

Comments on Consultation 26-09 Draft L2 Advice on TP - Methods and statistical techniques for calculating the best estimate

Name company: AMICE

Please insert your comments in the table below, and send it to secretariat@ceiops.eu in word format. In order to facilitate processing of your comments, we would appreciate if you could refer to the relevant section and/or paragraph in the Consultation Paper 26-09.

Reference	Comment
General comment	<p>Supervisors should not require stochastic methods for calculating the best estimate for non-life business. Deterministic models are considered as appropriate and adequate approaches and they constitute best practice. Therefore, a flexible approach is necessary for the calculation of non-life best estimates.</p> <p>AMICE members believe that setting satisfactory standards on data quality is more relevant than prescribing the valuation technique used in the best estimate.</p>
General comment	<p>We believe that the advice to the Commission – and eventually probably the level 2 measure – should provide advice with regard to actuarial and statistical methodologies for the calculation of the best estimate in three sections:</p> <ul style="list-style-type: none"> • general provisions, • life and • non-life insurance business. <p>This would help to understand which approaches are appropriate for life business, non-life business and which can be applied in life and non-life business simultaneously.</p>
Para 3.23	<p>We agree with the CEA that Best Estimates should not allow for uncertainty in future cash-flows as this is not in line with article 76(2) on the Level 1 text (<i>"The calculation of the best estimate shall be based upon up-to-date and credible information and realistic assumptions"</i>).</p>

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Para 3.24	We agree with the CEA that it would not be feasible to create a set of probability-weighted legal or social scenarios.
Para 3.26	<p>We agree with the CEA that companies should not have to systematically prove the adequacy of their calculations and of their choices. We do not see a respective obligation on insurers on level 1 that justifies the expectations to this end expressed by CEIOPS in their draft advice.</p> <p>We also believe that the proportionality principle should be further developed in this paper in line with the new placing in the Level 1 text of Recital 14a (“should not be too burdensome for small and medium-sized insurance undertakings”) immediately after Recital 14 (“proportionate to the nature and the complexity of the risks”) and the insertion of a new par. 3a in Art. 28 (“The Commission shall ensure implementing measures include the principle of proportionality, thus ensuring the proportionate application of the Directive, in particular to very small insurance undertakings.”).</p> <p>These changes to the Framework Directive require in our view the setting of new criteria to reassess the application of the principle of proportionality principle; In our opinion its application could be linked to:</p> <ul style="list-style-type: none"> • the volume of the business, • the nature and the complexity which should be defined following a qualitative approach and considering the duration of the commitments, • the scale of the risk which could be defined following a quantitative approach with the aim of reflecting to which extent the insurer is vulnerable to the business risks.
Para 3.28	<p>In this paragraph it is stated that a simulation approach should be required if risks have a significant asymmetric impact on the value of the liabilities, e.g. in the case that contracts include <u>material</u> embedded options and guarantees.</p> <p>When assessing whether the valuation of a cash-flow requires a simulation approach, we believe that the three dimensions of proportionality (nature, scale, complexity) should be tested separately – a joint application would not always give appropriate results.</p>