

Comments Template on CEIOPS-CP 60 Consultation Paper on the Draft L2 Advice on Group Solvency Assessment		Deadline 11.09.2009 4 p.m. CET
Name of Company:	European Insurance CFO Forum	
Disclosure of comments:	<p>CEIOPS will make all comments available on its website, except where respondents specifically request that their comments remain confidential.</p> <p>Please indicate if your comments should be treated as confidential:</p>	No. The CFO Forum comments are not confidential.
<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ Do not change the numbering in the column "reference". ⇒ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a paragraph, keep the row <u>empty</u>. ⇒ Our IT tool does not allow processing of comments which do not refer to the specific paragraph numbers below. <ul style="list-style-type: none"> ○ If your comment refers to multiple paragraphs, please insert your comment at the first relevant paragraph and mention in your comment to which other paragraphs this also applies. ○ If your comment refers to sub bullets/subparagraphs, please indicate this in the comment itself. <p>Please send the completed template, in Word Format, to secretariat@ceiops.eu. Our IT tool does not allow processing of any other formats.</p> <p>The numbering of the paragraphs refers to Consultation Paper No. 60 (CEIOPS-CP-60/09).</p>		
Reference	Comment	
General Comment	Many decisions are left to the judgement of supervisors but there is a lack of clarity around how these judgements will be made.	

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Generally, many decisions around group solvency are left to the judgement of supervisors, for example around quality of data (paragraph 3.86) and treatment of consolidation method (paragraph 3.121). There is a lack of detail around how this judgement will be applied in practice. The CFO Forum acknowledges that agreeing the treatment of consolidation is a complex process but recommends that there should be a degree of flexibility for companies to discuss the approach with the supervisors.

References to group consolidated numbers should be consistent throughout the consultation paper.

Throughout the consultation paper it should be made clear that the group consolidated numbers consist of consolidated market value balance sheets. References to book values and GAAP are confusing and in some case not appropriate.

Further clarification is required as to the methods by which CEIOPS will achieve the recognition of equivalence and keep the insurance industry informed of progress. The equivalence between countries should be disclosed. Further, we recommend that the definition of equivalence is set as soon as possible in level 2 rather than level 3 implementing measures.

The CFO Forum recommends that CEIOPS should clarify the methods by which it will achieve the recognition of equivalence and how it will maintain communication with the insurance industry to keep it informed of progress.

In addition, CEIOPS should clarify how it will prioritise the countries in which it will look for equivalence.

Further, we recommend that the definition of equivalence is set as soon as possible in level 2 rather than level 3 implementing measures.

Fungibility and transferability issues are addressed in CP46: Own Funds - Classification and Eligibility. The resolution of these matters will have an impact here.

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3.17.	<p>Level 2 implementation measures should be consistent with the conclusions of the Financial Conglomerates Directive (“FCD”) review.</p> <p>The CFO Forum acknowledges reference to the FCD review and suggests that definitions, scope and treatment of participations in the level 2 implementation measures should be consistent with the final conclusions from the FCD review.</p>	
3.18.	<p>The scope of group supervision and consolidation should be consistent.</p> <p>There are operational efficiencies associated with aligning the supervision and consolidation scopes.</p> <p>The CFO Forum recommends that the group supervisor should discuss with the holding undertaking if it considers the scope of consolidation not to be large enough to cover significant risks at the group level as the scope of consolidation should reflect all significant risks.</p> <p>Any judgmental difference between the holding undertaking and the group supervisor should be resolved either by maintaining the current consolidation or expanding it. The CFO Forum believes that principles of proportionality and materiality would be key to any such resolutions and hence should be referenced here.</p>	
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3.38.	Comments in 3.18 are also relevant here	
3.39.	<p>This paragraph does not support the previous affirmation in 3.38 that differences exist between the scope definitions in both the Solvency and Accounts Directives.</p> <p>The evidence listed in this paragraph is the same as that used to define the consolidation scope. Thus it contradicts with the previous affirmation (see 3.18) that differences exist between the scope definitions within both Solvency & Accounts Directives.</p>	
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3.45.	<p>Prudential filters are not based on economic principles and are inappropriate for solvency reporting.</p> <p>As well as making regulatory and statutory balance sheets hard to compare, “prudential filters” are not</p>	

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	<p>based on economic principles and are in some cases combined with a market based test on the adequacy of the technical provisions. This makes them inappropriate for use in this context.</p> <p>The market value balance sheet should be used as the basis for solvency reporting.</p> <p>For solvency purposes, all subsidiaries have to deliver a market value balance sheet. These are not comparable with IFRS and so we fully agree with using the market value balance sheet as the basis for solvency reporting.</p>	
3.46.		
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3.49.	<p>Technical provisions rather than premiums should be used to adjust the previous year's SCR if the current year SCR is not available.</p> <p>The last sentence of this paragraph suggests that when the SCR for the current year is not available, the previous SCR should be used as a proxy, adjusted for the annual movement in premiums.</p> <p>We do not believe that premium development is a suitable choice. For example lower premiums in the current year would lead to a reduction in the SCR which would not be appropriate.</p> <p>We recommend that the development of technical provisions is used to adjust the SCR as this would better represent the development of the risk.</p> <p>However, we recognise that the chosen method should be appropriate for the class of business being considered.</p>	
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3.54.	<p>Arguments against diversification benefits do not appear well-founded.</p> <p>The CFO Forum believes that different solvency requirements or sectoral rules are not arguments against diversification.</p> <p>Diversification of risks and fungibility/transferability of funds are separate issues and should be assessed separately. The overall group SCR should consider both.</p> <p>Diversification reflects the economics of pricing independent risks on a marginal cost basis. That marginal cost depends on the diversity of risks already written or expected to be written.</p> <p>Group diversification benefits should be allocated to the solo level as policyholders are better protected by group-wide diversity.</p>	
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3.58.	Comments in 3.54 are also relevant here.	
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3.66.	<p>Differences in the consolidation bases used for supervisory and financial reporting will increase non-reconciliation issues and reduce transparency in relation to capital movements.</p> <p>In relation to the consolidation rules, the CFO Forum believes that any differences between IFRS and Solvency II need to be minimised. The CFO Forum recognises, however, that differences in measurement will exist, as there should not be a move away from the market value principle for Solvency II.</p> <p>In addition, the criteria here should be consistent with the final version of the Financial Conglomerates Directive.</p>	
3.67.	Comments in 3.66 are also relevant here.	
3.68.	Comments in 3.66 are also relevant here.	
3.69.	Comments in 3.66 are also relevant here.	
3.70.	Comments in 3.66 are also relevant here.	
3.71.	Comments in 3.49 and 3.66 are also relevant here.	
3.72.	<p>Undertakings in which there is no significant influence should not be included within the supervision scope.</p> <p>Where the group's participation is not regarded as a dominant influence or where risks and rewards are not passed to group, undertakings should not be included within the supervision scope.</p> <p>Comments in 3.66 are also relevant here.</p>	
3.73.	Comments in 3.66 are also relevant here.	

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3.74.	<p>A notional charge is not required on consolidated unit trust assets as allowance is already made in the market risk assessment of the SCR.</p> <p>In some cases, unit trusts, which have no capital requirements, are consolidated by insurance groups. If the group's share in the unit trusts' net asset values is considered to be part of the group's own funds then no notional charge should be required as consolidated assets are included in the market risk assessment of the SCR. Any notional charge would effectively be double counting.</p> <p>Comments in 3.54 and 3.66 are also relevant here.</p>	
3.75.	Comments in 3.66 and 3.74 are also relevant here.	
3.76.	Comments in 3.54 and 3.66 are also relevant here.	
3.77.	<p>The application of the principle when the ultimate parent company is a bank is not clear.</p> <p>Application of the principle when the ultimate parent company of the insurance holding is a bank is not clear. Further clarification is required to understand the proposed differences in treatment.</p> <p>Comments in 3.66 are also relevant here.</p>	
3.78.	Comments in 3.66 are also relevant here.	
3.79.	<p>The additional workload required for sub-consolidation is not justified.</p> <p>The paragraph suggests that a sub-consolidation is required for solvency purposes whenever an insurance subsidiary has a controlling interest in another undertaking.</p> <p>This would require significant additional work with no real benefit as the group SCR would already reflect the effect of consolidating both the subsidiary's intermediate holding and its participations. The CFO Forum recommends that sub-consolidation is not required.</p> <p>Comments in 3.54 and 3.66 are also relevant here.</p>	

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3.80.	Comments in 3.66 are also relevant here.	
3.81.	Comments in 3.66 and 3.79 are also relevant here.	
3.82.	The CFO Forum welcomes that the proposed accounting treatments for the regulatory balance sheet (consolidation group) are in line with the international accounting standards. Comments in 3.54, 3.66, 3.74 and 3.79 are also relevant here.	
3.83.	Using book values without having regard to whether these are based on economic principles is not appropriate. If the own funds of the group are calculated on an economic market consistent basis then the simple deduction of book values would be inappropriate. This issue should be addressed further in the level 2 implementation measures.	
3.84.		
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3.86.	The definition of "adequate" is unclear. The definition of what is deemed adequate is not clear. Further clarification is required to ensure that non-EEA entities are not disadvantaged. Comments in 3.66 are also relevant here.	
3.87.		
3.88.		
3.89.	The recognition of diversification benefits of third country entities is not necessarily more challenging. The CFO Forum does not agree that the recognition of diversification benefits of third country entities is more challenging than the recognition of diversification benefits in general. The items mentioned (professional secrecy, access to information and fungibility and transferability) are no different to measure in third country entities than in EEA countries.	

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3.96.	<p>Any challenges associated with the treatment of third-country undertakings in the internal model are equally relevant to the standard model.</p> <p>The CFO Forum notes that the standard model will be subject to the same challenges as an internal model in the treatment of third-country undertakings.</p> <p>We disagree with the statement around the treatment of third-country undertakings that “where there is no equivalence, this issue may be difficult to resolve”.</p> <p>Our understanding is that in such cases, Solvency II capital requirements apply and are calculated in the internal model.</p>	
3.97.		
3.98.	<p>The challenges associated with incorporating a third-country regime do not justify not allowing for diversification benefits.</p> <p>The CFO forum appreciates that it is challenging to aggregate Solvency II capital requirements for the EEA entities with an SCR and own fund based on local third country requirements for the non-EEA entities. However, CEIOPS should clarify how this leads to the conclusion that recognising diversification benefits should not be allowed.</p>	
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3.106.	<p>Supervisors should not have unlimited authority to determine the approach to preparing Group Solvency numbers.</p> <p>The directive makes it clear that the consolidation method is the preferred method of preparing Group Solvency numbers. The CFO Forum supports the directive in the aspect. The consolidation method captures the features of the Group as a whole appropriately and is consistent with internationally recognised accounting GAAPs. The supervisors should not have the unlimited authority to override this preference. However, we envisage that in specific circumstances discussions with the entity concerned may lead to a consensus that there are situations where the aggregation and deduction method is more appropriate.</p> <p>Comments in 3.89 are also relevant here.</p>	
3.107.	<p>Further clarification is required as to the methods by which CEIOPS will achieve the recognition of equivalence and keep the insurance industry informed of progress. Further, we recommend that the definition of equivalence is set as soon as possible in level 2 rather than level 3 implementing measures.</p> <p>The CFO Forum recommends that CEIOPS should clarify the methods by which it will achieve the recognition of equivalence and how it will maintain communication with the insurance industry to keep it informed of progress.</p> <p>In addition, CEIOPS should clarify how it will prioritise the countries in which it will look for equivalence.</p> <p>Further, we recommend that the definition of equivalence is set as soon as possible in level 2 rather than level 3 implementing measures.</p>	

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3.108.		
3.109.	<p>The equivalence between countries should be disclosed.</p> <p>CEIOPS proposes that the group should be able to demonstrate availability and quality of the required data related to entities in a third country.</p> <p>However, as set out in 3.93 and 3.97, the method used to integrate third countries depends on whether the country concerned is equivalent. The CFO Forum therefore recommends that the equivalence between countries is disclosed to ensure groups know what options are available in relation to each country.</p> <p>This disclosure process should be defined in level 2.</p>	
3.110.		
3.111.	<p>The word “desirable” in relation to consistent equivalence decisions should be strengthened.</p> <p>The CFO Forum believes that a stronger expression than “desirable” should be used to achieve a homogeneous equivalence decision.</p>	
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3.115.	<p>The purpose of this paragraph is unclear.</p> <p>A group would always be in a position to identify the contribution of the own funds relating to third country undertaking. Therefore the rationale behind this requirement is not clear.</p>	
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3.120.	Comments in 3.127 are also relevant here.	
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3.127.	<p>Due consideration should be given to the most appropriate approach by which to assess the group SCR and own funds. Any “last minute” changes requested by supervisors will have practical implications.</p> <p>The guidance appears to suggest that supervisors may require the use of the deduction and aggregation approach, by default, without having regard whether this approach is more appropriate than others. Giving supervisors the power to make “last minute” changes will lead to practical problems in terms of running those changes.</p> <p>The CFO Forum recommends that due consideration is given to the most appropriate approach to assess the group SCR and own funds.</p> <p>Supervisors should not be given powers to make changes at a late stage in the process unless appropriate measures are also in place regarding the timetable by which companies can action these changes.</p>	
3.128.	Comments in 3.127 are also relevant here.	
3.129.		
3.130.	<p>The Solvency I constraints should be reviewed at the implementation of Solvency II.</p> <p>The CFO Forum notes that the constraints as mentioned should refer to the transferability of the funds. Furthermore, while we recognise the legal and prudential constraints as part of the current Solvency I</p>	

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	framework, we believe these constraints may need to be reviewed upon the implementation of Solvency II. The Solvency II framework is clearly more risk based than the current framework and legal and prudential constraints developed in the current framework may no longer be required.	
3.131.		
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3.133.	<p>It is unclear whether the group solvency coverage ratios are to be calculated before or after allowance for fungibility.</p> <p>The guidance should be reworded to clarify that the overall group solvency coverage ratios are based on own funds increased to the extent that funds from one entity can be used to absorb losses arising in another entity within the same group. However, the evaluation of the SCR is always before fungibility of capital. This view is also supported by the CRO Forum.</p> <p>This paragraph contradicts the principles of consolidation.</p> <p>This paragraph requires any solo excess of own funds over SCR to not be considered at the group level. This defeats the purpose of the consolidation process.</p> <p>The CFO Forum suggests that CEIOPS clarify whether consolidation restatements have to be broken down by entity. This would be a very complex process and again, would contradict the principles of consolidation.</p>	
3.134.	Comments in 3.133 are also relevant here.	
3.135.	Comments in 3.133 are also relevant here.	
3.136.	<p>Allowance for transfer of funds within the group SCR calculation should be consistent with the solo level application and additional measures should not be necessary.</p> <p>Transferability of funds applies at the solo level and is then stripped out on consolidation when intra-group transactions cancel out. Therefore allowance for transfer of funds within the group SCR calculation should be consistent with the solo level application and additional measures should not be necessary.</p>	

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	<p>Risk associated with own funds backing intra-group transactions at the solo level should not be double counted in the group SCR.</p> <p>Transferability of funds can be used as evidence of fungibility but all intra-group transactions and associated charges in the solo level SCR should be removed on consolidation to avoid such double counting.</p> <p>Comments in 3.133 are also relevant here.</p>	
3.137.	Comments in 3.133 and 3.136 are also relevant here.	
3.138.		
3.139.	<p>Prudential filters should not be included under 3.139.2 iv.</p> <p>Consistent with the point raised in 3.45, the CFO Forum notes that several jurisdictions currently have prudential filters in place that have regard to the use of IFRS based accounts in a solvency context.</p> <p>Given that the objective is to have the Solvency II framework on an economic basis, such prudential filters would no longer be required and we assume these are not included under 3.139.2 iv.</p> <p>We recommend that "other necessary adjustments or deductions" are clearly defined in the level 2 implementation measures.</p>	
3.140.		
3.141.	<p>"Diversification effects" should be replaced by "transferability".</p> <p>The CFO Forum notes that as a simple economic reality, diversification effects are always available and that this paragraph really refers to "transferability". Therefore we suggest that "diversification effects" is replaced by "transferability".</p> <p>Numerical examples should be provided in level 2 implementation measures to better</p>	

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	<p>illustrate the relationship between diversification, fungibility and transferability.</p> <p>We note that this is particularly relevant to paragraphs 3.141 and 3.146-3.150.</p> <p>Comments in 3.136 are also relevant here.</p>	
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3.144.	Comments in 3.136 and 3.141 are also relevant here.	
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3.146.	Comments in 3.136 and 3.141 are also relevant here.	
3.147.	Comments in 3.141 are also relevant here.	
3.148.	Comments in 3.141 are also relevant here.	
3.149.	Comments in 3.141 are also relevant here.	
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3.158.	Comments in 3.133 are also relevant here.	
3.159.	Comments in 3.133 are also relevant here.	

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3.201.	The guidelines around application of diversification, transferability and fungibility principles for non-EEA entities are unclear.	

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	<p>The guidance focuses on situations when non-EEA funds cannot be taken into consideration but does not include a clear statement of when they can be included.</p> <p>Recognition of the group-wide benefits from a non-EEA country is not necessarily more challenging than for EEA operations and should be allowed on a basis that is consistent across all operations.</p> <p>Since the group SCR considers risk from all insurance undertakings, the allowance for diversification benefits and fungibility should be on a consistent basis regardless of whether in the EEA, or in a non-EEA country with or without an equivalent solvency regime.</p> <p>The delay until guidelines on equivalence are established will have practical implications for the development of internal models where groups need to consider how they treat each solo undertaking.</p>	
3.202.	Comments in 3.201 are also relevant here	
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3.257.	<p>Disclosure rather than quantification of group-specific risks is more appropriate.</p> <p>There are significant challenges in quantifying the group-specific risks as in almost all circumstances, these group risks are already be included in the calculation.</p> <p>Disclosure of these risks is more appropriate.</p>	
3.258.	<p>The purpose of this section is not clear. The effect of interest rate risk and currency risk should be accounted for in the normal assesment of the SCR at a group level.</p>	
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3.275.		
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3.278.	<p>The group risk margin should be calculated in a consistent way to the solo risk margins.</p> <p>CEIOPS states that the group risk margin should equal the sum of solo risk margins. We recommend that the group risk margin be calculated in the same way as at the solo level using the group SCR.</p>	
Annex 1		
Annex 2		
Annex 3		
Annex 4		
Annex 5		