CEIOPS

Committee of European Insurance and Occupational Pensions Supervisors

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Frankfurt, 17 December 2008

Subject: Valuation of Best Estimate under Solvency II for Non-life Insurance

Dear Seamus,

CEIOPS has received an interim report on the Valuation of Best Estimate under Solvency II for Non-life Insurance, dated 11 November 2008, which sets out Groupe Consultatif's comments and observations on the best estimate valuation for the non-life technical provisions as currently defined within the Solvency II directive proposal. The paper was prepared as an answer to CEIOPS letter dated September 18, 2008.

CEIOPS appreciates the work that Groupe Consultatif has undertaken. The paper highlights the actuarial profession's position regarding the best estimate reserving process and valuation of the insurance liabilities under the Solvency II regime. Groupe Consultatif interprets the best estimate prescribed in the proposal of the Solvency II directive as a mean calculated on a discounted basis, where the estimations made should not be biased. The assumptions should be based on a combination of the entity-specific and external parameters. The cash-flows should reflect the current and expected future state of the company and Article 76 does not preclude using deterministic models.

Groupe Consultatif presented a taxonomy of actuarial methods which are currently used to calculate technical provisions including a description of such methods, their underlying assumptions, data requirements, and what kind of actuarial judgement should be included. Groupe Consultatif considers that the methods listed as acceptable proxies in the QIS4 Technical Specifications are suitable for calculating the best estimate where at least company specific data are available and when the actuarial function can justify their use.

According to the Groupe Consultatif, the factors that might have a material impact on expected cash-flows should be considered by the actuarial function. The key drivers of uncertainty associated with the best estimate should be explored with the use of stress & scenario as well as back testing. For "binary events" the most common practice today is not to make these types of allowance, although some weight will have to be given to losses with low probability but high cost within the probability weighted average of future cash-flows.

The risk groups have to be selected by the actuarial function and some pragmatism should be allowed rather than a rigid prescribed classification. There is a list of steps required to perform a reserving analysis which include: production, collection and processing of the data. The use of stress & scenario, goodness of fit and sensitivity tests should be a base for credibility.

CEIOPS would appreciate if Groupe Consultatif could expand further on the following issues and where this is not possible, we would appreciate an explanation:

1. Guidance on how pre-claims provisions and post-claims provisions should be calculated according to the proposal of the Solvency II directive.
2. How actuarial methods should relate to specific insurance liabilities.
3. Guidance on when entity specific and/or market data should be used to determine insurance liabilities.
4. How development factors that might have a material impact on expected future claims experiences should be taken into account.
5. Explanation of which method and the criteria for selection of the method, that could be used as a default method, simplification or proxy.
6. Guidance on how in particular the "binary" events should be treated in the calculation of insurance liabilities and an explanation of the consistency of this treatment with the Solvency II directive proposal.
7. Explanation of the Groupe Consultatif if their interpretation of best estimate is equivalent to the definition in the Solvency II directive proposal.

Furthermore CEIOPS would be grateful if Groupe Consultatif could expand on the assertion that firm's cash-flows depend on their status (going concern, run-off or insolvent) and provide some examples on the nature of the different cash-flows that may occur. Finally, we understand that the explanation provided in annex A2 refers specifically to the discounting of non life cash-flows. If this were not to be the case we would need further clarification.

CEIOPS would very much welcome further explanations from Groupe Consultatif before February 15, 2009.

Best regards,

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Pauline de Chatillon

Chair of the CEIOPS Financial Requirements Expert Group