



**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@gactuaries.org](mailto:groupe@gactuaries.org)

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

11 August 2006

Mr Henrik Bjerre Nielsen  
Chairman  
CEIOPS

Dear Henrik

**Steering Group (previously Task Force) on Technical Provisions**

**Situation concerning the Calculation of the Best Estimate for Technical Provisions**

In our letter to CEIOPS dated 1 February 2006 we mentioned that a Steering Group on Technical Provisions has been created in order

- to give possible guidance in methodological questions concerning methods for calculating the best estimate of technical provisions in non-life business, or to give any other actuarial input concerning technical provisions in non-life.
- to work out practical possibilities for a proxy approach for this calculation of the best estimate for those non-life companies which either do not have the actuarial knowledge or do not have sufficient statistical data in order to carry out a proper actuarial calculation.

In your answer dated 23 May 2006 you addressed to us a number of specific requests on these topics. We will send you detailed answers, worked out in full collaboration with our Working Groups Life and Non Life, in the first week of September. We would hope to propose a way how the best estimate of technical provisions could be calculated for Solvency II purposes in order to obtain, as far as possible, harmonised and comparable figures throughout all countries and all insurance companies within Europe.

In this letter we will only deal with the issue of the working out and interim solution of a proxy approach..

**The use of a proxy approach is not at all intended as a recommendation to be used, although it may be an appropriate temporary expedient for some companies and in some countries. On the contrary, the Steering Group is of the firm conviction that all insurance companies should try to get, as soon as possible and within a limited and determined timeframe, to a situation where**

- **(internal or external) actuarial expertise has to be used in order to carry out proper calculations for the best estimate,**
- **sufficient statistical data about their own business are available.**

After intense discussions we have the following objectives in mind:

1. It is not certain at all that there can be a role for proxy approaches to best estimates in the transition to Solvency II. In any case, the above-mentioned proxy approach can only be considered as a temporary substitute, which has to be planned to be replaced within a limited and determined timeframe by more appropriate methods.

2. It may well be desirable to inventory any proxy approaches already in use at national level in order to assess the potential of these for broader use.
3. Such an inventory would be most appropriately created by interested national supervisors and associations of insurers working together with support from their national actuarial associations.
4. The Groupe stands willing to support and co-ordinate the actuarial aspects of such activity, including the feasibility of adapting any apparently useful approaches so as to be capable of more widespread application. The focus of the forthcoming work for us is to help CEIOPS and the EU Commission to come to a Europe-wide harmonised approach in calculating the best estimate as part of the technical provisions of non-life business.

In our letter of 1 February 2006, we indicated that - also because of different standards of accounting rules - on a national level working groups would have to be established in order to work out propositions for the above mentioned proxy solutions for those companies which lack actuarial knowledge and/or sufficient statistical data.

The underlying questions are rather different for life and non-life business. Therefore we are going to ask Working Group 1 within the Solvency II project of the Groupe Consultatif, which is chaired by Seamus Creedon, to have a closer look at the life business within Europe concerning the question of the calculation of the best estimate. If any further action is to be taken for life business, this will be done in close cooperation with this Steering Group.

#### **Proposition of a procedure for establishing groups at national level for non-life business**

The Steering Group suggests that CEIOPS contacts different supervisory authorities across Europe in order to initiate the creation of national working groups. These groups should work out propositions for proxies for the calculation of the best estimate for non-life business, unless in a country no insurance company needs such a proxy approach as a substitute for the regular actuarial calculation. They have also to determine whether it is at all possible to arrive at reasonably adequate proxy solutions for valuing insurance liabilities.

These working groups should in principle comprise experts from the national supervisor, the national actuarial organisation and the national insurance association. As in some of the European countries working groups for this topic already exist, these groups could be contacted and eventually supplemented by some corresponding specialists.

The experts at a national level should set out and summarize the following issues:

- Is there any need for a proxy calculation in the corresponding country and - if yes - for which lines should this be worked out?
- Which data are already available for calculation of the best estimate and which data can be used for a possible proxy approach?
- Are there already any methodologies available for this kind of proxy calculation?
- What would be the appropriate proposal for a proxy calculation? For this question our letter to CEIOPS dated 1 February 2006 could serve as a guideline.

We would propose that national groups should at least be set up within France, Germany, UK and if possible also in one of the smaller countries. Of course all member states should be invited to create such groups and to participate in this analysis. The Steering Group would be happy to give guidance for the start of these groups.

When results from these national groups have been elaborated, the Steering Group will help CEIOPS to coordinate these results in order to get, as far as possible, a harmonised picture across all member states. The results of a proxy calculation of the best estimate have also to fit to those results obtained by the regular actuarial approach and should generally be more conservative in order to push a company to invest in actuarial skills to avoid those proxies.

This Steering Group would also like to emphasise that no proxy will be considered by any actuary as correct, even if it based on a countrywide benchmark. It thus can only be considered as a temporary substitute to organise the move to Solvency II. And no proxy should serve any local supervisor to be used as benchmark for a "required" ratio of best estimate reserve level for companies which have adequate methods and skills applied internally.

#### **Possible outline for a timeframe**

- Start of the new groups on national levels: August/September 2006
- Results of these groups: October/November 2006
- Review and feedback round: November/December 2006
- Corresponding proxy approaches for the other European countries:  
December 2006 – March 2007

I hope the above proposals meet with your agreement. Please do not hesitate to contact us if you require clarification on any of the above points.

In conclusion, let me add once again that the Groupe Consultatif welcomes the opportunity to contribute to the Solvency II project through direct dialogue and interaction with CEIOPS and its working groups. As always, we are available for further discussion and input as you consider appropriate.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Rolf Stölting', with a stylized flourish at the end.

Rolf Stölting  
Project Manager, Solvency II Project