



Groupe Consultatif  
Attn. of Mr. M. Lucas  
Secretary

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Cc Henk van Broekhoven

**Frankfurt am Main, 11 December 2008**

**Subject: The calculation of group solvency requirements**

Dear Mr. Lucas,

CEIOPS Insurance Groups Supervision Committee (IGSC) has commenced work on a range of Level 2 implementing measures affecting insurance groups. Implementing measures that "shall" be adopted will need to be in place before the Solvency II regime enters into force (i.e. 18 months before the implementation deadline). CEIOPS will therefore need to deliver its final advice on Level 2 implementing measures by October 2009 in order to allow the European Commission to adopt implementing measures in time.

The Level 2 work for October 2009 includes the development of implementing measures concerning the calculation of group solvency requirements (Article 232 of the Framework Directive Proposal). This includes the choice of the calculation method, the general principles that apply to the methods, the application of the calculation methods themselves and group internal models. It is anticipated that this work will also reveal issues relevant for a future QIS 5.

The publication of the report on the fourth quantitative impact study (QIS 4) identified a number of important issues arising from the application of the standard formula to the group calculations. The study noted that the group calculations were complex and diversification effects varied considerably from one group to another and depended heavily on the individual group structure. The key issues were the treatment of group-specific risks and the transferability of capital. The treatment of third countries and with-profits business were also highlighted issues.

In order to inform the development of the implementing measures on the group solvency calculations, the IGSC is interested in receiving detailed input from the industry on the following issues:

1. How are different entities consolidated in the group calculations? (e.g. entities with less than a 20% capital participation, entities with between 20% and 50% participations, entities beyond a 50% participation, entities in the legal form of mutuals, entities in the legal form of joint ventures, entities in which the parent may have a moral or strategic stimulus to inject more funds than its legally proportional part)?
2. Do you think that there are restrictions on group own funds because of limits on the transferability of capital? If so, what are the limitations that impact specific capital instruments?
3. The IAIS in "Issue paper on group-wide solvency assessment" (draft of 18 November 2008) has proposed that:

*"fungibility of capital means that an asset of the group is readily available for meeting any commitment of the group, regardless of the entity within which asset is held or commitment arises. Transferability of capital refers to the actual ability of one entity to transfer assets to another entity at the time when the financial support is needed. Fungibility and transferability may therefore be regarded as two aspects of the same issue."*

Does this description represent a good starting point for clarifying the definitions of fungibility and transferability? How would you in the insurance context define the terms transferability/non-transferability and fungibility/non-fungibility?

4. What are the key group-specific risks? Which of these are not covered by the standard formula? Please describe possible group-specific risks and their potential impact and probability in a group. The inclusion of concrete examples for definitions is welcomed.
5. Which group-specific risks should be mapped quantitatively and which should be mapped qualitatively? Please describe in detail the reasons, advantages and disadvantages for choosing each of these alternatives.
6. How can group-specific risks be mapped quantitatively? What are the pros and cons of modeling group-specific risks?

We would be most grateful if you could submit your response to the CEIOPS secretariat no later **than 27 February 2009**.

If you have further questions or points of clarification, please do not hesitate to contact the CEIOPS Secretariat [sandra.desson@ceiops.eu](mailto:sandra.desson@ceiops.eu).

Yours sincerely,

A handwritten signature in black ink that reads "Petra Faber-Graw". The script is cursive and fluid, with the first letter 'P' being particularly large and stylized.

Petra Faber-Graw

Chair of the Insurance Groups Supervision Committee