



Groupe Consultatif Solvency 2 Project – Monthly Report for Insurance Committee

15 September 2009

Introduction

This report provides an update on the progress of the Solvency 2 project. This follows the monthly teleconference call of the project team on 3 September and the face-to-face team meeting in London on 8 September.

Meetings and events to date

There was a successful team meeting in London this month (note attached) in which the responses to the second wave of CEIOPS consultation papers were discussed in detail. Responses to 24 of the 25 consultative papers were duly submitted on 11 September.

Actuarial standards

Groupe Consultatif is working on a paper on Actuarial Standards that can be used as a basis for discussion with CEIOPS. It appears that the authorities and industry are open to discussion of the issue at this point. The intention is that the paper should be able to be issued externally following the Lille meeting in late September.

Illiquidity premium controversy

The UK Association of British Insurers is publicly keen that the Groupe should take an active role in relation to discount rate issues, and particularly the argument that the liquidity characteristics of liabilities should have a bearing on the discount rate. We have indicated only that we want to be helpful to CEIOPS in this regard, and we understand that CEIOPS may discuss seeking help from the Groupe at its management board meeting on 29 September.

Further consultations

The final 'third wave' batch of consultations is expected to issue in October, probably following the CEIOPS Members' Meeting late in the month. Most will require a Groupe response.

QIS5

There may be an opportunity for Groupe Consultatif to contribute to the development of QIS5 which is currently being discussed. Most important in the near-term will be to



Solvency 2 Project Team Update

comment on current consultations having regard to clarity in the context of smaller undertakings and/or in less developed markets.

Industry concerns with direction of Solvency 2 project

CEA, CRO Forum, and AMICE met CEIOPS on 14 September to discuss generalised concerns regarding the direction of the project. Although not without sympathy for some of the points, the Groupe preferred not to get directly involved in what is essentially a commercial rather than professional debate.

Working Group Activities and Progress

Life Pillar I Working Group	<ul style="list-style-type: none"> • Canvassing opinions on possible solutions to lack of long discount rate benchmarks
Non Life Pillar I Working Group	<ul style="list-style-type: none"> •
Pillar II and III Working Group	<ul style="list-style-type: none"> • Need to follow up with CEIOPS on ORSA case study in autumn
Groups Working Group	<ul style="list-style-type: none"> •
Internal models Working Group	<ul style="list-style-type: none"> • Active engagement with CEIOPS on integration of partial models with standard formula and on frequency of calculation of SCR where practical guidance is required.
Joint co-ordination group	<ul style="list-style-type: none"> • Work continuing re QIS 5

Consultative Paper response deadlines:

CP No.	CP Title	Response deadline/status
26	TP - Methods and statistical techniques for calculating the best estimate	Submitted
27	TP – Segmentation	Submitted
28	SCR Standard Formula -Counterparty default risk	Submitted
29	Own Funds - Criteria for supervisory approval of ancillary own funds	Submitted
30	TP -Treatment of Future Premiums	Submitted
31	SCR Standard Formula - Allowance of financial mitigation techniques	Submitted
32	TP - Assumptions about Future management actions	Submitted
33	Advice on System of Governance	Submitted
34	Transparency and Accountability	Did not respond
35	Valuation of Assets and “Other Liabilities”	Submitted
36	Special Purpose Vehicles	Did not respond
37	Procedure to be followed for the approval of an internal model	Submitted
38	Budapest Protocol	Did not respond
-	Review of the Financial Conglomerates Directive	Did not respond



Solvency 2 Project Team Update

37	Procedure to be followed for the approval of a group internal model	Submitted
Addendum		
39	Technical provisions Actuarial and statistical methodologies to calculate the best estimate	Submitted
40	Technical Provisions - Risk Free Interest Rate	Submitted
41	Technical Provisions - Calculation as a whole	Submitted
42	Risk Margin	Submitted
43	Technical Provisions - Standards for Data Quality	Submitted
44	Technical Provisions - Counterparty Default Adjustment	Submitted
45	Technical Provisions - Simplifications	Submitted
46	Own Funds - Classification and Eligibility	Submitted
47	SCR Standard Formula - Market Risk	Submitted
48	SCR Standard Formula - Non-life Underwriting Risk	Submitted
49	SCR Standard Formula - Life Underwriting Risk	Submitted
50	SCR Standard Formula - Health Underwriting Risk	Submitted
51	SCR Standard Formula - Counterparty Default Risk	Submitted
52	SCR Standard Formula - Reinsurance Mitigation	Submitted
53	SCR Standard Formula - Operational Risk	Submitted
54	SCR Standard Formula - Loss Absorbing Capacity of Technical Provisions	Submitted
55	SCR Standard Formula - MCR calculation	Submitted
56	Tests and Standards for Internal Model Approval	Submitted
57	Capital add-on	Submitted
58	Supervisory Reporting and Disclosure	Submitted
59	Remuneration issues	Submitted
60	Group Solvency Assessment	Submitted
61	Intra-group Transactions	Submitted
62	Cooperation and Colleges of Supervisors	Did not respond

Upcoming calls/meetings:

24/25 September – Groupe Consultatif meeting - Lille

6 October 9.00 (CET) - next Group Consultatif SII Project team conference call

23 March – Group Consultatif team meeting – London, Canary Wharf

For further information, please contact one of:

- Seamus Creedon seamus.creedon@kpmg.co.uk +44 7808 900 614
- Michael Lucas mlucas@gcactuaries.org +44 1865 268 218
- James Latto james.latto@kpmg.co.uk +44 7717 421 622

Meeting note - GC Solvency 2 Project Team Six Monthly Meeting

Held at KPMG Offices, Canary Wharf, London, on 8 September 2009 from 11:00am

Present:	Alan Joynes	Swiss Re
	Annette Olesen	Deloitte
	Esko Kivisaari	Fed. of Finnish Financial Services
	James Latto	KPMG
	Henk van Broekhoven	ING
	Karel Goossens	Watson Wyatt
	Mark Chaplin	Watson Wyatt
	Michael Lucas	Groupe Consultatif
	Seamus Creedon	KPMG
Dialled in:	Siegbert Bauldauf	Hamburg Mannheimer
Apologies:	David Paul	EY
	Armin Holzmueller	
	Felix Arias	Actuarios
	Manuel Peraita	Peraita y Asociados
	Thomas Schmidt	HDI Gerling
Distribution:	All	

Action

1 Review of overall status of Solvency II project

1.1 Criticism of CEIOPS

Overall CEIOPS is quite uncoordinated between the different expert groups

Slowly moving away from calibrating to 1 in 200 event due to extra prudence being built in

Diverging from Framework Directive

1.2 CEIOPS changing form and getting more resources and increasing in size should be a good thing. As CEIOPS grows in size it could be worth trying to get more Actuaries to be part of CEIOPS.

1.3 With CP responses a point was made that it is worth trying to keep responses constructive and also independent of the Industry.

2 Communication re Co-ordination Group

2.1 Co-ordination Group will have completed its work by end-2009 and for sake of effective use of professional and supervisory resources should be discharged with thanks. It needs to be considered going forward how to ensure individual countries associations are linked in to the Groupe Consultatif on SII.

	Action
3 Consultative Paper responses	
3.1 A general point was the language in some of the responses needs to be tidied up (e.g. replace "I" with "We").	SC/JL
3.2 There was lots of feedback on individual CPs which will be fed back into the final CP responses which will be submitted to CEIOPS	SC/JL
4 Covering letter to CEIOPs	
4.1 It was agreed a covering letter would be produced to go along side the CPs and should cover the following areas:	SC
<ul style="list-style-type: none"> Expert Judgment (reasonable/transparent/proportional) CP40 and risk-free rate Groups and issue of diversification/fungibility/transferibility Sticking to principles of SII (there is an increase in prudence and moving away from 1 in 200 principle) Technical provisions and the change from CP26 to CP39 Consistency between different expert groups (e.g. RM and BE) need coherent approach QIS5 and willingness to input into it 	
5 Forthcoming Insurance Committee Meeting	
5.1 Meeting invite should should be sent around earlier in future	
5.2 Concern that Insurance and Pension committees are expressing apparently inconsistent views on (for example) the feasibility of harmonising calculation of technical provisions.	
5.3 IFRS and SII are moving further apart	
6 Standards Task Force	
6.1 This is making good progress in the direction of seeking approval at the Freedoms Committee and General Assembly in Lille for a 'road-map' which will be taken on to Commission and CEIOPS immediately afterwards.	
7 Other meetings	
7.1 Consultative Panel (29 September)	
<ul style="list-style-type: none"> Topics discussed: 	

Action

- New financial supervisor in Europe
- Committee on consumer protection (PRIP)
- SII (QIS5)
- Occupational Pension Committee

7.2 Stakeholder Meeting (16 October)

Present reaction to second wave of CPs

7.3 CEIOPS annual conference (18 November)

Karel to attend

8 AOB

8.1 Next Six Monthly meeting is provisionally set for Tuesday 23 March 2010

8.2 A number of the working groups are short staffed. This will be raised in the upcoming GC meeting and in the invite e-mail. ML

8.3 Substitute Gerard for Armin in Pillar 5 working group going forward