



CYPRUS ASSOCIATION OF ACTUARIES

The Actuarial Newsletter

I am very happy to distribute to you the fourth issue of the CAA's Actuarial Newsletter and would like to apologise for its temporary discontinuance.

This issue is dedicated to Peter Clark, Past President of the Institute of Actuaries who passed away suddenly and unexpectedly on 11 June at the age of only 56.

In this issue we are mainly presenting and celebrating the successful hosting of the Groupe Consultatif Annual Meeting by the Cyprus Association of Actuaries in October 2005. The success of the event was such that the International Actuarial Association decided to ask the Cyprus Association of Actuaries to host the October or November meeting of the IAA in 2008.

As always, I will be happy to receive your comments/suggestions for our Newsletter and also any articles or news you would like to share with us.

Best regards,
Andreani Callimachou

Peter Clark 1947 –2006 **President of the Institute of Actuaries 2000-2002**

Peter Clark served on the council of the Institute of Actuaries for three terms. He was Honorary Secretary between 1989 & 1991 and Vice-President between 1994 and 1996. He served as President between 2000 and 2002.



Peter was always a great supporter of the global nature of the profession and was an Institute of Actuaries delegate to the Group Consultatif for 25 years. He served as Chairman of the Group from 2000 to 2001.

He was actively involved in the International Actuarial Association (IAA) and had been on its Executive Committee for a number of years. At

the time of this death he was President-elect of the IAA and was due to take up the post of President in 2007.

Peter had a great love for Africa and was helping to develop the actuarial profession there and was supporting the growth of the African actuarial associations. In addition to that he had a great concern for the AIDS victims especially in Africa. He played a vital role in the Profession funding a research project of the University of Cape Town and also called on his fellow professionals to become volunteers through the IAA Section "Actuaries without Frontiers". Peter and his wife Linda were actively involved in the Dagoretti project in Nairobi, giving hope and future to street children.

Peter inspired many people by his faith and commitment and the energy and enthusiasm with which he sought to fulfill his dreams and ambitions. He will be remembered greatly.

Groupe Consultatif Meeting 2005 in Nicosia Cyprus

The 28th annual conference of the Groupe Consultatif was organized by the Cyprus Actuarial Association between the 20th and 22nd of October in Nicosia. A total of 130 participants attended the conference.



The organizing committee of the conference

The aim of the conference was the briefing of the European Associations on issues in the areas of insurance, pensions, investment and financial risk, education and general issues such as the free movement of services. The Chairman's



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report below summarises the main issues that were discussed at the meeting.

Present at the conference were the Chairman of the Groupe Consultatif, Paul Grace from the United Kingdom and the President of the International Association of Actuaries, Alf Guldberg from Sweden. The workings of the conference ended with the election of Constantinos Koutsopoulos of the Greek Association as President of the Groupe Consultatif.

At the official dinner of the meeting, the Cyprus Association of Actuaries honored the sponsors of the conference, PricewaterhouseCoopers, Munich Re, GenRe, Ge Insurance Solutions, Muhanna & Co Actuarial Services, Allianz Insurance and GAN Direct Insurance. The Association also honored all of its past presidents: Mr Ibrahim Muhanna, Mr Andreas Shakallkis and Mr Nicos Koullapis. The current president of the Cyprus Actuarial Association, Mr George Psaras, also honored Mr Chris Daykin, who is the honorary president of the Association.



The President of the Cyprus Actuarial Association Mr George Psaras addresses the participants at the cocktail party before the official dinner.

During the official dinner, the participants had the opportunity to try various Cyprus specialities, to see a performance of traditional Cypriot dancing and to dance until late in the night also practising their Greek dancing.

The social part of the conference was designed so as to give the participants the opportunity to relax away from home and have a good time

and also to learn a few things about Cyprus and its history.



The President of the IAA also present at the meeting



From left to right, Mr Chris Daykin, Mr Kostopoulos, current president of the Groupe Consultatif and Mr Psaras, President of the Cyprus Association of Actuaries.

While the delegates were participating in the conference meetings their spouses took part in an excursion to the traditional village of Lefkara. The following day an excursion to Asinou and Kakopetria was organized for all the conference participants.

The comments and thank you letters that the CAA received after the conference from the various participants were overwhelming. The e-Newsletter of November 2005 of the Groupe Consultatif mentions the following:

“ 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



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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 the CAA provided excellent hospitality and a most attractive social programme.”

Some of the comments that the President of the CAA received quoted below:

“... Many thanks for organizing the Annual Meeting of the Groupe. I thought it was one of the best organized meetings I have attended.”

“... I was very impressed by the very good organization of the total meeting and especially the evening dinner was really wonderful with a very nice atmosphere...”

“...Thanks for all your work before and during the Groupe Consultatif meetings in Nicosia. We very much enjoyed ourselves. The work arrangements were excellent and the social activity even more fun.”

The conference was covered by a number of Cyprus newspapers and the President of the CAA gave an interview on CYBC about the event. This event was a great opportunity to promote the actuarial profession in Cyprus.

President's Report on the Groupe Consultatif Meetings October 20/21 2005

The annual meeting took place in Nicosia, Cyprus at the Hilton Park hotel. Over 80 actuaries took part in the meetings giving a total of at least 130 overall participants. The main issues discussed are presented herein:

Membership

The Lithuanian and Slovakian associations were admitted as Full Members of the Groupe Consultatif and the Bulgarian association was admitted as an Observer Member.

Mutual Recognition Agreement (MRA)

Minor changes have been made to the MRA to bring it into line with the existing EU legislation on the recognition of professional qualifications.

The Presidents will shortly be asked to sign this. However, during this summer a new EU Directive on the recognition of professional qualifications has been adopted. The MRA was signed by the CAA in November 2005.

Solvency II

This was a major topic at the Insurance Committee which spent the whole of Thursday afternoon and some of Friday discussing the next response to CEIOPS. For more information on this very important topic I urge you to visit the Groupe website.

Role of the actuary

CEIOPS have produced an appendix to the Solvency II paper on “The role of the actuarial function” which does not refer to the professional associations and the need for professional qualification. The Groupe is working on a response to this appendix and will discuss it directly with the EU Commission at a meeting arranged for December. Again here I refer you to the Groupe Website.

Financial Reporting issues

The Groupe is represented on the European Financial Reporting Accountants Group (EFRAG). The Insurance Committee remains concerned about the suitability of IAS/IFRS as a strong base for solvency measures but recognize that this is an issue for the IAA. The IAA from time to time issues relevant responses to IAS papers etc.

Prudent Person Principle

The Pensions Committee has produced a paper setting out guidelines on the implementation of the prudent person principle. This will be published on the Groupe Website shortly.

Pensions Surveys

The Pensions Committee has conducted and updates various surveys of pension practice across Europe. These can be viewed on the Groupe Website. They are also assisting with a comparative study of Mortality for pensioners.

Core Syllabus

The Groupe's core minimum education syllabus became effective in 2005. The Groupe accepted the Education Committee's



proposed changes (to take effect in 2008) to increase the scope of financial mathematics and also to broaden the finance and investment area. The core syllabus is available also at the CAA website.

CPD

The Groupe Website has been developed to include a searchable database of CPD events across Europe. The Groupe held a colloquium in Lisbon in May which was successful. Next year the colloquium will be held in Edinburgh on September 22 as part of the Faculty's 150 years celebrations.

Actuarial Academy

The Austrian, Dutch, German and Swiss Associations had founded the European Actuarial Academy whose aim is to provide actuarial training in the countries in Eastern Europe.

President

Paul Grace chaired the Groupe meeting as the outgoing President. The current President of the Groupe is Costas Koutsopoulos (Greece) who will chair the Groupe for the next year (up to the Barcelona meeting in October 2006. The next President is Finland's Jukka Rantala.

LOCAL NEWS

A subcommittee of the CAA prepared a Guideline to the Actuary for the determination of an Appropriate Expense Reserve relating to a particular in-force portfolio at the valuation date.

INTERNATIONAL NEWS

Our representatives in the Groupe Consultatif committees are reporting on issues currently under discussion.

GC Pensions Committee

Report by George Psaras

Pensions Committee Report Up to March 2006

The Pensions Committee met in Cyprus in October 2005. The most important issues discussed are described below:

The Pensions or IORP Directive, which was adopted by the European Parliament in September 2003, should, in principle, have now been transposed into national legislation and implemented. The Committee however concluded that most of the member states did not proceed as of yet.

The Committee provides regular updates to a number of other surveys which are available on the publication page of the Groupe website and these include: Taxation of occupational pension schemes, Professional responsibilities of pension actuaries, Security of pension rights, Defined Contribution arrangements, and pension aspects of corporate transactions.

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.

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.

The Pensions Committee also met in Dublin on 3 March 2006. The first half of the meeting was devoted to a presentation by Prof Richard Verrall on international his mortality research survey, and discussion of the results of the survey. (The executive summary and the full report of the survey can be found on the publication page of the Groupe website).

The Committee's guidelines on the Prudent Person Principle will be published shortly.

The Committee discussed a briefing paper which had been drafted in response to a request from Internal Market DG on the question of whether it would be appropriate to apply the same Solvency II requirements to pension funds as to insurance undertakings. The key issue is to review the purpose of a pension fund: if this is to provide guaranteed benefits and to deliver a promise (as with insurance



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products) then there would be a good case for applying the same solvency regime to pension funds. However, this is a political decision between affordability and guarantees, where the Committee agreed that it would be inappropriate for the Groupe to express a view. It was noted that this is an issue on which the industry and the supervisors hold opposite opinions.

The next meeting of the Pensions Committee will take place in Barcelona on the 26-27 October 2006.

GC Education Committee

Report by Andreas Shakallis

The Education Committee has completed the revision of the Core Syllabus and has been formally adopted by the Groupe in the October 2005 meeting in Cyprus. Changes were introduced to increase the scope of financial mathematics and also to broaden the finance and investment area. It should be noted that the Core Syllabus indicates that professionalism is not a requirement and this is an issue that concerns the International Actuarial Association. The revised Core Syllabus will apply for those qualifying from 2008 onwards.

The Committee is currently reviewing the new Directive on recognition of professional qualifications to establish whether a "common platform" for actuarial training in Europe would be appropriate. Recent correspondence with the European Commission revealed that practicalities were not well developed and it is debatable whether there is a clear requirement or advantage for the actuarial profession to establish a common platform. This is reinforced by the fact that the actuarial profession in Europe has achieved (through the Groupe) a great deal in relation to mutual recognition and is ahead of many other professions.

The Committee considered the IAA proposals for the development of an International Actuarial Education Programme (IAEP) triggered by the initiative and offer of initial funding from the World Bank, who were anxious to encourage the establishment of a programme to produce appropriately skilled

professionals for the emerging insurance industry in developing countries. Even though the IAEP will be based on IAA education requirements IAA will not itself award qualifications, this will be for the national associations. It will be available in all countries (subject to demand), but targeted at emerging markets. Examinations, some of which will be sub-contracted to other organisations but quality controlled by IAA, will be in several languages. The programme must become self-financing after the 5-year development phase. The Groupe will be involved in helping the programme take forward. It might be also able to help identify other possible sources of funding within the EU.

GC Insurance Committee (IC)

Report by Nicos Koullapis

The most important subjects that were discussed during the Oct 2005 (Nicosia) and April 2006 (Prague) meetings were the following:

(1) Solvency II

Meeting in Nicosia

The Solvency II project manager, Rolf Stölting, outlined the following key issues:

- the Commission's amended framework for consultation;
- the three waves of calls for advice;
- the role of Risk Margin, SCR and MCR;
- the proposed new task force for Risk Margin on Technical Provisions ;
- the Quantitative Impact Studies (QIS), which are done on real cases (insurance companies);
- the Solvency Glossary project.

Rolf drew particular attention to the amended timescale for the Solvency II project, and the fixing by the Commission of the additional risk margin of the (discounted) reserves and the risk measure and tolerance for SCR.

The Chairman also drew attention to the submission of a separate response to CEOPS by the UK Profession's General Insurance Board, who considered that the Groupe's response did not reflect the various differences in the UK.



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The Committee considered the draft technical paper on Diversification Effects, which had been prepared by the solvency working group Henk van Broekhoven highlighted the key features concerning the calculation of diversification effects and considered the main technical issues arising in the quantification of diversification effects at business unit level and group level.

Meeting in Prague

At the meeting in Prague the Chairman drew particular attention to the following points:

- the Commission's revised work-plan letter to CEIOPS, and the expectation that a Solvency II Directive will be ready for adoption in July 2007;
- CEIOPS expect to submit their response on the third wave of calls for advice to the Commission by the end of April 2006.
- The need for increased consultation between CEIOPS and the Groupe on technical provisions, calculation of the risk margin and the formula for SCR/MCR.
- QIS1 on technical provisions, which had been difficult and time-consuming for companies, and had raised a number of political issues.
- QIS2 on SCR, which was just starting and which was likely to be equally demanding.

The Groupe solvency II project manager, Rolf Stölting highlighted the following points:

- the level of technical provisions, and the political issue of whether and how this might be harmonised across Europe;
- the relative importance of the calculation of the best estimate in comparison to the risk margin;
- clear separation of SCR and the risk margin on technical provisions;
- avoidance of double counting of prudence;
- calculation of the risk margin.

There is a request from CEIOPS to compare different methodologies for the risk margin: the response from working groups 1 and 2 had been very well-received by CEIOPS and the Commission.

In response to the second wave of calls for advice some Associations, including the UK, made separate submissions in relation to the methodology for calculating the risk margin.

The Chairman reported that a revised draft of the Glossary for Solvency had been prepared and a draft would be circulated to the member associations of the Groupe (and to all CEA members) for comments by the end of May.

(2) IASB/Financial Reporting issues

Meeting in Nicosia

The Committee noted the report from Nigel Masters, the Committee's representative on the insurance working group of EFRAG, which provided an update on the following financial reporting issues:

- developments in Phase 2 of Accounting for Insurance Contracts;
- the role of EFRAG;
- IASPs and their status for the Groupe Consultatif;
- Developments in Embedded Values.

Meeting in Prague

Nigel Masters gave a brief overview of the latest developments with a new accounting model for insurance contracts. He drew attention to IASB's intention to publish a Phase II discussion paper later in 2006, an exposure draft in 2007, and a final standard in 2008 for implementation in 2010.

He referred to the general consensus in favour of the prospective cash flow method plus a margin. He believed IASB would also take account of the views expressed by the Groupe and the IAA on calculation of the risk margin and he also highlighted a number of key areas still under debate within IASB. These included: calibration of the margins in the liability; how to account for discretionary participating plans; whether life and non-life follow the same accounting model; beneficial policyholder behaviour and a deposit floor; consistency of asset/liability measurement; unbundling.

(3) Gender differentiation in premiums

Meeting in Nicosia

The Chairman presented a brief overview of the Gender Differentiation Survey. From the responses already received, it was clear that there was enormous variety of practice in



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Europe. The Survey Coordinator reported several observations including the following:

- In all EU Member States, males and females have different mortality probabilities at all ages.
- In the majority of EU Member States, life insurance premiums and annuities are differentiated by gender. Differentiation is less common in other branches except health insurance.
- In Denmark, the law forbids gender discrimination in relation to occupational pension benefits.
- In France and Portugal, no differentiation is applied in fixing life insurance premiums.
- Some of the EU Member States where gender differentiation exists, have not yet put in place the structure to justify such price differentiation.

Meeting in Prague

The Chairman reported that a final report would be available for discussion at the next meeting. The Chairman pointed out that the Commission was preparing its own position statement on gender differentiation. A representative from France announced that new mortality tables have been introduced in France on 1 January 2006.

(4) Role of the Actuary/The Actuarial Function

Meeting in Nicosia

Ad Kok, the project leader, mentioned that the extensive but inconsistent references to the role of the actuary in CEIOPS Consultation Paper CP7 and Annex A to CP7, which sought to define the actuarial function, provided a unique opportunity for the profession to establish a stronger and better-defined position in relation to CEIOPS and the Commission.

Ad identified two options for the profession: (a) to defend its present position or (b) to lead the way to the proper assessment of the current and future financial position of an insurance company by using skills, experience and knowledge. He supported the second option, and the development of a new actuarial product which would be required for the introduction of Solvency II and which could be delivered (only) by the actuarial profession. He

identified the professional requirements and background necessary to fulfil this, and emphasised the central role and the importance of independence.

Meeting in Prague

Ad Kok reported that he had repeated the presentation which he had made to the Committee in Nicosia to a meeting of the IAA's Insurance Regulation Committee and had received a very positive response and after some minor amendments to include additional models, he had also made the presentation to Internal Market DG. He drew attention to the point made at this meeting by Karel Van Hulle of the European Commission that defining the actuarial function was a political question which was unlikely to be covered in forthcoming Directives, but would be defined in general terms and addressed in more detail in implementing measures.

Ad explained that, with the help of a small working group, he had developed proposals on:

(a) The Report of the Solvency Actuary, (b) the Governance of the Actuarial Profession and (c) The Role of the Actuary and Auditor in Solvency II, in order to try to establish a stronger role for the actuary, particularly in relation to Solvency II.

(5) Implications of a potential bird flu pandemic Meeting in Prague

Henk van Broekhoven gave a short presentation (those who want a copy please contact me) on his recent work with a small group of actuaries and the Commission (DG SANCO, Audit and Evaluation Unit) on demographic and mortality statistics used in projections for a pandemic of avian flu, and the potential impact of such a pandemic on the insurance industry.



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GC Investments and Financial Risk Committee Report by Demetris Koulas

Risk Management Practices Survey:

The committee is undertaking the final editing of the Risk Management Practices survey. The survey has apparently become rather complex and has taken longer to deliver than originally intended. The final product will be soon presented and circulated to the member associations.

Solvency II

The committee is also involved in the evolution of the Solvency II project through its representation in the working group teams.

As part of the project a Glossary was prepared including a wide selection of terms used by the profession.

Future role of the IFR Committee:

There is an ongoing discussion between the members of the Committee and also with other Committees (Insurance and Pensions) in an attempt to clarify and develop the role of the IFR Committee and to avoid duplication of activities across committees.

The Committee is expected to be clear as to which areas it hopes to cover or not and will also define a profile for membership based on expertise now and for the future, theoretical understanding of the financial markets, practice areas and last but not least enthusiasm for the European and wider international environment.

This process will lead to amendments to the Committee's Terms of Reference in an attempt to distinguish its role.

Links with other organizations:

Closer links with the IAA's Financial Risks Committee and the Committee of European Securities Regulators (CESR) are planned.

GC Freedoms & General Purposes Committee Report by Savvas Sideras

During the last two meetings, in Nicosia in October 05 and in Prague in April 06, the following took place:

The Mutual Recognition Agreement was agreed and signed. As the name implies, it sets out the criteria of mutual recognition of the signatory associations.

A lot of discussion took place regarding the Role of the Actuary in relation to the European Commission and CEOPS. The position taken is that the Groupe should take the opportunity to try to establish a clearer and better recognized role for the Actuary.

Another important issue discussed was the implication of the Morris review on the profession both in the UK and Europe.

The next colloquium will be held in Edinburgh on 22/9/06. The topic will be "Risk and Capital Management in Insurance".

The next Summer School will be held in Parma on "Modeling Mortality Dynamics for Pensions and Annuity business".

Annual Meetings

2006: 26-27 October, Groupe Annual Meeting, Barcelona

Colloquia

2006 – Edinburgh.

EVENTS

CAA Annual Meeting

Our Annual meeting was held in May 2006 and it was late due to the hosting of the October 2005 Groupe Consultatif Meeting. The Meeting approved the financial statements of the CAA and the Presidents Report for the year 2005.