	Comments Template on Consultation Paper on EIOPA's first set of advice to the European Commission on specific items in the Solvency II Delegated Regulation	Deadline 31 August 2017 23:59 CET
Name of Company:	Investment and Life Assurance Group (ILAG)	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
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Reference	**Comment**	
General Comment	ILAG welcomes EIOPA's thorough approach in its analysis and assessment. We have suggested some improvements which have particular focus on areas which may be burdensome for smaller undertakings.	
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2.3	**Non-listed simplified calculations** Paragraphs 22 and 23 suggest that to use a non-listed simplification would be akin to using an internal model. We do not agree with this. The application of the proportionality principle must surely mean that a non-listed simplication is valid where the calculation is unduly burdensome relative to the outcome of the calculation. We believe that National Supervisory Authorities should be allowed to grant waivers for specific immaterial simplifications on the grounds of proportionality.	
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2.4.3	**Life underwriting risk module and similar-to-life-techniques health underwriting sub-module** We welcome the simplification of the calculation of mass lapse risk as set out in paragraphs 72-74. While we acknowledge that the calibration of the mass lapse risk is not in scope of this consultation, we believe the level at which it is set is unduly prudent and we would welcome a review of the mass lapse stress at a future date.	
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3.3	We welcome the ongoing work described in paragraph 90 to further assess the possibility of extending the framework to assessments provided by commercial and/or non-commercial third parties in the context of the second call for advice. The use of official credit ratings agencies is key in many undertakings' risk assessments, but there are undertakings which require more bespoke	

	assets and counterparties to be rated, as noted in this consultation (for example mortgages, personal loans, or unrated debt). We also welcome the assessment in paragraph 109 that where external firms provide ratings, (re)insurance undertakings should be able to evidence their understanding of the rating process as part of their Prudent Person Principle.	
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3.4.2	Currently, unrated debt attracts a SCR charge similar to CSQ3 (Article 176(4) of the Delegated Regulations). But the simplification outlined in paragraph 128 imposes a number of conditions in order to use CSQ3. This is an inconsistency which requires further explanation.	
3.4.3	We do not believe that requiring (particularly smaller) undertakings to form internal credit ratings for all counterparties is propotionate and would cause them significant difficulty and cost. We accept that this may be appropriate for large undertakings, including those on internal models, but that NSAs will need to monitor these closely to ensure comparability across the market and, indeed, EIOPA will need to ensure a level playing field across member states. We welcome the decision in paragraph 147 that EIOPA advises not to further extend internal rating approaches at this stage.	
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5.3	We agree with the assessment set out in paragraphs 243 and 244. Recognising risk management techniques with material basis risk cannot be justified. Paragraph 247, we support the suggestion that the risks of a counterparty default are already covered in the SCR calculation.	
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5.4.2	Paragraph 309 contains an assertion that it is problematic but does not explain why this is the case. Paragraphs 313 and 314 place a burden on insurance undertakings to make subjective judgements about a reinsurer when they would not have access to all the information needed to do so. This could lead to insurers taking an overly cautious approach, for example by exiting profitable contracts. This would lead to a worsening of the position of a reinsurer that might otherwise be able to restore solvency in an orderly manner. Generally EIOPA's proposals for article 211 do not go far enough. We would propose that the requirement for a realistic recovery plan be removed altogether. We note that there is no assessment of the suggestion set out in 247 that the risks are already allowed for in the counterparty default SCR calculation. Nor has there been any consideration regarding the distortion effects of an insurer not recognising reinsurance that it has on its balance sheet. For long term business, reinsurance often reduces an insurer's own funds (in exchange for a decrease in SCR). When reinsurance is artificially de-recognised, the effect would often be to artificially increase an insurer's own funds. This is imprudent and must certainly not have been intended.	
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6.4.2	We welcome the clarity which EIOPA is seeking to put in place around investment entities and the look-through approach. Specifically, we agree with EIOPA on paragraph 369 that a clear definition should be given of these "investment related undertakings" and that the existence of a specific investment mandate is a key element of the judgement.	
6.4.3	While we agree with EIOPA's principle of specifying which undertakings will be considered investment undertakings and, therefore, require look-through approach, we believe there should be a materiality threshold, for example the SII value participation being 10% or more of invested assets of the (re)insurance undertaking. This would then lead to a proportionate outcome.	
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9.4.2	The impact analysis for paragraphs 605 and 606 does not acknowledge a key benefit of allowing non-listed simplified calculations, in that they relieve a potential cost burden on the industry	

	arising from performing calculations that are more complex than is necessary given the materiality of the risk. Further the higher risk to policyholders set out in 606 would not materialise if simplifications err towards the cautious side. Also an assessment by supervisors as outlined in the third bullet, would mean that if anything the non-listed simplification would be more appropriate rather than less appropriate.	
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9.5.1	While we appreciate that assessments made by external credit ratings agencies are not to be considered perfect, we feel that the EIOPA statement that this option 'would entail severe pro-cyclical risk as well as risk of moral hazard, reducing policyholder protection' indicates that EIOPA feels that the rules governing such approved credit ratings agencies should be reviewed, rather than the rules for those relying on them (which includes the wider financial system). However, we welcome EIOPA's preference for simplification and not to introduce detailed internal rating requirements. We agree with EIOPA's statement that this activity is not a key area of expertise for the industry.	
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