

**Comments on Consultation 27-09 Draft L2 Advice on TP – Segmentation**

CEIOPS-SEC-91/09

**Name company: XL Capital Group (including XL Insurance Company Ltd and XL Re Europe Ltd) (“XL”), member firms of Deloitte Touche Tohmatsu in the European Union, CRO Forum, Aviva, Lloyd’s, Institut des Actuaire, Groupe Consultatif, DAV, Dutch Actuarial Society, Institute of Chartered of Accountants of England and Wales (ICAEW), Munich Re Group, ASSOCIATION OF BRITISH INSURERS (ABI), APS, International Credit Insurance and Suretyship Association (ICISA), Fédération Française des Sociétés d’Assurances (FFSA), UNESPA (Spanish Insurance Association), CEA, Legal & General Group, AMICE, KPMG, Federation of European Accountants (FEE), CFO Forum, Pacific Life Re Limited**

**Please insert your comments in the table below, and send it to [secretariat@ceiops.eu](mailto: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 Consultation Paper 27-09.**

No.	Reference	Name	Comment	Resolution
1	General comment	XL Capital Group	XL welcomes the opportunity to comment on CEIOPS’ draft advice on Technical Provision “Lines of business on the basis of which (re)insurance obligations are to be segmented”. (CP No. 27).	Noted
2	General comment	Deloitte Touche Tohmatsu	<p>We agree with the principle of minimum segmentation for the purpose of calculating technical provisions, as prescribed in Articles 79 and 85 of the Level 1 text.</p> <p>We understand that the calculation at a segment level will cover technical provisions as defined in article 76 which include the separate calculation of the best estimate and the risk margin. Their sum is the technical provision amount that firms will present at the appropriate segment level subject to the minimum segmentation set out in the Consultation Paper.</p> <p>We believe that the detail and advice provided in the Consultation Paper is helpful in providing guidance on the application of this principle, but there are a number of areas where we believe that further clarification is needed in order to ensure that the proposal is line with the wider goals of the Solvency II framework.</p>	Noted

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We summarise here our main observations, with more detailed comments provided below, referenced to the appropriate paragraphs of the Consultation Paper:

- The overriding principles that should be applied in segmenting contracts for the purpose of calculating technical provisions are that the segmentation should:
  - be based on homogeneous risk groups with similar characteristics, and
  - correspond to the portfolios that the firm manages together as a single portfolio

These principles will align the segmentation process to the Solvency II requirement that calculations supporting the determination of the firm’s capital using an internal model must pass a “use test”. In addition they would also align the new regime to our expectations of the future requirements under International Financial Reporting Standards.

Not agreed

The distinction should be drawn between segmentation for the purposes of making the best estimate, calculating the SCR/risk margin and the way how the business is managed.

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			The key to applying the principle of homogeneous groups is the method used to identify the main risk driver within contracts that transfer multiple risks. The segments based on the main risk driver should form the basis of the calculation of technical provisions. Other risks that are not main risk drivers should be included in the calculation and they should not be unbundled. Unbundling risks on other arbitrary bases should represent an exception to those principles. Should the Commission choose to impose unbundling for this purpose in certain particular cases, we believe that it would be useful that the decision is explained in the text of the implementing measures against the overriding principles noted above. Such an approach would be in line with the general proportionality principle.	Noted
3			Confidential comment deleted	
4			Confidential comment deleted	
5	General comment	Lloyd’s	Lloyd’s agrees with the principle of minimum segmentation for technical provision calculations under Solvency II. Lloyd’s also strongly agrees that the concepts of homogeneous risk groups and proportionality should underlie the consideration of technical provisions. The level of detail given in the paper is very useful but there are areas Lloyd’s feels could be refined to clarify a few points and improve the proposal in terms of the goals of Solvency II.	Noted

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Lloyd’s main points are as follows, with more detail in the relevant paragraphs below:  
 Segmentation is important when considering technical provisions and the overriding rationale for segmenting the business for calculation purposes should be:

- That the segmentation is based on homogenous risk groups *and*
- That the segmentation is aligned to the way the business is managed. This will assist when considering the ‘use test’ and encourage embedding of Solvency II principles into the business. It will also be consistent with the way the business may be transferred to a third-party undertaking in line with the principles behind the risk margin (and Solvency II technical provisions).

Not agreed  
 The distinction should be drawn between segmentation for the purposes of making the best estimate, calculating the SCR/risk margin and the way how the business is managed.

Article 79 refers to the calculation of technical provisions and the consultation paper correctly proposes the undertakings should not necessarily be required to use the same segmentation for the best estimate, risk margin, SCR, MCR and statutory reporting. Lloyd’s agrees with the statement but highlights there are natural relationships between some elements and therefore care needs to be taken when deciding on segmentation for any individual piece. Due to the nature of the calculations and subject to proportionality we expect:

- the best estimate will generally be calculated at lower levels than the stipulated minimums due to homogeneity
- the risk margin will be calculated at the minimum segmentation level
- SCR calculations will probably need to be at least as granular as the risk margin

Noted

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			<p>(to make the risk margin calculation possible)</p> <ul style="list-style-type: none"> <li>- MCR calculation could be at a higher level</li> <li>- statutory reporting will form the basis for transparency, comparability and benchmarks between undertakings. Whilst avoiding reporting burdens is important, it is also very important to ensure comparisons are not meaningless or worse, misleading. It is reasonable to assume statutory reporting will be required at the minimum levels for technical provision calculations which in turn means the splits for technical provisions should enable meaningful comparisons between undertakings lines of business.</li> </ul>	
			<p>Paragraph 3.2 clearly states the paper covers the segmentation of technical provisions but also hints there may be further work to look at segmentation of the risk margin. Given that risk margins are more likely to be calculated at the minimum levels (and best estimates naturally at a more granular level) it is important to emphasise this to avoid misunderstanding that the paper is mainly directed at the best estimate element.</p>	<p>Agreed See revised advice The segmentation of the risk margin shall be done according to the the advice in former CP 42 Calculation of risk margin..</p>

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			<p>The suggested use of the principles of “substance over form” and “segmentation based on the best use” is very important and Lloyd’s welcomes these and strongly recommends they are retained in level 2 advice.</p> <p>Finally, Article 79 refers to calculating technical provisions. The use of the word “calculate” is a far stronger statement than “segment” or “determine” which may have weaker interpretations (as they can include allocations etc). The use of “calculate” gives clarity and this is welcomed, but some application of proportionality will be required for sensible and meaningful “calculations” to be carried out at an appropriate level.</p>	Noted
6	General comment	Institut des Actuaire	<p>Institut des actuaires, the third European actuarial local association, representing 2300 actuaries from France, is keen on commenting the Consultation 27-09 which begins the level 2 construction.</p> <p>Segmentation is an important topic which will drive reporting for technical provisions and was rightly chosen as a first level 2 subject to be fixed.</p> <p>Level 1 defines lines of business as a minimum segmentation and leaves to each company the definition of the homogenous risk groups for the calculation of the technical provisions. This definition should effectively left to each company but could be framed by an actuarial standard.</p> <p>Other principles that should drive the definition of lines of business are simplicity and continuity. The reporting on technical provisions should be understandable (which means a limited number of lines of business and clearness of each lines) and should remain stable among different reporting periods. Unbundling for defining lines of business can be necessary but should remain an exception. On the opposite, unbundling for defining homogenous risk groups is usually important.</p>	Noted

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			Last, a link with the segmentations that will be adopted by the IFRS standards can improve the readability of the reportings.	
7	General comment	CRO Forum	<p>As it stands the paper would require segmentations that change depending on the metric (para 3.21), market conditions and time (para 3.33). They would also require unbundling subject to proportionality (e.g. 3.28 and 3.29). This makes segmentation un-necessarily complex. It should be the choice of the undertaking how to segment the business, as long as also some common classification criteria are fulfilled in order to guarantee comparability.</p> <p>General comments:</p> <ul style="list-style-type: none"> <li>• Generally the CRO Forum supports using a common categorisation across all EU member states.</li> <li>• An overly rigid or overly granular mechanism will create unnecessary data processing costs and complexity.</li> <li>• The current proposals potentially have some conflicts with IFRS classifications, as well as other statutory requirements (e.g. authorisations for particular lines of business in certain jurisdictions)</li> <li>• Para 3.7: Any categorisation between mortality and longevity should not prejudice the ability to offset these risks against each other, both at an individual life level, and at the aggregate risk level</li> </ul>	Noted

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Re internal model users:

- 1) Generally companies using internal models should be allowed to use different segmentation for determining SCR (and thus also the MVM!), MCR and possibly also technical provisions internally. Results for technical provisions should be mapable into the categories required by the regulators.
- 2) The Non-Life segmentation looks reasonable and in line with industry practice so far. The proposed 16 LoBs for Life are overly burdensome and provide little additional insights. Here the CRO Forum prefers a restriction of the segmentation to the top 4 LoBs suggested.
- 3) Unbundling of single contracts is viewed to be overly burdensome (especially for Life)

Not agreed

The top four segmentation for the life is too broad and requires further segmentation.

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8	General comment	Groupe Consultatif	<p>The Group Consultatif welcomes CEIOPS’ general principle of "substance over form" as outlined in 3.9. In our view this is not only valid for determining how contracts with obligations from different lines of business should be treated, but also for the fundamental decision of setting general principles for unbundling and segmentation of insurance portfolios.</p> <p>Unbundling is an important step in segmenting an insurance portfolio, and "substance over form" needs to be applied to unbundling as well. Here, we suggest the implementation measures provide clarity on the order in which segmentation and unbundling is processed.</p> <p>We strongly support not having a fixed segmentation for all purposes, and an allowance for companies to use different segmentations for different purposes - (Best Estimate (BE), Risk Margin (RM), Solvency capital requirement (SCR), Minimum capital requirement (MCR), and statutory reporting) - in order to achieve more accurate and appropriate results.</p> <p>It could be desirable to have a harmonized segmentation for different purposes, e.g. a harmonisation between Solvency II and IFRS 4 phase II. This should be taken into consideration in the work that CEIOPS is conducting.</p>	<p>Noted</p> <p>Agree</p> <p>See revised advice</p> <p>The Advice has been expanded with the definitions of portfolio, Line of business, homogenous risk group and segmentation.</p>
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Apart from technical provisions, other risks such as lapse need to be considered separately - for instance, for the calculation of SCR.

In order to classify the risks across life and non-life, a definition of the two parts will be required to ensure consistent application across countries.

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This consultation paper sets out the proposed classification for life and non-life without specifically mentioning the classification for health insurance. If this business is now included within the non-life classification under ‘health and accidents’ this should be made clear. We are not sure where this leaves Health with respect to the SCR standard formula.

It would be useful to have clear definitions of key concepts and terminology across all consultation papers. Examples include Portfolio (c.f. CFO-Forum definition), Line of Business, Segment, Homogeneous Risk Group.

9

General comment

DAV

The DAV Working Group on Solvency II issues regarding life insurance business welcomes CEIOPS mentioning the general principle of "substance over form" as outlined in 3.9. However, in our view this is not only valid for determining how contracts with obligations from different lines of business should be treated, but also for the

Agreed  
See revised advice

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	<p>fundamental decision of setting general principles for unbundling and segmentation of insurance portfolios.</p> <p>CP 27 allows for different segmentations regarding different evaluation purposes. The Working Group especially welcomes CEIOPS advice 3.21 (highlighted grey) in this context, which states that "the segmentation used for different purposes should depend upon what is best for these purposes". Keeping this in mind, the formal minimum segmentation as outlined in 3.27 is subject to further discussion, since according to the Working Group this segmentation does not seem to be suitable for any purpose.</p> <p>Closely related is the topic of unbundling, which is of major importance in creating a suitable segmentation. Again, "substance over form" needs to be applied to unbundling as well. Here, the Working Group suggests to rearrange the order in which segmentation and unbundling is processed. Without unbundling, segmentation cannot be executed appropriately.</p> <p>The Working Group agrees upon different segmentations for different purposes. Here it is important, that consistency prevails within one form of evaluation, e.g. economic vs. statutory. Components of technical provisions may not be eligible for segmentation (ref. 3.7), the impact of risk mitigation over segments may prevent further splits as observed in costs of financial options and guarantees.</p> <p>Detailed remarks</p> <p>Unbundling:</p>	<p>The process of unbundling has been revised.</p> <p>The Advice has been expanded with the definitions of portfolio, Line of business, homogenous risk group and segmentation.</p>
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Proposal for a Principle of Unbundling replacing 3.28 to 3.33

A portfolio of insurance contracts should be unbundled if

- the portfolio is economically substantial,
- the considered components are independent of each other, and
- unbundling is feasible for the insurance undertaking holding the portfolio with reasonable effort.

Any subportfolio is of economic substantiality if risk impacts from this portfolio are material.

Proposal for a Principle of Segmentation replacing 3.21 to 3.23 and 3.27

A portfolio of an insurance undertaking should be segmented according to the predominance of its risk drivers which are

- capital markets risks
- insurance risks.

Both segments need further split for participating and non participating portfolios if the generated segments are material. Any component driven by capital market risks requires further segmentation dependant upon the bearer of that particular risk, e.g. policy holder or enterprise.

Within any segment less dominant components need further unbundling if and only if the defined Principle of Unbundling as stated above is fulfilled. This is particularly true

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			<p>for insurance risk drivers such as death, survival, disability / morbidity and so forth.</p> <p>Apart from technical provisions other risks such as lapse need to be considered separately, for instance for the calculation of SCR.</p> <p>The Working Group would highly appreciate a clarification of definitions throughout all CPs. These are:</p> <p>Portfolio (c.f. CFO-Forum definition), Line of Business, Segment, Homogeneous Risk Group.</p>	
10	General comment	ICAEW	<p>We endorse the CPs objective to keep prescribed segmentation lines to a minimum so as to enable insurers to use the segments they feel most appropriate.</p> <p>The CP does not fully explain the rationale for the segments selected, which would have been helpful in evaluating whether the segmentation makes sense. It is unclear whether the driver behind the segments selected is consistency with licensing, consistency with other reporting or whether the reserves are considered to have very different characteristics between the categories, whether the historic data against which regulators will measure the provisions tends to be in these segments or some other reasons.</p> <p>We strongly support the view that given the diversity of products sold and the fact that the undertakings will have the best understanding of their business, undertakings will be best placed to know how to segment the business. If this is the basic premise, however,</p>	<p>Agreed</p> <p>See revised advice</p> <p>The consultation paper was expanded with the explanation of the rationale for the segments selected.</p>

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it could be argued that advice on even a minimum level of segmentation is unnecessary – particularly if the minimum requirement creates practical issues for some undertakings.

It is also not clear whether the classes have been driven purely from the regulatory side or whether there has been significant input from insurers. It would be also useful to avoid separating out any classes that may only be likely to have small amounts of premium unless they have very different characteristics.

The proposal to apply the same segmentation to each component of technical provisions e.g. gross premium provisions and gross claim provisions may be problematic in certain instances e.g. Motor UPR is not readily split between liability and property damage elements. Similar problems may arise in relation to Commercial Package policies and Commercial Fire & BI policies. This suggests that different segmentation should be used for premium and claims provisions.

There does not appear to be any recognition that only a small amount of business may be underwritten in a class and that proportionality should allow it to be added into another much larger class for the insurer rather than maintain and retain segmented data for trivial amounts.

The unbundling requirement for mixed business appears reasonable as there is allowance for proportionality. It would be helpful if some guidance on the level of acceptable proportionality could be given.

Has the feedback for QIS 4 been used to influence the classes selected?

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11	General comment	Munich Re Group	<p>Consultation Paper 27 deals only with the segmentation for calculating the Beat Estimate. It would be desirable that CEIOPS take an overarching position which links the segmentation required for all parts of Solvency II.</p> <p>The segmentation should not conflict with the way business is managed. For example, it should not be mandatory to consider prop and non-prop for one line of business separately if the development is similar and the size of either prop or non-prop is not substantial. In addition, the way business is managed might also influence, whether the segmentation to determine the Best Estimate for claims provisions for gross, net or retro business should be applied identically. We recommend a more flexible and pragmatic segmentation which should also consider the principle of proportionality.</p>	<p>Not agreed</p> <p>The distinction should be drawn between segmentation for the purposes of making the best estimate, calculating the SCR/risk margin and the way how the business is managed.</p>
12	General comment	ABI	<p>The ABI welcomes this opportunity to comment on the Level 2 advice proposed by CEIOPS on segmentation of technical provisions.</p> <p>Whilst we appreciate the fact that CEIOPS agrees that segmentation may be done differently for different purposes, we believe that if the segmentation for technical provisions is specified, this may result in segmentation for other purposes that will follow the same divisions. However, we believe that the risk margin, the MCR and the SCR should not be segmented into lines of business. The current approach has enough difficulties without introducing more complexity that will not add to the understanding of the risks.</p> <p>The proposed segmentation may create difficulties for insurers. Depending on the way the reporting structures are set up, insurers may have to change the structure of their reporting systems which may involve significant costs. The choice of segmentation will also have a significant effect on the diversification allowance especially if the items</p>	<p>Not agreed</p> <p>The calculation of risk margin should be done at least by line of business and no recognition of diversification effects should be taken into account.</p> <p>Agreed</p> <p>See revised text</p>

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grouped together have low correlations. This may lead to an overestimation of capital/reserve requirements.

An important point raised in the discussion was the principle of “substance over form” (Para 3.9). We would suggest that this be included in the blue text.

There is a suggestion in the paper (Para 3.2) that segmentation for the risk margin may be looked into, given that it can be different for different purposes (Paras 3.1, 3.21). The ABI believes that there should be no segmentation for the risk margin, the SCR and the MCR, so that appropriate recognition of diversification effects is reflected across the whole entity.

Although we do not believe that the suggested segmentation would be ideal for life business, we recognise the benefit of consistency and agreeing a standard early on. Thus, we believe that the proposed method would be workable for our members. However, we would not advocate any additional segments as this would become overly onerous. We do not support the unbundling of contracts in a way that causes their allocation to change over the lifetime of the contract. Rather, contracts should be allocated once to that area that most appropriately expresses the major risk drivers of the contract over the entire lifetime of the contract, and this would not normally change. If the segmentation of life business proposed includes the current version of unbundling, we would not support it. The pricing of products specifically takes into account the offsetting elements within that contract and unbundling means that this effect is lost and could lead to changes in the pricing of products.

For non-life insurance we also believe further changes are necessary to make this workable. We discuss our suggestions in our comments on Para 3.24.

The “substance over form” becomes a part of blue box.

The segmentation of the non-life business have been changed

Comments on Consultation 27-09 Draft L2 Advice on TP – Segmentation

CEIOPS-SEC-91/09

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			There should be sufficient flexibility within the segmentation and the other aspects of the implementation of Solvency II to incorporate any IFRS changes, where these appropriately reflect solvency criteria.	
13	General comment	ICISA	ICISA agrees with the underlying principle that obligations should be segmented into homogeneous risk groups for calculation of technical provisions.	Noted
14	General comment	UNESPA	<p><b><u>The segmentation should refer to best estimates only</u></b> - The CEIOPS paper refers to the segmentation requirements for the calculation of technical provisions. <u>We interpret this to refer to the high-level segmentation requirements for Best Estimate calculations only.</u> We do not believe that segmentation discussions are addressing neither for the Market Value Risk Margin nor SCR calculations.</p> <p><b><u>Segmentation should be considered in the context of all requirements for Solvency II</u></b> - CEIOPS only consider part of the Solvency II requirements in this paper, by focussing solely on Technical Provisions. We would urge CEIOPS to produce a more over-arching position which links the segmentation required for all parts of Solvency II, such as Technical Provisions, Best Estimate assumptions, the Risk Margin, SCR, MCR, ORSA and reporting.</p>	<p>Noted</p> <p>The distinction should be drawn between segmentation for the purposes of making the best estimate and, calculating the SCR/risk margin.</p>

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**The advice should not preclude a more granular segmentation at Member State level** - Although we believe it is not possible to have a more granular segmentation across the EU, this doesn’t preclude more granular Member State level segmentation if this is appropriate for that market.

Noted

**We believe segmentation should be in line with the way the business is managed and reported to the Board.**

**Segmentation should be done in a way that it does no affect the way technical provisions are assessed.**

Not agreed

The distinction should be drawn between segmentation for the purposes of making the best estimate, calculating the SCR/risk margin and the way how the business is managed.

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**A principle-based approach therefore would be appropriate**- For example, unbundling of a single contract should only be required if

- a) the contract is economically material;
- b) the individual components are independent (not complementary) from each other; and
- c) unbundling is feasible at reasonable cost for the undertaking.

Noted

Finally we would like to remark that we have received several comments indicating that the consultation process currently established, does not guarantee an appropriate timing for discussion and analysis of the important subject addressed in Level 2 Implementing measures process. The timeframe for dialogue with stakeholders in designing the Level 2 should be reviewed.

Comments on Consultation 27-09 Draft L2 Advice on TP – Segmentation

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15	General comment	CEA	<p><b><u>The segmentation should refer to best estimates only</u></b> - The CEIOPS paper refers to the segmentation requirements for the calculation of technical provisions. We interpret this to refer to the high-level segmentation requirements for Best Estimate calculations only. We do not believe that segmentation discussions are appropriate for the Market Value Risk Margin.</p>	Noted
			<p><b><u>Segmentation should be considered in the context of all requirements for Solvency II</u></b> - It is very important to have an overall view of the segmentation issues for all aspects of Solvency II, taking into account the purposes of the segmentation for the different aspects. The segmentation used for one purpose may not necessarily be the same as another, although it is important to ensure that the segments used for different purposes do not cause inconsistencies and are not conflicting with the way business is managed. In particular, reporting requirements could drive or constrain the segmentation used for other purposes, such as the calculation of Best Estimates.</p> <p>CEIOPS only consider part of the Solvency II requirements in this paper, by focussing solely on Technical Provisions. Segmentation is also relevant for other aspects of</p>	Noted

**Comments on Consultation 27-09 Draft L2 Advice on TP – Segmentation**

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Solvency II. It is important that the segmentation approach used is that needed to obtain accurate and appropriate results, which may result in different segmentation approaches being used for different purposes. We recommend that CEIOPS produces a more over-arching position which considers the bigger picture under Solvency II and reflects that different segmentation approaches might be needed for different purposes, but that it is also important to ensure that there are no conflicts between different areas such as Technical Provisions, Best Estimate assumptions, SCR, MCR, ORSA and reporting.

Furthermore, it would be desirable to have consistency with other non-Solvency II areas, e.g. IFRS 4, phase II and MCEVs. This should be taken into consideration in the work that CEIOPS is conducting.

**Segmentation should not conflict with the way business is managed** - For calculation purposes, it is extremely important that the segments chosen do not conflict with the way insurers manage their business. For this reason, it is likely that only a few high-level segments are appropriate. In particular we would not support any segmentation requirements that split up an insurer’s lines of business, rather insurers should be able to map the lines of business they work with into the segments chosen by CEIOPS.

In particular, the CEA only supports the use of the first 4 segments stated in the CEIOPS paper for life business (with-profit, non-profit, unit-linked and accepted reinsurance) and not the further segmentation by main risk-driver. However, the CEA is open to discuss

Not agreed  
The distinction should be drawn between segmentation for the purposes of making the best estimate, calculating the SCR/risk margin and the way how the business is managed.

Comments on Consultation 27-09 Draft L2 Advice on TP – Segmentation

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alternative, more granular, solutions if some can be found which are in line with the way insurers manage their business. Possible solutions are discussed in the CEA comments to Paragraph 3.27, although we should note that these are preliminary views at this stage.

**Unbundling should be principle-based and proportionality should apply to all product types** - The unbundling of contracts should be done in a flexible manner and should be principle-based only. In particular, there should not be strict requirement to always unbundle for example: life and non-life risks; the top four life segments; reinsurance contracts; or those contracts that can be deconstructed into stand-alone parts.

Noted

**Comments on Consultation 27-09 Draft L2 Advice on TP – Segmentation**

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**Segmentation requires flexibility and pragmatism** - We would like to emphasise the need for flexibility and pragmatism in the application of the proposed segmentation. In some cases, the choice of one segment compared to another might be difficult (for example: “Worker’s Compensation” vs. “Accident”, “Sickness” or “Health”). The choice made by the company will often rely on expert judgement and as the company is in the best position to know the business it is writing, the company’s choice should be presumed appropriate.

Agreed  
See revised advice  
The split of accident, sickness, health and workers compensation was changed.

**The detail of the level 2 advice seems appropriate** - On the whole the level of detail given in the Level 2 text is well balanced and for the most part to the appropriate level of detail. However, particular points that we believe should be added to the level 2 advice are:

- the principle of “substance over form” (raised in Para 3.9)
- the fact that profit-sharing calculations may need to be done at a less segmented level (raised in Para 3.7).

Noted

Comments on Consultation 27-09 Draft L2 Advice on TP – Segmentation

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**The advice should not preclude a more granular segmentation at Member State level** - Although we believe it is not possible to have a more granular segmentation across the EU, this doesn’t preclude more granular Member State level segmentation if this is appropriate for that market. We would expect any local statutory reporting segments to be such that they can be easily mapped to the EU high level reporting segments set out in the CEIOPS paper. For example, in some markets it may be appropriate to further segment the non-life segment of “Fire and other damage” into “Private property” and “Commercial property”.

Noted

**Consideration needs to be given to non-EU activities** - We believe special consideration needs to be given to activities outside EU. Indeed, the segmentation currently used for non EU contracts may differ from the one proposed by CEIOPS. When this is the case, companies should not be obliged to comply with the CEIOPS segmentation, as this would result in an excessive burden. For non-life insurance in particular, the segmentation in use may be different than the one used in the EU (because the 91/674/EEC directive requirements do not apply).

Not agreed

The risks written in non-EU countries should be possible to allocate to risks from line of business prescribed in the CP on segmentation.

16	General comment	AMICE	Companies should be allowed to segment their business in different ways depending on	Noted
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			the purpose. Therefore, they should not be required to use the same segmentation for the calculation of best estimates, statutory / solvency II reporting and the calculation of solvency capital requirements. However, we would appreciate if the segmentation covering different areas could be as similar as possible.	
17	General comment	AMICE	The proportionality principle in general, and in particular the principle of materiality, should determine the unbundling of contracts covering life and non-life risks; in this regard the same principles should apply when allocating contracts covering risks across different lines of business but driven by a major risk.	Not agreed Contracts covering life and non-life risks should be unbundled.
18	General comment	AMICE	The principle of substance over form (to be followed in determining how contracts with obligations from different lines of business should be treated) should be added to CEIOPS advice on Level 2 Implementing Measures.	Agreed See revised text The principle of substance over form is and must be a part of advice text.
19	General comment	AMICE	Paragraph 1.4 states that CEIOPS will continue developing its advice on segmentation taking into account further discussion on health insurance business. We would like to highlight that the proposed segmentation for non-life business, which refers to the existing EU Council Directive on the Annual accounts and consolidated accounts of insurance undertakings (91/674/EEC) namely via Article 63 and the life segmentation into 4 main lines of business (contracts with profit participation clause,	Agreed See revised advice The segmentation for health risks was changed.

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			<p>contracts where the policyholder bears the investment risk, other contracts without profit participation clauses, and accepted reinsurance), do not cover the special features of health business. In this regard, it is not always clear if companies should rely on the non-life or on the life segmentation to segment their health risks.</p> <p>Thus, the segmentation of health risk will require a more dedicated discussion to capture the specificities of health insurance.</p>	
20	General comment	KPMG	<p>We agree with the general themes of the paper, i.e. the principle of minimum segmentation for technical provision calculations under Solvency II. We strongly agree that the concepts of homogenous risk groups and proportionality should underlie the consideration of technical provisions. The level of detail given in the paper is very useful but there are some areas we feel further clarification would be helpful.</p> <p>Our main points are as follows:</p> <p>1) Paragraph 3.22 &amp; 23: We agree that segmentation is important when determining technical provisions and believe the overriding rationale for segmenting the business for calculation purposes should be:</p> <ul style="list-style-type: none"> <li>• That the segmentation is based on homogenous risk groups and</li> <li>• That the segmentation is aligned to the way the business is managed.</li> </ul> <p>Although there is no formal ‘use test’ in relation to technical provisions, it is important that management believe the segmentation used and run their business in line with the level of segmentation applied (albeit this may well be at a more granular than the minimum levels set). This will help encourage embedding of Solvency II principles</p>	<p>Not agreed</p> <p>The distinction should be drawn between segmentation for the purposes of making the best estimate, calculating the SCR/risk margin and the way how the business is managed.</p>

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			<p>into the business. It should also be consistent with the way the business could be transferred to a third-party undertaking, i.e. in line with the principles underlying the risk margin.</p> <p>2) Paragraph 3.1: Article 79 (Segmentation) only relates to the calculation of technical provisions. While we agree with the comment that undertakings should not necessarily be required to use the same segmentation for the best estimate, risk margin, SCR, MCR and statutory reporting, we believe that that the segmentation should not be inconsistent with other processes adopted and with financial reporting. This will prohibit the need for companies to have multiple systems and processes in place.</p> <p>IFRS 8 (Operating Segments) is based on the 'through the eyes of management approach' and requires segment disclosures to be based on the way that management considers the business in making decisions about operating matters. We believe companies will wish to align the segmentation applied for determining the technical provisions for regulatory purposes with the segmentation applied for accounts disclosure purposes. As outlined in our response to paragraph 3.24 below, we believe certain of the segmentation of non-life insurance need to be further divided, due to the different nature of the risks involved.</p> <p>As explained in our response to paragraph 3.21 below, we believe there are some natural relationships between the best estimate, risk margin, SCR, MCR and statutory reporting and care needs to be taken when deciding on segmentation for any individual element.</p>	
21	General comment	FEE	The proposed advice as described in Paragraph 3.3, is intended to provide guidance for the grouping of contracts to derive statistical information from past business to be used	Agreed

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for future business (statistical segmentation) or grouping of contracts with virtually identical peculiarities from a measurement perspective, i.e. the same measurement assumptions, can be used for all those contracts within the group (assumption segmentation). We recommend this description of the purpose of segmentation is brought forward to Paragraph 1.2.

Further issues that arise for accounting purposes include (i) to what extent contracts can be considered together in one unit of account to offset the recognition of a loss for an onerous contract with expected gains of profitable contracts (off-setting segmentation) and (ii) to what extent administrative costs are considered variable under a restricted definition of unit of account since some costs may be considered overhead or fixed. In the case of a broader definition, the same costs can be attributable and considered variable to that unit of account. We believe that these issues should be addressed as well in this or other future papers. We understand that the consideration of intra-portfolio pooling or diversification effects in measuring the risk margin is scoped out in Paragraph 3.2 of the Paper.

We query the appropriateness of permitting (with rare exceptions) the use of a different segmentation for estimating the mean value of cash flows and for estimating the measure of the deviation risk from that estimated mean, i.e. the risk margin. The recently published IAA Risk Margin Paper states in chapter 6.2 that it is desirable, when determining the risk margin, to “use assumptions consistent with those used in the determination of the corresponding current estimates”. Estimating the mean value of cash flows and of the risk margin for the deviation risk from that estimate should have the same statistical basis.

See revised advice

The purpose of segmentation is disclosed. The distinction should be drawn between segmentation for the purposes of making the best estimate and calculating the risk margin.

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			Grouping of contracts is made for presentation or disclosure, i.e. determining the lowest level of details of published information about different contract types (= presentation segmentation). This seems to be addressed by Paragraph 3.1.5b of the Paper. However, other parts of the Paper are unclear, that this is within the intended scope of the Paper.	
22	General comment	CFO Forum	<p><b><u>Segmentation should not conflict with the way business is managed</u></b> – For measurement purposes, the segments chosen should not conflict with the way insurers manage their business. It is also noted that the current proposals potentially have some conflicts with IFRS classifications, as well as other requirements. In particular, IFRS 8: Operating Segments requires financial reporting disclosures to be “through the eyes of management”. It is therefore likely that only a few high-level segments are appropriate. In particular we would not support any segmentation requirements that split up an insurer’s lines of business, rather insurers should be able to map the lines of business they work with into the segments chosen by CEIOPS. Segmentation requirements that are inconsistent with the way insurers manage their business and collate data will also have significant practical implications for data management systems.</p> <p>The CFO Forum appreciates that data needs to be collected in consistent regulated lines of business for the purpose of harmonisation and authorisation. For the sake of harmonisation, local regulators should not introduce additional requirements regarding segmentation. The presentation of information should not pre-define the segments used to estimate technical provisions, in particular <b>the level at which diversification benefits shall be computed</b>. The relevant granularity at which risk margins should be assessed could be much wider than the granularity of disclosure requirements. In some instance an aggregated measurement basis followed by an allocation approach may achieve more accurate and reliable estimates than a more granular measurement approach.</p>	<p>Not agreed</p> <p>The distinction should be drawn between segmentation for the purposes of making the best estimate, calculating the SCR/risk margin and the way how the business is managed.</p>

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**There should not be a minimum requirement to unbundle components of insurance contracts** – The CFO Forum does not support the unbundling of components of insurance contracts for measurement of insurance liabilities. Insurance contracts are often composed of a bundle of risks and services. The valuation of those risks and services are often interdependent and the value of the risks and services for the entire insurance contract is not equal to the sum of the values of the separate risks and services. Unbundling such interdependent elements of insurance contracts requires additional judgement and results in a spurious degree of accuracy in the final measurement approach. Insurers should not be required to unbundle insurance contracts unless the components are clearly separable and independent and can be measured reliably.

Contracts should be allocated to segments based on the main risk characteristics of the contracts.

Noted

**Comments on Consultation 27-09 Draft L2 Advice on TP – Segmentation**

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**Segmentation requires flexibility and pragmatism** – We would like to emphasise the need for flexibility and pragmatism in the application of the proposed segmentation. In some cases, the choice of one segment compared to another might be difficult (for example: “Worker’s Compensation” vs. “Accident”, “Sickness” or “Health”). The choice made by the company will often rely on expert judgement and as the company is in the best position to know the business it is writing, the company’s choice should be presumed appropriate.

The volume of statistically reliable data is a driver of the level of segmentation of insurance contracts for measurement purposes. Where large volumes of statistically credible data exist, this will support more detailed analysis of component risks. Segmentation should not require companies to conduct assessments on low volumes of volatile data where an aggregated approach would provide a more credible subset of data on which to conduct estimates. In this context we highlight that most analysis is conducted on data with some degree of heterogeneity of risks. A balance needs to be achieved between having a sufficient volume of data given the underlying volatility of that data compared and seeking to identify the sources of that volatility and attributing it to different categories of risk.

Whilst it is noted that it may be appropriate to use different segmentations for measurement of best estimates, risk margin, MCR and SCR, we consider that the principles for segmentation should not preclude insurers from using the same level of segmentation for all measurements. In this regard the segmentation applying to best estimates and risk margins for the purpose of technical provisions should be able to be consistent with internal models used by companies which may model some risks at a higher level of aggregation then allocate values to a more granular level.

Noted

Comments on Consultation 27-09 Draft L2 Advice on TP – Segmentation

CEIOPS-SEC-91/09

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23	General comment	Pacific Life Re Limited	Pacific Life Re is a pure reinsurer which reinsures life and health business in the UK and Ireland and in selected Asian markets. Pacific Life Re is incorporated in the United Kingdom and regulated by FSA. It has its main offices in London, a branch office in Singapore and a representative office in Tokyo. Pacific Life Re is part of the Pacific Life group of companies and its ultimate holding company is Pacific Mutual Holding Company.	Noted
24	1	CFO Forum	<p><b><u>Undertakings should define the level of granularity appropriate</u></b> - The CFO Forum agrees that it will be appropriate for each undertaking to define the homogenous risk groups and the level of granularity most applicable to their business.</p> <p><b><u>CEIOPS advice relates only to minimum segmentation</u></b> – The CFO Forum agrees that this is appropriate. Further CEIOPS advice should not require undertakings to subdivide risks between segments for measurement purposes when:</p> <ul style="list-style-type: none"> <li>• The level of segregation is disproportionate to the risks being measured.</li> <li>• The level of segregation would require the separation of risks where interdependency is established within contract structures.</li> <li>• The resulting volume of data for each segment is not statistically credible given the inherent volatility of the risks being measured.</li> </ul> <p><b><u>Consideration should be given to health products that combine life and non-life parts</u></b> - In Health insurance there are products which have life and non-life characteristics/parts. We hope that the missing suggestion for health segmentation, as mentioned in this paragraph, will allow for this circumstance.</p>	<p>Agreed</p> <p>See revised advice</p> <p>The segmentation of the accident and health insurance was changed.</p>
25	1.2	CRO Forum	The CRO Forum agrees that it will be appropriate for each undertaking to define the homogenous risk groups and the level of granularity most applicable to their business.	Noted

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26	1.2	Aviva	We agree that it will be appropriate for each undertaking to define the homogenous risk groups and the level of granularity most applicable to their business.	Noted
27			Confidential comment deleted	
28	1.2, 1.3	ABI	The ABI strongly supports these points.	Noted
29	1.2	CEA	The CEA strongly supports this.	Noted
30	1.3	CRO Forum	<p>Clarification of definitions is necessary for paragraph 1.3 in conjunction with 3.1 and 3.2. Given that the technical provision is the sum of best estimate plus a risk margin, if CEIOPS is to give advice on the minimum level of segmentation for calculating technical provisions (as stated in 1.1), then this implies that the same minimum level segmentation is to be applied to both best estimates and risk margins.</p> <p>Paragraphs 3.1 and 3.2 however recognise that it may be required to use different segmentation for determining best estimates and risk margins. It is unclear how this would impact the minimum level of required segmentation for risk margins</p> <p>The CRO Forum would expect in most cases to perform analysis for the purposes of determining best estimates at a level more granular than the minimum specified segmentation. As such, advice limited to a minimum level of segmentation would not normally be expected to cause any issues.</p>	<p>See revised advice</p> <p>The distinction should be drawn between segmentation for the purposes of making the best estimate and calculating the risk margin.</p>
31	1.3	Aviva	Clarification of definitions is necessary for paragraph 1.3 in conjunction with 3.1 and 3.2. Given that the technical provision is the sum of best estimate plus a risk margin, if CEIOPS is to give advice on the minimum level of segmentation for calculating technical provisions (as stated in 1.1), then this implies that the same minimum level segmentation is to be applied to both best estimates and risk margins.	<p>See revised advice</p> <p>The distinction should be drawn between segmentation for the</p>

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			<p>Paragraphs 3.1 and 3.2 however recognise that it may be required to use different segmentation for determining best estimates and risk margins. How would this impact the minimum level of required segmentation for risk margins?</p> <p>We would expect in most cases to perform analysis for the purposes of determining best estimates at a level more granular than the minimum specified segmentation. As such, advice limited to a minimum level of segmentation would not normally be expected to cause any issues. However, in some cases classes are set up on the need to report by source or due to data considerations e.g. Bordereaux claims, commercial packages. In such cases splitting claims and premiums in the way proposed would be problematic. Would it be sufficient to segment, say 95% of the business?</p>	<p>purposes of making the best estimate and calculating the risk margin.</p>
32	1.3	CEA	<p>The CEA strongly supports this. The advice given by CEIOPS relates to a minimum segmentation only.</p>	<p>Noted</p>
33	1.4	Munich Re Group	<p>From the point of view of a health insurance company this sentence should be read in connection with 1.2. and 1.3. So we would recommend the clarifying sentence: “It will be appropriate for each insurance company to define the homogenous groups and the level of necessary segmentation in health insurance. CEIOPS should also give only advice to the minimum level of segmentation that undertakings need to consider when calculating their technical provisions in health insurance. Also the principle “substance over form” should be followed by the segmentation of health insurance. ” This seems redundant but in this way it is granted, that the future CEIOPS advice on segmentation in health insurance is consistent with CP 27. Health insurance should be represented by a segmentation of its own.</p>	<p>Agreed</p> <p>See revised advice</p> <p>The segmentation of accident and health insurance was changed.</p>
34	1.4	CEA	<p><b>Consideration should be given to health products that combine life and non-</b></p>	<p>Agreed</p>

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			<p><b>life parts</b> - In Health insurance there are products which have life and non-life characteristics/parts. We hope that the missing suggestion for health segmentation, as mentioned in this paragraph, will allow for this circumstance.</p> <p><b>CEA position on health module of SCR</b> - Although CEIOPS states this is out of the scope of this paper, the CEA would like to reiterate its position on the segmentation used for the calculation of the SCR for health business (as per our response to CEIOPS on CEIOPS-FinReq-01/09-rev2, earlier this year). The CEA believes that the underwriting risks for health business should be covered under the scope of the “Health underwriting risk module”, the “Life underwriting risk module” and the “Non-life underwriting risk module” with clear guidance as to when each module should be used.</p>	<p>See revised advice</p> <p>The segmentation of accident and health insurance was changed</p>
35	1.4	AMICE	<p>As described in the paragraph above, the segmentation of health insurance will require more discussion to capture the specificities of this business. However, we would like to take this opportunity to introduce our ideas on the segmentation for health business: a new health class of business should be created and this new class should be segmented according to its risks in line with Annex 1 of the Framework Directive “Accident” and “Sickness”.</p>	<p>Agreed</p> <p>See revised advice</p> <p>The segmentation of accident and health insurance was changed</p>
36	3.1	CRO Forum	<p>The directive requires segmentation for calculating the technical provisions. The CRO Forum has implicitly agreed to segmentation as a result of the support for the linear approach to the MCR. The segmentation should, however, be consistent to avoid creating a monster bureaucracy. It will add an unnecessary level of complication to implement Solvency II with different level of segmentation for different purposes. Further the CRO Forum challenges the extension of segmentation to the calculation of</p>	<p>Noted – Not in the scope of the advice</p>

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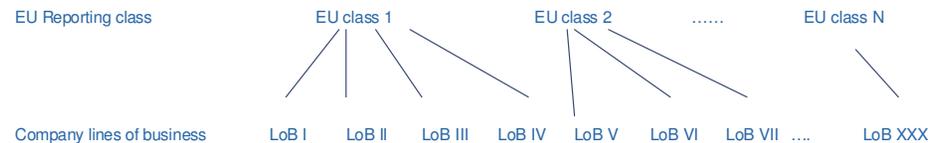
			<p>the SCR as suggested in the paper as this could undermine diversification benefits.</p> <p>While it is reasonable to allow differences in segmentation for different purposes, there should be many similarities and any variance should be for good reasons which are explained. Otherwise arbitrary segmentation and inconsistent models for the several components with unpredictable effects are likely. The CRO Forum would prefer a stronger standard with clarity about the required consistency (while not strict in prescribing identical segmentation which is practically impossible).</p> <p>The CRO Forum notes that 3.1 refers to different segmentations for different purposes which it supports while 3.2 refers to further work on segmentations for risk margin without being clear whether these are more or less granular. The CRO Forum strongly advises that the entity level is appropriate for the risk margin determination even if lower segments are used to determine run off patterns, determine best estimate or report technical provisions.</p>	<p>CEIOPS tries to minimize divergences where relevant.</p> <p>Not agreed</p> <p>The risk margin should not be assessed across the entire entity because the directive requires minimum segmentation for the calculation of technical provisions which is a sum of best estimate and risk margin.</p>
37			Confidential comment deleted	
38	3.1 & 3.2	Groupe Consultatif	<p>This paper is focusing on the segmentation of technical provisions. We do not believe it is appropriate to define segments without considering the overall approach to segmentation for other components of the Solvency II framework in order to ensure a</p>	<p>Not agreed</p> <p>The purpose of CP-27 (Segmentation) is to prescribe a minimum</p>

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robust and consistent approach across all reporting requirements.

We would expect individual companies to perform their analysis in greater detail by reporting classes (as defined across Europe) as recognised in 3.8 and 3.23. The segmentation used by individual companies might well depend on the purpose of the analysis with different segmentation being used for the purpose of reserving, capital modelling and statutory reporting, if necessary.

When a more detailed segmentation is used by individual companies, a clear mapping to the reporting classes, together with an explanation/ justification for the choice, should be provided by the company.



For supervisory reporting purposes we believe it is appropriate to use the same segmentation for the reporting of the technical provisions and the SCR using the standard formula.

segmentation for the purpose of calculating technical provisions. The purpose of this CP-27 is not to consider the reporting.

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39	3.1	ABI	The ABI agrees that it is possible and helpful to allow different segmentation categories for different purposes. However, the choice of those categories for the technical provisions will have a significant influence on the choice for other purposes. We believe that the risk margin, the SCR and the MCR should be assessed across the entire entity and so should have no segmentation.	Not agreed The risk margin should not be assessed across the entire entity because the directive requires minimum segmentation for the calculation of technical provisions which is a sum of best estimate and risk margin.
40	3.1	FFSA	We understand that the CEIOPS segmentation focuses on segmentation for reporting of best estimates. We believe that where a segmentation is applicable, there should be the same segmentation for all purposes. In consequence, when the CEIOPS will discuss segmentation for other purposes, we may review the answer below.	Noted
41	3.1	CEA	See comments to Para 3.21 (2 <sup>nd</sup> Para 3.21!)	See comments to para. 3.21.
42	3.1	KPMG	We believe it would be helpful to include some guidelines regarding when different segmentation of the various components would be appropriate, either here or in subsequent papers covering the other elements.	Noted
43	3.1 & 3.3	FEE	In order to first address the principle purpose, followed by the exemptions, the order of Paragraphs 3.1 and 3.3 should be changed.	Agreed See revised advice.

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				The purpose of the paper is addressed.
44	3.1	FEE	<p>In our opinion regarding Paragraph 3.1, the segmentation does not necessarily need to be identical for all assumptions, e.g. different risks, cash flows etc. within one contract. For example, if contracts contain both mortality risk (e.g. during the deferment period) and longevity risk (during the annuitisation phase) it would be appropriate to produce segments for determining mortality risk grouping those contracts with mortality risk (e.g. including term life insurance without any longevity risk), while grouping for assumptions of longevity those contracts with longevity risk (e.g. including immediate annuities without any mortality risk).</p> <p>The Paper covers only the measurement of technical provisions. Accordingly, it is unclear why Paragraph 3.1 refers to capital requirements.</p>	Noted
45	3.2	CRO Forum	For the separation of health business, if something has to be prescribed we think that the lines of business „long term health“ und „short term health“ should be sufficient.	<p>Agreed</p> <p>See revised advice</p> <p>The segmentation of accident and health insurance business has been changed.</p>
46			Confidential comment deleted	
47	3.2	Lloyd’s	Paragraph 3.2 clearly states the paper covers the segmentation of technical provisions but also suggests there may be further work to look at segmentation of the risk margin.	<p>Agreed</p> <p>See revised advice</p>

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			Given that risk margins are more likely to be calculated at the minimum levels (and best estimates naturally at a more granular level) it is important to emphasise this to avoid misunderstanding that the paper is mainly directed at the best estimate element.	The segmentation for the calculation of risk margin is defined in CP42.
48	3.2	Dutch Actuarial Society	We have no comments on the articles 3.21 until 3.26. However, the AG would like to give their comments on the following articles 3.28, 3.32 and 3.33.	Noted
49	3.2	ABI	The ABI believes that for the purposes of calculating the risk margin, the segmentation should be at entity level to allow for the appropriate recognition of diversification benefits, even if more granular segments are used to determine run-off patterns, best estimates or reporting technical provisions.	Not agreed The risk margin should not be assessed across the entire entity because the directive requires minimum segmentation for the calculation of technical provisions which is a sum of best estimate and risk margin.
50	3.2	FFSA	In addition, we believe that the segmentation discussed here should be a segmentation for reporting on best estimate data. Companies should not be compelled to make their initial best estimate calculation based on the same segmentation.	Noted
51	3.2	CEA	See comments to Para 3.21 (2 <sup>nd</sup> Para 3.21!)	see comments to para 3.21
52	3.2	Legal General Group &	We welcome the encouragement for segmentation, and in general the level of detail is appropriate for level 2 guidance	Noted

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53	3.2	KPMG	This hints that there may be further work to look at segmentation of the risk margin. Given that risk margins are more likely to be calculated at a lower level of segmentation than the minimum proposed in this paper (and best estimates naturally at a more granular level), we believe it is important to emphasise this to avoid misunderstanding that the paper is mainly directed at the best estimate element of the technical provisions.	Agreed See revised advice The segmentation for the calculation of risk margin is defined in CP 42.
54	3.3	CRO Forum	The importance for a homogeneous data set must be balanced against the size of the data set (as alluded to in paragraph 3.5 i.e. ‘statistically significant homogeneous groupings’)	Not agreed The size of the data set should not affect the prescribed minimum level of segmentation in order to calculate technical provisions.
55	3.3	Aviva	The importance for a homogeneous data set must be balanced against the size of the data set (as alluded to in paragraph 3.5 i.e. ‘statistically significant homogeneous groupings’)	Not agreed The size of the data set should not affect the prescribed minimum level of segmentation in order to calculate technical provisions.
56	3.3	Munich Re Group	This specific aim of the segmentation should be highlighted because the accurate valuation of the obligations can also be a guideline for the principles concerning the open point of health insurance. See also 3.9.	Agreed See revised advice

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				The segmentation for the calculation of risk margin is defined in CP 42.
57	3.3	CEA	See comments to Para 3.23	
58	3.3	FEE	Since the purpose of the Paper is to achieve proper assumptions which are relevant for grouped contracts (segment) to be measured, the assumptions need to be derived from past business which is sufficiently similar to those to be measured to provide relevant information. This approach is applicable to all companies. It would be helpful if this could be elaborated in Paragraph 3.3.	Agreed See revised advice The purpose of segmentation is explained.
59	3.4	Lloyd’s	Lloyd’s strongly agrees.	Noted
60	3.4	KPMG	We agree.	Noted
61	3.4 - 3.7	FEE	In relation to Paragraphs 3.4 to 3.7, we doubt, whether the approaches should be different for life and non-life liabilities. Although there are present value techniques applied to measure life insurance technical provisions, the assumptions used for insurance risk, especially mortality and morbidity, are derived by similar statistical techniques as described in Paragraph 3.5 of the Paper. In most life insurance contracts insurance risk is less relevant than in most non-life contracts. However, this should not result in creating a deviation from a principle-based approach. The last sentence of Paragraph 3.6 on the use of homogenous data could be used as well in Paragraph 3.5 of the Paper. There is no conceptual difference in our view.	Noted
62	3.5	Lloyd’s	Lloyd’s welcomes the use of the phrase “statistically significant” to emphasise the use of	Noted

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			proportionality.	
63	3.5	CEA	<p><b>Principles for segmenting into homogeneous risk groups</b> - Although the CEIOPS paper deals only with Technical Provisions and doesn’t go into the detail of discussing the segmentation into homogeneous risk groups that is required for calculating best estimate assumptions, the CEA requests consideration of the segmentation into homogeneous risk groups. For non-life business for example, the following principles for segmenting into homogeneous risk groups could apply:</p> <ol style="list-style-type: none"> <li>1. Homogeneous risk groups for premiums and claims provisions can be different</li> <li>2. A homogeneous risk group is characterised by similar development of claims within this segment i.e. with similar development patterns</li> <li>3. The claims processing time is a key driver of the development pattern and therefore a key input into the segmentation of homogeneous risk groups</li> <li>4. In addition to the claims processing time, delay in reporting the claims (IBNR losses) has to be considered: lines of business in which a relatively large number of claims with significant delay in reporting and assessment of the damage (e.g. liability business) show a significantly different run-off pattern as compared to lines of business with only short delays in reporting. This could in some cases be more significant than point 3 above.</li> <li>5. For motor third party liability insurance, it is good (actuarial) practice to have separate models for property damage claims and bodily injury claims, as the claim development can be significantly different. In many cases a separation by</li> </ol>	Noted

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			<p>claim size rather than by claim type will have a similar effect because we would expect most claims above a certain threshold contain a bodily injury component. Depending on the individual data situation this might be easier to implement for some companies.</p> <p>⇒ The CEA would hope to discuss a set of principles for segmenting into homogenous risk groups going forward.</p>	
64	3.5 – 3.6	AMICE	Companies usually employ different levels of sub-segmentation in order to calculate the best estimate of their technical provisions. More granular segments are defined by the number of homogeneous risks.	Noted
65	3.5	KPMG	We agree to the use of the phrase “statistically significant” to emphasise the use of proportionality.	Noted
66	3.6	ABI	The ABI welcomes the acknowledgement by CEIOPS that calculations based on model points are an alternative to those using a policy-by-policy method.	Noted
67	3.6	Legal & General Group	We welcome the recognition that model point data may be an alternative approach to using seriatim data.	Noted
68	3.7	CRO Forum	<p>For life insurance where policies with predominantly death cover and contracts with predominantly longevity are in one fund a split into separate LoBs for RC and MCEV results is not straight forward as assets and available buffers cannot be allocated to one or the other. This is true for many of the continental participating business types, in particular of course Germany.</p> <p>The CRO Forum would like to stress that any categorisation between mortality and</p>	Noted

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			longevity should not prejudice the ability to offset these risks against each other, both at an individual life level, and at the aggregate risk level.	
69	3.7	Groupe Consultatif	We recognise the requirement for different segmentation approaches for different purposes. Here it is important that consistency prevails within one form of evaluation, e.g. economic vs. statutory. Components of technical provisions may not be eligible for segmentation (ref. 3.7), as the impact of risk mitigation over segments may prevent further splits as observed in cost of financial options and guarantees.	Noted
70	3.7	FEE	Paragraph 3.7 of the Paper addresses profit sharing business. We note that “profit sharing” is in character, function and styling so different from country to country, that a general statement in that regard or a general measurement approach may not be suitable. In some jurisdictions, collective obligations exist especially for participating business, which are created by contracts but do not belong to an individual policyholder nor to “a particular line of profit sharing business”, although ultimately separated from the entity’s fortune. It is neither possible nor reasonable to artificially associate those collective obligations to groups of individual contracts, at least not without ensuring that the sum of all those allocated amounts equals to the collective obligation. In any case such an allocation would introduce an unnecessary arbitrariness.	Noted
71	3.8	CRO Forum	The CRO Forum strongly supports the view that given the diversity of products sold and the fact that the undertakings will have the best understanding of their business, undertakings will be best placed to know how to segment the business.	Noted
72	3.8	Aviva	We strongly support the view that given the diversity of products sold and the fact that the undertakings will have the best understanding of their business, undertakings will be best placed to know how to segment the business.	Noted

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73	3.8	Lloyd’s	Lloyd’s strongly agrees. It is very important that splits are based on the undertaking and statutory minimum splits should not influence undertakings own calculation levels.	Noted
74	3.8	Institut des Actuaire	We agree with this paragraph. An actuarial standard could oversee how a company gathers its homogenous risk groups.	Noted
75	3.8	ABI	We strongly support this point.	Noted
76	3.8 & 3.9	CEA	<p>We are very pleased with the wording and philosophy of these paragraphs, the CEA supports this and believes that it is in line with good practice.</p> <p><b><u>The principle of “substance over form” should be added to the advice</u></b> - We believe the principle of “substance over form” (Para 3.9) should also be included in the Level 2 Advice.</p> <p>⇒ The CEA requests that the principle of “<i>substance over form</i>” be included in the Level 2 advice.</p>	<p>Agreed</p> <p>See revised advice</p> <p>The principle of “substance over form” is part of advice.</p>
77	3.8	AMICE	AMICE members strongly agree that undertakings should further segment their business to derive the appropriate assumptions for the calculation of the best estimate. The level of segmentation should correspond to the way different businesses are managed. After calculating their best estimate for all sub-segments, companies can aggregate and classify the results in line with the prescribed structure for reporting.	Noted
78	3.8	KPMG	We agree. It is very important that the determination of technical provisions are based on the undertaking’s activities and business mix and it is important that any form of statutory minimum splits should not unduly influence an undertakings own assessment of the necessary calculation levels. We agree that undertakings will need to further	Noted

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			segment business, but believe some clarity on what this means would be useful. Given there is potential for liabilities to be offset at any such lower level, there is perhaps also a need for guidance here.	
79	3.8	FEE	The split in “line of business” as addressed in Paragraph 3.8 deviates from the actual main issue; to derive assumptions for specific risks, rather than for a contract in its entirety. The segmentation for statistical and assumptions choosing purposes should not be based on a classification of contracts. Statistical information should be used wherever relevant information is found. If for example, accident insurance provides mortality information (since death cases are reported, regardless whether an accident has occurred), that statistical information may provide evidence about the mortality of a special clientele, if mortality assumptions play a role in measurement of life insurance contracts without additional mortality benefit but refund of the funds in case of death.	Noted
80	3.9	XL Capital Group	We strongly agree that the principle of substance over form should be followed in determining how contracts with obligations from different lines of business should be treated, and suggest that this wording should be included in “section 3.2 CEIOPS’ advice”.	Agreed See revised advice The principle of “substance over form” is part of advice.
81	3.9	Aviva	Structured settlements/periodic payment orders may result in non-life businesses holding some of their liabilities in the form of annuities. However, we do not believe that these should be treated as life business.	Not agreed Annuities (result of non-lifer business) should be treated as life insurance obligations.
82			Confidential comment deleted	

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83	3.9	Lloyd’s	Lloyd’s welcomes and agrees with the use of the principle of substance over form which is very important when considering technical provision splits.	Noted
84	3.9, 3.18 & 3.30	Groupe Consultatif	The principle ‘substance over form’ should be defined as it is not covered by the Level 1 text (3.9).  We would recommend that the wording used is consistent between the three paragraphs, where 3.18 and 3.30 currently refer to ‘proportionality’	Agreed  See revised advice  The materiality principle is included in the text.
85	3.9	ABI	The ABI strongly supports the principle of substance over form and suggests that this be included as part of CEIOPS’ Level 2 Advice.	Agreed  See revised advice  The principle of “substance over form” is a part of advice.
86	3.9	APS	We do agree that the principle of the substance over the form should be followed. However, some of our member’s current practices and procedures might not allow that this principle is fully followed, at least not on first stage of the solvency II implementation, in particular for some covers in the “Motor, other classes”, “Fire and other damages”, “Assistance” and “MAT” Lines of Business.  Although we note that, according to paragraph 3.18, the principle of proportionality should be applied to the unbundling of risks between the different lines of business, we fear that this principle might be interpreted in a very strict way and fear that this might lead to unbearable costs for insurers.	Not agreed  Transitional period not part of this advice.

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			It should be made clear that, at least for the first years of application of the Solvency II rules, unbundling of certain risks should not be mandatory. There are several reasons for the introduction of such a transitional regime the most important of which is the need to gather individual information for some risks that will allow for statistical relevant calculations of Technical provisions.	
87	3.9	KPMG	We welcome the use of the principle of substance over form, which we believe is very important when considering technical provision splits.	Noted
88	3.9	CFO Forum	<b>Substance over form</b> - the principle of substance over form as set out in this paragraph should be included in the level 2 implementing measures.	Agreed See revised advice The principle of “substance over form” is part of advice.
89	3.10	CRO Forum	The proposal to apply the same segmentation to each component of technical provisions e.g. gross premium provisions and gross claim provisions may be problematic in certain instances; e.g. Motor UPR is not readily split between liability and property damage elements. Similar problems may arise in relation to Commercial Package policies and Commercial Fire & BI policies. This suggests that different segmentation should be permitted for premium and claims provisions.	Not agree Paragraph does not require the same segmentation for each component of technical provisions.
			The CRO Forum would support the proposal to apply the same segmentation for gross claims provisions and reinsurance recoverables.	Agree See revised advice The clarity of the text will

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				be increased with using of terminology “accepted reinsurance” and “reinsurance ceded”
90	3.10	Aviva	<p>The proposal to apply the same segmentation to each component of technical provisions e.g. gross premium provisions and gross claim provisions may be problematic in certain instances e.g. Motor UPR is not readily split between liability and property damage elements. Similar problems may arise in relation to Commercial Package policies and Commercial Fire &amp; BI policies. This suggests that different segmentation should be permitted for premium and claims provisions.</p> <p>We would support the proposal to apply the same segmentation for gross claims provisions and reinsurance recoverables.</p>	<p>Not agree</p> <p>Paragraph does not require the same segmentation for each component of technical provisions.</p>
91	3.10	CEA	<p><b><u>Clarification is needed that any more granular segments for different provisions may not necessarily be the same.</u></b></p> <p>⇒ The CEA would request the following drafting changes to this paragraph:</p> <p>“The segmentation proposed <del>should</del> <i>may</i> be applied to each of the components of the technical provisions. For example for non-life insurance this will include gross premium provisions, gross claims provisions and reinsurance recoverable. <i>We would expect the segments to be used to usually be more granular than the segments proposed as homogeneous risk groups would need to be established; however unbundling of provisions and recoverables into these segments should be subject to the principle of proportionality. Furthermore, we would not expect the segmentation into the separate</i></p>	<p>Not agree</p> <p>Paragraph does not require the same segmentation for each component of technical provisions.</p>

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			<i>components to necessarily be done in an identical way. For example, claims provisions are likely to be segmented at a more granular level than premium provisions and a separation between proportional and non proportional reinsurance may be artificial for premium provisions.”</i>	
92	3.1.2	CRO Forum	On the listing in 3.11. „non-life insurance“ the term „Health“ should be specified as „short-term health“. The classification requirements should be materiality based, granular classification requirements should not apply for non-material businesses.	Agreed See revised advice The accident and health insurance business have been revised.
93	3.1.2 - 3.1.3	FEE	In relation to Chapters 3.1.2 and 3.1.3 we wish to observe that a classification by business lines does not provide necessarily useful statistical segments for setting proper assumptions. Those lines can be excessively wide and more refined choices of segments are needed for achieving relevant statistical information for specific cases. Alternatively, those lines cause an unreasonable burden, e.g. in case of mixed contracts, group contracts or reinsurance treaties, which are styled to produce a certain risk pattern, regardless of what the originally underlying risk was. We question if the approach is not too arbitrary and bureaucratic.	Noted
94	3.1.2	CFO Forum	Non-life contracts allocated to segment by main risk drivers - The CFO Forum considers that contracts should be allocated to segments based on the main risk drivers under the contract. There should be no requirement for incidental risks to be allocated to separate segments. Undertakings should decide whether further segmentation to risk for estimation purposes will result in a more reliable estimate.	Noted

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			<p>It is not necessarily appropriate to bundle all liability claims together. Where incident liability risks are associated with property contracts for example motor, household, commercial packages, marine, aviation, undertakings should decide whether the liability element is sufficiently material and can be estimated reliably as a separate component of the valuations. It may frequently be concluded that a more reliable estimate of incidental liability claims is based on analysis of the combined property and casualty risks for these classes.</p> <p>Annex 1 of the Level 1 text refers to separate “Accident” and “Sickness” classes – We would request that this was clarified within the paper, as the proposal of CEIOPS is not in line with Level 1 text.</p> <p>The classification requirements should be materiality based and granular classification requirements should not apply for non-material businesses.</p>	
95	3.11	Aviva	<p>The suggested segmentation will be problematic for some markets for example in our Dutch market, business is split into ‘Workers’ compensation and Accident’ and ‘Health’ rather than the proposed ‘Workers compensation’ and ‘Accident and Health’.</p> <p>The Construction business in France could arguably be identified as a separate segment, or further clarification on how this should be allocated to the proposed segments.</p> <p>Reserving exercises will use homogenous groups of data that may result in a different split to that proposed eg material damage vs bodily injury</p>	<p>Agreed</p> <p>See revised advice</p> <p>The accident and health insurance business have been revised.</p>
96			Confidential comment deleted	

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97	3.11	Groupe Consultatif	<p>We note that there is no reference to the Accounts Directive as has previously been the case when the classification has been put forward.</p> <p>If consistency with the Accounts Directive is not required, we suggest more thought is given to the classification and this may assist the calibration of the SCR.</p> <p>Groupe Consultatif would be happy to input into this discussion as appropriate.</p>	Noted
			<p>We would like to emphasise the need for flexibility and pragmatism in the application of the proposed segmentation. In some cases, the choice of segment might be difficult (for example: “Worker’s Compensation” vs. “Accident”, “sickness” or “Health”). The choice made by the company will often rely on expert judgement and, as the company is in the best position to know the business it is writing, the company’s choice should be presumed appropriate.</p>	<p>Agreed</p> <p>See revised advice</p> <p>The accident and health insurance business have been revised.</p>
			<p>Further detailed comments on this paragraph are:</p> <ul style="list-style-type: none"> <li>We note that public liability is not clearly defined within the 11 classes</li> </ul>	<p>Agreed</p> <p>See revised advice</p> <p>The segmentation of liability insurance was clarified.</p>

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- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• Legal expenses should not be a separate insurance class. It should be part of third party liability insurance since it covers a third party risk. One also wonders why it is so important to separate this particular claims type as a separate line of business, whereas e.g. water claims or theft will be much more important parts of property insurance without requiring separate classes.</li> </ul>   | <p>Not agreed</p> <p>Legal expense and third party liability insurance are independent lines of business.</p>   |
| <ul style="list-style-type: none"> <li>• Assistance: the definition looks similar to travel insurance. If it is the case that assistance is similar to travel insurance then it should be a separate segment called travel insurance and defined to be all travel insurance. Otherwise travel insurance may have to be split into lost luggage (in MAT), travel accident (in Accident and Health), cancellations and delays (in miscellaneous non-life?) and actual assistance. This will be very difficult, particularly for premiums.</li> </ul> | <p>Not agreed</p> <p>The assistance could not be enlarged to include types of assistance other than assistance for persons who get into difficulties while traveling.</p> |
| <p>Miscellaneous: The loss of benefits/insufficiency of income/business interruption part should be assigned to the line of business where the original loss occurred, usually property. One should in general try to make the "Miscellaneous" class as small as possible. Common parameters for this class are not likely to be meaningful since the content of this class will differ greatly between companies even in the same market.</p>   | <p>Not agreed</p> <p>Listed risks are part of line of business "miscellaneous financial loss".</p>  |

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98	3.11	ICAEW	<p>The non-life segmentation appears to be driven by Annex I of the Directive which stipulates the authorisation classes. There is also Annex V which stipulates the classes of information to be collected for cross border activities. If we accept that the directive classes are already locked in it seems a reasonable approach not to create excessive different classes for analysing reserving data to those already being reported upon unless there is a very good reason.</p> <p>There are however a number of segmentations beyond those in Annex I such as the segmentation of workers compensation and also the splitting of motor into liability and other. We note these segments are consistent with the classes required for QIS 4 but is there a real provisioning need for these additional segments.</p> <p>We also believe that in some specific circumstances, some segments for non-life could be too broad e.g. marine, aviation and transport. If an insurer believes that the segments are too broad and could produce misleading results CEIOPS should allow the insurer to use some sub-segments for certain pre-defined categories. It will also be helpful if CEIOPS could define the sub-segments.</p>	Noted
99	3.11 (3.24)	Munich Re Group	<p>The segmentation comes from QIS 4, TS.II.E.1. Especially the mentioning of “worker’s compensation” or “accident and health” is confusing. First it is not consistent to the underlying QIS 4 philosophy, where these items were covered by the health module and para 1.4 where additional work for health insurance is proposed. We suggest either to mark these two items by proposing detailed prescription in the future or delete these two items. Nevertheless, where it is appropriate, following the line of the arguments 1.2, 1.3 and 3.9. any company should be allowed to segment their Non-Life business according to 3.11.</p>	<p>Agreed</p> <p>See revised advice</p> <p>The accident and health insurance business have been revised.</p>

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To give some further advice, we would recommend the following definitions of health insurance:

“Health insurance are products, where the benefits for the insured are determined by observable changes in the health status of the insured. These products could be separated by the categories:

- Health insurance with profit share
- Health insurance without profit share

Each of the above mentioned categories can be further subdivided into

- Insurance products with main risk driver disability / morbidity
- Insurance product with other risk drivers (medical inflation, inflation, costs for long term care etc.)”

Health reinsurance can be treated similar, when appropriate.

Of course, also the existing definition

“Health insurance could be understood as a generic term applying to all types of insurance indemnifying or reimbursing:

1. losses (e.g. loss of income) caused by illness, accident, long term care or disability (income insurance), or
2. expenses of medical treatment necessitated by illness, accident or disability (medical insurance).”

could be used with a small amendment for long term care.

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			In case of any difficulties with special branches like disability insurance in different countries we would recommend to follow the “substance over form” principle, which could lead to the result that comparable lines of business are subsumed adequately to their specific risk profile in different ways.	
100	3.11	ABI	The ABI believes that the segmentation suggested here is not entirely consistent with the UK market. The segmentation proposed would result in arbitrary splits that would not increase the accuracy of reporting best estimates. We also suggest that those lines of business that are not directly correlated be further segmented.  See also comments to 3.24.	Noted
101	3.11 & 3.24	APS	Third Party Liability  We note that this paragraph states that aviation liability and marine liability should be included within the third-party liability class. In line with what we have said in our comments to paragraph 3.9, we believe that the unbundling of the TPL cover from a MAT contract might be difficult. Therefore, we believe that a more reasonable segmentation would include aviation and marine liability in the respective aviation and marine classes, rather than in the third-party liability class.	Agreed  See revised advice  The aviation and marine liability would be part of respective aviation and marine classes.

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			<p><u>Assistance</u></p> <p>We believe that the definition of this LOB is very strict since it seems to be limited to assistance related with travelling. We believe that the scope of this LOB should be enlarged to include types of assistance contracts other than travel assistance. However, and in line with what we have said on our comments to paragraph 3.9, we also believe that the unbundling of assistance covers should not be mandatory (at least not in the first years of the implementation of Solvency II)</p>	<p>Not agreed</p> <p>The assistance could not be enlarged to include types of assistance other than assistance for persons who get into difficulties while traveling.</p>
			<p><u>Miscellaneous non-life insurance</u></p> <p>In the description of this line of business we find some covers that, in our market, are usually sold as riders in contracts from other lines of business. Also in this case we believe that the unbundling of such riders’ risks should not be mandatory (at least not in the first years of the implementation of Solvency II).</p>	<p>Noted</p>
102	3.11	FFSA	<p>The lists proposed in non life and the level 1 list proposed in life appear possibly adapted to best estimate segmentation. But we would like to emphasise on the need for flexibility and pragmatism. In some cases, the choice of one segment against another might be difficult (ex : worker’s compensation vs. accident and health). The choice made by the company will often rely on expert judgement. <b>As the company is in the best position to know its contracts, the company’s choice should be presumed adequate.</b></p>	<p>Noted</p>
103	3.11	FFSA	<p>We believe there is a special case for activities outside EU. Indeed, the segmentation</p>	<p>Not agreed</p>

Comments on Consultation 27-09 Draft L2 Advice on TP – Segmentation

CEIOPS-SEC-91/09

**Name company: XL Capital Group (including XL Insurance Company Ltd and XL Re Europe Ltd) (“XL”), member firms of Deloitte Touche Tohmatsu in the European Union, CRO Forum, Aviva, Lloyd’s, Institut des Actuaire, Groupe Consultatif, DAV, Dutch Actuarial Society, Institute of Chartered of Accountants of England and Wales (ICAEW), Munich Re Group, ASSOCIATION OF BRITISH INSURERS (ABI), APS, International Credit Insurance and Suretyship Association (ICISA), Fédération Française des Sociétés d’Assurances (FFSA), UNESPA (Spanish Insurance Association), CEA, Legal & General Group, AMICE, KPMG, Federation of European Accountants (FEE), CFO Forum, Pacific Life Re Limited**

			used for non EU contracts may differ from the one proposed by CEIOPS. When this is the case, companies should not be obliged to comply with the CEIOPS segmentation, as this would result in an excessive burden. In non life insurance in particular, the segmentation in use may be different than the one used in EU (because the 91/674/EEC directive requirements do not apply).	The undertakings should be able to classify the activities outside EU to prescribed lines of business.
104	3.11	CEA	<b><u>Annex 1 of the Level 1 text refers to separate “Accident” and “Sickness” classes</u></b> – We would request that this was clarified within the paper, as the proposal of CEIOPS is not in line with the Level 1 text.  ⇒ The CEA would request that the reference to the Level 1 text was clarified.  Also, see comments to Para 3.24	Agreed See revised advice The accident and health insurance business have been revised.
105	3.1.3	CRO Forum	The CRO Forum does not support a separate treatment of proportional and non-proportional reinsurance. It is in favour of a single business line including both proportional and non-proportional reinsurance (to be called for example 'Accepted Reinsurance').	Not agreed The exposure of accepted proportional and accepted non-proportional reinsurance is different and should be treated separately.
106	3.1.3	CFO Forum	<b><u>One segment for inwards reinsurance</u></b> - The CFO Forum does not support a separate treatment of proportional and non-proportional reinsurance, as a minimum segmentation requirement. It is in favour of a single business line including both proportional and non-proportional reinsurance (to be called for example “Accepted Reinsurance”). Further, when inwards reinsurance business has similar characteristics to	Not agreed The accepted proportional reinsurance should be treated separately form direct insurance.

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			direct business and is managed as part of a combined direct and inwards reinsurance portfolio, it is not appropriate for the entity to separate the insurance and reinsurance contracts for measurement purposes. There should be no minimum requirement to separate direct and inwards reinsurance business.	
107	3.12 & 3.13	Groupe Consultatif	The split into proportional and non-proportional reinsurance classes should also be subject to the principle of proportionality. Most captives will have some retention even if the ceded business is mostly proportional so that it would technically be non-proportional.	Not agreed The nature of proportional and non-proportional accepted reinsurance is different and requires separate segmentation.
108	3.12	ICAEW	It seems logical to split proportional reinsurance in similar classes to direct business.	Noted
109	3.12 & 3.13	ABI	See comments to Para 3.25 and Para 3.26.	See Para 3.25 and Para 3.26
110	3.12 & 3.25	APS	<p>It is not clear for us what is intended with the statement “Proportional non-life reinsurance shall be <b>segmented separately</b>...” and if CEIOPS, unlike what it was done for QIS 4, intends to have 22 segments to be reported (11 for direct insurance and 11 for Proportional reinsurance) under Solvency II.</p> <p>If this is the case, it should be made clear that the principle of proportionality should also be followed in the split between direct and accepted reinsurance business and, if not material, accepted reinsurance might be allocated to the direct insurance LOB. If this is not the intension of CEIOPS, this paragraph should be rephrased so that it would be in line with what was requested in QIS 4 (see TS.II.E.2: “Proportional non-life reinsurance should be treated as direct insurance, i.e. it should be allocated to one of the 12 lines of</p>	Not agreed The accepted proportional reinsurance should be treated separately form direct insurance.

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			business (LOBs) listed in the previous paragraph.”).	
			Additionally, since both treaty and facultative non-proportional reinsurance are mentioned in paragraph 2.13, we suggested that this split is also mentioned for proportional reinsurance (In alternative, paragraph 3.14 can be rephrased so that that split is removed).	
111	3.12 & 3.13	CEA	See comments to Para 3.25 and 3.26	See Para 3.25 and Para 3.26
112	3.13	ICAEW	It seems logical to separate non-proportional reinsurance from proportional as they can have very different provisioning characteristics. Why is non-proportional reinsurance only split into the 3 categories of property, casualty and marine, aviation and transport? If these 3 classes are to be retained it would possibly be helpful for consistency to advise which of these 3 reinsurance classes the other classes of direct business should be mapped into if they are underwritten as reinsurance.	Agreed See revised advice The clarification for reinsurance is included.
113	3.1.4	CRO Forum	Here „life insurance“ in accordance to long term health is missing The CRO Forum thinks no more granular split of „long term health“ is necessary as the predominant driver is market risk. Furthermore it does not see any need to separate from disability/morbidity.	Agreed See revised advice The accident and health insurance business have been revised.

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			<p>Being the purpose of segmentation to achieve an accurate valuation of insurance and reinsurance obligations, the CRO Forum does not think it is worth to segment life business into 16 lines. Limiting the segmentation to the 4 first level segments would not jeopardise the accuracy of the BEL valuation and would be more in line with the approach adopted by companies using internal models.</p> <p>Since CEIOPS clearly states that the segmentation needs not to be the same for the purposes of determining BEL, risk margin and capital requirements, companies have the opportunity to use a more granular segmentation (beyond the first-level segments) when calculating SCR.</p> <p>The key point is that the above elements (BEL, risk margin, capital) should not be a function of the level of segmentation chosen but, on the contrary, once their total amounts have been calculated, they can be split into the more appropriate segmentation.</p>	<p>Not agreed</p> <p>The top four segmentation for the life is too broad and require further segmentation.</p>
114	3.1.4	Munich Re Group	<p>This is mainly the text of QIS 4, TS.II.D.3. We also recommend to reactivate the formulation of TS.II.D.5:“Amounts for health [insurance] contracts similar to life [insurance] business should be disclosed separately.” This gives a further hint, that any minimum solution for health insurance should disclose separately health insurance business similar to life. This segmentation should be possible in the framework of the comments to para 3.11.</p>	<p>Agreed</p> <p>See revised advice</p> <p>The accident and health insurance business have been revised.</p>

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115	3.1.4	CFO Forum	<p><b><u>Long term health insurance has not been considered</u></b> - The CFO Forum does not consider a more granular split of long term health insurance is required as market risk is the primary risk driver. Furthermore it does not see any need to separate disability and morbidity.</p>	Noted
			<p><b><u>The CFO Forum does not agree with the segmentation of life business into 16 lines to achieve a reliable measurement basis.</u></b> Limiting the segmentation to the 4 first level segments in paragraph 3.14 would not jeopardise the accuracy of the best estimate valuation and would be more in line with the approach adopted by companies using internal models.</p> <p>Since CEIOPS clearly states that the segmentation needs not to be the same for the purposes of determining best estimate, risk margin and capital requirements, companies have the opportunity to use a more granular segmentation (beyond the first-level segments) when calculating SCR.</p> <p>The key point is that the above elements (best estimate, risk margin, capital) should not be a function of the level of segmentation chosen but, on the contrary, once their total amounts have been calculated, they can be split into the more appropriate segmentation for other purposes including presentation to the regulator and public disclosures.</p>	<p>Not agreed</p> <p>The top four segmentation for the life is too broad and require further segmentation.</p>

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116	3.14	Institut des Actuares	A link with IFRS 4 versus IAS 39 contracts could be done.	Noted
			A distinction between life (survival risks on short term) and pensions could be done because of the specificity of the pensions risk profile.	Not agreed The top four segmentation for the life is too broad and require further segmentation.
117	3.14	Groupe Consultatif	We believe that, in the case of segmentation by risk-drivers, this should be made with respect to the main risk driver at the valuation date. To retain the segmentation at the sale during the lifetime of the contract is a solution which would not give a correct picture of the present risk.	Not agreed The top four segmentation for the life is too broad and require further segmentation.
118	3.14	ICAEW	<p>The segments into which life business is split are very different to the classes listed in Annex II to the Directive which are required to be reported upon for statistical information on cross border activity. This potentially creates a duplication of analysis which is undesirable. We do however recognise that that the Annex II classes may not be an appropriate segmentation for provisioning purposes.</p> <p>The QIS 4 categories do not appear to provide a direct link to the segments in the CP. In practice will the two naturally fit together or is this an unnecessary duplication of analysis?</p> <p>We understand that for life business a policy can change its characteristics over time and could move from one segment to another. This might raise questions of suitability of</p>	Not agreed The top four segmentation for the life is too broad and require further segmentation.

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			<p>the segments as defined by CEIOPS. Further guidance may be required from CEIOPS in such circumstances.</p> <p>We believe that there would be practical advantages in aligning the Solvency II segmentation definitions with the IFRS4 definitions.</p> <p>We wonder if CEIOPS has considered whether there could be some significant benefit in splitting life reinsurance beyond the four top level segments for reserving purposes?</p>	
119	3.14	ICAEW	<p>It is proposed that life insurance and reinsurance business shall be segmented into 16 lines of business; the 4x4 segmentation model has some attractions:</p> <ul style="list-style-type: none"> <li>• The top-level segments identify the three main groups of risk bearers: policyholders, shareholders and shared (participating) Most contracts fall readily into a segment; and</li> <li>• The potential for consistency with IFRS classification of investment contracts and contracts with discretionary participation features.</li> </ul>	Noted

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			<p>However, limitations or areas requiring further clarification include:</p> <ul style="list-style-type: none"> <li>• Treating accepted reinsurance as a first level segment is inconsistent with the treatment of direct insurance, which is subdivided into three top-level segments;</li> <li>• The definition of contracts with profit participation clauses is also ambiguous: is this intended to be consistency with the IFRS4 definition of a discretionary participation feature, or to include also contracts with complete discretion over crediting rates, such as spread-based business?</li> </ul>	<p>Not agreed</p> <p>The top four segmentation for the life is too broad and require further segmentation.</p>
120	3.14	ABI	See comments to Para 3.27.	See Para 3.27.
121	3.14 & 3.27	APS	<p>We believe that the additional split between risk drivers might very onerous for life insurance companies since that, for some contracts, the main risk driver is not clear and might even change during the period of the contract. Therefore, we believe that insurers should only split their business into the 1<sup>st</sup> 4 proposed segments.</p> <p>Just like for the Non-Life Business, this 4 high level segments represent the minimum segmentation level and each insurer should further segment its business according to the granularity level that he feels appropriate for its portfolio.</p>	<p>Not agreed</p> <p>The top four segmentation for the life is too broad and require further segmentation.</p>
122	3.14	FFSA	<p>In the case of life insurance: we do not understand the purpose of the second level segmentation in life insurance, as this kind of segmentation does not appear suitable for risk management purpose. All risk drivers will be applied to all contracts when the SCR will be calculated, whether there is a segmentation by risk driver or not.</p> <p>In addition, as mentioned by the CEA in past letters, this second level segmentation</p>	<p>Not agreed</p> <p>The top four segmentation for the life is too broad and require further segmentation.</p>

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induces many technical difficulties in implementation (see below (1)). For example, the predominant risk driver may change over time, leading to a change in the category of the contract.

**In conclusion, we recommend to keep the first level segmentation only. If the CEIOPS wishes to make a second level segmentation, we would suggest the following segmentation, which is closer to the products and guaranties offered:**

- Savings insurance
- Retirement insurance
- Compensation benefits

123 3.14

FFSA

(1) We emphasize on previous CEA answers on that subject :

[http://www.cea.eu/uploads/DocumentsLibrary/documents/1236953670\\_cea-follow-up-to-ceiops-on-segmentation-reporting.pdf](http://www.cea.eu/uploads/DocumentsLibrary/documents/1236953670_cea-follow-up-to-ceiops-on-segmentation-reporting.pdf)

*QIS4 currently requires insurers to split their life business into 16 classes by splitting into first-level segments (with-profit, non-profit, unit-linked and reinsurance) and then into second-level segments (death, survivorship, disability/morbidity and savings). Undertakings had problems applying the QIS4 segmentation, specifically with the second-level segments, which for many resulted in an excessive administrative burden purely for reporting purposes.*

*Within life business, many products will have multiple risk drivers. For example, pension products may give benefits both on death and on survivorship, and so therefore both longevity and mortality risks would occur simultaneously. It can be very onerous to have to split those pension products into the second-level segments and this segmentation would only be required for solvency reporting purposes, rather than being part of any split the insurer would already do for calculation or management purposes. The insurer is likely to be managing life products on the level of homogenous product groups*

*Furthermore, during the lifetime of a life insurance product, the predominant risk driver (if existing) can shift. For example, for the pension example above, we would expect the predominant risk driver to shift from*

Not agreed

The top four segmentation for the life is too broad and require further segmentation.

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*longevity risk to mortality risk. If segmentation were to be based on the second level, then the policy would need to be re-classified during its lifetime. This would not allow for proper comparisons from one reporting year to the next. Also this would have to be performed at policy level, or a more detailed segmentation based on, say, age-bands would be required, which would seriously increase the administrative burden without providing the supervisor with any additional insights into the risks of the insurer over and above the other information already disclosed. This example would even be more onerous if, say, disability risk was also insured under the pension product.*

*Therefore, the industry believes that the 16 classes used in QIS4, specifically the granularity of the second-level segments, are inappropriate for life insurance business in the EU. We would support the four first-level segments only. Furthermore, we would like to highlight that at the current time we do not believe that it would be meaningful to require any further segmentation beyond these four first-level segments in order to attempt to harmonise statutory reporting for life business. The CEA recommends that until such time as European markets become sufficiently integrated to allow a more granular harmonisation at EU level, segmentation into the first-level segments only is used.*

124	3.14	CEA	See comments to Para 3.27	See Para 3.27.
125	3.14	KPMG	Classification of obligations in the contract can be complex in some cases. Contracts can cover a number of different risks. We believe further advice will be required on how this should be done.	Noted
126	3.14 & 3.15	KPMG	This suggests that it may be possible to classify contracts according to the major risks covered. For many life insurance contracts, the risk can vary over the life of the contract and over time depending on market circumstances. For consistency it may be desirable to set the classification at a point in time or at sale and maintain this for the life of the contract.	Not agreed The top four segmentation for the life is too broad and require further segmentation.
127	3.15	UNESPA	<b><u>Specifically referring to the part of the advice:</u></b>  "Where endowment policies have the same sum assured on death as on survival then	Not agreed The top four segmentation

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			<p><i>the primary risk is that the policyholder dies during the term of the contract and therefore such contracts should be classified as contracts where the main risk driver is death.”</i></p> <p>We believe that the advice given in this paragraph on the allocation of contracts does not represent a solution for the reclassification of endowment contracts with equal death and survival benefits over their term. We consider more suitable to keep the QIS4 treatment (TS.II.D.4) and classify this contracts as “savings”. Therefore paragraph 3.15 should be removed in order to be consistent with previous specification.</p>	for the life is too broad and require further segmentation.
128	3.1.5 & 3.33	CRO Forum	<p>The principle of Bundling is the heart of insurance business. Most of the contracts sold on the market are comprehensive insurance, which covers a wide range of risks, from short term material to long term life warranty (Private Motor is the most explicit example). As an example in P&amp;C, measuring unbundled risks could make sense for reserves risk, but definitely not for UW risks (maybe two different segmentations could be allowed).</p> <p>The CRO Forum opposes the unbundling of contracts according to “major risk drivers” as this could easily result in a position where contracts change from one segment to another with market condition or simply as they mature.</p> <p>Regardless of the potential change between segments of a particular contract, the CRO Forum is also concerned about potential inconsistencies with IFRS accounting classification, where segmentation is also required. As consistency with IFRS is one of</p>	<p>Not agreed</p> <p>The contracts with risks from different line of business should be unbundled because these are different risks.</p>

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			<p>the aims of Solvency II this should be is fully taken into account here. The CRO Forum supports the allocation of products to categories based on product lines that, in turn, can be easily mapped into the IFRS categories. These product lines could be defined by national supervisors to fit into the four top categories in paragraph 3.14.</p> <p>Moreover, since for pillar 2, it is required that company proves the use of their model in their day-to-day business; the segmentation should be align as much as possible with the products tree. Because the Company knows its contracts/products/guarantees, the decision to unbundle (or not) made by the company (often relied on the expert judgement) should be considered as adequate.</p> <p>The CRO Forum strongly supports the view that, subject to the principle of proportionality, contracts covering different non-life and life risks, with one mayor risk driver, might not require unbundling (see par. 3.18 and 3.21 of the CEIOPS Paper).</p>	
129	3.1.5	FEE	<p>The advice in Chapter 3.1.5 appears to focus on presentation rather than on calculating technical provisions. As indicated before the latter segmentation should be exercised on risk level rather than on contract level.</p>	<p>Agree</p> <p>The segmentation should be exercised on risk level rather than on contractual level.</p>
130	3.1.5	CFO Forum	<p><b><u>Unbundling should be principle-based and proportionality should apply to all product types</u></b> – The CFO Forum does not support the unbundling of components of insurance contracts for measurement of insurance liabilities. Insurance contracts are</p>	<p>Not Agreed</p> <p>The contracts with risks from different line of</p>

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			<p>often composed of a bundle of risks and services. The valuation of those risks and services are often interdependent and the value of the risks and services for the entire insurance contract is not equal to the sum of the values of the separate risks and services. Unbundling such interdependent elements of insurance contracts requires additional judgement and results in a spurious degree of accuracy in the final measurement approach. Insurers should not be required to unbundle insurance contracts unless the components are clearly separable and independent and can be measured reliably.</p> <p>Contracts should be allocated to segments based on the main risk characteristics of the contracts.</p> <p>The CFO Forum strongly supports the view that, subject to the principle of proportionality, contracts covering different non-life and life risks, with one major risk drive, might not require unbundling (see par 3.18 and 3.21 of the CEIOPS Paper).</p>	<p>business should be unbundled because these are different risks..</p>
131	3.16	CRO Forum	<p>For policies on the same life this split (unbundling) does not lead to sensible results as for example "death" and "survival" are mutually exclusive events. Where a contract covers risks across non-life and life (re)insurance, these contracts should be unbundled into their life and non-life parts."</p> <p>The CRO Forum would support the view that contracts covering both life and non-life risks, or different lines of non-life business the provisions should be "unbundled". The life/non-life split is also consistent with what currently happens to both UPR and claim reserves for some creditor and health business.</p> <p>There may however be problems in splitting the UPR/URR across different non-life segments (including the commission and expense elements of the UPR).</p>	Noted

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132	3.16 – 3.17	Aviva	We would support the view that contracts covering both life and non-life risks or different lines of non-life business the provisions should be "unbundled". The life/non-life split is also consistent with what currently happens to both UPR and claim reserves for some creditor and health business. There may however be problems in splitting the UPR/URR across different non-life segments (including the commission and expense elements of the UPR).	Noted
133	3.16 – 3.21	ABI	See Comments to Para 3.28 to Para 3.33.	See Para 3.28 to Para 3.33.
134	3.16	FFSA	We would like to emphasise on the need for flexibility and pragmatism. Indeed, in many cases, unbundling contracts is extremely complex.	Noted
135	3.16	FFSA	<b>The proportionality principle must also apply on contracts covering risks across non life and life (re)insurance. When these contracts have a major risk driver, they should not be unbundled.</b>	Not agreed Risks form life and non-life insurance are different risks.
136	3.16	FFSA	Some companies have contracts with 2 major risks that are closely imbricate. They were not able to unbundle their contract for the QIS4 purpose. A pragmatic solution will be needed in this case.	Noted
137	3.16	FFSA	The decision to unbundle or not will often rely on expert judgement. <b>As the company is in the best position to know its contracts, the company’s choice should be presumed adequate.</b>	Not agreed The contracts with risks from different line of business should be unbundled because these are different risks.

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138	3.16	CEA	See comments to Para 3.28	See Para 3.28
139	3.18	CRO Forum	More guidance and examples are needed regarding the requirement not to unbundle where there is one major risk driver. It is unclear how the ‘major risk’ would be defined?	Agreed See revised advice The advice includes definition of “major risk”.
140	3.18	Aviva	More guidance and examples are needed regarding the requirement not to unbundle where there is one major risk driver. How would the ‘major risk’ be defined?	Agreed See revised advice The advice includes definition of “major risk”.
141	3.18	Institut des Actuaire	We agree with this paragraph. It is preferable to allocate a contract to the major risk driver.  Examples could be provided to clarify this principle. In France, for non life business, “Multirisque Habitation” (MRH) and “Multirisque Automobile” (MRA) are the most sold contracts. MRH could be allocated to “fire”. MRA could be split between Third liability car insurance and damage car insurance.	Agreed See revised advice The advice includes definition of “major risk”.
142	3.18	ICAEW	We believe that more guidance and examples are needed regarding the requirement not to unbundle where there is one major risk driver. It is not clear how the “major risk” would be identified and applied.	Agreed See revised advice The advice includes definition of “major risk”.

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143	3.18	CEA	See comments to Para 3.30	See Para 3.30
144	3.19	CRO Forum	For policies on the same life this split (unbundling) does not lead to sensible results, as e.g. "death" and "survival" are mutually exclusive events. A contract covering life insurance and life reinsurance business should always be unbundled according to the four top-level segmentation defined in paragraph 3.14.	Agreed Unbundling is not required for mutually exclusive events. Not agreed The top four segmentation for the life is too broad and require further segmentation.
145	3.19	CEA	See comments to Para 3.31	See Para 3.31
146	3.20	CRO Forum	Life insurance contracts that are a combination of insurance covers which relate to different life insurance lines of business and which could be constructed as stand-alone contracts for each of the different covers should be unbundled. For example, a contract covering disability and mortality risk where the same cover (including all options of policyholder and undertaking) could be constructed with a stand-alone disability and a stand-alone mortality cover should be unbundled."	Noted
147	3.20	CEA	See comments to Para 3.32	See Para 3.32
148	3.21	CRO Forum	CP27 covers the segmentation for calculating technical provisions only; the CRO Forum agrees that the segmentation used for other purposes should potentially depend upon what is best for each purpose.	Noted

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149	3.21	XL Capital Group	While CP No 27 aims to provide advice on segmentation in order to calculate technical provisions (and states in paragraph 3.21 of CEIOPS’ Advice, that entities would not necessarily be required to use the same segmentation for the purposes of determining the best estimate, risk margin, Solvency Capital Requirement, Minimum Capital Requirement and statutory reporting) we believe that due to the manner in which we manage our business and design our systems, it is likely that segmentation for other purposes will need to be consistent with that used to calculate technical provisions.	Noted
150	3.21	Aviva	CP27 covers the segmentation for calculating technical provisions only; we agree that the segmentation used for other purposes should potentially depend upon what is best for each purpose.	Noted
151	3.21	Lloyd’s	Lloyd’s agrees that undertakings should not necessarily be required to use the same segmentation for the best estimate, risk margin, SCR, MCR and statutory reporting. However, care must be taken as there are natural relationships between the elements. For example <ul style="list-style-type: none"> <li>- In any case, the best estimate will generally be calculated at lower levels than the stipulated minimums due to homogeneity</li> <li>- the risk margin is more likely to be at the minimum levels</li> <li>- SCR calculations need to be at least as granular as the risk margin (to make the risk margin calculation possible)</li> <li>- MCR calculation could be at a higher level</li> <li>- statutory reporting will form the basis for transparency, comparability and benchmarks between undertakings. Whilst avoiding reporting burdens is</li> </ul>	Not agreed The distinction should be drawn between segmentation for the purposes of making the best estimate, calculating the SCR/risk margin and the way how the business is managed. Therefore no flexibility/proportionality around the definition of the minimum lines of business based on the way the business is being managed

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			<p>important, it is also very important to ensure comparisons are not meaningless or worse, misleading. It is reasonable to assume statutory reporting will be required at the minimum levels for technical provision calculations which in turn means the splits for technical provisions should enable meaningful comparisons between undertakings lines of business.</p> <p>Any minimum that is to apply to the risk margin will in practice also translate to the minimum segmentation for the SCR calculations and this needs to be recognised. This follows as the risk margin is based on the run-off of future SCR, and thus the risk margin segmentation also requires the SCR to be derived at least at the same level. Our concern is that any rigid interpretation might lead to internal models being built which are not fully aligned to the way the business is being managed but more to prescribed minimum segmentation levels for technical provisions. Some degree of flexibility/proportionality around the definition of the minimum lines of business is therefore essential to accommodate this.</p>	is envisaged.
152	3.21 & 3.27	Groupe Consultatif	<p>CP 27 allows for different segmentations regarding different evaluation purposes. We especially welcome CEIOPS advice 3.21 in this context, which states that "the segmentation used for different purposes should potentially depend upon what is best for that purpose". Keeping this in mind, the formal minimum segmentation as outlined in 3.27 should be subject to further discussion. In particular, discussion is required to ensure that any proposed segments are suitable for the purpose under consideration.</p>	Noted
153	3.21 to 3.23 and 3.27	Groupe Consultatif	<p>We propose an amendment to the wording for a Principle of Segmentation, replacing 3.21 to 3.23 and 3.27 with the following:</p> <p>A portfolio of an insurance undertaking should be segmented according to the predominance of its risk drivers which are</p>	<p>Not agreed</p> <p>Proposed segmentation according to capital market risk and insurance risk is</p>

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			<ul style="list-style-type: none"> <li>capital markets risks</li> <li>insurance risks.</li> </ul> <p>Both segments need further categories for participating and non-participating portfolios if the generated segments are material. Any component driven by capital market risks requires further segmentation dependent upon the bearer of that particular risk, e.g. policy holder or enterprise.</p> <p>Within any segment, less dominant components need further unbundling if and only if the defined Principle of Unbundling as stated above is fulfilled. This is particularly true for insurance risk drivers such as death, survival, disability / morbidity, etc.</p> <p>The purpose of the second level segmentation in life insurance is unclear, as this kind of segmentation does not appear suitable for risk management purposes. For example, all risk drivers will often be applied to all contracts when the SCR is calculated.</p>	not appropriate for non-life insurance and also it would be impossible to define predominant life insurance policies.
154	3.21 / 3.11	Munich Re Group	While it is reasonable to allow differences in segmentation for different purposes, there should be many similarities and any variance should be for good reasons which are explained. Otherwise arbitrary segmentation and inconsistent models for the several components with unpredictable effects are likely. We would prefer a stronger standard with clarity about the required consistency (while not strict in prescribing identical segmentation which is practically impossible).	Noted
155	3.21	ABI	The ABI agrees that the segmentation may change according to its purpose, although specifying specific categories for the technical provisions may mean that these become the default option. For the purposes of calculating the risk margin, the SCR and the MCR, the ABI believes that segmentation should be at the overall entity level.	Not agreed Segmentation of the risk margin should not be at the overall entity level.

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156	3.21 (regarding to the 2 <sup>nd</sup> paragraph 3.21)	UNESPA	<p><b><u>Different segmentation will be appropriate for different purposes, although these should all be compatible</u></b> - UNESPA supports the proposal that there should not be a fixed segmentation for all purposes and there should be an allowance for companies to use different segmentation for different purposes e.g. Best Estimate (BE), Risk Margin (RM), Solvency capital requirement (SCR), Minimum capital requirement (MCR), and statutory reporting, in order to achieve more accurate and appropriate results.</p>	Noted
			<p><b><u>The Risk Margin should be calculated at entity level</u></b> – This paragraph refers to further work on segmentation for the RM without being clear whether this is more or less granular. UNESPA supports the CEIOPS statement that different segmentation might be needed to calculate the Risk Margin (RM). UNESPA believes that the RM needs to be calculated at the entity level and should fully allow for diversification effects in order to achieve the underlying principles for technical provisions contained within the Solvency II Framework Directive.</p>	Not agreed See 155

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157	3.21 (There are 2 Para 3.21 - This is on the 2 <sup>nd</sup> Para 3.21!)	CEA	<p><b><u>Different segmentation will be appropriate for different purposes, although these should all be compatible</u></b> - The CEA strongly supports the proposal that there should not be a fixed segmentation for all purposes and there should be an allowance for companies to use different segmentation for different purposes e.g. Best Estimate (BE), Risk Margin (RM), Solvency capital requirement (SCR), Minimum capital requirement (MCR), and statutory reporting, in order to achieve more accurate and appropriate results. However, it is very important that all requirements are compatible. In Internal Models in particular, insurers should not be constrained in the segmentation they use, otherwise this could go against the requirement to satisfy the “use test”.</p> <p>⇒ Any advice CEIOPS issues on the segmentation for other purposes should not constrain the segmentation that insurers can use under their internal models, which should be in line with how insurers manage their business.</p> <p>⇒</p>	Not agreed See 151
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			<p><b><u>The Risk Margin should be calculated at entity level</u></b> - Para 3.21 refers to further work on segmentation for the RM without being clear whether this is more or less granular. The CEA supports the CEIOPS statement that different segmentation might be needed to calculate the Risk Margin (RM). The CEA believes that the RM needs to be calculated at the entity level and should fully allow for diversification effects in order to achieve the underlying principles for technical provisions contained within the Solvency II Framework Directive. As such, the CEA believes that no segmentation is needed. Hence the segmentation in the calculation of the BE compared to the RM would be different by nature. For the full CEA position on this issue please see:</p> <p><a href="http://www.cea.eu/uploads/DocumentsLibrary/documents/1236350577_cea-paper-on-mvm.pdf">http://www.cea.eu/uploads/DocumentsLibrary/documents/1236350577_cea-paper-on-mvm.pdf</a></p> <p>Although CEIOPS states this is out of the scope of this paper, the CEA requests that the paper clarifies the segmentation of the Risk Margin. The Risk Margin should be calculated at entity level, and if necessary for reporting purposes, the insurer should allocate this Risk Margin per line of business using the methodology they believe is most appropriate. The key concern from a solvency perspective is that the insurer holds enough capital to cover the Risk Margin in aggregate.</p>	<p>Not agree See 155</p>
158	3.21 & 3.22	Legal General Group &	<p>We welcome the recognition in 3.21 that different levels of segmentation may be appropriate for determining the best estimate, risk margin, SCR, MCR, and statutory reporting.</p> <p>3.22 Prescribes the minimum segmentation for calculating technical provisions, thereby prescribing the same minimum segmentation for the best estimate and the risk margin. This somewhat contradicts 3.21 which recognises that different segmentation may be</p>	<p>Not agree The distinction should be drawn between segmentation for the purposes of making the best estimate, calculating</p>

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			appropriate.	the SCR/risk margin and the way how the business is managed.
159	3.21	AMICE	We agree that undertakings should not necessarily be required to use the same segmentation for the calculation of the Best Estimate, Technical Provisions, SCR, MCR and statutory reporting. However, we would appreciate if the segmentation covering different areas, in particular technical provisions and risk margin when the latter is not calculated at entity level, could be as similar as possible.	Noted

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160	3.21	KPMG	<p>We agree that undertakings should not necessarily be required to use the same segmentation for the best estimate, risk margin, SCR, MCR and statutory reporting. However, care must be taken in determining the appropriate segmentation as there are natural relationships between the elements. For example</p> <ul style="list-style-type: none"> <li>- the best estimate will generally be calculated at lower levels than the stipulated minimums due to homogeneity</li> <li>- the risk margin is more likely to be determined at the minimum levels</li> <li>- SCR calculations need to be at least as granular as the risk margin (to make the risk margin calculation possible)</li> <li>- MCR calculation could be at a higher level</li> <li>- statutory reporting will form the basis for transparency, comparability and benchmarks between undertakings. Whilst avoiding reporting burdens is important, it is also important to ensure that entity comparisons are meaningful. It is reasonable to assume that the statutory reporting forms will require disclosure of technical provisions at the minimum levels agreed. If our proposal on further segmentation in response to paragraph 3.24 is not accepted, then it will be important for companies to be able to report their business on the lines we propose, to enable meaningful comparisons between different undertakings writing these lines of business.</li> </ul> <p>Any minimum segmentation that is to apply to the risk margin will in practice also translate to the minimum segmentation for the SCR calculations and should be recognised. This follows as the risk margin is based on the run-off of future SCR, and</p>	Noted
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thus the risk margin segmentation also requires the SCR to be derived to at least the same level.

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Our concern is that any rigid interpretation might lead to internal models being built which are not fully aligned to the way the business is being managed. We believe some degree of flexibility/proportionality around the definition of the minimum lines of business is essential to accommodate this.

Not agreed  
See 151

161 3.21

CFO Forum

**Different segmentation will be appropriate for different purposes, although these should be compatible** – The CFO Forum agrees with the proposal that there should not be a fixed segmentation for all purposes and there should be an allowance for companies to use different segmentation for different purposes e.g. Best Estimate (BE), Risk Margin (RM), Solvency capital requirement (SCR), Minimum capital requirement (MCR), and statutory reporting, in order to achieve more accurate and appropriate results. However, it is very important that all requirements are compatible.

Noted

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			In Internal Models in particular, insurers should not be constrained in the segmentation they use, otherwise this could go against the requirement to satisfy the “use test”.	Not agreed See 151
162	3.22 & 3.23	XL Capital Group	We agree that CEIOPS should only give advice on the “minimum segmentation which insurance and reinsurance undertaking should follow when calculating their technical provisions.” and that “undertakings should further segment prescribed lines of business into more homogeneous risk groups according to the risk profile of the obligations”.  Paragraph 3.23 states that “undertakings should further segment” – we would not therefore anticipate local regulators to require their own more detailed segmentation, which would be unlikely to be consistent across Europe (even if this were to map to CEIOPS’ proposed segments)	Not agreed This proposes is out of the scope of this advice.
163	3.22 & 3.23	Deloitte Touche Tohmatsu	While we agree with the concept of segmentation into the prescribed lines of business, and with the principle of substance over form, we believe that there should be a requirement for consistency of segmentation across firms within the same group for all instances of group reporting under the Solvency II regime.  Without such a requirement, there is a risk that varying interpretations could lead to firms allocating similar lines of business to different segments, and this would limit the ability to aggregate and analyse risks across a group.	Not agreed The mix of the business in different firms may be quite different.
164	3.22 & 3.23	Lloyd’s	In our view, the overriding rationale for segmenting the business for calculation purposes should be:  a) That the segmentation is based on homogenous risk groups <i>and</i>	Not agreed See 151

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b) That the segmentation is aligned to the way the business is managed. This will facilitate passing of the ‘use test’ and encourage embedding of Solvency II principles into the business. It will also be consistent with the way the business may be transferred to a third-party undertaking in line with the principles behind the risk margin.

For the Lloyd’s insurance market, and other firms which underwrite a very diverse portfolio of international risks, business will normally be managed in more granular homogeneous risk groups than the minimum lines of business proposed. However, these more homogenous groups may not in all cases map uniquely to one of the proposed lines of business. In addition, those firms which have sub-portfolios with small and sparse data may need to combine some data across the proposed lines of business in order to create a dataset which is statistically credible for calculation purposes. Therefore, a degree of proportionality should be permitted in segmenting technical provisions into the proposed lines of business.

To allow for proportionality and the practical issues described above, we suggest that paragraphs 3.22 and 3.23 are amended. For example a wording could be:

“Article 79 requires all undertakings to segment technical provisions as a minimum by lines of business. Underlying calculations should be based on homogeneous risk groups and should be aligned to the way the business is managed. Prescribed lines of business will be the minimum segmentation for determining technical provisions, however undertakings may use different splits to perform underlying calculations if they can demonstrate that the alternative segmentation provides homogeneous risk groups and is at least as granular as the prescribed minimum lines of business.

The contracts may not be consolidated across lines of business due to different risk profiles of each line of business.

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			Subject to proportionality some contracts may be consolidated across lines of business to form a homogenous risk group for calculation purposes. For example, combining small portfolios to achieve a credible dataset. In such cases it may be then necessary, for example when reporting, to re-allocate these technical provisions from a consolidated risk group back to the prescribed lines of business using an appropriate method under the principle of substance over form.”	
165	3.22	ABI	We agree with this point although we think that the principle of substance over form as mentioned in Para 3.9 should be included as part of the CEIOPS’ advice.	Noted
166	3.22	CEA	The CEA strongly supports this proposal.	Noted
167	3.22	Legal & General Group	Recognition should be given to the fact that CP27 requires more than a segmentation of presentation, it is a segmentation of calculation. This may impact the segmentation of data and assumptions both for the best estimate and the risk margin in calculating the technical provisions	Noted
168	3.22 & 3.23	KPMG	In our view, the overriding rationale for segmenting the business for calculation purposes should be: c) That the segmentation is based on homogenous risk groups <i>and</i> d) That the segmentation is aligned to the way the business is managed. Although there is no formal ‘use test’ in relation to technical provisions, it is important that management believe the segmentation used and run their business in line with the	Not agreed See 164

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level of segmentation applied (albeit this may well be at a more granular than the minimum levels set). This will help encourage embedding of Solvency II principles into the business. It should also be consistent with the way the business could be transferred to a third-party undertaking, i.e. in line with the principles underlying the risk margin.

For the UK insurance market, and other firms which underwrite a very diverse portfolio of international risks, business will normally be managed in more homogenous risk groups than the minimum lines of business proposed. However, these more homogenous groups may not in all cases map uniquely to one of the proposed lines of business. In addition, those firms which have sub-portfolios with small and sparse data may need to combine some data across the proposed lines of business in order to create a dataset which is statistically credible for calculation purposes. Therefore, a degree of proportionality should be permitted in segmenting technical provisions into the proposed lines of business.

To allow for proportionality and the practical issues described above, we suggest that paragraphs 3.22 and 3.23 are amended to reflect this.

169	3.22	CFO Forum	<p><b><u>CEIOPS advice relates only to minimum segmentation</u></b> – The CFO Forum agrees that this is appropriate. Further CEIOPS advice should not require undertakings to subdivide risks between segments for measurement purposes when:</p> <ul style="list-style-type: none"> <li>• The level of segregation is disproportionate to the risks being measured.</li> <li>• The level of segregation would require the separation of risks where interdependency is established within contract structures.</li> </ul>	<p>Not agreed</p> <p>The separation is not required if separation is disproportionate to the risk being measured under principle of proportionality (3.30). Further on</p>
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			<ul style="list-style-type: none"> <li>The resulting volume of data for each segment is no statistically credible given the inherent volatility of the risks being measured.</li> </ul>	undertakings should subdivide risk even if resulting volume of data of each segment is not satisfactory credible given the inherent volatility of the risk being measured.
170	3.23	CRO Forum	Prescribed lines of business are the minimum segmentation; the CRO Forum agrees that undertakings should further segment their business in the manner needed to derive appropriate assumptions for the calculation of the best estimate, but should not be required to present separately the technical provisions for such sub-segments.	Noted
171	3.23	Deloitte Touche Tohmatsu	<p>We agree with the introduction of the principal of segmentation into homogeneous risk groups. However we believe that the further principle of “managed together as a single portfolio” needs also to be introduced and applied to the segmentation requirements for the purpose of calculating technical provisions.</p> <p>This will align minimum segmentation with the concept of the “use test”, as well as our expectation of the requirements under International Financial Reporting Standards.</p>	Not agreed See 151
172	3.23	Aviva	Prescribed lines of business are the minimum segmentation; we agree that undertakings should further segment their business in the manner needed to derive appropriate assumptions for the calculation of the best estimate, but should not be required to present separately the technical provisions for such sub-segments.	Noted

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173	3.23	Groupe Consultatif	It is perhaps important to clarify that we are talking about relevant homogenous groups, so that one might disregard certain segmentation classes altogether.	Not agreed Homogenous risk group should not cover risks from different lines of business as specified in this CP-27
174	3.23	ABI	The ABI supports this point.	Noted
175	3.23	CEA	The CEA strongly supports this.  <b><u>The paper should discuss statistically significant homogenous groups</u></b> - It is perhaps important to clarify that we are discussing <i>statistically</i> significant homogenous groups, so that under the principle of proportionality one might disregard certain segmentation classes altogether if the volume is insignificant for analysis purposes. (As per CP27 Para 3.5)  ⇒ The CEA would request the addition of the word “ <i>statistically</i> ”.	Not agreed See 173
176	3.23	AMICE	Paragraph 3.22 states that prescribed lines of business are the minimum segmentation which insurance and reinsurance undertakings should follow when calculating their technical provisions. Companies have the opportunity, but should not be obliged, to use a more granular segmentation if this in line with the way they manage their business.  Therefore, we would like to suggest the following drafting changes to this paragraph:	Agree See revised advice Subject of the principle of proportionality the undertaking should further segment lines of business

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			Insurance and reinsurance undertakings <b>could</b> further segment prescribed lines of business into more homogenous risk groups according to the risk profile of the obligations.	to homogeneous risk groups.
177	3.23	CFO Forum	<b>Undertakings should define the level of granularity appropriate</b> - The CFO Forum agrees that it will be appropriate for each undertaking to define the homogenous risk groups and the level of granularity most applicable to their business.	Noted
178	3.24	XL Capital Group	The lines of business proposed for non-life insurance appear to be geared towards private insurance rather than commercial insurance. We recommend that: <ul style="list-style-type: none"> <li>- Professional lines should be a stand alone category and segmented additionally into:</li> <li>- Financial professional liability</li> <li>- Non-financial professional liability</li> <li>- General liability</li> </ul>	Not agreed Undertakings could further split the proposed line of business..
179	3.24	Deloitte Touche Tohmatsu	The advice currently proposes to segment non-life business into eleven minimum lines. We believe that in applying the core principle of homogeneous risk groups with similar characteristics there are currently groupings of risks that could potentially demonstrate different characteristics. These groupings include:	Not agreed Undertakings could further split the proposed line of business.

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			<ul style="list-style-type: none"> <li>▪ marine, aviation and transport</li> <li>▪ fire and other damage</li> </ul> <p>While recognising that the minimum segmentation should not be overly granular, we believe that these lines should be further split</p>	
180	3.24	Lloyd’s	<p>Lloyd’s agrees that a minimum level by line of business is proposed subject to its application (such as proportionality and substance over form as mentioned above). Given the potential practical impact of the choice of minimum lines of business Lloyd’s believe it is imperative that the lines chosen represent suitably homogeneous groups with similar characteristics. This would ensure that, as a minimum, unnecessary distortions would be avoided in technical provisions calculations and also allow meaningful comparison between undertakings reporting the same line of business. This would assist when considering transparency and avoid potentially misleading reports.</p> <p>Lloyd’s recognises that minimums should not be overly granular but also believes the non-life business written by European undertakings is very diverse and as such anything up to 20 lines of business should not be seen as overly onerous. Lloyd’s therefore suggests that a further split of the minimum lines of business be made to ensure a reasonable split by characteristics of the underlying business. This also recognises the necessary natural relationship between the technical provision calculations and other elements of Solvency II such as the SCR.</p> <p>Our proposed further splits are:</p>	<p>Not agreed</p> <p>Undertakings could further split the proposed line of business.</p>

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			<b>Current line of business</b>	<b>Proposed further split</b>	
			Marine, aviation and transport	Marine Aviation Transport	
			Fire and other damage	Property catastrophe Property non-catastrophe Energy	
			Third-party liability	Financial professional liability Non-financial professional liability General liability	
			This would avoid grouping of significant business classes that can potentially demonstrate very different characteristics.		
181	3.24	Lloyd’s	Lloyd’s strongly believes that aviation and marine liability business should be included with the respective residual aviation and marine business rather than third party liability due to the high correlation between the two and because these are normally managed together. This does not imply they will naturally form a homogeneous group and each sub group will probably have to be calculated separately for the best estimates (as they would under the current proposals).		Accept See revised advice

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182	3.24	ABI	<p>The ABI believes that the segmentation suggested here is inconsistent with the way products are marketed in the UK. For non-life business, the split between motor liability and motor other classes differs from the way the products are offered. This split would result in arbitrary allocations that would not increase the accuracy of reporting best estimates.</p>	<p>Not agreed</p> <p>Motor third party liability is obligatory and motor other classes are not.</p>
			<p>We also suggest that those lines of business that are not directly correlated be further segmented. Marine, aviation and transport should be separate segments. We also believe that aviation and marine liability business should be grouped with the respective residual aviation and marine business rather than third party liability due to the high correlation between the two. This also reflects the way these risks are managed.</p> <p>Fire and other damage could be separated further into:</p> <ul style="list-style-type: none"> <li>• property catastrophe</li> <li>• property non-catastrophe</li> <li>• energy</li> </ul> <p>and third party liability should be segmented additionally into:</p>	<p>Not agreed</p> <p>Undertakings could further split the proposed line of business.</p>

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- Financial professional liability
  - Non-financial professional liability
  - General liability
- See also comments to 3.11.

183	3.24	ICISA	ICISA supports the description of the line of business “credit and suretyship” while noting that this represents two classes of non-life insurance as per Point A of Annex I of the Level 1 text.	Noted
184	3.24	UNESPA	For the purposes of <u>statutory reporting of Best Estimates</u> , UNESPA supports the non-life segmentation as specified here. The proposed segmentation should generally not lead to increased administrative burdens as most non-life insurance obligations are already segmented in this manner (at a high level) in order to calculate BEs. Obviously, <u>in order to do the actual BE calculations</u> insurers are likely to split (optional) their business more granularly, in order to ensure they are working with homogeneous risk groups.  We would emphasise the point made in 3.1 of the Consultation Paper, that for purposes <u>other than statutory reporting and BE calculations</u> , another compatible segmentation may be more appropriate.	Noted

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We should state, that although we believe it is not possible to have a more granular segmentation across the EU, this doesn’t preclude more granular Member State level segmentation if this is appropriate for that market.

185 3.24

CEA

**“Accident and health” should instead be segmented into “Accident” and “Sickness”**- We understand that CEIOPS is still working on the segmentation to use for health insurance (as per the comment in Para 1.4 of the CP), however, we should point out that the proposals of CEIOPS are not in line with Annex 1 of the Level 1 text. The Level 1 text contains two segments, namely “Accident” and “Sickness”. However, the proportionality principle should obviously still apply and therefore in some cases it may not be appropriate for some insurers to unbundle these categories (see also our comments on Para 3.28-3.33). We should note that we will comment further on the issue of health segmentation when CEIOPS produces its final position on this area.

⇒ The CEA would request the replacement of the segment “Accident and Health” with “Accident” and “Sickness”, in line with the Level 1 text.

Agreed  
See revised advice

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**The class “Miscellaneous” should be kept small** - The "Miscellaneous" class should be kept as small as possible. Common parameters for this class are not likely to be meaningful since the content of this class will differ greatly between companies even in the same market.

- ⇒ The CEA would request that definition of this class was adjusted so that the “loss of benefits”, “insufficiency of income”, “business interruption” parts are instead assigned to the line of business where the original loss occurred. This would usually be expected to be property.

Not agreed

Loss of benefits, insufficiency of income, business interruption could not be compared with risks where the original loss occurred; therefore they should be part of miscellaneous line of business.

**“Third-party Liability” should not include any form of motor liability**

- ⇒ The CEA would request that the Level 2 advice stressed that “Third-party Liability” does not include any form of motor liability.

Agreed

See revised advice

To reduce misinterpretation of “all other liabilities” we propose to include text “except liabilities arising out of the use of motor vehicles operating on the land including carrier’s liability”.

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**Aviation and marine liability should be classed under the respective aviation and marine classes** - We note that it states that aviation liability and marine liability should be included within the third-party liability class. We feel that this is not appropriate, due to the differing risk profiles of the business. A more reasonable segmentation would include aviation and marine liability in the respective aviation and marine classes, rather than in the third-party liability class.

- ⇒ The CEA would request that the definition of “3rd party liability” should be amended to not include liability arising from aviation or marine business, which should rather be retained within the aviation and marine class.

Agreed  
See 181

**Reference should be made to the treatment of non-life annuities** - Some non-life insurers have large insurance liabilities in the form of annuities on their balance sheet, and it is artificial to treat them as life business since there are no separate premiums or underwriting connected to the annuities. Furthermore, the nature of the annuity risk is the same regardless of whether they originate from Motor TPL, third-party liability or Workers Compensation and so different treatment of these classes with respect to annuities doesn't make sense, however the nature of annuity risk is different from the risk arising from liability covers. Consequently, annuities are an integral part of the line-of-business from which the claim results and so the CEA believes the CEIOPS advice should clarify that annuities arising from non-life business should be classified under the line-of-business under which the claim arose.

- ⇒ The CEA would request that the paper clarifies that annuities arising from non-life claims are classified under the line-of-business under which the claim arose.

Agreed  
See revised advice  
The annuities should be part of LoB where the claims arise for reporting purposes.

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			<p><b><u>In general, this segmentation appears appropriate</u></b>- Other than the comments listed above, for the purposes of creating high-level segments for calculating Best Estimates, the CEA supports the non-life segmentation as specified here. Obviously, in order to do the actual BE calculations insurers are likely to split their business more granularly, in order to ensure they are working with homogeneous risk groups.</p> <p>We would emphasise the point made in 3.1 of the Consultation Paper, that for purposes other than statutory reporting and BE calculations, another compatible segmentation may be more appropriate, e.g. for companies where the marine, aviation and transport category forms a major part of their business, they may wish to split this further into its component parts when calculating the SCR.</p>	Noted
186	3.24 & 3.27	Legal General Group	&	<p>Some of the lines of business categories are unclear or overlap. Further clarity would be helpful.</p> <p>Agreed See revised advice</p>

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			<p>For example:</p> <ol style="list-style-type: none"> <li>1) Accident and health business is non-life, but disability and morbidity business is life.</li> <li>2) (Re)insurance should be segmented into, inter alia, accepted reinsurance.</li> </ol>	<p>Accident and health is further segmented.</p> <p>The advice clarifies that the accepted reinsurance should be segmented according to the proposed minimum segmentation.</p>
187	3.24	Legal & General Group	<p>It is currently administratively difficult to split out the household class of business between property damage, liability and legal expenses; and ASU premium between accident and sickness, and unemployment.</p>	Noted
188	3.24	AMICE	<p>The AMICE membership has been extensively discussing the need to reclassify annuity business covered under non-life business such as Workmen’s Compensation or Third-Party Liability into the life or health business according to the approach followed in the QIS4. Finally, and in line with the CEA, we believe it is not especially appropriate for information purposes to consider non-life annuities under the life business caption. When calculating the best estimate of technical provisions and when defining homogeneous risk groups, however, this split has to be made.</p>	<p>Noted</p> <p>(CP-27 does not consider the reporting – information purposes)</p>
189	3.24	KPMG	<p>We agree that a minimum segmentation by line of business should be aligned with authorisation classes, but believe some further segmentation should be mandated of some classes due to the difference in the underlying risks. This could be achieved, for example, by introducing a sub-division as proposed for life business where the risk driver creates a sub-analysis. Given the potential practical impact of the choice of</p>	See 180

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minimum lines of business We believe it is imperative that the lines chosen represent suitably homogeneous groups with similar characteristics. This would ensure that, as a minimum, unnecessary distortions would be avoided in technical provisions calculations and also allow meaningful comparison between undertakings reporting the same line of business. This would then link with ensuring meaningful information is provided under Pillar 3.

We recognise that minimum segmentation levels should not be overly granular but also believe the non-life business written by European undertakings is very diverse. We therefore suggest that a further split of the minimum lines of business be made of certain classes to ensure a reasonable split by characteristics of the underlying business. This also recognises the necessary natural relationship between the technical provision calculations and other elements of Solvency II such as the SCR.

Our proposed further splits are:

**Current line of business**

**Proposed further split**

Marine, aviation and transport

Marine  
Aviation  
Transport

Fire and other damage

Property catastrophe  
Property non-catastrophe  
Energy

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			This would avoid grouping of significant business classes that can potentially demonstrate very different characteristics. An alternative might be to disclose energy as a separate segment from marine.	
190	3.24	CFO Forum	<p><b>“Accident and health” should instead be segmented into “Accident” and “Sickness and Health”</b>- We understand that CEIOPS is still working on the segmentation to use for health insurance (as per the comment in Para 1.4 of the CP), however, we should point out that the proposals of CEIOPS are not in line with Annex 1 of the Level 1 text. The Level 1 text contains two segments, namely “Accident” and “Sickness”. However, the proportionality principles should obviously still apply and therefore in some cases it may not be appropriate for some insurers to unbundle these categories.</p> <p><b>The class “Miscellaneous” should be kept small</b> - The "Miscellaneous" class should be kept as small as possible. Common parameters for this class are not likely to be meaningful since the content of this class will differ greatly between companies even in the same market.</p> <p>⇒ The CFO Forum would request that definition of this class was adjusted so that the “loss of benefits”, “insufficiency of income”, “business interruption” parts are instead assigned to the line of business where the original loss occurred. This would usually be expected to be property.</p> <p><b>“Third-party Liability” should not include any form of motor liability</b> - The CFO Forum would request that the Level 2 advice stressed that “Third-party Liability” does not include any form of motor liability.</p> <p><b>Aviation and marine liability should be classed under the respective aviation</b></p>	See 185

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**and marine classes** - We note that it states that aviation liability and marine liability should be included within the third-party liability class. We feel that this is not appropriate, due to the differing risk profiles of the business. A more reasonable segmentation would include aviation and marine liability in the respective aviation and marine classes, rather than in the third-party liability class.

- ⇒ The CFO Forum would request that the definition of “3rd party liability” should be amended to not include liability arising from aviation or marine business, which should rather be retained within the aviation and marine class.

**Reference should be made to the treatment of non-life annuities** - Some non-life insurers have large insurance liabilities in the form of annuities on their balance sheet, and it is artificial to treat them as life business since there are no separate premiums or underwriting connected to the annuities. Furthermore, the nature of the annuity risk is the same regardless of whether they originate from Motor TPL, third-party liability or Workers Compensation and so different treatment of these classes with respect to annuities doesn't make sense, however the nature of annuity risk is different from the risk arising from liability covers. Consequently, annuities are an integral part of the line-of-business from which the claim results and so the CFO Forum believes the CEIOPS advice should clarify that annuities arising from non-life business should be classified under the line-of-business under which the claim arose.

- ⇒ The CFO Forum would request that the paper clarifies that annuities arising from non-life claims are classified under the line-of-business under which the claim arose.

**In general, this segmentation appears appropriate**- Other than the comments listed above, for the purposes of creating high-level segments for calculating Best

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			<p>Estimates, the CFO Forum supports the non-life segmentation as specified here. Obviously, in order to do the actual BE calculations insurers are likely to split their business more granularly, in order to ensure they are working with homogeneous risk groups.</p> <p>We would emphasise the point made in 3.1 of the Consultation Paper, that for purposes other than statutory reporting and BE calculations, another compatible segmentation may be more appropriate, e.g. for companies where the marine, aviation and transport category forms a major part of their business, they may wish to split this further into its component parts when calculating the SCR.</p>	
191	3.25	ABI	We have the same comments as for Para 3.24.	See 182
192	3.25	UNESPA	<b><u>Proportionality should also apply to the split between proportional and non-proportional reinsurance</u></b> - The split into proportional and non-proportional reinsurance classes should also be subject to the principle of proportionality.	<p>Not agreed</p> <p>The non-proportional and proportional accepted reinsurance should be spited due to different risk profile and different calculation of SCR.</p>
193	3.25 & 3.26	CEA	<b><u>Proportionality should also apply to the split between proportional and non-proportional reinsurance</u></b> - The split into proportional and non-proportional reinsurance classes should also be subject to the principle of proportionality. There could be cases where the ceded business is mostly proportional, but due to the fact that there is some retention it would technically be classed as non-proportional.	See 192

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			⇒ The CEA requests that text is added to the Level 2 advice to state: <i>“Subject to the principle of proportionality, proportional and non-proportional reinsurance should not be unbundled, but rather should be categorised according to the way it is managed within the insurer.”</i>	
194	3.25-3.26	AMICE	These paragraphs state that “proportional reinsurance” shall be segmented according to the LoBs defined in paragraph 3.24 and that “non-proportional reinsurance” shall be split into three categories (Property, Casualty, and “Marine, aviation and transport” business). In some cases this segmentation would not be possible, in particular regarding combined treaties. For that reason, we think that it is important to apply the principle of proportionality (and/or the principle of materiality) in this area.	See 192
195	3.25 & 3.26	CFO Forum	See section 3.1.3 above.	
196	3.26	Lloyd’s	Lloyd’s believes that inwards facultative reinsurance business exhibits more characteristics of direct business than non-proportional reinsurance and should be included therein.	Agreed See revised advice
197	3.26	Lloyd’s	Lloyd’s agree that inwards non-proportional reinsurance can, subject to the principle of substance over form, be aggregated to less granular levels than other elements considered (direct, facultative and proportional reinsurance). However, the proposed splits are too generic and could be split further. For example, property could be split into catastrophe and non-catastrophe and marine aviation and transport could be split into the component parts.	Noted
198	3.26	ABI	We believe that Marine, Aviation and Transport should be divided as suggested in our comments to Para 3.24. We also believe that inwards facultative reinsurance business	See 196

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			<p>exhibits more characteristics of direct business than non-proportional reinsurance and therefore should be included as direct business.</p> <p>We believe that segments as currently suggested may include lines of business that have very low or no correlation. For example, non-proportional casualty reinsurance includes lines of business such as financial lines, motor and public liability, and this is not exhaustive. By combining these lines of business, potential diversification benefits may be lost. This is particularly the case for ‘monoline’ reinsurance.</p>	See 197
199	3.26	KPMG	<p>We believe that inwards facultative reinsurance business exhibits more characteristics of direct business than non-proportional reinsurance and should be segmented on the basis set out in paragraph 3.24 (amended as per our response above).</p>	See 196
200	3.26	KPMG	<p>We agree that inwards non-proportional reinsurance can, subject to the principle of substance over form, be aggregated to higher levels than other elements of non-life insurance. However, the proposed splits for such reinsurance business appear to be too generic we believe further analysis would be useful. For example, property could be split into catastrophe and non-catastrophe and marine, aviation and transport could be split into the component parts.</p>	See 197
201	3.27	CRO Forum	<p>This proposal will require Life insurers to change their current best practices just for Solvency II purposes. The management of a Life insurer has to provide various information towards the supervisors on this segmentation while they do not use this information for internal purposes or other public disclosures. This difference will lead to confusion for the public and will not enhance the transparency. The requirement for the proposed segmentation will also be conflicting with the use of internal models e.g. the use test. The CRO Forum therefore proposes to use a segmentation which is or will be consistent with how most life insurers are managing their business.</p>	<p>Not agreed</p> <p>The distinction should be drawn between segmentation for the purposes of making the best estimate, calculating the SCR/risk margin and</p>

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			<p>However, limitations or areas requiring further clarification include:</p> <ul style="list-style-type: none"> <li>• treating accepted reinsurance as a first level segment is inconsistent with the treatment of direct insurance, which is subdivided into three top-level segments;</li> <li>• the definition of savings contracts as providing no or negligible insurance protection is ambiguous: is this intended to be consistent with the IFRS4 definition of an insurance contract?</li> <li>• the definition of contracts with profit participation clauses is also ambiguous: is this intended to be consistency with the IFRS4 definition of a discretionary participation feature, or to include also contracts with complete discretion over crediting rates, such as spread-based business?</li> </ul> <p>The CRO Forum believes there would be practical advantages in aligning the Solvency II segmentation definitions with the IFRS4 definitions.</p>	the way how the business is managed.
202	3.27	Deloitte Touche Tohmatsu	We agree with requirement that reinsurance life contracts should be subject to the same degree of segmentation as those for life contracts.	See 201
203	3.27	Aviva	<p>It is proposed that life insurance and reinsurance business shall be segmented into 16 lines of business; the 4x4 segmentation model has some attractions:</p> <ul style="list-style-type: none"> <li>- the top-level segments identify the three main groups of risk bearers: policyholders, shareholders and shared (participating)</li> <li>- most contracts fall readily into a segment; and</li> <li>- the potential for consistency with IFRS classification of investment contracts and contracts with discretionary participation features.</li> </ul>	See 201

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			<p>However, limitations or areas requiring further clarification include:</p> <ul style="list-style-type: none"> <li>- treating accepted reinsurance as a first level segment is inconsistent with the treatment of direct insurance, which is subdivided into three top-level segments;</li> <li>- the definition of savings contracts as providing no or negligible insurance protection is ambiguous: is this intended to be consistent with the IFRS4 definition of an insurance contract?</li> <li>- the definition of contracts with profit participation clauses is also ambiguous: is this intended to be consistency with the IFRS4 definition of a discretionary participation feature, or to include also contracts with complete discretion over crediting rates, such as spread-based business?</li> </ul> <p>There would be practical advantages in aligning the Solvency II segmentation definitions with the IFRS4 definitions.</p>	
204	3.27	ABI	<p>For life business, we would find the proposed segmentation workable provided that it did not automatically include the principle of unbundling.</p>	Noted
205	3.27	UNESPA	<p><b>We prefer the 1<sup>st</sup> 4 proposed segments only, insurers should not have to segment by risk-driver</b> - The requirement for unbundling into the 16 segments will lead to either arbitrary allocation over the possible segments or to an increased requirement for calculation and use of actuarial systems which will lead to increased perceived accuracy.</p> <ul style="list-style-type: none"> <li>• During the lifetime of a life insurance product, the predominant risk driver (if existing) can shift. For example, for the pension example above, we would expect the predominant risk driver to shift from longevity risk to mortality risk. If segmentation were to be based on risk-drivers, then the policy would need to be re-classified during its lifetime. This would not allow for proper comparisons from one reporting year to the next.</li> </ul>	Noted

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- The proposed segmentation is completely not in line with what is currently done by life insurers and will require life insurers to change their current best practices. Given the purpose of segmentation is to achieve an accurate valuation of insurance and reinsurance obligations, we do not think it is valuable to segment life business into 16 lines.
- The proposed segmentation is not in line with developments in life insurance such as for the Market Consistent Embedded Value. This difference will lead to confusion for the public and will not enhance transparency. We therefore propose to use the segmentation as currently used within Market Consistent Embedded Value reporting which is or will be consistent with how most life insurers are managing their business.
- We are not favourable of a segmentation too detailed, which could be too costly to implement.
- Insistir en que la separación de muerte/invalidez no es tan fácil a nivel de flujos (primas) póliza a póliza, la prima incluye todo.

**An alternative proposal to the 4 segments by risk-driver for Level 2 -** However, if CEIOPS prefer to keep the current level 2 segmentation, should look for an alternative solutions with the hope of finding sub-segments which would be in line with how products are managed within insurers e.g. sorting in other sub-segments as Savings insurance, Retirement insurance and Contingency/Compensation insurance or even with less granularity as Individual insurance, Group insurance

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206	3.27	CEA	<p><b><u>We do not support the segmentation by risk-driver</u></b> - The CEA supports the use of the first 4 segments stated in the CEIOPS paper but not the further segmentation by main risk driver.</p> <ul style="list-style-type: none"> <li>■ Within life business, many products will have multiple risk drivers. For example, pension products may give benefits both on death and on survivorship, and so therefore both longevity and mortality risks would occur simultaneously. It can be very onerous to have to split those pension products into the second-level segments and this segmentation would only be required for solvency reporting purposes, rather than being part of any split the insurer would already do for calculation or management purposes.</li> <li>■ The requirement for unbundling into the 16 segments will lead to either arbitrary allocation over the possible segments or to an increased requirement for calculation and use of actuarial systems which will lead to increased perceived accuracy. This will not be in line with the statement made by CEIOPS in article 3.3 regarding the purpose of segmentation being to “achieve accurate valuation”. Additionally, life insurers would have to adjust most of their IT systems currently in use to accommodate the requirement of unbundling.</li> <li>■ The proposed unbundling will not lead to an increased transparency. The assumptions used for the identified segments will still be based on the whole policy which covers multiple risks. The various insurance covers will have an effect on each other and should therefore not be unbundled.</li> <li>■ The insurer is likely to be managing life products on the level of homogenous product groups. Therefore, we do not understand the purpose of the segments by</li> </ul>	Noted
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risk-driver, as this kind of segmentation does not appear suitable for risk management purpose. For example, all risk drivers will often be applied to all contracts when the SCR is calculated.

- During the lifetime of a life insurance product, the predominant risk driver (if existing) can shift. For example, for the pension example above, we would expect the predominant risk driver to shift from longevity risk to mortality risk. If segmentation were to be based on risk-drivers, then the policy would need to be re-classified during its lifetime. This would not allow for proper comparisons from one reporting year to the next. Also this would have to be performed at policy level, or a more detailed segmentation based on, say, age-bands would be required, which would seriously increase the administrative burden without providing the supervisor with any additional insights into the risks of the insurer over and above the other information already disclosed. This example would even be more onerous if, say, disability risk was also insured under the pension product. Therefore, this segmentation by risk-driver introduces many technical difficulties in implementation, as segmenting by main risk driver can become difficult, confusing and a continuously moving target, and so these segments will result in an excessive administrative burden.
- Further segmentation will be performed by each insurer depending on the way he manages his contracts. Indeed, Article 79 of the Framework Directive states that “Insurance and reinsurance undertakings shall segment their insurance and reinsurance obligations into homogeneous risk groups, and as a minimum by lines of business, when calculating their technical provisions.” Segmentation by risk driver contradicts this requirement in the Directive, as it may require insurers to split homogeneous risk groups up between risk-drivers and group them with

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other non-homogenous risk groups.

- The proposed segmentation is completely not in line with what is currently done by life insurers and will require life insurers to change their current best practices. Given the purpose of segmentation is to achieve an accurate valuation of insurance and reinsurance obligations, we do not think it is valuable to segment life business into 16 lines. Limiting the segmentation to the 4 first level segments would not jeopardize the accuracy of the BE valuation and would be more in line with the approach adopted by companies using internal models. In fact, the requirement for the proposed segmentation will conflict with the use of internal models, particularly when attempting to satisfy the “use test”.
  - Since CEIOPS clearly states that the segmentation needs not to be the same for the purposes of determining BE, risk margin, capital requirements and reporting, companies have the opportunity to use a more granular segmentation (beyond the first-level segments) when carrying out calculations such as the BE or SCR. However, it should be up to the company to do this in line with how they manage their business.
  - The Best Estimate calculation should not be at odds with the segmentation for reporting. On the contrary, once the BE has been calculated, it can be aggregated into the appropriate category for the segmentation for reporting purposes. Therefore the segmentation proposed by CEIOPS is not only not appropriate for the calculation of technical provisions, it is also not appropriate for statutory reporting.
- ⇒ The CEA proposes that the segments by risk-driver are removed.

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**An alternative proposal to the 4 segments by risk-driver** - The CEA believes that segmentation based on the 4 first level segments only would be acceptable. However, the CEA is open to hold discussions with CEIOPS on alternative solutions with the hope of finding sub-segments which would be in line with how products are managed within insurers (if this is currently possible in a harmonised manner). Preliminary examples of the types of sub-segments that could be considered would be those that are by product line or by benefit payment pattern, such as:

Example A – 12 segments in total, 3 sub-segments defined as:

- Savings - Products where the main benefit is a payment on survival to a certain time
- Income - Products where the main benefit is a regular income dependent on survival over a certain period (e.g. pensions annuities)
- Contingency - Products that provide the main benefit contingent on an certain event over a period (e.g. on death or morbidity)

Example B – 8 segments in total, 2 sub-segments defined as:

- Individual insurance
- Group insurance

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**The Level 2 advice should refer to the fact that segmentation may not be possible for profit-sharing calculations** - If sub-segments are retained in addition to the 4 higher-level segments, the CEA believes that reference should be made in the Level 2 advice to the fact that segmenting into the prescribed lines may not be in line with the way profit-sharing business is calculated (as raised in Para 3.7).

⇒ The CEA requests that an addition to the text of the advice is as follows:

*"There may be dependencies between some segments due to the way profit-sharing is calculated and so in this case this business should not be segmented according to main risk drivers/lower level segments when calculating technical provisions."*

207	3.27	AMICE	We agree with the CEA that it is not always possible to further segment life insurance and reinsurance business – which is already segmented in the four categories (“contract with profit participation clauses”, “contracts where policyholder bears the investment risk”, “Other contracts without profit participation clauses” and “Accepted reinsurance”), in four additional categories of another dimension (contracts with death as main risk driver, contracts where survival is the main risk driver, contracts where the main risk driver is disability/morbidity risk and contracts defined as savings contracts) – resulting in 16 little “boxes”; Some contracts base their profit participation clauses on their total result by product which can comprise several risks (death, longevity and invalidity) In such cases, the segmentation proposed in CEIOPS’ paper may not be possible for profit-sharing calculations.	See 206
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			<p>Additionally, many life products offer multiple risks drivers; for example, pension products may provide benefits both on survivorship and death/invalidity. It may be inaccurate to split such complementary guarantees which are balanced within the contract. For all the reasons mentioned above, we feel that inflexibly prescribing a high level of granularity infringes the grounds of a principles-based regime.</p>	
208	3.27	CFO Forum	<p><b><u>This proposal will require Life insurers to change their current best practices just for Solvency II purposes</u></b> – this level of segmentation is not used for internal purposes or other public disclosures. This will, therefore, be inconsistent with the broader objectives of Solvency II to consider management best practice in the supervision of insurers and be inconsistent with the use of internal models in the business. This difference will lead to confusion for the public and will not enhance the transparency. The CFO Forum therefore proposes to use a segmentation which is or will be consistent with how most life insurers are managing their business.</p> <p>No definition is provided for “investment contracts” or “profit participation clauses”. The CFO Forum recommends that the same definition is used as applied in IFRS 4, where definitions have already been addressed. Using the IFRS 4 definitions will ensure consistency of segments between regulatory and financial reporting and is a pragmatic basis as companies systems can already identify contracts on the basis of these definitions.</p> <p>The CFO Forum supports the view that contracts should be allocated by the main risk driver and not further unbundled, however, the segmentation into the second level segments proposed should not be required where the differential between the main risk drivers is not consistent with the way the business is managed or is not material in the</p>	<p>See 206 See 201 Not agreed The distinction should be drawn between segmentation for the purposes of making the best estimate, calculating the SCR/risk margin and the way how the business is managed.</p>

**Comments on Consultation 27-09 Draft L2 Advice on TP – Segmentation**

CEIOPS-SEC-91/09

**Name company: XL Capital Group (including XL Insurance Company Ltd and XL Re Europe Ltd) (“XL”), member firms of Deloitte Touche Tohmatsu in the European Union, CRO Forum, Aviva, Lloyd’s, Institut des Actuaire, Groupe Consultatif, DAV, Dutch Actuarial Society, Institute of Chartered of Accountants of England and Wales (ICAEW), Munich Re Group, ASSOCIATION OF BRITISH INSURERS (ABI), APS, International Credit Insurance and Suretyship Association (ICISA), Fédération Française des Sociétés d’Assurances (FFSA), UNESPA (Spanish Insurance Association), CEA, Legal & General Group, AMICE, KPMG, Federation of European Accountants (FEE), CFO Forum, Pacific Life Re Limited**

			context of a broader classification.	
209	3.28	Deloitte Touche Tohmatsu	The advice states that contracts covering non-life and life (re) insurance risks sold should be unbundled into their life and non-life parts. We explain in our general comments that we would expect the unbundling to follow the principles of homogenous groupings around main risk drivers and the management of those risks as a single portfolio. Requirements to unbundle without the application of these principles should be subject to the proportionality principle and characterised as exceptions to the principle by a clearly articulated regulatory reporting objective.	Not agreed  The non-life and life insurance risk should be unbundled due to different risk characteristic which must be unbundled for the purpose to calculate technical provisions.
210	3.28 to 3.33	Deloitte Touche Tohmatsu	The advice in these paragraphs indicates that all life, non-life and reinsurance contracts should be unbundled into their constituent segmented lines of business, subject to the principle of proportionality for contracts with a single main risk driver.  While we agree with the principle of this approach for the purpose of transparency and disclosure, we do not believe that it is appropriate for the purpose of calculating technical provisions. We also believe that is contrary to the overriding guidance of paragraph 1.2, which prescribes that firms should segment their business into homogeneous risk groups, which they can define and for which they can set the appropriate level of granularity.  We believe that the level of segmentation for the purpose of calculating technical provisions should be consistent with the approach that we expect will be prescribed under International Financial Reporting Standards which states that insurance liabilities (both best estimates and risk margins) should be calculated with reference to a portfolio of contracts with homogeneous risks with similar characteristics and that the insurer	Not agreed  The distinction should be drawn between segmentation for the purposes of making the best estimate, calculating the SCR/risk margin and the way how the business is managed. The intention of this paper is not to propose segmentation for reporting purposes.

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manages together as a single portfolio. The principle of the main risk driver suggested in the Consultation Paper is aligned with and improves these segmentation criteria.

In our view, there will be three significant impacts of requiring firms to unbundle their risks for the purpose of calculating technical provisions:

- 1) firms will need to develop and enhance their insurance reporting systems and processes in order to achieve the level of granularity that will be required under the proposed risk unbundling regime;
- 2) the impact of separating risks that are managed together in a single portfolio of contracts will remove the benefit of portfolio diversification and hence lead to the calculation of higher risk margins, and consequently capital requirements; and
- 3) it will be harder for firms to pass the use test when they are effectively calculating their capital requirements on a basis that varies from the way that they manage their business.

In our view, the overriding principles for segmenting insurance contracts for the purposes of calculating technical provisions are that:

- a) segmentation is aligned to the way in which the business is managed, in order facilitate the ability of the firm to pass the use test;
- b) segmentation should be driven by homogeneous risk groups, provided that the those groups are at least as granular level as those prescribed by the minimal segmentation requirements;
- c) the identification of a main risk driver in a contract that transfers multiple risks should determine the allocation of the technical provision to the relevant segment;

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			and d) the implementing measures of the Pillar 3 requirements should consider the qualitative disclosure of risks within technical provisions that transfer other risks in addition to their main risk driver	
211	3.28	Aviva	We agree with unbundling contracts that contain life and non-life parts	Noted
212	3.28	Lloyd’s	Lloyd’s agrees the life and non-life lines should be unbundled.	Noted
213	3.28 to 3.33	Groupe Consultatif	<p>We propose replacing the Principle of Unbundling as outlined in 3.28 to 3.33 with the following:</p> <p>A portfolio of insurance contracts should be unbundled if</p> <ul style="list-style-type: none"> <li>• the portfolio is economically substantial,</li> <li>• the considered components are independent of each other, and</li> <li>• unbundling is feasible for the insurance undertaking holding the portfolio with reasonable effort.</li> </ul> <p>Any sub-portfolio is of economic substantiality if risk impacts from this portfolio are material.</p> <p>The concept of proportionality is only applied to either life insurance contracts (3.21) or non-life insurance contracts (3.18). However we see no reason why proportionality should also not be applicable to contracts which are a combination of life and non-life</p>	<p>Not agreed</p> <p>See 209</p>

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			risks.	
214	3.28, 3.32 & 3.33	Dutch Actuarial Society	<p>In our opinion segmentation and unbundling of obligations should have the following objectives:</p> <ul style="list-style-type: none"> <li>– Creation homogeneous risk groups leading to a more transparent picture of the risks and the diversification effect between the risks</li> <li>– More transparency for the supervisor and users of information</li> <li>– More easy calculation of Best Estimates, etc on a grouped basis</li> </ul> <p>The segmentation should not lead to situations where the administrative burden is relatively extensive, added value (from a transparency point of view) of the segmentation is limited or even non existent and/or where the information does not give the required insight.</p> <p>Generally, the aforementioned objectives are met via the structure proposed by CEIOPS. However, we feel that there is a significant risk that the segmentation may have negative consequences.</p> <p>In our opinion it should be for the decision of the company whether unbundling of covers is required given the goals described. Unbundling of covers has some unwanted consequences:</p> <ul style="list-style-type: none"> <li>– Companies tend to sell and administer as many covers via one single contract. That reduces the administrative burden for both the client and the company. Not seldom, companies use discount rates for multi cover contracts. An important matter is to which of the covers the discount should be allocated, given that the technical</li> </ul>	<p>Not agreed</p> <p>See 209</p>

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provisions need to be calculated separately.

- Important is that covers are considered to one insurance solution for the client. All insurance risks are driven by the same person insured (for instance lapse behaviour, mortality). Via unbundling other assumptions may be used for risks like lapse, mortality and longevity. An example: A deferred annuity combined with survivorship annuity; this is a combination of longevity and mortality risk, but it is related to same person. The risks of the combined product should be assessed and not the risks of the separate covers.
- Generally, profit sharing is allocated to the entire contract and not to the separate covers. Unbundling may lead to an incorrect picture of the risks related to the profit sharing.
- The allocation of maintenance expenses and commissions to the separate covers will be relatively difficult and will lead to arbitrary approaches.

Our advice is that unbundling is not required and that risks per contract should be considered in its entity. The contract will be classified as part of the major risk driver.

Furthermore, in our opinion contracts need to be classified at inception of the contract and the portfolio in force at the moment of the transfer (implementation of Solvency 2). The classification can be done based on the dominant characteristics during the life time of the contract. Reclassification of contracts during the life time of the contract will lead to a significant increase of the administrative burden caused by the constant reassessment of the classification.

215	3.28	ABI	The ABI believes that the concept of unbundling is inherently flawed. Contracts should be assessed according to their main risk drivers over the life of the contract as far as is	Not agreed
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			appropriate. Normally, this assessment should be done once over the lifetime of the contract. Any splitting of contracts should be done only where necessary and where doing so allows a proper understanding of the risks of the contract. Even if splitting a contract is possible, it may not be advisable in all cases.	See 209
216	3.28	UNESPA	<b><u>Proportionality should also apply to the unbundling of life and non-life risks-</u></b> The concept of proportionality is only applied to either life insurance contracts (3.21) or non-life insurance contracts (3.18). However we see no reason why proportionality should also not be applicable contacts which are a combination of life and non-life risks. For example, if life insurance contracts are sold with non-life riders and if these additional riders are insignificant then unbundling should not be required (also in the case where these riders can be sold separately). If unbundling is required then the administrative burden would significantly increase.	Not agreed See 209
217	3.28	CEA	<b><u>Proportionality should also apply to the unbundling of life and non-life risks -</u></b> The concept of proportionality is only applied to either life insurance contracts (3.21) or non-life insurance contracts (3.18). However we see no reason why proportionality should also not be applicable contacts which are a combination of life and non-life risks. For example, if life insurance contracts are sold with non-life riders and if these additional riders are insignificant then unbundling should not be required (also in the case where these riders can be sold separately). If unbundling is required then the administrative burden would significantly increase without increasing the understandability.  ⇒ The CEA requests that the following text is added to the Level 2 advice:  <i>"Subject to the principle of proportionality, contracts covering both non-life (re)insurance lines of business and life (re)insurance lines of business might not</i>	Not agreed See 209

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*require unbundling but might be allocated to the main line of business.”*

218	3.28	Legal & General Group	Some contracts such as composite stop loss contracts cannot be unbundled. All of section 3.2 should have the same recognition as in 3.32 that unbundling should only be carried out when it “could be constructed” as stand-alone contracts, as some contracts cannot be.	Not agreed See 209
219	3.28	AMICE	In our opinion, the principle defined in paragraph 3.30 and 3.33 – namely not having to unbundle when there is a main risk driver and proportionality does not require it otherwise – should also apply when unbundling life risks from non-life risks. In this regard, the principle of materiality should apply throughout.	Not agreed See 209
220	3.28	KPMG	We agree the life and non-life lines should be unbundled.	Noted
221	3.28-3.33	CFO Forum	<b><u>The CFO Forum does not support unbundling of contracts where risk are interdependent as this can lead to less reliable measurement</u></b> – the entity should consider whether it is more appropriate to unbundle some or all of the aggregated risks for measurement purpose or to evaluate the entire contract as a bundle. Where a contract is clear comprised of a bundle of distinct contracts it would be appropriate to unbundle for measurement purposes unless the additional work is disproportionate to the size and complexity of the separate components. See also section 3.1.5 above.	Not agreed See 209
222	3.29 & 3.30	Lloyd’s	Lloyd’s agrees that non-life contracts for multi-risks should be unbundled into the appropriate lines of business but only subject to proportionality and that a major risk driver may suffice in certain circumstances.	Not agreed See 209
223	3.29	ABI	See comments for Para 3.28.	See Para 3.28.
224	3.29	UNESPA	UNESPA supports the proposals that the unbundling of contracts should not be required if the principle of proportionality is satisfied. This is important to ensure that insurers do	Agreed Unbundling is required

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		<p>not suffer excessive administrative burdens.</p> <p><b><u>The unbundling of contracts should be done in a flexible manner and should be principle-based only</u></b> - We would like to emphasise on the need for flexibility and pragmatism in this area. Indeed, in many cases, unbundling contracts is extremely complex. Therefore:</p> <ul style="list-style-type: none"> <li>• Some companies have contracts with 2 major risks, but for which it is an excessive burden to be required to unbundle these. A pragmatic solution is needed in this case.</li> <li>• The decision to unbundle or not will often rely on expert judgement. As the company is in the best position to know its contracts, the company’s choice should be presumed adequate.</li> </ul> <p>A principle-based approach therefore would be appropriate. For example, unbundling of a single contract should only be required if</p> <ul style="list-style-type: none"> <li>• the contract is economically material;</li> <li>• the individual components are independent (not complementary) from each other; and</li> <li>• unbundling is feasible at reasonable cost for the undertaking.</li> </ul>	<p>subject to the principle of materiality.</p>
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225	3.29- 3.33	KPMG	We agree that both Life and non-life contracts should be unbundled, but only subject to proportionality and that a major risk driver may suffice.	Not agreed See 209
226	3.30	Groupe Consultatif	<p>We strongly support the proposals that the unbundling of contracts should not be required if the principle of proportionality is satisfied. This is important to ensure that insurers do not suffer excessive administrative burdens.</p> <p>We would like to emphasise the need for flexibility and pragmatism in this area. Indeed, in many cases, unbundling contracts is extremely complex. Therefore:</p> <ul style="list-style-type: none"> <li>Some companies have contracts with 2 major risks, but for which it is an excessive burden to be required to unbundle these. A pragmatic solution is needed in this case.</li> </ul> <p>The decision to unbundle or not will often rely on expert judgement. As the company is in the best position to know its contracts, the company’s choice should be presumed adequate.</p>	Agreed See 224
227	3.30 & 3.33	Deloitte Touche Tohmatsu	While we agree with the concepts of proportionality and main risk drivers that are introduced in paragraphs 3.18 and 3.21, in light of the further comments we make below in respect of paragraphs 3.28 – 3.33, we believe that there needs to be clearer definition of what constitutes a main risk driver. The explanatory text of paragraph 3.15 provides an example of how a main risk driver could be identified in an endowment policy that transfers both death and survival risk. This example and similar others could be utilised to develop a principle based definition of the main risk driver in an insurance contract that transfers multiple risks.	Noted

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228	3.30	ABI	The ABI strongly agrees with this point.	Noted
229	3.30	CEA	<p>The CEA strongly supports the proposals that the unbundling of contracts should not be required if the principle of proportionality is satisfied. This is important to ensure that insurers do not suffer excessive administrative burdens.</p> <p><b><u>The unbundling of contracts should be done in a flexible manner and should be principle-based only</u></b> - We would like to emphasise on the need for flexibility and pragmatism in this area. Indeed, in many cases, unbundling contracts is extremely complex. Therefore:</p> <ul style="list-style-type: none"> <li>■ Some companies have contracts with 2 major risks, but for which it is an excessive burden to be required to unbundle these. A pragmatic solution is needed in this case.</li> <li>■ The decision to unbundle or not will often rely on expert judgement. As the company is in the best position to know its contracts, the company’s choice should be presumed adequate.</li> </ul> <p>A principle-based approach therefore would be appropriate. For example, unbundling of a single contract should only be required if</p> <ul style="list-style-type: none"> <li>■ the contract is economically material;</li> <li>■ the individual components are independent from each other; and</li> </ul>	Agreed See 224

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			<ul style="list-style-type: none"> <li>■ unbundling is feasible at reasonable expenses for the undertaking.</li> </ul> <p>⇒ The CEA requests that the following text is added to the Level 2 advice:  <i>“The unbundling of contracts should be done in a flexible and pragmatic manner, which will often rely on expert judgement. The decisions of the (re)insurance undertaking should be presumed adequate in this regard.”</i></p>	
230	3.30 & 3.33	Legal & General Group	We welcome the principle of proportionality being applied to unbundling.	Noted
231	3.30	AMICE	AMICE members strongly support the statement “contracts covering risks across different non-life (re)insurance lines of business with one major risk driver might not require unbundling but might be allocated according to the major risk driver.” However, the reference to the principle of proportionality should be replaced, in some cases, by the materiality principle since the scale of the risks and not their nature and complexity is the key factor determining the allocation of the risk driver.	Agreed See 224
232	3.31/32/33	CRO Forum	<p>The CRO Forum notes that whereas 3.31 refers to life insurance and life reinsurance 3.32 and 3.33 refer only to life insurance, raising the question whether this difference is intentional.</p> <p>The CRO Forum believes that unbundling reinsurance contracts may present particular difficulties where different covers are provided under the same contract with offsetting provisions such as profit sharing or experience rebates that could impact reserving. The construct of some reinsurance contracts may make unbundling inappropriate even though the individual benefits covered can be unbundled.</p>	Agreed The paragraphs 3.32 and 3.33 should also refer to reinsurance contracts.

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233	3.31	CRO Forum	<p>The CRO Forum notes that 3.31 is inconsistent with 3.32 and 3.33 and proposes it is amended to say ‘A contract covering life insurance or life reinsurance business should, subject to 3.32 and 3.33, be (..) unbundled according to the four top level segmentation defined in paragraph 3.27’</p> <p>The CRO Forum agrees with unbundling contracts that contain both direct and reinsurance components</p>	<p>Agreed</p> <p>See 232</p>
234	3.31	Aviva	<p>We agree with unbundling contracts that contain both direct and reinsurance components</p>	<p>Agreed</p> <p>See 232</p>
235	3.31, 3.32 & 3.33	ABI	<p>The ABI noted that Para 3.31 refers to life insurance and life reinsurance but Paras 3.32 and 3.33 only refer to life insurance. Is this intentional?</p> <p>Unbundling may cause difficulties where different insurance covers are provided within the same contract but where there are offsetting provisions such as profit sharing or experience rebates and this could have an impact on reserving. We believe the following wording should be added to reflect this: “The construct of some (re) insurance contracts may make unbundling inappropriate even if the individual benefits covered can be unbundled.” See also comments to Para 3.28.</p>	<p>Agreed</p> <p>See 232</p>
236	3.31	UNESPA	<p>The principle of proportionality should also apply to unbundling the top 4 segments of life insurance</p>	<p>Not agreed</p> <p>Principle of proportionality could not be applied to top 4 segmentations due to different risk that are exposed.</p>

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237	3.31	CEA	<p><b><u>The principle of proportionality should also apply to unbundling the top 4 segments of life insurance</u></b> – Furthermore, the CEA believes that the paragraph should also be re-worded to ensure it clarifies that the advice applies to insurance contracts covering several lines of business.</p> <p>⇒ The CEA believes that the advice should be adjusted to read: “A contract covering <i>several</i> life insurance or life reinsurance <i>lines of</i> business should, <i>subject to 3.32 and 3.33, (...) be unbundled according to the four top level segments defined in paragraph 3.27.”</i></p>	Not agreed See 236
238	3.32	CRO Forum	<p>The CRO Forum finds 3.32 acceptable if the clarification provided by 3.20 is expanded to note that ‘ A product offering payment on the earlier of death and a critical illness is not regarded as being deconstructible into stand alone contracts’</p> <p>The CRO Forum disagrees with the requirement to unbundle life insurance contracts that are a combination of covers; disadvantages include:</p> <ul style="list-style-type: none"> <li>• inconsistency with management of the business;</li> <li>• can lead to arbitrary setting of assumptions for each component</li> <li>• can be impractical due to interactions between the components.</li> </ul> <p>The CRO Forum believes unbundling should be permitted, where consistent with management of the business and practical to apply</p>	Not agreed The distinction should be drawn between segmentation for the purposes of making the best estimate, calculating the SCR/risk margin and the way how the business is managed.
239	3.32	Aviva	<p>We disagree with the requirement to unbundle life insurance contracts that are a combination of covers; disadvantages include:</p> <ul style="list-style-type: none"> <li>- inconsistency with management of the business;</li> <li>- can lead to arbitrary setting of assumptions for each component</li> </ul>	Not agreed See 238

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			- can be impractical due to interactions between the components. Unbundling should be permitted, where consistent with management of the business and practical to apply	
240	3.32	Groupe Consultatif	As discussed in our comments to Para 3.27, many life insurance contracts cover several risk categories. For example, a very common type of life insurance product would cover both death risk and survival risk, with the weightings of these shifting over the lifetime of the contract. It is very important that insurers do not suffer excessive administrative burdens which could be the result of a requirement for insurers to unbundle contracts into these different segments according to risk-driver, and so insurers should not always have to unbundle these contracts even if it is the case that they can be sold as stand-alone contracts.	Agreed Unbundling is not required for mutually exclusive events.
241	3.32	UNESPA	The unbundling should not be necessary when the entity can argue the <i>complementarity</i> of certain risks (or the preponderance of any of them) e.g. <i>to die or get disabled, at policy level or at insured-head level</i> . Another treatment would generate complexity and duplicate risk in the later SCR estimation.  On the other hand, we would like to remark that the unbundling of mortality/disability in many cases is not feasible policy by policy e.g Normally the premium includes the price for mortality and disability and is not possible to separate it.  Segmentation should be done in a way that it does no affect the way technical provisions are assessed. We propose to group in Life contracts where the driver is death and disability/morbidity, because we believe that this segmentation does not really	Agreed See 240

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change significantly the vision of risk of the company.

242	3.32	CEA	<p><b><u>An ability to construct a contract into its stand-alone parts should not automatically imply unbundling</u></b> – As previously mentioned in our comments to Para 3.27 the CEA does not support the segments by risk-driver. However, if these segments are retained, then unbundling between these risk-based segments should be principle-based and should be subject to the principle of proportionality.</p> <p>⇒ The CEA requests that paragraph 3.32 be deleted.</p> <p><b><u>Unbundling based on construction into stand-alone parts, if retained, requires clarification</u></b> – As stated above, the CEA has severe reservations about the proposed risk-based segments and also an automatic unbundling into these segments if contracts can be created stand-alone. However, if this paragraph is retained, the CEA would appreciate the addition to the Level 2 advice of the example given in Para 3.20. We would also appreciate further additions to this advice to explain the principle.</p> <p>⇒ If this paragraph is retained, the CEA would request that the example given in paragraph 3.20 is included in the Level 2 advice. Furthermore, the CEA would request that the advice includes the text: “<i>A product offering payment on the earlier of death and a critical illness, say, is not regarded as being deconstructable into stand alone contracts.</i>”</p> <p>See the comments on Para 3.33 on life reinsurance, which also apply here.</p>	Agreed See 240
243	3.32	Legal &	We welcome the recognition that it may not be possible to construct an apparently combined contract into stand-alone contracts, by using the phrase “could be	Agreed

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		General Group	<p>constructed” rather than “must be constructed”.</p> <p>For example, an accelerated critical illness contract cannot be segmented into a term assurance contract and a stand-alone critical illness contract because:</p> <ol style="list-style-type: none"> <li>1) The contracts would have to have a conditional forced lapse clauses in the event of a claim on the other contract, i.e. they are intimately bound and difficult to value independently.</li> <li>2) The claim assumptions are not separately analysed because the reasons for claims are often miscoded, e.g. a claimant has a heart attack then dies, the claim may be coded as a death rather than a critical illness for ease of claiming. Furthermore, experience on the separate stand-alone contracts is significantly different to the experience on the accelerated critical illness contracts.</li> </ol>	See 240
244	3.32	Pacific Life Re Limited	<p>Article 85(e) of the Level 1 text requires: “(e) the lines of business on the basis of which insurance and reinsurance obligations are to be segmented in order to calculate technical provisions.”</p> <p>In relation to life insurance contracts, CEIOPS’ Draft Advice states at paragraph 3.32:  “Life insurance contracts that are a combination of insurance covers which relate to different life insurance lines of business and which could be constructed as stand-alone contracts for each of the different covers should be unbundled.”</p> <p>Pacific Life Re reinsures significant volumes of accelerated critical illness (ACCI) business which is a popular product in the UK life insurance market. ACCI policies pay out a lump sum on the earlier to occur of death or one of a specified list of illnesses. Accordingly,</p>	Agreed See 240

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			the product is a mixture of mortality and morbidity risk. In our view ACCI cannot be unbundled into separate covers because the policy only pays out once and therefore the mortality and morbidity elements are not capable of being constructed as stand-alone contracts. For example, the death benefit policy would need to pay out only if there were no prior diagnosis of a critical illness and clearly the critical illness benefit would not pay out after death. Does CEIOPS agree with this analysis? If so, it would be helpful to clarify this in the final advice with examples, such as that of ACCI.	
245	3.33	CRO Forum	<p>Subject to the principle of proportionality life insurance contracts which are a combination of insurance covers which relate to a different life insurance lines of business with one major risk driver might not require unbundling, but might be allocated according to the major risk driver."</p> <p>The relative size of the risk within a policy may change over the life time of the policy, requiring a reclassification of the policy. Besides the practical difficulties of moving individual policies between segments, this will also impact transparency and understanding for example in an movement analysis.</p> <p>The CRO Forum agrees with the principle of proportionality for unbundling.</p>	Noted
246	3.33	Aviva	We agree with the principle of proportionality for unbundling	Noted
247	3.33	Groupe Consultatif	We strongly support the proposals that the unbundling of contracts should not be required if the principle of proportionality is satisfied. This is important to ensure that insurers do not suffer excessive administrative burdens.	Noted
248	3.33	UNESPA	<b><u>The principle of proportionality should also apply to unbundling the top 4 segments of life insurance</u></b> – As mentioned in our comments to Para 3.31, we believe	Not agreed See 236

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that proportionality should also apply to the 4 top level segments. The current wording of this paragraph is unclear in this respect and it could be that Para 3.33 is inconsistent with Para 3.31.

⇒ UNESPA requests that the wording of this paragraph is amended to read: “Subject to the principle of proportionality life insurance contracts which are a combination of insurance covers which relate to different life insurance lines of business ~~with one major risk driver~~ might not require unbundling, but might be allocated according to ~~major risk driver~~ *the main line of business.*”

We believe the criteria to define if a contract has to be unbundled should be further detailed and we should only unbundled when the various risks are material on the overall risk of the contract.

249 3.33

CEA

**The principle of proportionality should also apply to unbundling the top 4 segments of life insurance** – As mentioned in our comments to Para 3.31, we believe that proportionality should also apply to the 4 top level segments - see our comment to Para 3.31. The current wording of this paragraph is unclear in this respect and it could be that Para 3.33 is inconsistent with Para 3.31.

⇒ The CEA requests that the wording of this paragraph is amended to read: “Subject to the principle of proportionality life insurance contracts which are a combination of insurance covers which relate to different life insurance lines of business ~~with one major risk driver~~ might not require unbundling, but might be allocated according to ~~major risk driver~~ *the main line of business.*”

Not agreed  
See 236

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			<p><b>The paragraph should also refer to life re-insurance</b> - The CEA notes that whereas Para 3.31 refers to life insurance and life reinsurance, Para 3.32 and Para 3.33 refer only to life insurance. The CEA believes that unbundling reinsurance contracts may present difficulties where different covers are provided under the same contract, particularly with offsetting provisions such as profit sharing or experience rebates that could impact reserving.</p> <p>The CEA proposes that Para 3.33 be expanded, or Para 3.34 created, to read <i>“The construction of some reinsurance contracts may make unbundling inappropriate even though the individual benefits covered can be unbundled.”</i></p>	<p>Agreed See 232</p>
250	3.33	AMICE	<p>This paragraph states that contracts which are a combination of insurance covers which relate to different (life insurance) LoBs with one major risk driver, might not require</p>	<p>Noted</p>

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			<p>unbundling but might be allocated according to the major risk driver.</p> <p>AMICE members feel more guidance is needed to clarify the meaning of “major risk driver” and in particular if it is characterized by the occurrence of the risk, by the purpose of the contract or by the amount of premiums.</p>	
251	3.33	Pacific Life Re Limited	<p>Paragraph 3.33 of the Draft Advice states:</p> <p>“Subject to the principle of proportionality life insurance contracts which are a combination of insurance covers which relate to [a] different life insurance lines of business with one major risk driver might not require unbundling, but might be allocated according to the major risk driver.”</p> <p>We suggest that ACCI should fall into this category and that the “major risk driver” should be considered to be that which generates the higher risk premium in the (re)insurer’s internal pricing analysis. Does CEIOPS agree with this analysis?</p>	<p>Agreed</p> <p>See 240 and ACCI</p>