



EIOPA-IRSG-14-12

IRSG Opinion on the draft set 1 of the Solvency II Guidelines on Pillar 1 and Internal Models

Executive Summary

Attached to this opinion are detailed comments of IRSG on the draft EIOPA guidelines issued for consultation on 2 June. These comments are intended to explain the themes which are reflected in our detailed comments.

The draft guidelines clearly reflect very extensive work by EIOPA in some cases over several years. With few exceptions, the drafts – embracing both guidelines and supporting explanatory text – have the potential to be valuable guiding sourcebooks for both undertakings and supervisors. It is to be hoped that these can be living documents which build on experience of Solvency 2 implementation.

At time of writing, legal texts have not yet been finalized in some important respects and the timetable for implementation of Solvency 2 appears extremely challenging. These factors are relevant to the initial definition of the content of guidelines.

As a general principle, we believe that the initial definition of guidelines should confine itself to material which is agreed by stakeholders to be required either to complete the meaning of elements of the directive(s) and draft delegated acts or otherwise to avoid material inconsistency in interpretation of those texts by supervisors or undertakings. We suggest that EIOPA would usefully convene one or more stakeholder workshops in the interest of achieving consensus in this direction.

EIOPA INSURANCE AND REINSURANCE STAKEHOLDER GROUP

IRSG OPINION ON THE DRAFT SET 1 OF THE SOLVENCY II GUIDELINES ON PILLAR 1 AND INTERNAL MODELS –
[AUGUST 2014]

We suggest substantially all other material should be deemed to be explanatory for the time being. We acknowledge that it is likely that some of what initially is explanatory may appropriately in future be formalized in guidelines for sake of assuring consistency of approach.

An advantage of this approach is that it gives EIOPA and the industry some more time to work at fleshing out the explanatory element – a good deal of the material needs to be fleshed out in a way which is more clearly relevant to practitioners and it is likely that more joint workshops on explanatory text would be helpful to all parties. The feedback from all stakeholders on the current drafts should be a valuable input to this process.

It will be important for EIOPA to implement an approach whereby issues and questions arising in the context of implementation are exchanged between national supervisors and with EIOPA – this should form the basis of a future updating of the (explanatory text supporting the) guidelines.

A further advantage of our suggested limitation of the scope of the guidelines is that it is much easier to incorporate external sources in supporting explanatory text. For example, there is a very extensive professional literature on insurance reserving to which explanatory text might usefully refer. EIOPA should be prepared to consider pragmatically how its explanatory materials should interact with evolving professional standards.

In relation to internal models the guidelines apparently implicitly assume that probably distribution functions are normally stationary and can be reliably estimated in the tail. These conditions often are not satisfied and it will be important for EIOPA to gather information such that the guidelines or explanatory text can be developed to embrace more the real world of non-stationary probabilities and sparse tail data.

The IRSG welcomes the commitment to review guidelines in the light of experience. We believe this will be facilitated by a deliberate narrowing of the scope of the initial set of guidelines and expansion of the scope of the more easily enhanced explanatory material.