

**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:	Willis Towers Watson	
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"> ⇒ Do not change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool ⇒ Leave the last column <u>empty</u>. ⇒ 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>. ⇒ Our IT tool does not allow processing of comments which do not refer to the specific numbers below. <p>Please send the completed template, <u>in Word Format</u>, to CP-16-008@eiopa.europa.eu</p> <p>Our IT tool does not allow processing of any other formats.</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>		
Reference	Comment	
General Comment		
Q1.1		
Q1.2		
Q1.3		
Q1.4		
Q1.5		

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

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

Q1.6		
Q1.7		
Q1.8		
Q1.9		
Q1.10		
Q1.11		
Q1.12		
Q1.13		
Q1.14		
Q1.15		
Q1.16		
Q1.17		
Q1.18		
Q1.19		
Q1.20		
Q1.21		
Q1.22		
Q1.23		
Q1.24		
Q1.25		
Q1.26		
Q2.1		
Q2.2		
Q2.3		
Q2.4		

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

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

Q2.5		
Q2.6		
Q2.7		
Q2.8		
Q2.9		
Q2.10		
Q3.1		
Q3.2		
Q3.3		
Q3.4		
Q3.5		
Q3.6		
Q3.7		
Q3.8		
Q3.9		
Q3.10		
Q3.11		
Q3.12		
Q4.1		
Q4.2		
Q5.1		
Q5.2		
Q5.3		
Q5.4		
Q5.5		
Q5.6		

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

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

Q6.1		
Q7.1		
Q7.2		
Q7.3		
Q7.4		
Q7.5		
Q7.6		
Q7.7		
Q7.8		
Q7.9		
Q7.10		
Q7.11		
Q7.12		
Q7.13		
Q8.1		
Q8.2		
Q8.3		
Q8.4		
Q8.5		
Q8.6		
Q8.7		
Q8.8		
Q8.9		
Q8.10		
Q8.11		
Q8.12		

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

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

Q9.1		
Q9.2		
Q9.3		
Q9.4		
Q9.5		
Q10.1		
Q10.2		
Q10.3		
Q10.4		
Q10.5		
Q10.6		
Q10.7		
Q10.8		
Q10.9		
Q10.10		
Q11.1		
Q11.2		
Q11.3		
Q11.4		
Q11.5		
Q11.6		
Q11.7		
Q11.8		
Q11.9		
Q12.1		
Q12.2		

Comments Template on Discussion Paper on the review of specific items in the Solvency II Delegated Regulation		Deadline 3 March 2017 23:59 CET
Q12.3		
Q12.4		
Q12.5		
Q12.6		
Q12.7		
Q13.1		
Q13.2		
Q13.3		
Q13.4		
Q13.5		
Q13.6		
Q14.1		
Q14.2		
Q14.3		
Q14.4		
Q14.5		
Q14.6		
Q14.7		
Q14.8		
Q14.9		
Q14.10		
Q14.11		
Q14.12		
Q15.1		
Q15.2		
Q15.3		

Comments Template on Discussion Paper on the review of specific items in the Solvency II Delegated Regulation		Deadline 3 March 2017 23:59 CET
Q15.4		
Q16.1		
Q16.2		
Q16.3		
Q16.4		
Q16.5		
Q16.6		
Q16.7		
Q16.8		
Q16.9		
Q17.1		
Q17.2		
Q17.3		
Q17.4		
Q17.5		
Q17.6		
Q17.7		
Q17.8		
Q17.9		
Q17.10		
Q17.11		
Q17.12		
Q17.13		
Q17.14		
Q17.15		
Q17.16		

Comments Template on Discussion Paper on the review of specific items in the Solvency II Delegated Regulation		Deadline 3 March 2017 23:59 CET
Q18.1		
Q18.2		
Q18.3		
Q18.4		
Q18.5		
Q18.6		
Q18.7		
Q18.8		
Q18.9		
Q18.10		
Q18.11		
Q18.12		
Q18.13		
Q18.14		
Q18.15		
Q18.16		
Q19.1	<p>The Solvency II Draft Directive was published in July 2007 and defined the risk margin to be part of the technical provisions and calibrated as a 6% pa charge on NHR capital. Throughout the rest of the Solvency II project up to adoption on 1 January 2016 there seemed to be no mechanism available to revisit this definition. This risk margin definition led to several issues:</p> <ol style="list-style-type: none"> 1. The risk margin introduced a buffer into the technical provisions although it could also be considered an additional capital requirement. 2. The theoretical basis for this buffer was the current exit value measurement principle which, for a single insurance liability in isolation, is a measurement principle with no corresponding market available for calibration. This means that any calibration is inherently unreliable. 3. The % pa charge on NHR capital is one of several ways of applying a risk margin, and contains a number of advantages and disadvantages. We are not aware of evidence that EIOPA or its predecessor CEIOPS independently assessed this approach against the 	

Comments Template on Discussion Paper on the review of specific items in the Solvency II Delegated Regulation		Deadline 3 March 2017 23:59 CET
	<p>alternatives.</p> <p>4. The calibration of the 6% seemed to be based on the Swiss Solvency Test calibration without independent assessment of its merits. The SST calibration documents described how the 6% was based on a “[Weighted Average] Cost of Capital” approach, applying a WACC concept (which applies to best estimate cash flows) to a model where market and credit risk is already allowed for in the use of a “risk-free rate”. Therefore we believed from the start that the 6% calibration was too high as it contained a double count of market and credit risk. The materiality of this double count varies for different types of firms, and has increased the more interest rates have fallen.</p> <p>We would recommend an independent review of the purpose of the risk margin and what an appropriate methodology and calibration should be.</p>	
Q19.2	<p>See above. We believe there should be a fundamental review of the risk margin in the first place. After that review confirms the broad model for the risk margin, stress and scenario testing can be used to determine whether it should change in different markets. If a risk margin model were to be permitted that varies with market movements, we would advocate an anti-cyclical approach as opposed to the current approach which we believe ends up being pro-cyclical.</p>	
Q19.3	<p>We have observed the risk margin becoming a much more material component of insurers’ balance sheets, particularly for longer-term business. This has led to a number of challenges and changes in business practice including:</p> <ul style="list-style-type: none"> - ALM. Should the insurer match the basic liability or the technical provision including risk margin? Insurers’ ALM challenges related to risk margin have been exacerbated by falling interest rates, and also (for affected firms) the TMTP reset, which is not covered by this review. - Risk transfer. The bigger the risk margin relative to the rest of the technical provisions, the more insurers are incentivised to offload risk to reduce the risk margin. This can be done via reinsurance to a company outside the EU which is not bound by Solvency II rules. - Longevity reinsurance. We believe that the growth in the longevity reinsurance market has been caused primarily because the Solvency II risk margin is materially too large for relevant primary insurance business (mainly immediate annuities). This point is also relevant to Q4. <p>We believe the high level of risk margin currently attached to long-term insurance products is resulting in higher premium rates and reduced competition, leading to worse value for consumers.</p>	

Comments Template on Discussion Paper on the review of specific items in the Solvency II Delegated Regulation		Deadline 3 March 2017 23:59 CET
Q19.4		
Q20.1		
Q20.2		
Q20.3		
Q20.4		
Q20.5		
Q20.6		
Q20.7		
Q20.8		
Q20.9		
Q21.1		
Q21.2		
Q21.3		
Q21.4		
Q21.5		
Q21.6		
Q21.7		