



**GROUPE CONSULTATIF ACTUARIEL EUROPEEN**  
EUROPEAN ACTUARIAL CONSULTATIVE GROUP

**SECRETARIAT, NAPIER HOUSE, 4 WORCESTER STREET**  
**OXFORD OX1 2AW, UK**

TELEPHONE: (+44) 1865 268 218 FAX: (+44) 1865 268 233

E-MAIL: [groupe@gcactuaries.org](mailto:groupe@gcactuaries.org)

WEB: [www.gcactuaries.org](http://www.gcactuaries.org)

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Mr. David Deacon  
Head of Unit - Insurance  
European Commission  
Internal Market Directorate-General  
Rue de la Loi 200  
B-1049 BRUSSELS  
Belgium

Dear David,

**Solvency II - Reflections on the general outline of a framework directive and mandates for further technical work (MARKT/2539/03)**

I am responding on behalf of the Groupe Consultatif to the Commission's consultation paper MARKT/2539/03. This paper clearly sets out the work which has been undertaken in the Solvency II project over the past three years, in which the Groupe is pleased and privileged to have been involved.

In February 2003 we responded to the discussion document 'Considerations on the design of a future prudential supervisory system' (MARKT/2535/02). In our summary we stated that:

- the Commission Services were on the right track with the architecture proposed for a new solvency system
- there still was a considerable amount of work to be done before it could be concluded
- the actuarial profession in Europe through the Groupe Consultatif was willing to assist the Commission and supervisors in whatever way it could through phase two of the project.

These comments are still relevant in relation to MARKT/2539/03.

At this stage, we prefer to confine ourselves to general remarks on MARKT/2539/03 and not to go into too much technical detail on each paragraph of this document. We expect that the opportunities will be created to treat these more technical and complex issues through specific work in the coming months.

### **1. Timing considerations (Chapter 3 - §17)**

We fully agree with the statement of §17 that the accounting rules prepared by the IASB will be crucial for convergence in financial and regulatory reporting, and that the intention should be to build on a safety regulation based on the likely outcome of the IASB accounting rules. We thus cannot neglect the influence that the IASB Insurance project will have on the timing of the Solvency II project. Timing is also an issue from the point of view that the Commission is working on a fast track reinsurance supervision project, and a number of Member States (UK, the Netherlands, Sweden) are already taking unilateral action in the field of capital requirements for insurance companies.

We therefore welcome the important role that CEIOPS will play in the second phase of the Solvency II project, but at the same time we wish to express our concerns on the timing of the detailed work and its implementation, taking into account the strong interdependencies with the IASB work. Further, IAS accounting rules will influence the technical provisions in multiple steps. It is clear that at any moment the impact of IAS on the prudence level of the provisions must be linked to (an intermediate) capital requirement in Solvency II.

### **2. Areas for further work (Chapter 3 - 3.2/3.3/3.4)**

Regarding the structure of the document, we can expect a project organisation reflecting the five areas discussed in Chapter 3. It is our opinion that there are good reasons to combine the areas 3.2, 3.3. and 3.4. in a slightly different way, and reduce them to two areas:

- Chapters on technical provisions, investment of assets, safety nets and target capital rules (Life)
- Chapters on technical provisions, investment of assets, safety nets and target capital rules (Non-Life)

The level of prudence in the technical provisions and the IAS accounting rules (e.g. equalisation provisions), for instance, will undoubtedly impact the level of the target capital.

### **3. Safety nets and target capital rules (Chapter 3 - 3.4)**

We have already mentioned in our February response to MARKT/2535/02 our interest in discussing with you our views on standard risk models and risk based formulae. We do not feel very confident with some of the statements of §80 and §81 that the safety margin 'should be calculated in a simple and objective way, ...' and that 'one idea could be to express the requirement as a percentage of technical provisions ...'. In this way, minimum requirements will most probably not express the different risk-profiles of different insurance undertakings. We are convinced that the actuarial profession through the Groupe Consultatif can help CEIOPS and the Commission in a proactive way in this complex area.

### **4. Future role of actuaries**

We are convinced that the professional actuary will have a crucial task to play in the future prudential supervisory system that is the aim of the Solvency II project. Indeed, it is gratifying to note that the IAIS guidance paper on "The use of actuaries as part of a supervisory model" recognises this. A better matching of capital requirements with the wide scope of risks that an insurance undertaking is confronted with, will increase the need for competent specialists.

We would mention as examples of areas where the intervention of an actuary will be needed:

- developing internal control and risk management practices (§21-§26-§28)
- developing internal risk models (§108)
- amending and validating internal risk models (§115)
- In particular, the Groupe supports the idea of developing a similar approach to risk management as exists already for accounting and administrative procedures (§21).

## 5. Future role of Groupe Consultatif

We believe that the Groupe Consultatif can assist **pro-actively** and **re-actively** in this project. As you know, a flexible project structure has been developed (see 6 below) to give CEIOPS and the Commission Services all necessary support. We have already contributed through the Insurance Committee of the Groupe to phase 1 of the Solvency II project, and have undertaken considerable work, through the Pensions Committee of the Groupe, on the 'prudent person principle' on investment risk that could be shared with you. It is perhaps worth reiterating that the Groupe offers an independent, expert and professional viewpoint representing the opinions of actuaries throughout the EU – we do not represent any "trade" interests seeking to influence the outcome of the Solvency II projects for their own benefit.

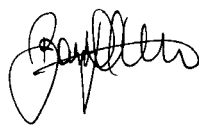
Although there is a strong recommendation in §16 of MARKT/2509/03 for the involvement of the actuarial profession - IAA/Groupe Consultatif Actuariel Européen -, we are disappointed at the absence of any reference to the role of the Groupe in the work on Solvency II to date and in the future.

## 6. Project management (Chapter 4 - §138)

The Insurance Committee of the Groupe agreed on a project structure to prepare and be prepared for the major challenge of phase 2 of the Solvency II exercise, and I attach the most recent version of this structure as an annex. I should stress that the structure is flexible and can easily be adapted to the final project structure that CEIOPS and the Commission Services adopt. A significant number of actuaries, with different backgrounds, experience and geographical origin have shown their interest in participating in the Solvency II project.

In conclusion, the Insurance Committee of the Groupe Consultatif supports the concrete action plan described in MARKT/2539/03, and would be pleased to remain involved in this project. We are ready to provide CEIOPS and the Commission Services with professional assistance, and we would welcome the opportunity to discuss this in more detail in the coming weeks.

Yours sincerely



Bart De Smet  
Chairman, Insurance Committee

# Role of Groupe Consultatif

