

**Comments Template on  
Discussion Paper on the review of specific items in the Solvency II  
Delegated Regulation**

**Deadline  
3 March 2017  
23:59 CET**

Name of Company:	<b>European Association of Paritarian Institutions - AEIP</b>	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> <li>⇒ Do <b>not</b> change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool</li> <li>⇒ Leave the last column <u>empty</u>.</li> <li>⇒ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a paragraph or a cell, keep the row <u>empty</u>.</li> <li>⇒ Our IT tool does not allow processing of comments which do not refer to the specific numbers below.</li> </ul> <p><b>Please send the completed template, <u>in Word Format</u>, to <a href="mailto:CP-16-008@eiopa.europa.eu">CP-16-008@eiopa.europa.eu</a></b></p> <p><b>Our IT tool does not allow processing of any other formats.</b></p> <p>The numbering of the questions refers to the discussion paper on the review of specific items in the Solvency II Delegated Regulation.</p>		
<b>Reference</b>	<b>Comment</b>	
General Comment		
Q1.1	In exchange for a simplified calculation, Solvability II requires an evaluation of the error by comparison with the standard formula. This procedure leads to more complex calculations than the standard formula itself. It is contrary to the application of the proportionality principle provided by the Directive. This results in the use of the standard formula rather than the use of the simplifications by most small economic operators.	
Q1.2		
Q1.3		

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Q1.4		
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Q1.25		
Q1.26		
Q2.1	AEIP considers the use of external credit ratings provided by External Credit Assessment Institutions (ECAI) to be a heavy constraint for all insurers. The obligation to use external credit ratings makes insurers dependent credit rating agencies and leads to an oligopolistic situation for these agencies, with as a consequence excessive costs for the insurers.	
Q2.2	The three approaches are credible and might, eventually, form a good alternative to the use of external credit ratings.	
Q2.3	AEIP proposes is to eliminate the use of any reference to ECAI in the national and European QRTs and to allow the use of CQS (credit quality step from 0 to 6) by all insurers and not just by insurers of a small size, in order to reduce costs and dependency.	
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Q3.1		
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Q3.8	<p>The application of the Solvency II rules poses a problem of coherence in its implementation in different European countries.</p> <p>In order to be able to answer to requirements of EIOPA and the European Commission, AEIP requests the provision of national lists of assets benefiting from:</p> <ul style="list-style-type: none"> <li>- any kind of State guarantee, and</li> <li>- a spread and concentration risk equal to zero.</li> </ul> <p>These national lists will have to be grouped on EIOPA's website and will have to be updated on a regular basis, so as to clarify the current situation.</p>	
Q3.9		
Q3.10		
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Q3.12		
Q4.1		
Q4.2		
Q5.1	<p>The premium risk foreseen in the "non-life underwriting risk" or "non-life health" modules of the standard formula is not clearly defined for one year renewable contracts.</p> <p>Under the current definition, the interpretation of the article 116(3) of the Delegated Regulation leads to different applications, depending on the country, which results in competition distortions and does not correspond with the "risk" approach defined in the Solvency II Directive.</p> <p>The problem arises from the definition of the parameter "<math>FP_{future, s}</math>", which creates overlaps and incoherences with the other parts of the formula, depending on the different types of evaluated contracts.</p>	
Q5.2	<p>In the particular case of renewable one year contracts (by tacit renewal), it is important to return to the initial objective of measuring the risk on an annual basis. The accounting elements and the calculations of the Best Estimate of premiums take into account an assessment of contributions, estimated on an annual basis and containing all potential elements.</p> <p>In any case, the amount of contributions cannot contain elements from financial year N+2 which are not a part of the annual risk assessment foreseen in the Solvency II</p>	

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	Directive.	
Q5.3	The impact will be significant.	
Q5.4		
Q5.5		
Q5.6		
Q6.1	<p>AEIP wishes that the calibration of the risk module "income protection" is reviewed by EIOPA as part of the revision work of the calibration of the standard formula for 2018. The latest study performed by members of AEIP on a sample of insurers evolving on the French market shows that the risk volatility on the technical provisions included in the module "income protection" would be close to 9.5% with still significant safety margin levels within the technical provisions.</p> <p>In view of the very significant difference with the calibration of the standard formula, i.e. 14%, AEIP is of the opinion that it is important to review this "line of business", as it represents 50% of the LOB aimed by the non SLT Health module, in other words an important stake in Europe.</p>	
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Q8.1		
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Q9.1	AEIP is of the opinion that there is no reason to modify the standard formula so as to take into account the terror risk.	
Q9.2	The calibration of the mass accident risk is evaluated in a correct manner by taking into account the maximum exposure of this type of contract by accident. The evaluation of the SCR mass accident is based on a coherent scenario that leads in terms of frequency and value to an accurate estimation of the risks incurred for this type of accident.	
Q9.3		
Q9.4		
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Q10.5		
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Q11.2	In order to promote a better risk management, the use of USP on the life and health underwriting risk must be allowed. The mortality and longevity risks form the topic of a great number of studies and are part of the risks for which data are the most extensive and complete. Taking into account the USP on these two risks will induce an improvement of risk management and will encourage insurers to follow the evolution of mortality and longevity more closely.	
Q11.3	<p>In general, the determination of the USP takes into account the depth of the historical record which is at the disposal of the insurer. Actually, the final USP stems from a credibility model, having as its input the parameter calculated by the undertaking, on the basis of the following formula:</p> $\sigma_{Final} = c \cdot \sigma_{USP} + (1 - c) \cdot \sigma_{EIOPA}$ <p>The higher the number of years of the historical record, the closer the credibility coefficient is to 1. That's why, once one disposes of more that 15 relevant years of historical record, the credibility coefficient equals 1, no matter what sectors.</p> <p>In the particular case of sectors with a short progression of the "triangles of provisions" (eg health on 3 or 4 years), a historical record with a length of 15 years does not provide any relevant information. AEIP also suggests to determine the length of the historical record of the credibility coefficients on the basis the line of business or the duration of the technical</p>	

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	provisions, thus: <ul style="list-style-type: none"> <li>- For health non life a duration of at most 5 years and</li> <li>- For income protection a duration of at most 8 years.</li> </ul>	
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Q14.4		



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Q16.4		
Q16.5		
Q16.6	The threshold of 20% defined in article 84 is appropriate. It is a key element in avoiding prohibitive costs in the application of the Solvency II rules and in respecting the proportionality principle.	
Q16.7		
Q16.8	The threshold of 20% defined in article 84 is appropriate but the list of assets which have to be made transparent has to be modified by excluding the assets which are backing unit-linked products. In this particular case, the risk falls mainly on policyholders, and therefore there is no need to integrate the number of assets (unit-linked) in the calculation basis.	

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Q18.9		
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Q19.1	<p>AEIP is of the opinion that EIOPA's analysis which consists in seeing the cost of capital of the risk margin on the basis of a long-term approach that does not follow the short-term financial cycles is still valid.</p> <p>However, when a fundamental trend like the current low interest rate environment continues over a long period of time, the 6% rate requires reconsideration.</p>	
Q19.2		
Q19.3	<p>The stress tests and ORSA works for the financial years 2015-2016 on the French market highlight a very important impact of the low interest rate environment on the best estimate. In particular, in the so-called long branches, the stress tests show a disproportionate rise of the risk margin.</p> <p>Moreover, AEIP is of the opinion that the 6% rate is too high and has not been sufficiently justified (as a reminder, this was EIOPA' justification: "The 6% CoC rate corresponds to the cost of providing eligible own funds for BBB-rated insurance and reinsurance undertakings - CoC was used by the Swiss regulator in its solvency test for BBB-rated reference undertakings").</p> <p>Studies of 2008 (cf. "CRO Forum Market Value of Liabilities for Insurance Firms – Implementing Elements for Solvency II (2008)") have shown that a rate between 2.5% and 4.5% seemed more appropriate, whereby it has to be taken into consideration that at the end of 2008 the 1 year EURIBOR rate was 4.8%, while at the</p>	

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	<p>end of 2016 it was -0.08%.</p> <p>Maintaining a 6% rate could lead to an important tariff increase for the most affected insurance products (the so-called long branches) and, over time, to a risk of a decrease of the coverage of policy holders, who would no longer have access to the concerned insurance products because of an excessive premium level.</p>	
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