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European Actuaries endorse Solvency II framework for Insurance Industry

The urgency of implementing the proposed insurance solvency Directive (Solvency II) has been underlined by the development of the financial crisis, according to the Groupe Consultatif Actuariel Européen. Most importantly, Solvency II will require the Boards of Directors and senior management of Europe's insurers to consider carefully their appetite for risk and how much capital is required to finance that appetite, drawing on expert professional advice, including that of actuaries. Managements' judgements about risk and required capital will be subject to active supervisory review and to public disclosure, making problems such as those affecting the financial sector today much less likely.

Although insurers tend to have more positive cash flows and greater asset liquidity than many other entities in the financial sector, the insurance sector must still consider carefully the factors which may have contributed to recent difficulties - excessive leverage, over-reliance on rating agencies, lax appraisal of risks, inadequate transparency of disclosures, ignorance of systemic network effects, uncontrolled securitisation and poor governance disciplines. Also, where insurance is exposed to longer-term risks including asset/liability risk, results will likely be impaired by the effect of the crisis on capital markets.

The proposed Solvency II Directive already provides a clear context for dealing with the issues raised by the financial crisis, which have made Solvency II more rather than less urgent. Particularly important are the Directive Articles dealing with such matters as governance, own risk and solvency assessment, the actuarial function, information to be disclosed to supervisors and publicly, and the process of supervisory review. CEIOPS (the Committee of European Insurance and Occupational Pension Supervisors) is publishing a series of papers dealing with how the directive wording is to be translated into Level 2 implementing measures and Level 3 guidance in accordance with the Lamfalussy process. The Groupe Consultatif has been engaged actively in offering comments and opinions from an independent and professional viewpoint.

The structure of the proposed Directive, supported by regulation through guidance at lower Lamfalussy levels, allows the detailed lessons of the financial crisis to be incorporated into guidance as Solvency II progresses. The sooner the Directive can be passed by Council and Parliament, the more likely it is that we can have a comprehensive regime - foremost in the world - by the 2012 target date. The Lamfalussy process will allow us to achieve a regime by 2012 which embraces what we can learn from the recent crisis.

The proposed Directive was already far-sighted in its emphasis on the balance of risk and capital quantification (Pillar 1) and on governance, disclosure, and review (Pillars 2 and 3). The wisdom of making Boards and senior management fully responsible for managing risks has been underlined by recent developments. The valuable advice that expert risk professionals such as actuaries can add is already well recognised in the underlying approach and more explicitly in Article 47 of the proposed Directive which sets out requirements for the actuarial function.

The Groupe Consultatif very much hope that Council and Parliament can, in the very short term, agree a compromise for the Solvency II Directive to be passed, allowing all of the industry, supervisors, the actuarial and other professions, and other stakeholders to move on with drafting and agreeing the measures and guidance so that we will have a much more robust regime in place by the 2012 target.

Note to editors

The Groupe Consultatif Actuariel Européen was established in 1978 to represent actuarial associations in the countries of the European Union. Its purpose is to provide advice and opinions to the various organisations of the European Union (EU) - the Commission, the Council of Ministers, the European Parliament, and their various committees – on actuarial issues in European legislation.

The Groupe currently has 35 member associations in 32 countries, representing over 16000 actuaries. The actuarial associations in 24 of the 25 Member States of the European Union (Malta does not have an actuarial association) are currently members of the Groupe, along with associations in EEA countries, Switzerland, and a number of EU candidate states.

Through its Core Syllabus for actuarial education, Mutual Recognition Agreement, and code of professional conduct, the Groupe has in place a robust governance framework which ensures the objectivity, integrity and independence of actuaries. Advice and comments provided by the Groupe on behalf of the European actuarial profession are totally independent of industry interests.

The Groupe regularly publishes, via its web site (<http://www.gcactuaries.org>), surveys amongst its member associations on issues of topical relevance in pensions, insurance and investment and financial risk.

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