann Roth, Katja Wuertz and Manuela Zweimueller.

EIOPA Management Board: Peter Braumüller and Damian Jaworski.

EIOPA Working Groups: Pauline de Chatillon, Chair of the EIOPA Consumer Protection and Financial Innovation (CCPFI) Committee.

European Commission: Karel van Hulle, Head of Unit Insurance and Pensions – DG Internal Market and Services.

10.00	Welcoming by Mrs Michaela Koller, IRSG Chair	Type
1.	Approval of the draft agenda	Decision
<p>Remarks: IRSG Chair welcomes members to sixth statutory meeting of the Stakeholder Group. Also welcomes Daniela Rode to the EIOPA team as Director of Regulations.</p> <p>Conclusions and action points: Draft Agenda is approved.</p> <p><i>NB: to allow sufficient time, the item on Consumer Protection was shifted after the lunch break. In addition, the approval of mandates from the Subgroups was moved after the discussion on IRSG Work Plan.</i></p>		
2.	Approval of the 12.12.2011 meeting conclusions and action points	Decision
<p>Conclusions and action points: Draft Conclusions and Action Points of 12.12.2011 meeting have been adopted.</p>		
3.	EC Solvency II update	Decision
<p>Remarks: EC representative, Mr. Karel van Hulle updated IRSG members as to state of play on the finalisation of the Solvency II framework. Details were provided as to developments since the December IRSG meeting i.e. work undertaken by the Commission, Council and European Parliament; current timeline of decision making procedures were explained.</p> <ul style="list-style-type: none"> • SII L2 IM: the EC has provisionally finished the L2 package of implementing measures, which is now in the hands of the Legal Services. EC is now focusing on the Impact Assessment work and will pick up L2 IM work again after the vote in the Parliament in July. 		

- **OMD II:** According to the latest estimation ECON vote on OMD II will take place end of March. This will be followed by the triologue (between EP, EC and Council) and currently it is expected that the EP plenary vote will take place in July 2012. Major discussions still focus on Long Term Guarantees (countercyclical and matching premiums).
- **SII delay:** Worst case scenario: OMDII will not be published in the Official Journal until 31.10.2012. This could lead to cease of Solvency I and the obligation to implement the original SII framework directive while the changes introduced through Omnibus II would not yet have come into force. However, national regulation would continue to exist, but would be subject to a potential legal risk of infringement.

A number of IRSG members intervened to express their concerns on the issues below mentioned:

1. Time left to EP to deal with LTG issues
 - EC Response: informal ECOFIN should reaffirm the commitment on SII. Common objective: EC+ EP+ Council are committed to implement SII by 01.01.2014.
2. Implications for consumers on EU and national markets level
 - EC Response: the (January 2010) Deloitte Report on Broad Impact of SII will be part of the EC Impact Assessment (IA), which will focus on macro-economic aspects rather than technical detail. *The report is available here:* http://www.deloitte.com/assets/Dcom-UnitedKingdom/Local%20Assets/Documents/Industries/Financial%20Services/EU_FS_ExternalStudyofSIILevel2.pdf
 - LTG will be dealt with by the EC itself
3. Cost of complexity especially for SMEs & role of insurance industry as a long term investor
 - EC response: these issues will be reflected in the IA.
4. Impact of SII on distribution/sale of products (insurance companies moving away from guarantees to VA/unit linked products).
 - EC response: SII as a risk-based system requires an adequate risk related pricing. Some life contracts today may not be properly priced.
5. How to deal with the new economic environment, in particular with regard to long-term annuity-type products.
 - EC response: There are several instruments in SII to deal with "artificial volatility" such as Counter Cyclical Premium (CCP).
6. It is important to regard the insurance business as a long-term investor.

Conclusion/Action points:

- It was agreed to set up an IRSG sub-group on Long Term Guarantees.

4.	EIOPA Presentation on Solvency II	Discussion
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Remarks: EIOPA representative, Ms. Pamela Schuermans updated members on the ultimate timeline for the delivery of standards by EIOPA and proposal to engage with IRSG subject to discussion with Board of Supervisors (end of March).

- **Timeline L3 measures:** EIOPA is committed to keep timeline, but needs to adapt the planned public consultation to reality. This will imply moving it from May to autumn 2012.
- **Sharing of draft L3 measures:** Before the public consultation, EIOPA will inform the IRSG on the progress in drafting Technical Standards & Guidelines:
 - Documents will be shared for information with the IRSG on a confidential basis, not to be distributed and no public disclosure.
 - The purpose of sharing information of preliminary drafts where possible with the IRSG is to allow the IRSG to form a view at an early stage on the potential areas on which it could envisage drafting a formal opinion.

- No formal opinion is expected from the IRSG until the formal public consultation on the Standards and Guidelines will have been launched.
- SII in a nutshell notes: EIOPA also offers the possibility to provide IRSG with further SII information in a nutshell notes for non-actuaries on a best effort basis, on topics to be identified by IRSG.

IRSG members welcomed the early intervention initiative and asked to explore the possibility to have a more active role in drafting. However, drafting is organised by EIOPA in working groups at EU level. While Technical Standards need to be drafted as a legal text (in line with L2), Guidelines and Recommendations have a more flexible format.

Conclusion/Action points:

- IRSG Chair thanks EIOPA for the possibility to involve IRSG members at an early stage of the L3 guidelines and recommendations by providing a draft at the earliest possible moment, e.g. at the end of April.
- IRSG members should provide a list of preferred topics to focus on for discussions and for the SII notes. A written request will be launched by EIOPA (a 2 weeks deadline will be given).

5.	Financial Stability update	Discussion
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Remarks: EIOPA Management Board representatives, Mr. Damian Jaworski and Mr. Peter Braumüller updated members on latest developments in the areas of Financial Stability and Systemic relevance. Among the main points raised:

- General - Economic cycle: Current economic crisis seems to have stopped worsening, showing signs of stabilisation, but any potential recovery would be highly vulnerable. Funding risks for Eurozone banks still exist, and there are risks of excessive deleveraging.
- Particular - Insurance perspective: A prolonged period with low interest rates would be challenging for the insurance sector. A stress test carried out by EIOPA in the second half on 2011, indicated that between 5% and 10% of insurance companies would face difficulties in such an environment. Difficulties would arise from insurers' need to re-invest in low yielding assets, while being contractually bound to offer a higher return to policy holders.
- Systemic relevance developments: The International Association of Insurance Supervisors (IAIS) is engaged in a G20 initiative, together with Financial Stability Board (FSB) and national authorities, to identify Global Systemically Important Financial Institutions (G-SIFIs). Main aim is to specify measures to deal with such entities.
 - Banking sector: So far, the banking sector is further ahead in this process and 29 Global Systemically Important Banks (G-SIBs) have been identified.
 - Insurance sector: In this context the IAIS is focusing on Global Systemically Important Insurers (G-SIIs). The methodology utilised in identifying G-SIBs has become accepted as the basis for identifying other systemically important entities, once sector specific features have been addressed. IAIS does not want to penalise traditional insurance activities, but to take into account the interconnectedness in the financial market. Therefore, the methodology remains work in progress. The assessment of the level of systemic relevance is challenging. There is lack of global basis for capital requirement.

IRSG members interacted by pointing out the following issues:

- EU Banking account for 85% of all financial institutions, leading to liquidity problems
 - Response: need to find the right border line for the funding of banks by insurance
- Contagion risk due to interconnectedness of life products invested in long term bank bonds
 - Response: lines between the traditional and non-traditional business are blurry; this might require an enhanced qualitative approach.

<ul style="list-style-type: none"> ▪ Concerns on the grey areas such as Shadow Banking ▪ The Financial Conglomerate Directive will also address some of the financial stability issues mentioned. <p>Conclusion/Action points:</p> <ul style="list-style-type: none"> ➤ IRSG Chair welcomed the discussions and expressed the wish to devote more time on stability and international developments also in the future. 		
6.	IORPs CfA update	Discussion
<p>Remarks: OPSG Chair updated IRSG as to the Public Hearing organised by the EC on 1st March 2012, where she participated in the panel dealing with governance aspects.</p> <p>Main ideas expressed by Chris Verhaegen:</p> <ul style="list-style-type: none"> ▪ There is a need to revise the timeline of the process for a comprehensive debate on Pensions. ▪ Even if there is a need for more convergence at EU level – this translates into a real challenge for IORPs due to current national differences (historically grown). ▪ Regretted the unclear distinction between the different pensions pillars (e.g. pillar 2 and pillar 3). <p>IRSG members held an active discussion, raising several issues:</p> <ul style="list-style-type: none"> ▪ It was highlighted that the debate focuses generally only on few EU markets (UK, DE, NL) which might not be representative of the occupational pensions schemes operated by various providers in all 27 member states. Yet it was acknowledged that these four markets account for a high percentage of DB schemes. ▪ Need to measure impact on consumers, especially for DB schemes, while recognising that the definitions are at times “blurry” (i.e. what is called a DB scheme in some market might be a hybrid scheme = DB with guarantee in another market). It was questioned whether applying Solvency II to DB schemes was appropriate and reassurance about the net positive benefit to consumers was sought. ▪ Strong debate on transparency - ensure rights of beneficiaries, especially as regards DB schemes and proportionality - most Pension Funds are small, important to avoid increasing costs ▪ Important to give EIOPA enough time to prepare a good analysis ▪ It needs to be mentioned that the insurance sector is already providing 2nd pillar solutions in a majority – if not in all markets. However, a level playing field is needed. ▪ EC views: the Public Hearing showed that the topic is highly sensitive, but that schemes that work today do not ensure that the “pension promise” will be delivered in the future. More than one QIS could be necessary before going ahead with Pillar I requirements. <p>Conclusions and action points: IRSG members welcomed the debate and agreed to revisit the topic regularly in future meetings.</p>		
13.00	Lunch (45 minutes)	
7.	Presentation on Consumer Protection and Financial Innovation	Discussion
<p>Remarks: Ms. Pauline de Chatillon, Chair of the EIOPA Consumer Protection and Financial Innovation (CCPFI) Committee, presented the overview of 2011 work streams and the planned activities in 2012. Full presentation can be downloaded from: https://eiopa.europa.eu/about-eiopa/organisation/stakeholder-groups/insurance-reinsurance-stakeholder-group/meetings/index.html</p>		

Consumer Protection – among targets in 2012:

- Complaints-Handling Guidelines and Best Practices Report
- Consumer Trends - new methodology for identifying consumer trends
- Industry training standards – initial mapping exercise; Best Practices
- Analysis of Commission’s IMD II proposals

Financial Innovation – among targets 2012:

- Variable Annuities – finalise the Good Practices Report, after public consultation
- Analysis of Commission’s PRIPs proposal
- Analysing the impact of Solvency II on product development

IRSG members welcomed the CCPFI extensive programme and made the following remarks:

- The idea to combine IMD and PRIPs (insurance & banking) activities in one paper
 - EC response: need to ensure logic in the papers first; consolidation could be done at a later stage
- Need of a coherent view at the “point of sale” – MIFID, PRIPs, IMD should be consistent
 - CCPFI Chair response: CCPFI is in close cooperation with ESMA and EBA, while ensuring insurance specificities.
- CCPFI might consider looking into reward/incentive structures: how they might encourage poor practice, misselling introduce bias, etc.
- Ensure coordination with DG Sanco for enforcement & monitoring
 - CCPFI Chair response: regular exchanges take place.
- Relationship between impact of SII on products/product development and EC work on the Pensions IA?
 - CCPFI Chair response: EIOPA has a different schedule as compared to the EC Impact Assessment; the CCPFI will conduct an in-house exercise.

EC update on IMD: final stages of IMD development, the draft is at the Inter Service Process. Prior two proposals were rejected by the EC Impact Assessment Board; EC is currently preparing the third Assessment. The final name is no longer IMD, but with focus more on the “distribution” aspect. PRIPs will be named “UCIDS V” (undertakings for collective investment in transferable securities). Both will be approved in one package.

Conclusions and action points: IRSG members welcomed the debate and will agree on their involvement on Consumer Protection issues during the Work Plan discussion.

8.	Approval of IRSG Work programme 2012	Discussion & decision
<p>EIOPA introduced the IRSG draft Work Plan for 2012: the aim of the table is to provide an overview of EIOPA work streams and deliverables by areas – linked to the IRSG expected outcome.</p> <p>IRSG members expressed the following views:</p> <ul style="list-style-type: none">▪ No proposals on Financial Stability in the Work Plan<ul style="list-style-type: none">○ Response: No EIOPA deliverables linked to FS & SII, except for the consultation on Add-on Quantitative Reporting Templates, to which IRSG has already provided an Opinion (within Reporting)▪ Alternative dispute resolutions (ADR) to be dealt with in Consumer Protection Sub-group.▪ Insurance Guarantee Schemes – negatively impacted by Deposit Guarantee Schemes▪ Possibility for IRSG to input on EIOPA work programme<ul style="list-style-type: none">○ Response: EIOPA 2013 work programme -driven by EC and Board of Supervisors- is expected by mid-2012. IRSG could provide proposals latest in the May meeting.		

- Mr. Sadovski tabled the creation of a Sub-group on Actuarial function and Risk management.
- Financial Stability issues such as G-SIIs/FSC and crisis management to be regularly addressed; also ESRB context and what is not in the prudential package
- Implementation issues (Internal Models, Colleges) to be dealt by the Reporting Sub-group.
- To be added to the programme: Articles 29 (Supervisory Culture), 30 (Peer review of competent authorities) and 32 (Assessment of market developments)
- Other regular topics to deal with international developments

Conclusions and action points:

- The Chair suggested to link the work on the Actuarial and Risk management function in SII to Governance issues and to establish a subgroup on "Governance".
- Planning and prioritisation required – due to heavy workload
- Consumer Protection Sub-group should integrate the deliverables in the mandate on a phased basis and integrate the ADR
- Establishment of a Subgroup on Long Term Guarantees (LTG)
- EIOPA to reflect discussions in the Work Plan 2012 (to be approved in May)
- During the first half of 2012 the focus of IRSG would be on own initiatives, whereas in the second half on opinions and public consultations.

9.	Approval of mandates from the Subgroups (Anti-Discrimination, Consumer Protection, ORSA, Reporting)	Discussion
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Remarks: IRSG members confirmed the existence/agreed on the set-up of these subgroups, according to Article 10 of the Rules of Procedure:

1. **Anti-Discrimination**
2. **Consumer Protection**
3. **Reporting:** mandate to be completed and to add the implementing issues (Internal Models, Colleges).
4. **Governance:** it will include Actuarial and Risk management function.
Composition: Yannick Bonnet, Jean-Christophe Menioux, Gerard van Olphen, Ann Kay Blair, Marcin Kawinski, Thomas Béhar, Seamus Creedon, Guenter Droese, Robert Jones, Chris Verhaegen, Daniela Weber-Rey, Damien Lagaude, Rym Ayadi, Helmut Gruendl, Maria Heep-Altiner and Alexander Sadovski.
5. **Long Term Guarantees (LTG):** the European Commission expressed the view that the Subgroup mandate should focus on product research rather than the remedies for the "artificial volatility", which are dealt with at the political level.
Composition: Oliver Baete, Yannick Bonnet, Hugh Francis, Jean-Christophe Menioux, Lars Gatschke, Marcin Kawinski, Thomas Béhar, Seamus Creedon, Chris Verhaegen, Rym Ayadi and Helmut Gruendl.

Conclusions and action points:

- ORSA mandate was approved and the Subgroup has terminated its work with the delivery of the Opinion on ORSA.
- Anti-Discrimination mandate & composition were approved
- Consumer Protection: Lars Gatschke to provide a draft mandate for IRSG May meeting
- Reporting: Thomas Behar to present updated mandate by May
- Governance: Leader to be appointed and mandate to be presented at IRSG in May

- LTG: Leader to be appointed and mandate to be approved during IRSG in May
- EIOPA to ensure proper set up of the IRSG Sub-groups. Composition to be confirmed in written procedure.
- Send follow-up request for IRSG members to join the different Subgroups and to upload approved Subgroup mandates on IRSG meeting documents of EIOPA website.

10.	IRSG organisational item	Discussion
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Remarks:

EIOPA presented a brief overview of IRSG Opinions and Feedback statements delivered between January and February 2012.

An open floor for lessons learnt on the procedure leading to the opinions among IRSG members allowed to highlight the following aspects: An exchange of views during a conference call is difficult as usually only limited time is scheduled for the call and, in particular, this is then needed to agree on specific statements/position. Thus, informal debates amongst IRSG members before the calls could facilitate the understanding/preparation of the subject matters to be decided upon.

It was appreciated that EIOPA prepared an overview timeline on deliverables from the subgroup until the final vote of full IRSG. However, it was a real challenge to prepare and decide upon an opinion in such a tight timeframe of the public consultation period, even if extensions were exceptionally given to the IRSG. In the future, this will unfortunately no longer be possible as EIOPA Working Groups will have an even tighter work schedule to be followed; the opinion needs thus to be submitted in a timely manner as otherwise it will be difficult to process it by the Working Group.

It is of utmost importance that IRSG members who have submitted an interest in specific subgroups are committed to invest the necessary time, e.g. in attending the conference calls, providing their expertise, preparing the input etc. Subgroup leads, which also draft the opinions, would need more time for themselves to work on the document(s).

Several subgroups established a working procedure how to come to an opinion/feedback statement: It consisted in an initial brainstorming including how to structure the topic (1st call), drafting (subgroup lead), subsequently sharing the draft document with the subgroup members and asking them to give their input in track-change-mode into the text. The lead then established an overview of the different inputs, proposed a consolidated text and highlighted issues of different opinions (e.g. in a red box after each paragraph). This document then serves as the discussion/decision basis for the 2nd call and participants can go through the document in a structured manner and provide their opinion. This procedure could be used as benchmark for other/future subgroups.

The support of EIOPA provided during the period of establishing the opinions was highly appreciated.

Finally, EIOPA updated on the call for candidate (academic) –open until 30.03.2012 and on the status of the IRSG biographies/CVs, for which EIOPA is awaiting the European Data Protection Supervisor (EDPS) response to publish them. It was important to involve him due to sensitive issues in the bios/CV such as trade union membership (category of IRSG). Nonetheless, missing members are encouraged to submit their biographies to EIOPA.

Conclusions and action points:

- IRSG members agreed to continue with the current voting in a written procedure, with “silence” means consent.

AOB

Next meeting is scheduled on 24 May

16.00	Scheduled end of the meeting	
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