

| Comments Template on CEIOPS-CP 77 Consultation Paper on the Draft L2 Advice on Simplifications for SCR | | Deadline 11.12.2009 12.00 CET |
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| Name of Company: | AMICE | |
| Disclosure of comments: | CEIOPS will make all comments available on its website, except where respondents specifically request that their comments remain confidential. Please indicate if your comments should be treated as confidential: | Confidential/Public |
| <p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ <u>Do not change the numbering</u> in the column "reference". ⇒ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a paragraph, keep the row <u>empty</u>. ⇒ Our IT tool does not allow processing of comments which do not refer to the specific paragraph numbers below. <ul style="list-style-type: none"> ○ If your comment refers to multiple paragraphs, please insert your comment at the first relevant paragraph and mention in your comment to which other paragraphs this also applies. ○ If your comment refers to sub bullets/subparagraphs, please indicate this in the comment itself. <p>Please send the completed template, <u>in Word Format</u>, to secretariat@ceiops.eu. Our IT tool does not allow processing of any other formats.</p> <p>The numbering of the paragraphs refers to Consultation Paper No. 77 (CEIOPS-CP-77/09).</p> | | |
| Reference | Comment | |
| General Comment | These are AMICE's views at the current stage of the project. As our work develops, these views may evolve depending in particular, on other elements of the framework which are not yet fixed. | |

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| | <ul style="list-style-type: none"> • AMICE Members would like to reiterate that Simplifications are at the core of the proportionality principle – a principle that AMICE continuously emphasises on behalf of its many small and medium-sized members. It must be acknowledged that, in addition to the central dimensions of proportionality (“nature, scale, and complexity of risks”), the framework directive explicitly calls for not overburdening small and medium-sized insurers, thus introducing an element of size as follows: <i>“Proportionality”</i> when displaying in the new placing of Recital 19 (<i>“should not be too burdensome for small and medium-sized insurance undertakings”</i>) immediately after Recital 21 (<i>“proportionate to the nature and the complexity of the risks”</i>) and the insertion of par 4 in Art.29 (<i>“The Commission shall ensure implementing measures include the principle of proportionality, thus ensuring the proportionate application of the Directive, <u>in particular to very small insurance undertakings.</u>”</i>). • The application of the principle of proportionality should follow the principle-based feature of the Solvency II framework. This means that proportionality should not be applied using a prescribed approach and should not constitute a hard rule. • In our opinion, nature and complexity should be defined following a qualitative approach and the definition of scale would resemble that of materiality. AMICE members believe that the potential use of thresholds, either absolute or relative, and the methodology for its calculation should be defined in Level 2. • The list of simplifications included in this consultation paper should act as a guidance of general accepted solutions, that avoid an excessive burden not only on SMEs but also on undertakings with non-risky profiles irrespective of their size, and which are used to approximate the valuation methodology which is consistent with the general principles of Solvency II. In this regard undertakings should be allowed to use alternative simplifications if deemed necessary | |

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| | <ul style="list-style-type: none"> AMICE members welcome the introduction of the paragraph stating that undertakings should not be required to quantify the degree of model error in precise quantitative terms or to recalculate the value of its technical provisions using a more accurate method in order to demonstrate that the difference between the result of the chosen method and the result of a more accurate method is immaterial. AMICE members welcome the definition of scale in terms of SCR; In general terms, AMICE believes that any definition of "scale" should provide an "<u>ex-ante</u>" quantification of the risks of the undertaking; The scale of risks should be measured by using very simplified approaches to the SCR. If such quantification leads to the conclusion that the scale of the risks combined with their nature and complexity is small, a simplified valuation method can be applied. | |
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| 3.23. | | |
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| 3.26. | <p>We agree with CEIOPS that a reference volume measure should be defined in order to measure the scale of risks. We understand that a benchmark should be defined both at undertaking and risk level (when the undertaking wants to use a simplification in one module or sub-module only).</p> <p>CEIOPS states that in many cases the SCR itself can provide a volume measure. In that case we wonder how CEIOPS envisages the SCR to be calculated, i.e following a standard approach or by applying simplifications;</p> <p>In general terms, AMICE believes that any definition of "scale" should provide an "<u>ex-ante</u>" quantification of the risks of the undertaking; The scale of risks should be measured by using very simplified approaches to the SCR. If such quantification leads to the conclusion that the scale of the risks combined with their nature and complexity is small, a simplified valuation method can be chosen. This process will guide when simplifications can be used and will avoid the existing circularity existing in the QIS4 definition of thresholds.</p> | |
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| 3.47. | AMICE members welcome the introduction of this paragraph stating that undertakings should not be required to quantify the degree of model error in precise quantitative terms or to re-calculate the value of its technical provisions using a more accurate method in order to demonstrate that the difference between the result of the chosen method and the result of a more accurate method is immaterial. | |
| 3.48. | | |
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| 3.50. | We strongly support CEIOPS definition of scale in terms of the SCR. However, we would prefer relating SCR to the vulnerability of the risk over one-year to a 1 in 200 confidence level as defined in the Level 1 text rather than to the "worst case" scenario. | |
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| 3.58. | <p>CEIOPS writes that as it is very likely that the relevant risk-free interest rate term structure according to Article 76(2) of the Level 1 text will not be flat, a differentiation by maturity will be an essential requirement under Solvency II. Therefore, the simplification should not be included in the Implementing Measures.</p> <p>There should be some allowance for using this simplification linked to fulfilment of the nature, scale and complexity conditions which define the application of the principle of proportionality.</p> | |
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| 3.69. | CEIOPS asks undertakings whether the standard formula should include a simplification for spread risk (as tested in QIS4). | |

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| | AMICE members reject any proposal to delete any of the simplifications tested in QIS4. | |
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| 3.132. | This paragraph seems to be in contradiction with paragraph 3.47 AMICE members reiterate their position that the quantification of the model error should not define the application of the proportionality principle but the appropriateness of the valuation method to evaluate the solvency capital requirements. | |
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