



The Actuarial Newsletter

Note from the Editor:

Dear Colleagues,
We are happy to distribute to you the third issue of CAA's Actuarial Newsletter. In this issue we are mainly presenting the reports of our representatives in the GC subcommittees on issues currently under discussion. 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,

Nicos Koullapis.

LOCAL NEWS

Members news:

Our Fellow member Mr. Christos Patsalides has joined Ethniki Insurance (Cyprus) Ltd in August this year as head of the Life Business. We wish him all the best in his new job.

Two of our Fellow members, Mrs Tonia Tsangaris and Mr. Nicos Koullapis are currently participating in a team that the Insurance Institute has appointed for the preparation of the new insurance book, which will be used from the Insurance Institute for the exams required from trainee insurance agents in order to acquire the license to sell insurance. The book will cover the new insurance law in Cyprus, life insurance and general insurance.

INTERNATIONAL NEWS

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

GC Education Committee

Report by Andreas Shakallis

The Committee is reviewing proposed changes to the finance and investment related sections of the Core Syllabus for the common actuarial education standards across Europe. In particular a draft syllabus has been reviewed for a Finance subject dealing with principles of modern finance theory and financial economics. This is estimated to take effect some time after the end of 2005.

Considerable progress has been noted on the work carried out for establishing the Groupe's Continuing Professional Development (CPD) strategy. The document that is being prepared provides guidance on the need for CPD, how to approach and achieve CPD, monitoring of CPD, the role of the associations and the Groupe, and the provision of CPD activities. In connection to this the Committee has started working in creating a database of CPD materials and activities which are offered by actuarial associations in Europe with the aim that this database be made available online through the Groupe's website.

The Committee has completed its survey in amongst member associations on actuarial education and qualifications. A summary of the results will be published in the Groupe's website soon.

The joint Groupe Consultatif / IAA education seminar with the theme "Educating Actuaries with a Business Orientation" will be held in Berlin on 26/27



November 2003. Details are published on the Groupe's website and have been already being circulated to the members of the Cyprus Association of Actuaries.

GC Insurance Committee (IC)

Report by Nicos Koullapis

Revision of the current EU Solvency system for Insurance Companies

As mentioned in my previous report the European Commission is investigating the need for a revision of the current EU solvency system for Insurance Companies. The European Actuarial Consultative Group (also known as Groupe Consultatif Actuariel Europeen), in which our Association is a member, is assisting, through the GC Insurance Committee, the European Commission in the design of the new Solvency System. During the meetings in March and October 2003, the Insurance Committee discussed the European Commission's Report on "Considerations on the Design of a future prudential solvency system" coded as Markt/2535/02. A supplementary paper coded Markt/2509/03, which is a paper with more specific recommendations on the subject, was also discussed. Some of the key points included in Markt/2535/02 that the committee highlighted were the following:

- (1) The proposed three-pillar architecture of the new supervisory regime. Under the first pillar the underwriting risk, the operational risk, the credit risk and the market risk will have to be assessed for an insurance company. The liquidity risk of a company will have to be assessed within the second pillar.
- (2) The proposed Target Capital (which will be calculated based on internal risk measurement models chosen and used by the Companies' themselves) and Minimum

(Safeguard) Capital (which will be calculated based on a standard model given by the Insurance Regulators in EU).

It is not sure yet whether the Target Capital and the Minimum Capital form part of the first or the second pillar of the new supervisory regime.

- (3) The possible inclusion of equalization reserves (which are a requirement for non-life business) in the company's capital for solvency assessment purposes.

The Committee has also reviewed the views of the International Association of Actuaries (known as IAA). In a summary, the IAA supports the multi-pillar supervisory system and also the idea of having a Target Capital as well as a Minimum Capital. Also, the IAA supports the idea of assessing the solvency requirement on an economic basis, i.e. by taking the difference between the fair value of the insurer's assets and liabilities.

The committee has also discussed the question on how the Groupe Consultatif should proceed with the development of actuarial principals and guidelines in order to assist the European Commission in the design of the new supervisory system and how local initiatives by member actuarial associations might be developed further to assist the Groupe Consultatif.

Developments/issues on Financial Reporting for insurance Companies

During the two meetings the committee discussed several issues regarding the proposals of the IASB (International Accounting Standards Board) for revisions/changes in the International Accounting Standards and more specifically revisions to IAS32 and IAS39 so that fair values accounting, which is included in these particular standards, will become applicable for insurance businesses as well. The essential concerns are:



- (1) Assets and liabilities arising from an insurance contract should be measured on a consistent basis within a set of financial statements, in order to avoid the creation of artificial profits and losses, which will be the case if different measurement bases are used.
- (2) The economic impact of all financial guarantees and options should be fully reflected in the reports describing the performance of the companies.
- (3) The financial statements and reports should not mislead existing and potentially future investors.

These issues lead all the parties involved to a considerable discussion on the question whether to press for full fair-value accounting principles to apply to insurance companies (which is characterized as the professional/aspirational option) or to press for the use of the amortized-cost method (which is the political/practical option).

The IASB has already delivered to all interested parties (including the Groupe Consultatif) an Exposure Draft on Insurance Contracts Accounting, coded as ED5 and the committee is now preparing its comments on it. Each member association will pass its views/comments to the Committee in order to take them into account.

GC Investments and Financial Risk Committee

Report by Demetris Koulas

The matters being discussed at present include the yield curve and mismatching questionnaires, the capital adequacy – solvency II developments and the draft investment services directive.

Yield curve and mismatching questionnaires:

The two questionnaires will be combined into one. The yield curve portion of it will be redrafted and simplified as a market research survey rather than an academic project, focusing on how yield curves are used. An informal approach should be made to national supervisors to ascertain what information they may already have on the use of yield curves.

On the mismatching portion there will be separate sections on different areas of practice (Banks, Life Insurance, General Insurance and Pension Funds). The questionnaire will also distinguish between different risk areas (market, credit, liquidity, operational risk). The questions will be set in a way that will encourage complete answers rather than plain yes – no answers.

Capital Adequacy:

There are four additional background papers on the framework for the proposed new Basel Capital Accord (Basel II). It was agreed to continue to observe and review developments and contribute to the discussions if considered appropriate.

Draft Investment Services Directive:

An investigation was carried out to decide whether there is any potential conflict between the draft Directive and the national actuarial Codes of Conduct. It was decided that no such conflict exists.

Core Syllabus:

Several topics were suggested to be included in the Core Syllabus. Suggested topics include: Economics, prices, arbitrage, yield curve modeling, banking and asset management etc.



Some of the matters are being discussed in different committees at the same time. It was decided to make an attempt to coordinate with the other committees.

GC Freedoms & General Purposes Committee

Report by Savvas Sideras

The most important item on the agenda of the Freedoms Committee was that of the Mutual Recognition Agreement where a sub-committee was set up to review the agreement in view of the EU Accession Countries and the addition of new full members to the Groupe. So far the MRA has worked fine, with only some minor problems reported. The Accession Countries and their current Groupe membership status are as follows –

Associate Members:

Cyprus, Czech, Republic, Estonia, Hungary, Slovenia

Observer Members:

Latvia, Lithuania

Non-Members:

Malta, Poland, Slovakia

The criteria for Full and Associate Membership as defined in Articles 4 and 5 of the Groupe's Statutes.

The Committee has also received a report from the Chairman and Secretary on the implementation of the Groupe's Strategy. The main action points agreed by the Groupe at last year's Annual Meeting were –

- Investigate scope for extending Groupe's sphere of influence to other European institutions/MEPs (after consultation with European Commission)

- Develop presentation package about the Groupe
- Investigate role for Groupe as a unique source of actuarial data, possibly including visit to Eurostat
- Review professional development and education activities, particularly for central/eastern European countries
- Promote awareness of Groupe in member associations and increase level of participation
- When necessary, establish *ad hoc* expert groups on technical issues.

The Secretary has also updated the Committee on progress on surveys/publications currently in hand:

- *Solvency standards for Occupational Pension Schemes in the Countries of the EU and other European Countries* (Pensions Committee)
- *Defined Contribution arrangements in Europe* (Pensions Committee)
- *Taxation of Occupational Pension Schemes in the Countries of the EU and other European Countries* (Pensions Committee)
- *Pensions aspects of corporate transactions* (Pensions Committee)
- *Professional responsibilities of Pensions actuaries in the EU and other European Countries* (Pensions Committee)
- *Glossary of actuarial (pensions) terminology* (Pensions Committee)
- *Survey on the Construction and use of the Yield Curve* (Investment and Financial Risk Committee)
- *Survey on Mismatching* (Investment and Financial Risk Committee)

The future Annual Meetings and Coloquia that are already approved by the Committee are the following:



Annual Meetings

2004 – 1 October, Manchester, UK

2005 – 21 October, Nicosia, Cyprus

Colloquia

2004 – Munich

2005 – Lisbon

2006 – Edinburgh.

EVENTS

CAA Annual Meeting

Our Annual meeting will be in December.
The exact date and place will be announced
3 weeks before the meeting as per our
Constitution rules.