

Comments on Consultation Paper 24, CEIOPS-CP-01/08 Draft Advice on proportionality

Name company: Groupe Consultatif Actuariel Européen

Please insert your comments in the table below, and send it to secretariat@ceiops.eu in word format. In order to facilitate processing of your comments, we would appreciate if you could refer to the relevant section and/or paragraph in the consulted document.

Please note that the consultation only refers to the main document. The Annex compiling the simplifications and proxies has been developed for the draft QIS4 specifications, and will be updated following the QIS4 consultation

Reference	Comment
General comment	<p>We believe this is a well written paper on an important subject. Whilst the concept of proportionality is of interest to the actuarial profession, many of the points made in this document are not of an actuarial nature and therefore our comments are restricted to a few details.</p> <p>We would also like to point to an issue arising from the possibility of taking article 4 away: it appears that very small companies could be drawn into solvency II which can cause problems as the minimum MCR is a fixed amount (and relatively high for such companies, some of which might not even have 1 million euro in premium income)</p>
Para 2	<p>We very much agree on the starting point “policyholders should not expect a lower degree of protection simply because their cover is provided by a smaller undertaking. In addition, CEIOPS recognises that size in itself may not be an adequate proxy for the risk to which an undertaking is exposed. Undertakings within the scope of the Directive should not be classified differently on the basis of size.”</p>

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Para 20	It should be noted that often a smaller company has a geographically limited scope, which in turn can mean an exposure to catastrophic events. It would make sense for the scale criterion to include an assessment of appropriate reinsurance cover
Para 36	This paragraph talks of a situation where “the cash flows of an investment are not interest rate sensitive (compared to an investment that includes options)”. The meaning of this sentence is not totally clear to us.
Para 53	It is not necessarily appropriate that “low-risk” insurers may employ key function holders with “somewhat less expertise and experience”. There has to be a minimum acceptable level of expertise and experience for the holder of any key function and the supervisors may need to agree on such minima.
Para 57	It is questionable if proportionality can be applied to the management of Operational Risks. An undertaking may be “low-risk” by virtue of its insurance or market risk exposures but could be high risk in operational terms, especially if it has relatively few staff or has overlaps of functional responsibilities.
Para 62,64	We fully support the claim that all undertakings must understand their own financial condition and solvency position. The Groupe Consultatif is developing a framework for a Solvency Report which could be used by all types of undertakings, and which takes account of the proportionality principles.
Para 69	We would like to emphasize the importance that the person performing an effective actuarial task set in the Framework Directive has to possess the necessary actuarial and financial mathematics qualification independent on the complexity and sophistication of the approaches and methods used by the undertaking. Please note also that Article 47 does not only talk about technical skills, but also

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professional standards.

Para 70	We fully agree with the views expressed in this paragraph. If a “part-time” service provider is employed by a “low-risk” undertaking (if deemed appropriate by the managing Board) this does not diminish the level of skills required by the “part-timer”. Part-time in this sense could include the use of a consulting firm.
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