

<b>Comments Template on Implementing Technical Standards with regard to the Supervisory Approval Procedure to use Undertaking-Specific Parameters</b>		<b>Deadline 30 June 2014</b>
Name of Company:	Insurance Europe	
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"; <b>if you change numbering, your comment cannot be processed by our IT tool</b></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-14-009@eiopa.europa.eu">CP-14-009@eiopa.europa.eu</a>. Our IT tool does not allow processing of any other formats.</b></p> <p>The numbering refers to Implementing Technical Standards On the procedures to be followed for the approval of the application of a matching adjustment.</p>		
<b>Reference</b>	<b>Comment</b>	
General Comment	<p>Insurance Europe welcomes the opportunity to comment on this consultation Paper on the Implementing Technical Standards with regard to the Supervisory Approval Procedure to use Undertaking-Specific Parameters.</p> <p>The issues related to this paper and which are of great concern for us are the following:</p> <p><b>The lack of approval or a clear process defining the way forward if no response from supervisor is reached within the deadline.</b></p> <p>Supervisors shall not remain silent and further clarity should be provided in this</p>	

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respect. Should this happen and when the timeline for approval has elapsed, the undertaking should be able to consider that its undertaking-specific parameters have been approved and be allowed to use them. Indeed, there is no justification to leave an undertaking in a situation of uncertainty when the application is complete and receipt of submission has been received. The approval process should be clearly defined and certainly not be perceived as a possible never ending process as this will discourage undertakings to take this route.

We note along the same lines that the paper remains silent as to what happens when the supervisor breaches the 30 days timeline for notifying that the application is complete.

In addition to that, it should be acknowledged that parameters can be outdated by the time the approval is to be granted and this should not cause the supervisors to reject the approval when evidence of a monitoring process can be demonstrated by the undertakings (to be included as part as the submission).

**The absence of a preapproval process for the USPs whereas it could be expected that a large number of undertakings will apply for their use.**

We strongly urge EIOPA and supervisors to introduce a pre-application process for the use of USPs. The consequence of not dealing with these issues in advance of Solvency II transposition (31 March 2015) could ultimately result in undertakings not being able to use their USPs upon the entry into force of Solvency II. Indeed, a large number of undertakings are planning to apply for the use of USPs and, given the complexity of the process and the limited resources of supervisors in some member states, we fear that many undertakings will not be able to have their USPs approved in time. This would be unfortunate, in particular for specialised monoliners and SMEs which are relying on being able to use USPs as the standard formula does not capture the particularities of their risk profile.

**The timeframe for approval process of USP is the same as the one for internal models whereas the complexity of the latter appears to be higher.**

Six months appear an excessive period for the approval of a proposal to use a USP relative to the approval period for an entire internal model which is of the same length. USPs approval should take a significantly shorter period, such as 3 months.

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**The lack of consistency across all the different ITS on approval processes.**

In line with the ITS on the Internal model approval, we believe that where the supervisory authorities request further information, the decision for a suspension of the six months approval period should be left up to the insurance or reinsurance undertaking.

**The set of standard parameters that are allowed to be replaced under the Implementing Measures by undertaking-specific parameters is restricted and as such is in tension with the spirit of the Level 1 Directive.**

The Directive has precluded the use of USP for market risks and counterparty default risk. Therefore, at the very least, longevity and expense risk as covered in the life underwriting risk module, lapse as covered in both the life and non-life underwriting risk module and catastrophe as covered in the non-life underwriting risk module should be included. In particular for longevity risk, we would expect that USPs should be available for those insurers for whom this risk is material. In this case it will be important for them to reflect the real nature of longevity risk, which would be a change in the future mortality assumption or the trend of mortality improvements over time, affecting longer-term policies to a much greater degree. We would therefore be supportive of such an extension.

**The predefined list of standardised methods referred to in the Framework Directive and which are to be used to derive the undertaking specific parameters (USP) is comprised of only one method per parameter with the exception of reserve risk.**

Though it is beyond the scope of this paper and under the remit of the Delegated Acts, we reiterate that the list of standardised methods which are to be used to derive the undertaking specific parameters (USP) should not be a restricted one as any restricted list will fail to fully render the true value of the USP for all undertakings. Therefore a set of criteria should be set out which would help assess whether anyone method is a standardised one. This process will ensure that academic advancements are kept up with and undertakings can produce methods (and underpinning assumptions) that are the most suitable to reflect their risk

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	profile. We would therefore be supportive of such an approach. Furthermore, such a strong requirement in the use of prescribed method does not allow undertakings to exert their expert judgement through experts (e.g. actuaries) when dealing with the set-up of the USPs (in terms of data, assumptions and methods). Indeed, data can be not entirely complete for the use of a prescribed method and expert judgment may be required to deal with this issue (e.g. selection of a different range for the data, selection of appropriate assumptions and/or statistical/actuarial methods).	
Recital (1)		
Recital (2)		
Recital (3)		
Recital (4)		
Recital (5)	Six months appear an excessive period for the approval of a proposal to use a USP relative to the approval period for an entire internal model which is of the same length. USPs approval should take a significantly shorter period, such as 3 months.	
Recital (6)		
Recital (7)	The data and the checks performed should also comply with any local requirements or professional standards (e.g. TAS-D and TAS-M for the UK actuarial profession).	
Recital (8)		
Recital (9)		
Recital (10)		
Recital (11)		
Article 1 (1)		
Article 1 (2)		
Article 1 (3)		

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Article 1 (4) a		
Article 1 (4) b	Though it is beyond the scope of this paper and under the remit of the Delegated Acts, we reiterate that the subset of parameters which are eligible as undertaking specific are clearly delineated without restriction in the Framework Directive as from all the modules other than Market and counterparty default risk modules. Therefore, at the very least, lapse, longevity and expense risk as covered in the life underwriting risk module should be included. In particular for longevity risk, we would expect that USPs should be available for those insurers for whom this risk is material. In this case it will be important for them to reflect the real nature of longevity risk, which would be a change in the future mortality assumption or the trend of mortality improvements over time, affecting longer-term policies to a much greater degree. We would therefore be supportive of such an extension.	
Article 1 (4) c	Though it is beyond the scope of this paper and under the remit of the Delegated Acts, we reiterate that the list of standardised methods which are to be used to derive the undertaking specific parameters (USP) should not be a restricted one as any restricted list will fail to fully render the true value of the USP for all undertakings. Therefore a set of criteria should be set out which would help assess whether anyone method is a standardised one. This process will ensure that academic advancements are kept up with and undertakings can produce methods that are the most suitable to reflect their risk profile.	
Article 1 (4) e		
Article 1 (4) f	Looking at the draft Delegated Acts (March 2014), except for one case (reserve risk) there is only one standardised method provided. It is therefore our understanding that this sole method provides the "most accurate" result for a segment under calculation since by definition USP are a better reflection of risk profile than the Standard Formula. In these cases, it has to be clear that the undertaking can use the method and is not forced out of the use of USP for the only Standard Formula as the alternative.	

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Article 1 (5)	<p>The literal interpretation of this requirement would lead to unnecessary burden and confusion on the part of both supervisors and undertakings. As the information submitted for an approval could need to be updated (eg. For internal models), care should be taken that one process of approval is not cluttered by information about another process of approval to avoid confusion.</p> <p>Therefore we understand this request as providing a simple note appended to the application at hand and destined to let the authorities know-via a reference number for instance- that there are other applications for approval for which a response is still pending.</p> <p>Clarification is needed as to the fact that the requested information submitted already earlier for the sake of any one application X currently being processed must not be submitted again alongside of the present application.</p>	
Article 2 (1)	<p>While we understand that additional information can be requested by the supervisory authorities during the process, it should be clarified that the timeline for approval is not reset each time a new request is expressed on the part of the supervisor so as to ensure that undertakings are not trapped in a never-ending process.</p> <p>We are of the view that the decision for a suspension of the six months approval period should be left up to the insurance or reinsurance undertaking.</p>	
Article 3 (1)	<p>See our comment for Article 1 (4) f.</p> <p>Articles in the ITS should not only duplicates the one in the Delegated Acts. A simple reference to art 198.3 of the Delegated Acts was sufficient.</p>	
Article 3 (2)	<p>See our comment for Article 1 (4) c.</p> <p>More specifically, it should be clarified what happens if it appears that a standardized method is not appropriate for an undertaking when setting-up a calculation for a given USP.</p>	

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Article 4 (1) a		
Article 4 (1) b		
Article 4 (2)		
Article 5 (1)	30 days to decide on whether the application is complete is excessive considering the information to be included in the application. Nonetheless, it has to be clarified that if the supervisor has overrun the allotted one month period to notify whether the application is complete, the countdown will any way already consider that 30 days have elapsed. The approval process should be clearly defined and certainly not be perceived as a possible never-ending process as this will discourage undertakings to take that route.	
Article 5 (2)	Six months appear to be an excessive period for the approval of a proposal to use a USP when compared to the approval period for an entire internal model of the same length. This suggests the assumption that both workloads are similar which is hard to defend when contrasted against the disparities in the stringency of requirements behind both approaches. USP approval should take a significantly shorter period, such as 3 months.	
Article 5 (3)	As mentioned in our comment to 2(1) we understand that additional information can be requested by the supervisory authorities during the process and therefore for consistency with this requirement the following snippet of sentence should be added onto the last sentence: "as long as it pertains to article 2(1)".	
Article 5 (4)	When only a part of parameters require further information the deferral should only be applied to that subset of parameters. More generally, it is our view that in line with the ITS on the Internal model approval, when the supervisory authorities request further information, the decision for a suspension of the six months approval period should be left up to the insurance or reinsurance undertaking.	
Article 5 (5)	We welcome this consideration.	

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Article 5 (6)	In line with our comment on Art 5 (1), when the time line for approvals has elapsed, the company should be allowed to consider the use of USPs as approved. In such a case, there is no justification to leave an undertaking in a situation of uncertainty when the application is complete and receipt has been received. The approval process should be clearly defined and certainly not be perceived as a possible never-ending process as this will discourage undertakings to take that route.	
Article 5 (7)	There is some contradiction in allowing only one method (except for reserve risk for which two standardised methods are foreseen) and reserve the right on the part of the supervisor to reject the approval for some lines of business (LoBs). This is because the different LoBs differ in characteristics notably in relation with their long or short tail attribute. Hence the methods presented will prove insufficient to capture the different risks entailed by each LoB. We therefore reiterate our comment on Article 1 (4) c.	
Article 5 (8)	We do not agree that the supervisor should be able to extend the timetable for granting approval to use USPs. Again here, to avoid a situation of uncertainty for the undertakings, the approval process should be clearly defined for the undertaking to be able to form an objective assessment of the outcome of the process at the very beginning of the approval process. As mentioned in 5 (6), the approval process should not be perceived as a possible never-ending process as this will discourage undertakings to take that route.	
Article 6 (1)	Faced with only one method to derive their USP which could therefore no longer be appropriate if the risk profile of the company changes over the year, undertakings should always be allowed to revert back to the Standard formula as this is the default approach.	
Article 7 (1)		
Article 8 (1)	We would welcome more clarification around the process followed by the supervisors to revise their decision to grant the approval. The periodicity shall be	

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	appropriate to the business case of the undertaking and proportionate to its scale. Suggestion is made that the revision will be undertaken by the supervisors with a maximum of once per year.	
Article 9 (1)		
Article 9 (2)		
Explanatory Text 4.1 (a)		
Explanatory Text 4.1 (b)		
Explanatory Text 4.1 (c)		
Explanatory Text 4.1 (d)		
Explanatory Text 4.2		
Explanatory Text 4.3		
Explanatory Text 4.4	The explanatory text goes beyond the provisions of the Article 1 (4) which only requires justifying why the methods used are deemed the most accurate. To this end, the breadth of the scope of elements/steps envisaged as a minimum here appears to be unnecessary and unnecessary burdensome.	
Explanatory Text 4.5		
Explanatory Text 4.6		
Explanatory Text 4.7	It should be acknowledged by the supervisors that comparing all the standardised methods for the purpose of deciding on the most appropriate one can be burdensome. Instead, undertakings should be allowed to use any suitable method that will be assessed as being a Standardised one by meeting a set of criteria set out by the legislator. This process will ensure that academic advancements are kept up with and undertakings can produce methods (and underpinning assumptions) that are the most suitable to reflect their risk profile.	
Explanatory Text 4.8		
Explanatory Text 4.9		

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Explanatory Text 4.10		
Explanatory Text 4.11	It should not be assumed that undertakings will be chasing the capital requirements. The primary reason for an undertaking to opt for USP is that it is a less flawed reflection of its risk profile. Moreover, it should be kept in mind that the supervisor himself can force the undertaking into using a USP if the supervisor finds in his opinion that the risk profile of the undertaking is significantly deviating from the one underlying the standard formula.	
Explanatory Text 4.12		
Explanatory Text 4.13		
Explanatory Text 4.14	See 4.11	
Explanatory Text 4.15		
Explanatory Text 4.16	We strongly disagree. The requirements for the use of USPs should be set at a level that encourages their use as this would live up to the spirit of the Framework Directive (Recital 65 last sentence). USP requirements should be set a practical level so that the burden in terms of approval is lessened and uncertainty regarding the use of USPs in the determination of capital requirements eliminated.	
Explanatory Text 4.17		
Explanatory Text 4.18	We strongly disagree as this is giving a free run to supervisor in not meeting the legal requirements in terms of timeline. Again here, to avoid a situation of uncertainty for the undertakings, the approval process should be clearly defined for the undertaking to be able to form an objective assessment of the outcome of the process at the very beginning of the approval process. As mentioned in 5 (6), the approval process should not be perceived as a possible never-ending process as this will discourage undertakings to take that route.	

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Explanatory Text 4.19		
Explanatory Text 4.20	It would make more sense to leave this option to stop the countdown up to the undertaking and the following explains why. In case a supervisor has requested information that information was still not be sent by the undertaking at the end of the six months period, the supervisor will be able to justify why the approval is not granted. Therefore it behoves the company to decide whether the clock should stop ticking (and if yes to communicate that decision to the supervisor) precisely because the company is in a better position to assess how long the provision of that information will take in terms of time.	
Annex I: Procedural issues and consultation of interested parties		
Annex I: Problem definition		
Annex I: Proportionality		
Annex I: Baseline		
Annex I: Objective pursued		
Annex I: Policy options - Policy issue 1		
Annex I: Policy options - Policy issue 2		
Annex I: Policy options - Policy issue 3		
Annex I: Policy options - Policy issue 4		
Annex I: Policy options - Policy issue 5		
Annex I: Policy options - Policy issue 6	The 6 months upper limit is too high. The USP application is much simpler than internal model application which has the upper limit of 6 months. We propose 3 months upper limit.	

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Annex I: Policy options - Policy issue 7		
Annex I: Analysis of impacts		
Annex I: Comparing the options		