Summary of comments on CEIOPS-CP-30/09 CEIOPS-SEC-94/09

Consultation Paper on the Draft L2 Advice on TP - Treatment of Future Premiums

CEIOPS would like to thank **AVIVA, ASSOCIATION OF BRITISH INSURERS (ABI), ROAM, AMICE, Institut des actuaries, Groupe Consultatif (GC), FFSA, PricewaterhouseCoopers LLP UK (PWC UK), DAV Working Group Solvency II (DAV), Lloyd's, CFO Forum, Legal and General Group, ARAB, Dublin International Insurance & Management Association (DIMA), Ireland's Solvency 2 Group-excluding representatives from the Department of Finance and the Financial Regulator (IE SII group), CRO Forum, European Union member firms of Deloitte Touche Tohmatsu (Deloitte EU), German Insurance Assocaiation (GDV), Institute of Chartered Accountants in England and Wales (ICAEW), KPMG ELLP, Munich Re Group, PEARL GROUP LIMITED, UNESPA (Association of Spanish Insurers), Royal Association of Belgian Actuaries (RABA), CEA**

The numbering of the paragraphs refers to Consultation Paper No. 30 (CEIOPS-CP-30/09).

No.	Name	Reference	Comment	Resolution
1.	AVIVA	General comment	We agree with the high-level definition that the best estimate should include all the cash in- and out-flows associated with the existing contract. However we have major concerns with the possible interpretation of the discussion and advice relating to optional future premiums. The definition on boundaries of existing contracts is ambiguous and could lead to uneconomic and impractical requirements if optional future premiums that reduce the best estimate are excluded. We believe that the issues relate mostly to Life business; however the CP could be applicable to General Insurance for policies with a term of more than one year, policies subject to automatic renewal, profit share arrangements, experience and adjustment premiums, and reinstatement premiums on Cat RI.	Noted. Noted. The Advice covers both life and non-life insurance.
2.	ABI	Cover letter	Whilst we acknowledge that in QIS4 there were differences in establishing which future premiums were eligible for inclusion in	Not agreed. See explanations in summary feedback statement on

			calculating the technical provisions, we believe that there is an answer. The method suggested by CEIOPS is not an economic valuation and is inconsistent with the way firms manage risk and their investment strategy. It is also inconsistent with the way in which a transfer of a portfolio following an acquisition would be valued. A full explanation of the method we recommend is described in the joint letter from the European Insurance CFO Forum, CEA, American Council of Life Insurers and the Life Insurance Association of Japan, dated 18 December 2008 to the IASB on insurance contract boundaries1. We strongly disagree that only expected future cash flows from those options and guarantees for contract renewal that are expected to produce losses and not those that are expected to produce a profit. We are calculating the best estimate according to Article 76(2) of the Level 1 text. A best estimate cannot be biased, which is what will occur if we only include some of those cash flows. This is a direct contradiction of the text. Furthermore, the SCR includes uncertainty in the best estimate in its calculation ("probability-weighted average of the future cash flows") and any extra uncertainty is allowed for in the risk margin. To include extra prudence the best estimate would be double-counting as this is the function of the risk margin, as well as the uncertainty contained in the probabilities. A further consideration is that a deliberately biased calculation may be difficult to implement in practice. Using the IASB discussion paper as a basis for the calculation does not provide a stable basis for a framework since this is not a formal IASB	the outcome of the consultation.

[1] http://www.cea.eu/uploads/DocumentsLibrary/documents/1241447091_joint-contract-boundaries-paper.pdf

			position paper and any position it outlines is likely to change in the future. We have attached the CEIOPS' template response form with our more detailed comments on the advice. We are prepared to discuss this further if required and look forward to seeing CEIOPS' final views on these topics.	
3.	ABI	General comment	The ABI welcomes the opportunity to comment on CEIOPS' suggested Level 2 advice on the treatment of future premiums in calculating the technical provisions. Whilst we agree that there was much confusion over how to treat future premiums in QIS4, we feel that the clarification provided by this consultation paper moves the industry back to the unfavourable position it was in when the discussions for QIS4 and the IASB discussions on these issues took place previously. The ABI had fundamental concerns with the IASB discussion paper, which will be discussed below. CEIOPS' approach is not an economic valuation of future premiums and is not consistent with the way firms manage their risks or their investment strategy. It would also not correspond to the valuation of a portfolio transfer following an acquisition. We believe that the position as reflected in the joint letter from the European Insurance CFO Forum, CEA, American Council of Life Insurers and the Life Insurance Association of Japan, dated 18 December 2008,	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

			to the IASB on insurance contract boundaries, is the correct method for valuing future premiums[2]. In addition, the fact that the IASB reference paper used by CEIOPS is a discussion paper and not a formal IASB position paper means that any position it outlines is likely to change in the future. This therefore does not form a stable basis for implementing measures. The IASB paper referred to in the consultation paper is the May 2007 "Preliminary views on insurance contracts"., We disagree with the boundaries of insurance contracts as reflected in the IASB paper. We believe that contracts should be recognised from when risk cover commences, not from when the contract is entered into by the insurer, and we believe that the treatment of future premiums as described in CEIOPS' consultation paper, is biased. CEIOPS' proposals favour the inclusion of future premiums from options/ guarantees where their inclusion results in a loss or a decrease in the profit of an insurer, but not if it results in an increase in profit or a decrease in loss to that insurer. In other words, this view returns to the position of guaranteed insurability that the IASB had proposed in its discussion paper. The treatment of options and guarantees in the case of future premiums should be symmetric. We strongly disagree that only expected future cash flows from those options and guarantees for contract renewal that are expected to produce losses and not those that are expected to produce a profit. This is due to the following reasons:	

[2] http://www.cea.eu/uploads/DocumentsLibrary/documents/1241447091_joint-contract-boundaries-paper.pdf

			• Article 76(2) of the Level 1 text talks of a "best estimate" and the "cash in- and out-flows" relating to those insurance and reinsurance obligations. A best estimate cannot be biased, which is what will occur if we only include some of those cash flows. This is a direct contradiction of the text. Either future cash flows are included or they are not for a specified time period. • The SCR includes uncertainty in the best estimate in its calculation ("probability-weighted average of the future cash flows") and any extra uncertainty is allowed for in the risk margin. To include extra prudence the best estimate would be double counting as this is the function of the risk margin, as well as the uncertainty contained in the probabilities. • A deliberately biased calculation may be difficult to implement in practice. In terms of life business the effects of this paper would imply: • Contracts of a fixed term with an option to renew at the end of the contract: these contracts would be modelled up to the end of the term (e.g. renewal term assurance for 5 or 10 years) and not afterwards. • Contracts with reviewable premiums: assumptions about reviews may not be included. CEIOPS should clarify that reviews are part of contract terms and their impact is to be allowed for in assessing technical provisions. Post review premiums should be included. • Deferred retirement on pension contracts: both early and late	

			retirement is allowed within these contracts, but we would welcome CEIOPS' interpretation. Usually a proportion is assumed, as it is a significant part of the contract from the consumers' perspective as it allows policyholders more flexibility. Issues for GI include: • Tacit renewals. We will have to recognise the cash flows from such contracts ahead of the actual renewal date. This will be an issue for the Continental Europeans where renewal terms are offered 3 months before the renewal date and we are on risk unless the policyholder cancels. • Some contracts have options e.g. the right to renew a contents policy at the second anniversary if claim free in the previous two years. We currently provide for this by adjusting the earnings pattern approximately. Something more accurate will be needed under Solvency 2. • Three-year contracts will have to be valued slightly differently. • We may have to allow for premium "true-ups" i.e. where the initial premium is an estimate of the final premium which will be accurately determined once the actual exposure is determined (example: employer's liability which may be rated as a percentage of payroll) (experience and adjustment premiums) • We will need to consider how to deal with reinstatement premiums on reinsurance contracts (potentially both inwards and outwards), for example reinstatement premiums on	

			catastrophe reinsurance • profit share arrangements	
4.	ROAM	General comment	We propose to differentiate life and non-life treatments. We think that this paper is not relevant for non-life business. Otherwise, all expecting cash flows would have to be projected: cash in-flows (future premiums, investments) and cash out-flows (expenses, claims) related to a new year of business. So, finally, this would require a full business plan: this would amount to measure all the commitments on the reporting date + 1 year. We are strongly opposed to such a treatment.	Not agreed. Life and non-life obligations should be treated according to the same principles. The Advice covers life and non-life obligations.
5.	AMICE	General comment	AMICE would like to emphasise the fact that Best Estimates should be consistent with a transfer/economic value as defined in the Level 1 text. We are of the opinion that CEIOPS' advice is not consistent with article 76(2) of the Directive when stating that best estimates should be an average of all future cash-flows.	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.
6.	AMICE	General comment	AMICE members support the criteria laid out by the CEA and the CFO Forum in their letter on "Future Contract Boundaries" that future premiums should be included under "existing" contracts if the insurer cannot re-underwrite at individual policy level, i.e. if the insurer is obliged – if the policyholder so wishes – to take on a policy without being able to re-assess the individual policyholder's risks. The insurer should be able to change the premium, however, based on, for example, its assessment of the experience of the whole portfolio of risks. In this regard, recurring premiums of in-force contracts should be recognised, whether they are legally enforceable or not and when the inclusion of the renewals implies <u>either a decrease or an increase</u> in	Noted.

			the best estimate value. Non-regular premiums of in-force contracts where the policyholder has the option to increase the amount of the premium (one-off premium increase) should not be included under existing contracts due to the difficulty of reassessing policyholder's risks. As supervisors are aware, non-regular premiums (in contrast to regular premiums) are highly dependent on the overall economic environment and on the competitive situation, for example on the success of short-term marketing campaigns.	
7.	AMICE	General comment	Future premiums – either legally enforceable or not – and renewals whose inclusion increase the best estimate, should be recognised in the technical provisions for the following reasons: • If the current portfolio were transferred, the buyer would be assessing future premiums of existing contracts. • Risk management practices usually take into account all types of future premiums with an economic value. Not recognising them in the best estimate calculation could generate inconsistencies between day-to-day company management and the solvency results.	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.
8.	AMICE	General comment	The recognition of future premiums should also be consistent with article 101(3) and 105(2) which now states that the Solvency Capital Requirement shall cover existing and new business expected to be written over the next twelve months.	Noted.
9.	AMICE	Additional	We agree with the CEA that a link should be made to paragraphs 3.40	Not agreed. There is no allowance

		comment	and 3.42 of CP35 on the Valuation of Assets and Liabilities. CEIOPS states that often in life contracts an intangible asset on acquisition costs can be identified in the form of present value of future business (PVIF, VOBA). The present value of future business that has been incorporated in the valuation of technical provisions has to be considered when valuing technical provisions	for intangible assets on acquisition costs in the assets that are used to determine the basic own funds.
10.	Institut des actuaires	General comment	Institut des actuaires, the third European actuarial local association, representing 2300 actuaries from France, is keen on commenting the Consultation 30-09 in addition to the Groupe consultatif answer. Choosing to retain only future premium that increase the best estimates reserve doesn't seem consistent with the economic approach chosen to calculate best estimate. Prudence has to be taken into account in the risk margin reserve.	Noted. Not agreed. See explanations in summary feedback statement on the outcome of the consultation.
11.	Institut des actuaires	General comment	The approach has to be consistent. If the added future premiums increase or decrease best estimates according to the insured parameters or the maturity of the contract in a unique insurance product, selecting the cases where it only increases the best estimate can be very difficut and can not be consistent between two different calendar years.	Not agreed. Under Solvency II, the value of insurance obligations can change over time.
12.	Institut des actuaires	General comment	Speaking only of future premium without saying a word about future losses and almost defered acquisition costs doesn't help to express a complete advice to CEIOPS.	Not agreed. The Advice does not only deal with future premiums, but all future cash-flows.
13.	GC	General comment	We can agree with the advice expressed in 3.27 – 3.32 with one notable exception. As we believe that all future premiums which are associated to options in insurance contracts shall (having regard to the likelihood of receipt) be included in the calculation of best estimate, we must disagree regarding the restriction for future premiums expressed	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

			in 3.30 c-d. We would suggest that the approach with the customer consideration from the IFRS 4 Discussion Paper is applied. Not recognising future premiums on life insurance contracts may lead to an arbitrary basis for the assumption setting with respect to costs and future bonuses.	
14.	FFSA	High Level Comments	The treatment of options proposed in the consultation paper is asymmetrical The FFSA strongly disagrees with the excessive prudent proposal by CEIOPS to include only the expected future cash flows from those options that are expected to produce losses and ignore those that are expected to produce a profit. The reasons for this are set out below: The assumption contracts Article 76 (2) of the Level 1 text, to require inclusion of all future expected cash in-flows and out-flows. The assumption is not in line with the economic reality - which is thus against an economic approach and is not in line with the assumptions would be used by a 3rd party when pricing the insurer's business. The SCR takes account of uncertainty in the Best Estimate – extra prudence should not be taken into account within the Best Estimate. Experience shows that policyholders cannot be assumed not to take-up profit-making options - this should be taken into account in the BE. This requirement may cause practical difficulties for insurers.	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.
15.			Confidential comment deleted.	
16.			Confidential comment deleted.	
17.	PWC UK	General	**Overview and context**	

		comment	We welcome the fact that CEIOPS is looking to develop proposals that are consistent with IFRS. The CP refers in this respect to the IASB - Insurance Contracts 'Discussion Paper' ("DP") published in May 2007. The DP recommended a measurement basis of "Current exit value" being 'the amount the insurer would expect to pay at the reporting date to transfer its remaining contractual rights and obligations immediately to another entity.'	Noted.
			In this context Article 75 of the Solvency II Level 1 text (approved in April 2009) states that, "The value of technical provisions shall correspond to the current amount insurance and reinsurance undertakings would have to pay if they were to transfer their insurance and reinsurance obligations immediately to another insurance or reinsurance undertaking." This is in principle consistent with the DP above establishing a measurement basis by reference to a 'transfer value'. Both bases are intended to be an 'economic' basis of valuation. This is an important principle and context for CP30 and is reflected in some of our more detailed comments below.	Noted.
			We note however that the IASB continue to debate the appropriateness of this measurement basis and consequently CEIOPS may choose to reassess the IASB proposals as they develop and consider any potential impact on this and other relevant CP's.	Noted.
			CP30 – Key Principles	
			This CP seeks to provide advice with regard to the treatment of future premiums in the assessment of technical provisions required under Article 76 of the Level 1 text. Our understanding of the key principle which underpins CP30 is that only the cashflows relating to existing	Noted.

			obligations should be recognized in the solvency balance sheet. In this context existing obligations include any liabilities which cannot be avoided by the insurer through a unilateral right to reject any future premium or an unlimited ability to amend the premium or the benefits (or otherwise re-underwrite the risk) at some point in the future. Para 3.15 goes on to state that in circumstances where, "a policyholder option to increase the future premiums by means of an option to renew the contract, to extend the insurance coverage to another person ……… and the insurance or reinsurance undertaking cannot react in one of the ways described above (see para 3.13)…," and this gives rise to an ***expected loss*** from the additional future premiums then this loss is deemed to relate to the existing contract and should be included in the technical provisions. By contrast Para 3.19 states that where such additional future premiums give rise to an ***expected profit*** for the undertaking the cashflows would not be deemed to relate to the existing contract as there exists no policyholder obligation to pay future premium. In support of this distinction the CP argues that were future profitable premiums to be included then there would exist an opportunity for arbitrage to the extent that undertakings could choose in most jurisdictions to change the terms of the contract to offer its policyholders an equivalent option and lower its best estimate provisions. In conclusion para 3.22 states that, "future premiums and any resulting benefit payment to policyholders ……belong to the existing contract (and hence as we understand it create an existing obligation) if, and only if, the inclusion of the renewals increase the best estimate".	

			Key issues arising **(1) Economic basis of valuation** In adopting an economic basis of valuation based on a 'transfer value' measurement basis there is a strong argument that if credible experience indicates that a proportion of policyholders would take up policyholder options then ***profits as well as losses*** on these future expected premiums would be considered by a third party in assessing an appropriate transfer value. Using an economic transfer value would be fundamentally different to the rule set out in para 3.22. CEIOPS should make clear why, if it is seeking to adopt a transfer value principle, it has chosen to limit the recognition of future premiums in this way. We note that for many life insurance contracts, future premium will be needed to recover initial costs of acquisition. We again question the need to restrict premium recognition in this way. **(2) Granularity of assessment** Para 3.24 requires that principles of the CP should be applied at the contract level. Whilst it acknowledges this may be difficult in some circumstances it only allows a higher level of assessment where the results do not materially differ from that on a per contract basis. We question the degree of granularity that should be adopted. Our concern is that failure to to adopt a portfolio logic will lead to excessively prudent assumptions. **Other observations** We note CP30 uses definitions consistent with IAS39 although note the	Not agreed. See explanations in summary feedback statement on the outcome of the consultation. Not agreed. The boundary of the existing contract defined in former CP 30 does not lead to prudence on top of the best estimate. See explanations in summary feedback statement on the outcome of the consultation.

			principles in relation to de-recognition are likely to change and consequently CEIOPS may choose to assess the impact of any changes on CP30. CP30 does not make any specific comments in relation to Investment Contracts and nor have we in our response. CEIOPS may want to consider Investment contracts specifically before issuing final guidance.	 Noted.
18.	Lloyd's	General comment	Lloyd's is in agreement with all the elements raised in the consultation paper. Lloyd's still believes there remains some uncertainty (amongst practitioners) as to what elements of future premium income should be included within premiums provisions for non-life undertakings. This consultation paper is clear but due to some previous documents (the QIS4 proxies for example) containing potentially ambiguous interpretations then Lloyd's believes some inconsistency in interpretation may remain. We suggest CEIOPS produce one or two simple examples to highlight which elements of future premiums are to be included and importantly how these would be reflected under a Solvency II balance sheet.	Noted. Noted.
19.	CFO Forum	General comment	**We believe that all the future cash flows associated with a contract should be taken into account when determining the measurement of an insurance liability.** This is line with the level 1 framework which requires all cash in-flows and outflows to be included in the best estimate liability. The key judgement is to determine the boundary of an existing contract. We do not believe that the consultation has appropriately defined this boundary and the position adopted goes against the economic valuation principle underpinning Solvency II. We therefore believe that significant revisions are required to the consultation paper to better reflect the economic position.	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

			<u>The preliminary views of the IASB with respect to future premiums have been updated</u> - Within the consultation paper CEIOPS refers frequently to the preliminary views of the IASB as presented in their discussion paper on insurance contracts ("IDP"). As stated in its response to the IDP, the CFO Forum does not agree with these views. This IDP was issued in May 2007 and these views have now been reconsidered and updated, deviating from their original opinions. CEIOPS should acknowledge this and be very careful in referrals to the IDP. The latest update views are copied below, "The Board continued its discussion of how an insurer should measure its insurance contracts and decided tentatively: • that the measurement should include the expected (i.e. probability-weighted) cash flows (future premiums and other cash flows resulting from those premiums, e.g. benefits and claims) resulting from those contracts, including those cash flows whose amount or timing depends on whether policyholders exercise options in the contracts. • that to identify the boundary between existing contracts and new contracts, the starting point would be to consider whether the insurer can cancel the contract or change the pricing or other terms. The staff will develop more specific proposals for identifying the boundary. In June, the Board will continue its discussion of the candidate measurement approaches for insurance contracts." – IASB Update May	

			2007 The CFO Forum's position on future premiums is set out in the position paper on "Insurance contract boundaries" sent to the IASB on 2008, December 18. The updated preliminary view of the IASB reflects points raised by the CFO Forum. As will be pointed out in the CFO Forum response to CP35, whilst the CFO Forum supports the use of IFRS as a reference framework for the Solvency II balance sheet, IFRS does not always provide an economic valuation for all assets and liabilities. Solvency II should carefully consider references to IFRS when the appropriate IFRS standard is not based on sound economic principles. The joint paper of the CFO Forum and the CEA titled "Insurance Contract Boundaries" is available on the CEA-Webpage under: http://www.cea.eu/uploads/DocumentsLibrary/documents/1241447091_joint-contract-boundaries-paper.pdf **The paper should also refer to the Level 1 text requirements on future premiums within the SCR** – The CFO Forum supports the restriction to existing contracts and the explicit linkage between the solvency balance sheet of existing contracts and the SCR in paragraph 3.17. However there are a couple of relevant articles in the Level 1 text, which are not mentioned in the CEIOPS paper. These are: Article 101 (3): "The *Solvency Capital Requirement…shall cover existing business, as well as the new business expected to be written over the next twelve months.*"	The CP addresses only the definition of the existing insurance contract. The calculation of the SCR is dealt with in other pieces of our Advice.

			Article 105 (2):*"The Basic Capital Requirement shall…take account of the uncertainty in the results of insurance and reinsurance undertakings related to the existing insurance and reinsurance obligations as well as to the new business expected to be written over the forthcoming twelve months."* In the adopted texts to the Level 1 text it states, "(*27) The assessment of the financial position of insurance and reinsurance undertakings should rely on sound economic principles and make optimal use of the information provided by financial markets, as well as generally available data on insurance technical risks. In particular, solvency requirements should be based on an economic valuation of the whole balance-sheet."* The CFO Forum requests that these references are included within the Consultation Paper. **The Level 1 text clearly requires all future expected in-flows and out-flows to be included in the best estimate liability** – The Solvency II philosophy is for best estimates to be realistic without extra prudence, while all extra prudence is allowed for via the capital requirements. This is a key philosophy of Solvency II. Reference is made in Para 2.2 to Article 76 (2) of the Level 1 text: *"The cash-flow projection used in the calculation of the best estimate shall take account of all the cash in- and out-flows required to settle the insurance and reinsurance obligations over the lifetime thereof."* Therefore, the Level 1 Directive clearly states that all expected in-flows and out-flows are included under the best estimate.	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

			The CFO Forum would request that CEIOPS also refers to this paragraph of the Level 1 text in Para 3.15 and 3.19. The valuation principles (e.g. Para 3.30) therefore seem to be unduly prudent because future premiums are only assessed when they increase the best estimate. We highlight in this context that the valuation of the technical provision includes all future expected in-flows and out-flows arising from **existing** contracts only and not future contracts. The valuation of expected future contracts is covered in the CFO Forum's response to CP35 in relation to goodwill. **<u>Options of the Insurance Undertaking also need to be considered</u>** – The valuation of future premiums is mainly referred to in relation to the valuation of future premiums caused by policyholder options. It should be clarified, that the principles for valuation (Para 3.22 of Para 3.30) are also valid for future premiums caused by options of the insurance undertaking. Cross references to CP 32 (future management actions) should be made in this regard. For example, the premium adjustment clauses in private health insurance are a management action, so future premiums in a health insurance contract might not yet be appropriately covered by this consultation paper. More generally, in all cases where changes to future cash inflows are dependent upon or influenced by future management actions, it should be made clear that CP 32 dovetails with CP 30.	Paragraph 3.30 (c) and (d) apply only to policyholder options.
20.	Legal and General Group	Title	This title is quite accurate as the consultation paper discusses the recognition of all future cashflows.	Noted.
21.	CRO Forum	General	We agree with many aspects of the advice in this consultation paper	Noted.

		comment	and feel that it is well written. However there are some fundamental points of disagreement, the most important one for us being the compliance with a truly economic and thus best estimate view.	
22.	CRO Forum	General comment	The current discussion in the IASB does not seem to be sufficiently covered by the discussion Paper from May 2007 that is referenced. CEIOPS should be aware that any reference to the discussion paper has the danger of being not up-to-date. Concerning the treatment of future premiums we agree with the position paper of the CFO Forum and the CEA on "Insurance contract boundaries" send to the IASB on 2008, December, 18th. This paper is available on the CEA-Webpage under http://www.cea.eu/uploads/DocumentsLibrary/documents/1241447091_joint-contract-boundaries-paper.pdf	Not agreed. The explanatory text clearly states the IASB view is preliminary. Noted.
23.	CRO Forum	General comment	The valuation of future premiums is mainly reduced to valuation of future premiums caused by policyholder options. It should be clarified, that the mentioned principles for valuation (para 3.22 or para 3.30) are also valid for future premiums caused by options of the insurance undertaking. Cross reference to CP 32 (future management actions) should be made in this regard. E.g. the premium adjustment clauses in private health insurance are a management action in this sense so future premiums in a health insurance contract might not yet be appropriately covered. More general, in all cases where changes to future cash inflows are dependent upon or influenced by future management actions, it should be made sure that CP 32 dovetails with CP 30. Overall the definition of "future premiums" is very loose, whilst some fairly prescriptive measures are recommended on their treatment,	Paragraph 3.30 (c) and (d) apply only to policyholder options.

			which may not be applicable in all cases.	
24.	CRO Forum	General comment	Another important point is that the valuation principles (e.g. Para 3.30) seem to be unduly prudent because future premiums are only assessed when they increase the best estimate. By this approach best estimate calculation and prudent calculation are mixed with the effect that the clear distinction between best estimate calculation and calculation of the risk margin as given in Article 76 of the level 1 text are undermined. This will be discussed in detail in the relevant paragraph.	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.
25.	Deloitte EU	General comment	We concur with CEIOPS that guidance in respect of the treatment of future premiums is a key component of the implementing measures for the calculation of the best estimate of technical provisions. We support your decision to issue a specific technical advice on this matter. To achieve the stated principle of proportionality we strongly advocate a Solvency II approach for this matter, as well as for all other matters relating to the calculation of technical provisions, that is as consistent as possible with the requirements from the International Financial Reporting Standards ("IFRS") for insurance contracts. While we recognise that the roles of regulatory supervisors and accounting standard-setters are different, we believe that the underlying accounting principles of the two regimes should be as similar as possible to minimise the burden of the Solvency II regime and effectively implement the spirit of the proportionality principle set out in the Framework Directive.	Noted. Noted.
26.	GDV	General comment	**Generally the GDV supports the comments given by the CEA.** In particular we would like to emphasize the following issues:	Noted.
27.	GDV	General	<u>**The treatment of options and guarantees for contract renewal**</u>	Not agreed. See explanations in

		comment	**should be symmetric** - GDV strongly disagrees with the proposal by CEIOPS to include only the expected future cash flows from those options and guarantees for contract renewal that are expected to produce losses and ignore those that are expected to produce a profit. The reasons for this are as follows: a. The assumption contracts Article 76 (2) of the Level 1 text, to require inclusion of all future expected cash in-flows and out-flows. b. The assumption is not in line with the economic reality - which is thus against an economic approach and is not in line with the assumptions would be used by a 3rd party when pricing the insurer's business. c. The SCR takes account of uncertainty in the Best Estimate – extra prudence should not be taken into account within the Best Estimate. d. Experience shows that policyholders cannot be assumed not to take-up profit-making options - this should be taken into account in the BE. e. This requirement may cause practical difficulties for insurers. **The paper should also refer to the Level 1 text requirements on future premiums within the SCR** - GDV supports the restriction to existing contracts and the explicit linkage between the solvency balance sheet of existing contracts and the SCR in paragraph 3.17. However there are a couple of relevant article in the Level 1 text which	summary feedback statement on the outcome of the consultation. The CP addresses only the definition of the existing insurance contract. The

			are not mentioned in the CEIOPS paper. These are: Article 101 (3): "*The Solvency Capital Requirement ... <u>shall cover existing business, as well as the new business expected to be written over the next twelve months</u>*." (similar is said in Article 105 (2)) ⇨ Although the paper does not explicitly deal with the SCR, GDV would request these references were included within the Consultation Paper.	calculation of the SCR is dealt with in other pieces of our Advice.
28.	ICAEW	Major Points	2. We disagree with the approach set out in the CP, for reasons we explain below. We believe that an economic approach should be applied to determining the future premiums to be included as part of the contract, namely an appropriate estimate of all premiums associated with a contract. This estimate would be based on supportable lapse assumptions. We do not believe that the insurer should be allowed to include future cash flows that go beyond the existing contract. We recognise that this approach requires the boundary of a contract to be clearly defined, and set out our views at 3.8 of this response. 3. The CEIOPS paper makes reference to the International Accounting Standards Board's (IASB's) standards and its Discussion Paper (DP) 'Preliminary views on insurance contracts'. We would point out that the debate at the IASB has moved on since the publication of the DP in 2007 and we would suggest that the proposals in the CP be revised accordingly. We would strongly prefer Solvency II and IFRS to reach a similar position on the treatment of future premiums. Determining how to measure future premiums is a fundamental issue for both and	Noted. Not agreed. Up to date, the IASB seems not to have revised its preliminary position. Agreed. Valuation standards for supervisory purposes should be

			convergence would bring significant practical and commercial benefits to users and preparers. Users, who are currently bewildered by the variety of metrics and lack confidence in interpreting insurers' accounts, would be able to develop a common understanding of insurers' financial information. As the ultimate destination of the IASB is unknown, and as the role of standard-setter and regulators do differ, we do not support convergence as an end in itself. Rather, we hope that the principles underpinning the accounting issues in IFRS and Solvency II will be similar, and that this will lead to consistent approaches. Our comments below provide a sensible way forward for Solvency II and bring the proposals closer to what we understand to be the IASB's current position	compatible with international accounting developments, to the extent possible, so as to limit the administrative burden on insurance or reinsurance undertakings.
29.	KPMG ELLP	General comment	Whilst we recognise that CEIOPS is not responsible for accounting standards, along with most industry participants, we would like to see a harmonisation of the approach adopted regarding the determination of technical provisions for regulatory and accounting purposes. Given the delays in arriving at phase 2 of the international accounting standard on insurance, CEIOPS will inevitably move ahead in this area. However, despite there being some justifiable reasons for differences in certain areas, we would hope that the inclusion of future premiums within the determination of technical provisions should be a matter that should be harmonised across Solvency II and IFRS. This will aid both preparers and users of both accounting and regulatory information.	Agreed. Valuation standards for supervisory purposes should be compatible with international accounting developments, to the extent possible, so as to limit the administrative burden on insurance or reinsurance undertakings.
30.	KPMG ELLP	General comment, section 3.1.3	Our primary comment is that the approach suggested for the recognition of future premiums moves away from a best estimate approach. We agree with the principle that the calculation of the best estimate should only include future cashflows associated with existing (re)insurance contracts and that there should not be recognition of future cashflows that arise outside the existing contract.	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

			However, the principles outlined in section 3.1.3 show a bias towards recognising premiums only where there is a future loss to the (re)insurance undertaking. This appears to go against the economic market consistent approach that underlies the directive. Further guidance should be provided on the recognition of future premiums in the calculation of the SCR.	
31.	Munich Re Group	General comment	The discussion in the IASB is not adequately covered by the discussion Paper from May 2007. CEIOPS should be aware that any reference to the discussion paper has the danger of being not up-to-date. Concerning the treatment of future premiums we agree with the position paper of the CFO Forum and the CEA on "Insurance contract boundaries" send to the IASB on 2008, December, 18th. This paper is available on the CEA-Webpage under http://www.cea.eu/uploads/DocumentsLibrary/documents/1241447091_joint-contract-boundaries-paper.pdf	Not agreed. Up to date, the IASB seems not to have revised its preliminary position. Noted.
32.	Munich Re Group	General comment	The valuation of future premiums is mainly reduced to valuation of future premiums caused by policyholder options. It remains unclear, whether the mentioned principles for valuation (para 3.22 or para 3.30) are also valid for future premiums caused by options of the insurance undertaking. If the valuation of future premiums caused by options / management actions of the insurance undertaking is not covered by this CP, a clear distinction should be made between the causes for future premiums and a cross reference to CP 32 (future management actions) should be given. Especially the premium adjustment clauses in private health insurance are a management action in this sense so future premiums in a health insurance contract	Paragraph 3.30 (c) and (d) apply only to policyholder options.

			are not covered by this CP. This should be mentioned explicitly. Another important point is that the valuation principles (e.g. Para 3.30) seem to be prudent because future premiums are only assessed when they increase the best estimate. By this approach best estimate calculation and prudent calculation are mixed with the effect that the clear distinction between best estimate calculation and calculation of the risk margin as given in Article 76 of the level 1 text are undermined. This will be discussed in detail in the relevant paragraph.	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.
33.	PEARL GROUP LIMITED	General comment	We welcome the opportunity to comment on CEIOPS' suggested Level 2 advice on the treatment of future premiums in calculating the technical provisions. Whilst we agree that there was much confusion over how to treat future premiums in QIS4, we feel that the clarification provided by this consultation paper moves the industry back to the unfavourable position it was in when the discussions for QIS4 and the IASB discussions on these issues took place previously. Our other concern is that the treatment described in CEIOPS' consultation paper, is biased. It favours the inclusion of future premiums from options/ guarantees where their inclusion results in a loss or a decrease in the profit of an insurer, but not if it results in an increase in profit or a decrease in loss to that insurer. Our understanding of what this document is saying regarding future premiums is covered below but we would appreciate further clarification of how these different products should be treated to be added in to this paper. In terms of life business the effects of this paper would imply:	Noted. Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

			Contracts of a fixed term with an option to renew at the end of the contract: these contracts would be modelled up to the end of the term (e.g. renewal term assurance for 5 or 10 years) and not afterwards. Contracts with reviewable premiums: Future premium rates are excluded. Deferred retirement on pension contracts: both early and late retirement is allowed within these contracts, but we would welcome CEIOPS interpretation. Usually a proportion is assumed as it is a significant part of the contract from the consumers' perspective as it allows policyholders more flexibility. Linked savings business: future premiums are excluded.	
34.	UNESPA	General Comments	<u>Inclusion of future premiums in calculating the Best Estimate (BE)</u> The main objective of Consultation Paper 30 is to establish a regulatory basis for dealing with future premiums under which future premiums are included in projections of future cash flows in order to determine the technical provisions required under Solvency II. UNESPA's appraisal of the level 2 regulation proposal contained in CEIOPS Consultation Paper 30 is <u>strongly negative</u>, as it considers that this proposal <u>is at odds with the economic approach established in article 75(2) of the Directive and represents a major step backwards compared to the contents of the Technical Specifications in QIS 4</u>. A level 2 regulation proposal should under no circumstances breach the stipulations of a level 1 regulation. This breach of the economic approach can be clearly appreciated in the regulation proposed when it states that if a contract includes a	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

			policyholder option to increase the future premiums and the undertaking expects a profit from the additional future premiums then this profit does not relate to the existing contract and such future premiums should not be included in the Best Estimate. On the contrary, if the undertaking expects a loss from the additional future premiums then this loss relates to the existing contract and such future premiums should be included in the Best Estimate As a result, in accordance with the terms of the Consultation Paper, only those future premiums (and their benefits, expenses, etc) related to options or guarantees granted to policyholders which increase the Best Estimate will be included (but not those which decrease the Best Estimate). This could not be more contrary to the economic focus, as it proposes <u>asymmetrical treatment</u> which is in no way supported by level 1 regulation. In this context, it should be stated that if the regulation proposed in this Consultation Paper were actually to be applied, the Own Funds or Capital of life insurance undertakings would be significantly reduced compared to the results obtained under QIS 4, and the larger their renewable temporary business the greater this effect would be. UNESPA therefore proposes a complete reformulation of the level 2 regulation proposed in Consultation Paper 30 to bring it into line with that in the Technical Specifications of QIS 4 on this issue (TS.II.B32 to TS.II.B.35), which is aligned with the Principles of the CEA/CFO Forum "Insurance Contract Boundaries".	
35.	RABA	Introduction	The RABA welcomes the CP30 in general.	Noted.

			We are responding to your invitation to comment on the above Consultation Paper on behalf of the Royal Association of Belgian Actuaries (KVBA/ARAB). Following consultation with different representatives from both insurance companies and consulting firms this note summarises our views on the measures described by the CEIOPS. Consultation Paper no 30 discusses one of the fundamental rights that policyholders have through their insurance contracts, ie. the payment of future premiums. The paper describes the treatment of these premiums in the assessment of the technical provisions as requested in article 85 of the level 1 text (Implementing measures). Our comments mainly relate to the principles defined with respect to: the (de)recognition of (re)insurance obligations the boundaries of an existing contract	
36.	RABA	Level 1 Directive	We point out relevant text of the directive for our topic. Article 76(2) of the Level 1 text gives information in respect of the requirements for any actuarial or statistical method. In particular, this Article requires that: *"[…] the best estimate shall be equal to the probability-weighted average of future cash-flows, taking account of the time value of money (expected present value of future cash-flows), using the relevant risk-free interest rate term structure.*	Noted.

			The calculation of the best estimate shall be based upon up-to date and credible information and realistic assumptions and be performed using adequate actuarial and statistical methods. *The cash-flow projection used in the calculation of the best estimate shall take account of all the cash in- and out-flows required to settle the insurance and reinsurance obligations over the lifetime thereof."* The valuation of financial guarantees and contractual options included in the existing insurance and reinsurance contracts is further described in Article 78: *"When calculating technical provisions, insurance and reinsurance undertakings shall take account of the value of financial guarantees and any contractual options included in insurance and reinsurance policies. Any assumptions made by insurance and reinsurance undertakings with respect to the likelihood that policyholders will exercise contractual options, including lapses and surrenders, shall be realistic and based on current and credible information. The assumptions shall take account, either explicitly or implicitly, of the impact that future changes in financial and non-financial conditions may have on the exercise of those options."* According to the guiding principles referred to in the Commission's letter, the legal basis for the advice presented in this paper is primarily found in Article 85 of the Level 1 text which states:	

			"The Commission shall adopt implementing measures laying down the following: *a. Actuarial and statistical methodologies to calculate the best estimate referred to in Article 76(2); […] "*	
37.	RABA	Main topics of then consultation paper	The payment of future premiums generally gives rise to rights for the policyholder in the form of benefit payments, etc. The position taken by the CEIOPS is that whenever future cash in-flows arising from future premiums are taken into account in the assessment of the technical provisions, all related future cash out-flows should be accounted for as well. Furthermore, the Paper states that the calculation of the technical provisions should only include future cash-flows associated with existing (re)insurance contracts. The main Issue when determining the boundaries of existing contracts then becomes to differentiate between future premiums relative to the settlement of the existing obligation and those relative to the settlement of future obligations. In order to distinguish between both, the Consultation Paper no 30 considers the following elements: • (de)recognition of an (re)insurance contract The guidance provided in this respect fully coincides with the position adopted by the IASB on financial instruments and insurance contracts (Discussion Paper:	Noted.

			Preliminary views on Insurance contracts): i. A (re)insurance contract should be initially recognized by the (re)insurance undertakings as an existing contract when the undertaking becomes a party to the contract. ii. Similarly, a contract should be derecognized as an existing contract when, and only when, the obligation specified in the contract is discharged or cancelled or expires. • Boundaries of an existing contract The paper considers the following possibilities: i. Premiums and the benefits granted in return are completely specified in the contractual terms and conditions. In these particular cases, the boundary of the contract is determined in a clear and distinct way and all specified cash flows should be included in the valuation. ii. Whenever the policyholder has the option to pay additional premiums, but the issuer is able to	

			reject the payment or to re-price the contract, future premiums should not be taken into account as the issuer basically does not bear the risk. iii. In some cases the policyholder might have the option to pay additional premiums, and the issuer potentially still bears some risk. Only to the extent that the insurer expects a loss (increase of best estimate liability) resulting from the payment of these premiums both future payments and related benefits should be taken into account in the assessment of the technical provisions. The assessment of the boundaries for (re)insurance contracts should be made, in principle, per contract. Nevertheless where this approach is not workable, a higher level of granularity may be applied if this assessment does not lead to materially different results than an assessment on a contract by contract basis.	
38.	RABA	Other background information	Articles 27 through 30 from the IASB Discussion Paper "Preliminary views on insurance contracts" treat the issues of (de)recognition of insurance liabilities. *"[…] IAS 39 states: 'An entity shall recognise a financial asset or a financial liability on its balance sheet when, and only when, the entity becomes a party to the contractual provisions of the instrument.' […] an insurer would also recognise rights and obligations created by an insurance contract when it becomes a party to the contract.*	Noted.

			IFRS 4 requires an insurer to derecognise an insurance liability (or a part of an insurance liability) when, and only when, it is extinguished—ie when the obligation specified in the contract is discharged or cancelled or expires […].” The same document discusses in articles 141 through 149 several options for the measurement and recognition of favourable policyholder’ behaviour. *“[…] The insurer’s expectation of receiving benefits from beneficial policyholder behaviour derives from a customer relationship, not from contractual rights. […] The Board has concluded elsewhere that a customer relationship meets the definition of an asset.* *Conceptually, a customer relationship with a policyholder does not reduce or eliminate a contractual obligation to the same policyholder or another policyholder. […] there is no conceptual justification for presenting the right to benefit from some existing contracts as a reduction of the contractual obligations arising from the same or other contracts.* *[…] the cost of distinguishing the recognized part of the customer relationship from the insurance liability would exceed the benefits of doing so. Therefore, an insurer should treat the recognised part of the customer relationship as a reduction in the related insurance liability for recognition, measurement and presentation. The customer relationship would be measured in the same way as the related insurance liability”.*	

			Articles 45 and 46 of the Consultation Paper 35 (Valuation of Assets and Other Liabilities) indicate the conditions under which the CEIOPS would agree to the recognition of an intangible asset for solvency purposes. *"[…] in the case of some intangibles that are separable and for which there is a history or evidence of exchange transactions for the same or similar assets, so that it is saleable in the market place, and in this case only, a fair value measurement is foreseen in IAS 38 that CEIOPS considers to be compatible with Article 74 of the Level 1 text. […] IAS 38 is considered a good proxy if and only if intangible assets can be fair valued according to this IAS.* *If a fair value measurement is not possible, intangible assets should be valued at nil for solvency purposes."*	
39.	RABA	Recommendatio ns	Our main recommendations towards the CEIOPS are: • Provide further guidance on the recognition principles for (re)insurance contracts, especially with respect to the wording "**when the issuer becomes a party to the contract**". • Consider several options with respect to the application of the recognition principle: I. Allow companies to choose the date of recognising their liabilities as either the contract's inception or underwriting date II. recognition should be triggered by the contract's inception	Agreed. See revised text. Not agreed. The recognition of the obligation at inception date instead of underwriting date is not in line with the economic approach.

			date • Provide further guidance on terms and conditions under which an insurer would be considered to be able to fully re-price future premium payments. • For all contracts for which not all premiums and related benefits are completely specified and the issuer is unable to fully re-price or cancel the contract unilaterately, we propose the following approach I. Unfavourable policyholder' behaviour: future premiums should be taken into account in the determination of the Best Estimate Liability. II. Favourable policyholder' behaviour: future premiums should not be taken into account in the determination of the Best Estimate Liability, but the "fair value" of the future premium payments and all related benefits will constitute a Customer Relationship Asset. • It would be recommended to consider a uniform valuation basis for the assessment of profitable future premiums in the determination of both the Best Estimate Liability and the Solvency Capital Requirement	Noted. Not agreed. According to the Level 1 text, the best estimate liability is part of the basis for the determination of the SCR. Former CP 30 is in line with that approach.
40.	CEA	Introductory remarks	The CEA welcomes the opportunity to comment on the Consultation Paper (CP) No. 30 on TP - Treatment of Future Premiums.	Noted.

			It should be noted that the comments in this document should be considered in the context of other publications by the CEA. Also, the comments in this document should be considered as a whole, i.e. they constitute a coherent package and as such, the rejection of elements of our positions may affect the remainder of our comments. These are CEA'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.	
41.	CEA	Key comments	**The CEA supports the "Insurance Contract Boundaries" concept -** As stated in our correspondence with the IASB[3], the CEA's position on future premiums is as follows: "*The boundary of a given contract is defined by the cash in-flows that are expected to fall within the contract's term. For these purposes the term of a contract is the shorter of the contract's life and the point, if any, at which the policy can be freely re-priced by the insurer at the individual policyholder level ,(i.e. up until the point at which the insurer has the ability both to reassess the risk profile of the individual policyholder and change the price for an individual without contractual constraint.)* *Once the contract boundary has been established then the measurement of the insurance liability should take into account the expected value of the cash in-flows to be received within the contract's term. The claims and costs associated with the contract as defined*	Noted.

[3] http://www.cea.eu/uploads/DocumentsLibrary/documents/1241447091_joint-contract-boundaries-paper.pdf

			should also be reflected in the liability valuation on an expected value basis." **The treatment of options and guarantees for contract renewal should be symmetric** - The CEA strongly disagrees with the proposal by CEIOPS to include only the expected future cash flows from those options and guarantees for contract renewal that are expected to produce losses and ignore those that are expected to produce a profit. The reasons for this are as follows: • The assumption contracts Article 76 (2) of the Level 1 text, to require inclusion of all future expected cash in-flows and out-flows. • The assumption is not in line with the economic reality - which is thus against an economic approach and is not in line with the assumptions would be used by a 3rd party when pricing the insurer's business. • The SCR takes account of uncertainty in the Best Estimate – extra prudence should not be taken into account within the Best Estimate. • Experience shows that policyholders cannot be assumed not to take-up profit-making options - this should be taken into account in the BE. • This requirement may cause practical difficulties for insurers.	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

42.	CEA	General comments	**The IASB paper was a preliminary view and may not be sustained** - CEIOPS is frequently referring to the preliminary views of the IASB as presented in their discussion paper on insurance contracts. This DP was issued in May 2007 and work has been developed deviating from their original opinions. CEIOPS should acknowledge this and be very careful in referrals to the DP. We note for example that the observer notes from the most recent IASB meeting in May state the following (although we should note that this position is tentative at this stage): *"Accounting for future premiums that depend on options: However, fully separating the existing contracts into buckets for those that are or will become onerous, those that are providing guaranteed insurability, and other seems virtually impossible. Cross-subsidization of net cash flow from onerous contracts with those from contracts that are not onerous is a fundamental aspect of insurance. Moreover, arguably the resulting measurement is not a representation of an economic phenomenon. Recognizing cash flows from both types of contracts as contract cash flows provides a better reflection of the economics of an insurance contract. Staff concludes that defining one single test for the boundaries of an existing contract is preferable to an approach that requires one test for an onerous contract and a different test for a contract that is not onerous."* [4] ⇨ The CEA requests that CEIOPS should acknowledge the fact that the IASB paper was a preliminary view and may not be sustained.	Not agreed. Up to date, the IASB seems not to have revised its preliminary position. Not agreed. The explanatory text clearly states the IASB view is preliminary.

[4] Para 18: http://www.iasb.org/NR/rdonlyres/60F9905C-C3DB-437E-BBED-DAD3BD6769A2/0/IC0905b16Aobs.pdf

			We also note that IFRS does not always provide an economic valuation for all assets and liabilities, therefore Solvency II should carefully consider references to IFRS when the appropriate IFRS standard is not based on sound economic principles. **The Level 1 text clearly requires all future expected in-flows and out-flows to be included in the Best Estimate**– The Solvency II philosophy is for best estimates to be realistic without extra prudence, while all extra prudence is allowed for via the capital requirements. This is a key philosophy of Solvency II. Reference is made in Para 2.2 to Article 76 (2) of the Level 1 text: "*The cash-flow projection used in the calculation of the best estimate shall take account of all the cash in- and out-flows required to settle the insurance and reinsurance obligations over the lifetime thereof*." Therefore, the Level 1 Directive clearly states that all expected in-flows and out-flows are included under the BE. ⇨ The CEA would request that CEIOPS also refers to this paragraph of the Level 1 text in Para 3.15 and 3.19. We should highlight that we expect all future in-flows and out-flows arising from existing contracts only to be included in the technical provisions and we do not expect to also include future contracts. The valuation of future contracts is considered as part of our response to CP35 on goodwill.	Not agreed. The preliminary IASB position is based on sound economic principles. Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

			The paper should also refer to the Level 1 text requirements on future premiums within the SCR - The CEA supports the restriction to existing contracts and the explicit linkage between the solvency balance sheet of existing contracts and the SCR in paragraph 3.17. However there are a couple of relevant article in the Level 1 text which are not mentionned in the CEIOPS paper. These are: Article 101 (3): "*The Solvency Capital Requirement ... shall cover existing business, as well as the new business expected to be written over the next twelve months*." Article 105 (2): "*The Basic Solvency Capital Requirement shall ... take account of the uncertainty in the results of insurance and reinsurance undertakings related to the existing insurance and reinsurance obligations as well as to the new business expected to be written over the forthcoming twelve months*." ⇨ Although the paper does not explicitly deal with the SCR, the CEA would request these references were included within the Consultation Paper. **The paper should also refer to the Level 1 text Para 75 (2):** "*The value of technical provisions shall correspond to the current amount insurance and reinsurance undertakings would have to pay if they were to transfer their insurance and reinsurance obligations immediately to another insurance or reinsurance undertaking.*" Therefore, as stated above, all future in-flows and out-flows arising	The CP addresses only the definition of the existing insurance contract. The calculation of the SCR is dealt with in other pieces of our Advice. Agreed. See revised text.

			from existing contracts should be included in the technical provisions.	
43.	Munich Re Group	1	If there are limits of the recognition of future premiums (e.g. future premiums caused by policyholder options) then these limits should be defined in this section. Otherwise the definitions in this CP have to be used for valuation of all future cash in- and –out-flows.	Not agreed. Section 1 is an introduction defining the purpose of the paper.
44.	CFO Forum	1.2 - 1.3	<u>**The scope of the paper is limited**</u> – It should be clarified that this CP is only dealing with future premiums within the context of best estimate but this CP is not dealing with other aspects of the best estimate such as "gross or net" or the "…circumstances in which technical provisions shall be calculated…as a sum of a best estimate and a risk margin…" These topics should be taken into account in CP 26-09 or another CP.	Not agreed. The restricted scope of the paper is clear from the title, the introduction and the advice of the text.
45.	GDV	1.2 – 1.3	**The scope of the paper is limited** - It should be clarified that this CP is only dealing with future premiums within the context of best estimate but this CP is not dealing with other aspects of the best estimate like "gross or net" or the "..circumstances in which TP shall be calculated ... as a sum of a best estimate and a risk margin …" These topics have to be taken into account in CP 26-09. ⇨ GDV proposes to integrate the topics of CP30 into CP26.	Not agreed. The restricted scope of the paper is clear from the title, the introduction and the advice of the text.
46.	CEA	1.2 – 1.3	**The scope of the paper is limited** - It should be clarified that this CP is only dealing with future premiums within the context of best estimate but this CP is not dealing with other aspects of the best estimate like "gross or net" or the "*..circumstances in which TP shall be calculated ... as a sum of a best estimate and a risk margin …"* These topics have to be taken into account in CP 26-09.	Not agreed. The restricted scope of the paper is clear from the title, the introduction and the advice of the text.

47.	Munich Re Group	2	The mentioned references only indicate that best estimate valuation of future premium is covered in this CP. Any uncertainty in the cash in- and cash out-flows should be covered by a different risk margin.	Noted.
48.	CFO Forum	Include a new Para 2.3 before the existing Para 2.3	**The Level 1 text implies that the future premiums in respect of an existing contract should be included** – The CP is elaborating and clarifying the meaning of "existing" contracts but no link is given to the Level 1 text. This link can be found within Article 75 (2): "The value of technical provisions shall corresponding to the current amount insurance and reinsurance undertakings would have to pay if they were to transfer their insurance and reinsurance obligations immediately to another insurance or reinsurance undertaking." The "immediate" transfer principle implies that only existing contracts but no contracts from future business have to be taken into account. An additional reference should, therefore, be made to Article 75(2) of the Level 1 text. This reference is helpful when considering an economic valuation of liabilities either in the context of transfer or for fulfilment of those liabilities with the original policyholder, to confirm that all future premiums related to existing contracts should be taken into account and not only those increasing the best estimate: the amount that an acquirer would pay would indeed include all future expected premiums including those leading to future profits.	Agreed. See revised text.
49.	GDV	add a new Para 2.3 before existing Para 2.3	**The Level 1 text implies that the future premiums in respect of an existing contract be included** - This whole CP is elaborating and clarifying the meaning of "existing" contracts but no link to the Level 1 text is given. This link can be found in Article 75 (2): "The value of technical provisions shall correspond to the current amount insurance and reinsurance undertakings would have to pay if they were to	Agreed. See revised text.

			transfer their insurance and reinsurance obligations immediately to another insurance or reinsurance undertaking." The "immediate" transfer principle implies that only existing contracts but no contracts from future business have to be taken into account. ⇨ An additional reference should be made to Article 75(2) of the Level 1 text.	
50.	CEA	Add a new para 2.3 before existing para 2.3	**The Level 1 text implies that the future premiums in respect of an existing contract be included** - This whole CP is elaborating and clarifying the meaning of "existing" contracts but no link is given to the Level 1 text. This link can be found in Article 75 (2): "*The value of technical provisions shall correspond to the current amount insurance and reinsurance undertakings would have to pay if they were to transfer their insurance and reinsurance obligations immediately to another insurance or reinsurance undertaking."* The "immediate" transfer principle implies that only existing contracts but no contracts from future business have to be taken into account. ⇨ An additional reference should be made to Article 75(2) of the Level 1 text.	Agreed. See revised text.
51.	Munich Re Group	3.1	The definition of future premium given in this paragraph is so general that future premium caused by premium adjustments (e.g. in private health insurance) for existing contracts fall under this definition. For this reason it has to be discussed in detail in the following whether this will lead to inconsistencies with CP 32 (Treatment of future management actions).	Not agreed. We cannot detect any inconsistencies. CP 30 deals with the definition of the existing contract. CP 32 with the valuation of the existing contract.

52.	Munich Re Group	3.2	Only examples are given here without any general principle. Usually a general principle with some applications of the principle can reduce ambiguity in the valuation.	Noted.
53.	GDV	3.2	**Different types of future premiums** - This section tries to describe the various types and characteristics of future premiums, however it may not be exhaustive and should preclude alternatives in the future. ⇨ GDV would request that "Such premiums can be of different nature" should be replaced by "Without seeking to be exhaustive, such premiums can be in the following forms, among others".	Agreed. See revised text.
54.	UNESPA	3.2	<u>**Different types of future premiums**</u> This section tries to describe the various types and characteristics of future premiums. When it says "Such premiums can be of different nature" it should say "Without seeking to be exhaustive, such premiums can be in the following forms, among others", as there may be other types of future premiums in addition to those listed. Furthermore, in one of the points in this section it states "The payment of the premium can be legally enforceable by the insurance undertaking or can be only at the discretion of the policyholder". In the majority of cases the insurance undertaking is not able to legally enforce the payment of the premium; instead, in the event of non-payment, the undertaking may, depending on the circumstances, exercise its right to reduce the amount insured, or even suspend the coverage or terminate the contract.	Agreed. See revised text.

55.	CEA	3.2	**Different types of future premiums -** This section tries to describe the various types and characteristics of future premiums, however it may not be exhaustive and should preclude alternatives in the future. ⇨ The CEA would request that "*Such premiums can be of different nature*" should be replaced by "*Without seeking to be exhaustive, such premiums can be in the following forms, among others*". "*Legally enforceable*" - See comments on Para 3.30 (e)	Agreed. See revised text.
56.	CFO Forum	3.4	**<u>Cash flows arising from the exercise of rights under a contract should be considered as being part of that contract</u>** – we would request that it be expanded to include the text: *"Cash flows arising from the exercise of rights under a contract should be considered in the valuation of that contract"*	Not agreed.
57.	CRO Forum	3.4	"Therefore, the definition of an existing insurance or reinsurance obligation is equivalent to the definition of an existing insurance or reinsurance contract." We hesitate to see the definitions of "existing contract" and "existing obligation" as being equivalent. Whilst the latter is clearly a function of the former, the same doesn't hold true vice versa.	Not agreed. For the purpose of the advice both terms are equivalent.
58.	Munich Re Group	3.4	The equivalence between existing contract and existing obligation seems to be incorrect. If you know the definition of the contract, you know also the obligation. But if you know the obligation you cannot derive the existing contract because the obligation is a function of the contract and this function can give the same obligation to different	Not agreed. For the purpose of the advice both terms are equivalent.

			contracts.	
59.	CEA	3.4	**Cash flows arising from the exercise of rights under a contract should be considered as part of that contract** - The CEA agrees with the content of this paragraph, however: ⇨ The CEA would request that it should be expanded to include the text: *"Cash flows arising from the exercise of rights under a contract should be considered in the valuation of that contract*".	Not agreed.
60.	KPMG ELLP	3.1.2	We concur with the recognition and derecognition approach outlined.	
61.	RABA	3.5 – 3.8 Key issues to be considered	**A) (De)recognition of (Re)insurance Contracts** a. The text stipulates that an issuer should recognise rights and obligations created by an insurance contract when it **becomes a party to the contract**. In our opinion, more guidance should be provided with respect to the terminology. Do liabilities arise either as from the contract's inception date, the date at which the contract is effectively underwritten or the date when the first economic transaction occurs? b. Depending on the choices made under point a, the recognition principle might require entities to compute estimations of future cash flows before full contract information (oa. group insurance policies) becomes available. The question raised is therefore whether the costs of this approach are not overriding its benefits	Agreed. See revised text. Noted.

62.	RABA	3.5 – 3.8 Analysis and recommendations	**A) (De)recognition of Insurance Contracts** Firstly, and in order to guarantee a consistent application throughout all European insurance companies, we recommend to provide further guidance on the principles relative to the recognition of a (re)insurance contract. We refer in this respect more specifically to the following wording "**when the issuer becomes a party to the contract**". Secondly, and depending on the guidance provided, the above recognition principle might require an entity to compute estimations of future cash flows before full contract information is available (eg. computation of the best estimate liability as from the date insurance contracts are underwritten). We understand the importance of recognising all liabilities adequately as soon as they exist, but considering the specificities of the insurance business, it is not sure whether such requirements will result in increased relevant financial information, while requiring lots of undue cost and effort. In this respect we would like the CEIOPS to consider the following options: • the insurance companies are allowed to opt for a recognition of their insurance liabilities as from either the contract's inception date or the date at which the contracts are formerly underwritten. The decision taken should be supported by an analysis on the availability of data and the nature of the underlying business. A consistent application throughout the	See response to comment 61. Not agreed. The proposed approach is in line with usual accounting practice.

			years would be required in order to avoid cherry picking. • the contract's inception date should trigger the recognition of all (re)insurance liabilities.	
63.	AVIVA	3.6	The CP approach is in line with the recognition of financial assets and liabilities under IAS39, and with the IASB preliminary position for the Phase II insurance contracts standard. While we generally support the alignment of definitions between Solvency II and IFRS Phase II, where there are advantages of a consistent approach, the Solvency II measures should not necessarily follow those being considered by the IASB. In the context of future premiums, the IASB position on guaranteed insurability is constrained by the accounting conceptual framework, and we do not consider this position to be appropriate for insurance contracts.	Noted.
64.	CFO Forum	3.6	Please refer to the remark concerning IASB discussions in the "general comments" row above, the preliminary views of the IASB as set out in the May 2007 IDP have since been developed.	See response to the general comment.
65.	CRO Forum	3.6	"This approach is in line with the recognition of financial assets and liabilities according to International Accounting Standard 39 (IAS 39) and coincides with the preliminary position taken by the International Accounting Standard Board (IASB) in its May 2007 discussion paper "Preliminary views on insurance contracts"." See remark concerning IASB Discussions in the general comment.	See response to the general comment.
66.	Munich Re	3.6	See remark concerning IASB Discussions in the general comment.	See response to the general

	Group			comment.
67.	AVIVA	3.7	We would tend to agree with this for GI policies with automatic renewal i.e. cover is paid for by Direct Debit or credit card and automatically renews (at the new price) unless otherwise indicated. However, as stated, the premium should only be recognised once the cancellation period on the renewal notice has passed.	Noted.
68.	KPMG ELLP	3.7, 3.28	The concept of tacit renewals should be clarified further. The CP requires that contracts with tacit renewals should be recognised if cancellation period has expired. However, tacit renewals could also be classified as an option for a policyholder (that is the policyholder is likely to continue with the policy if the future benefits are attractive relative to the premium), in which case the CP proposes that recognition depends on whether such business is profitable or loss making (see below). These two areas therefore appear inconsistent. There is a separate issue of determining what proportion of the policies will automatically renew and which will cancel their policies. Non-life business: CEIOPS may wish to consider whether clarity is required surrounding delegated or binding authority business. Our interpretation is that underwriters will normally have a unilateral right to cancel such agreements and therefore only business written at the valuation date would normally be included as "existing contracts". This would extend to unwritten contracts that are expected to make a loss.	Not agreed. Once the new contract is recognised, the option of the policyholder is expired. Therefore, no inconsistencies occur. Noted.
69.	ICAEW	3.8- 3.9	We agree with the recognition and derecognition definitions.	Noted.
70.	DIMA	3.1.3	Implementation measures should contemplate the differences between insurance and reinsurance business. Consideration should be given to	In case of reinsurance contracts, an assessment should be made

			allowing the boundary assessment, which can be made on a per policy basis for insurance business, to be at a treaty level for reinsurance business.	on the level of the reinsurance contract.
71.	DIMA	3.1.3	The general theme of the 'net economic benefit' assessment/approach does not seem to contemplate certain types of (re)insurance business and therefore would not be in line with the overall principle of the calculation of best estimate technical provisions for these lines. The assessment outlined effectively appears to place restrictions on the allowance for future premiums, and hence would give rise to a prudent rather than a best estimate calculation of technical provisions.	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.
72.	DIMA	3.1.3	A specific example would be the consideration of how to allow for the probability of a policy being made paid-up in the valuation of technical provisions. For example, under many unit-linked contracts, policyholders have the flexibility to cease future premium payments while continuing to keep their policies in force. To project future premium payments at all could be viewed as creating a net economic benefit, as the consultation paper explores in detail. In the assessment of the best estimate liability, the company should be permitted to make an allowance for the probability of policies being made paid-up using best estimate assumptions rather than being precluded from any projection of future premium payments. A similar consideration would apply to the premiums in the 'post end-of-level-premium' period on US term insurance being reinsured by undertakings.	Not agreed. We suggest excluding such premiums from the existing contract if they increase the best estimate.
73.	IE SII Group	3.1.3 General	Implementation measures should contemplate the differences between insurance and reinsurance business. Consideration should be given to allowing the boundary assessment, which can be made on a per policy basis for insurance business, to be made at a treaty level for reinsurance business.	Partly agreed. See revised text.

74.	IE SII Group	3.1.3 General	The general theme of the 'net economic benefit' assessment/approach does not seem to contemplate certain types of (re)insurance business and therefore would not be in line with the overall principle of the calculation of best estimate technical provisions for these lines. The assessment outlined effectively seems to place restrictions on the allowance for future premiums, and hence would give rise to a prudent rather than a best estimate calculation of technical provisions.	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.
75.	IE SII Group	3.1.3. General	A specific example would be the consideration of how to allow for the probability of a policy being made paid-up in the valuation of technical provisions. For example, under many unit-linked contracts, the policyholder has the flexibility to cease future premium payments while continuing to keep the policy in force. To project future premium payments at all could be viewed as creating a net economic benefit as the CP explores in detail. In the assessment of the best estimate liability, shouldn't the company be permitted to make an allowance for the probability of policies being made paid-up using best estimate assumptions rather than being precluded from projecting any future premium payments at all? A similar consideration would apply when one contemplates the premiums in the 'post end-of-level-premium' period on US term insurance being reinsured by undertakings.	Not agreed. We suggest excluding such premiums from the existing contract if they increase the best estimate.
76.	KPMG ELLP	3.1.3	As discussed in the general comments, we have reservations about the recognition of future premiums arising from policyholder options only in the situation that these are expected to generate a loss to the (re)insurance undertaking. We disagree that such losses should be recognised, but not similar profits. We believe the profits arising from future premiums should be included because this better reflects the economic position of the (re)insurer. If there is a regulatory concern regarding the determination of such profits, an alternative approach	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

			could be to build this into the underwriting modules of the SCR calibration.	
77.	RABA	3.9 – 3.26 Key issues to be considered	**B) Boundaries of Existing (Re)insurance Contracts** Whenever the issuer does not bear any risk with respect to the policyholder's option to pay additional premiums, future premiums should not be included into the assessment of the technical provisions. The Consultation Paper does not clearly describe which limits should be considered when assessing the ability to re-price contracts? Would this be applicable to all pricing components or not (eg. the issuer can modify the administration loadings but interest guarantee and/or mortality tables are contractually fixed)? The current text advices to account only for future premium payments to the extent that they negatively influence the assessment of the technical provisions. Wouldn't it be opportune to consider favourable policyholder' behaviour as a Customer Relationship Asset (intangible asset) in line with discussions that have taken place by IASB in the Discussion Paper "Preliminary Views on Insurance Contracts"? This could also been justified by the fact that the CEIOPS considers in its CP on Valuation of Assets and Other Liabilities (CP35) that intangible assets could be recognized if their fair value is not nil.	Paragraph 3.13 refers to an "unlimited ability to amend the premium". The ability to amend only a certain part of the premium in a specified way (e.g. replace a mortality table or allow for in increase in expected expenses) would not meet this requirement.
78.	RABA	3.9 – 3.26 Analysis and recommendations	**B) Boundaries of Existing Contracts** We agree with the approach that is proposed for contracts in which both premiums and related benefits are entirely specified in the contractual terms and conditions. We arrive at the same conclusion for contracts containing options to pay future premiums, and for which the	See response to comment 78.

			issuer does not bear any risk relative to future premium payments. However, the latter raises some questions with respect to the ability to fully re-price contracts. What would be the approach if the issuer could only re-price part of the technical bases (eg. technical interest rate). We recommend that the CEIOPS further specifies the terms and conditions under which the above conditions are met, as in absence of clear guidance, this might lead to an inconsistent application throughout the different territories. The guidance provided with respect to contracts for which not all premiums and related benefits are completely specified and the issuer is unable to fully re-price or cancel the contract raises a number of questions, especially in case of favourable policyholder' behaviour. In this particular situation, the inclusion of future premiums would lower the overall technical provisions. The Paper indicates that under these circumstances the payment of future premiums should not be accounted for in the determination of the insurance liability. We can agree with the proposed approach, but we are of the opinion that favourable policyholder' behaviour should be quantified through a Customer Relationship Asset and in line with the proposed approach for recognising intangible assets in CP35. The above would result in the following overall approach for these contracts: • Unfavourable policyholder' behaviour: future premiums need to be taken into account in the determination of the Best Estimate Liability. • Favourable policyholder' behaviour: future premiums	

			may not be taken into account for the determination of the Best Estimate Liability. The "fair value" of the future premium payments and all related benefits will constitute a Customer Relationship Asset. The latter approach seems justified as it is in line with the guidance that has been provided in Consultation Paper 35 (Valuation of Assets and Other Liabilities). Roughly spoken, this paper indicates that whenever the fair value of an intangible asset can be measured, its economic value should not be nil.	
79.	ICAEW	3.10	Defining a clear boundary is essential and we recognise that it is not always straightforward. We advocate that a clear principle be developed for determining where the boundary between existing and new contracts be drawn. We would suggest that the boundary of contract should be defined by the cash in-flows that are expected to fall within the contract's term. For these purposes the term of a contract is the shorter of the contract's life and the point, if any, at which the policy can be freely re-priced by the insurer at the individual policy holder level. We support the position taken by the CFO Forum on contract boundaries in their submission to the IASB in December 2008. This is different to the 'guaranteed insurability' approach taken in Quantitative Impact Study 4. We also note that the International Association of Insurance Supervisors (IAIS) has, in a letter sent to the IASB on 7th April, also proposed an alternative to guaranteed insurability which aims to capture the economic substance of contracts by capturing the cash flows under the contract. We do not understand why CEIOPS is promoting a different approach from the IAIS.	Noted. CEIOPS position is consistent with the IAIS position.

80.	Munich Re Group	3.10	If this paragraph gives the boundary of the valuation of future premiums (options and guarantees for the policyholder which may give rise to future additional premium) this should be defined more carefully.	Noted.
81.	GC	3.11	The options should only be considered if a material impact on risk exposure can be expected.	Not agreed. The assessment of the boundary of the existing contract and the valuation of the existing contract should account for all options of the contract (cf. Article 78 of the Level 1 text).
82.	DAV	3.11	The options should only be considered if material.	Not agreed. The assessment of the boundary of the existing contract and the valuation of the existing contract should account for all options of the contract (cf. Article 78 of the Level 1 text).
83.	UNESPA	3.11	**Different types of options and guarantees offered by insurance undertakings** In addition to the examples given in this section, the following should be added: "The policyholder may have the option to renew the policy on favourable terms (for example, renewal with restrictions on re-pricing or further underwriting)."	Not agreed. This example is included in the first bullet point.
84.	CFO Forum	3.12	**Pre-agreed premium adjustments should not be recognized as a new contract** The CFO Forum requests that clarification is made on this point with	Agreed. See revised text.

			the addition of the text: *"Pre-arranged or agreed premium adjustments should not lead to the recognition of a new contract if the policyholder has no right to cancel the contract following such an adjustment."*	
85.	CRO Forum	3.12	It should be clarified that pre-arranged premium adjustments should not automatically lead to the recognition of a new contract.	Agreed. See revised text.
86.	Munich Re Group	3.12	It should be clarified that pre-arranged premium adjustments should not lead to the recognition of a new contract if the policyholder has no right to cancel the contract following such an adjustment.	Agreed. See revised text.
87.	UNESPA	3.12 and 3.13	**Refining the "Unilateral right" and "Unlimited ability" concepts** It can be inferred from sections 3.12 and 3.13 that if the insurance undertaking has a unilateral right to terminate the contract or reject the premium, or if it has unlimited capacity to modify the guarantees relating to future premiums or to modify the amounts of future premiums, then this future premium cannot be included in calculating the Best Estimate as it does not form part of the existing contract. This affirmation should be refined, as there may be cases in which the insurance undertaking has some capacity to cancel or re-price the contract under certain circumstances (not related to the individual risk situation of the policyholder, but rather to external factors which are not under the control of the parties); this does not stop us from understanding that the re-pricing capacity is still limited, and the policyholder therefore continues to have the option to renew the contract under favourable conditions.	Agreed. See revised text.
88.	CEA	3.12 and 3.13	**Pre-agreed premium adjustments should not be recognised as a**	Agreed. See revised text.

			new contract ⇨ The CEA requests that clarification is made on this point with the addition of the text: *"Pre-arranged or agreed premium adjustments should not lead to the recognition of a new contract if the policyholder has no right to cancel the contract following such an adjustment."* "*Unlimited ability*" - See also comments to Para 3.30(a)	
89.	Munich Re Group	3.13	The principle that any contract where the company has a unilateral right to cancel the contract any premium received beyond the point of possible cancellation does not belong to the contract needs further discussion. This principle contradicts the principle of best estimate valuation with realistic assumptions. E.g. if an insurance undertaking has a unilateral right to cancel a contract but internal assessments show that only 10% of all contracts are cancelled by the insurance undertaking this principle would assume a 100% cancellation contradicting the best estimate principles in CP 26.	Not agreed. CP 26 deals with the valuation of the existing contract while former CP 30 defines the existing contract.
90.	CRO Forum	3.13	*"Therefore, where the insurance or reinsurance undertaking has a unilateral right to cancel the contract, a unilateral right to reject the premium or an unlimited ability to amend the premium or the benefits (or otherwise reunderwrite the risk) at some point in the future, any premiums received beyond that point (and any resulting benefit payments to policyholders, expenses etc.) do not belong to the existing contract."* The principle that any contract where the company has a unilateral right to cancel the contract any premium received beyond the point of	Not agreed. Former CP 26 deals with the valuation of the existing contract while former CP 30 defines the existing contract.

			possible cancellation does not belong to the contract is not appropriate in our view. This principle contradicts the principle of best estimate valuation with realistic assumptions. E.g. if an insurance undertaking has a unilateral right to cancel a contract but internal assessments show that only 10% of all contracts will be cancelled by the insurance undertaking, this principle would still assume a 100% cancellation and thus contradict the best estimate principles in CP 26. This principle specifically refers to *unilateral* rights for (re)insurance companies. For profitable business in particular, it would not be in line with economic reality to assume that management will cancel these products at the first opportunity they have.	
91.	CFO Forum	3.13	We do not agree with the principle that any contract where the company has a unilateral right to cancel any premium received beyond the point of possible cancellation does not belong to the contract. It is unclear what is meant by "possible cancellation" as it is possible to cancel most contracts at any time. This principle contradicts the principle of best estimate valuation with realistic assumptions and sound economic principles. For example, if an insurance undertaking has a unilateral right to cancel a contract but internal assessments show that only 10% of all contracts will be cancelled by the insurance undertaking, this principle would still assume a 100% cancellation and thus contradict the best estimate principles in CP 26. The CFO Forum recommends that the valuation of technical provisions should include all cash in-flows that are expected to fall within the contract's term, where the contract's term is the shorter of the contract's life and the point, if any, at which the policy can be freely re-priced by the insurer at the individual policyholder level	Not agreed. Former CP 26 deals with the valuation of the existing contract while former CP 30 defines the existing contract.
92.	AVIVA	3.13	GI policies are normally re-priced and re-underwritten at each renewal	Noted.

			so future premiums should not be taken into account (at renewal both the insurer and the insured also have the option to cancel the policy)	
93.	CRO Forum	3.14/3.15/3.19/ 3.22	*"If a contract includes a policyholder option to increase the future premiums by means of an option to renew the contract, to extend the insurance coverage to another person, to extend the insurance period, to increase the insurance coverage or to establish new insurance cover, and the insurance or reinsurance undertaking cannot react in one of the ways described above, the situation requires further analysis."* It is not in line with economic principles to include future losses from policyholder option whilst ignoring future profits from the very same. Furthermore, a disparate treatment of profit and losses in best estimate valuation would undermine the principle of objectivity (CP 32 Management actions) and also the principles for best estimate valuation given in Article 76 (2) […shall take account of all future cash in- and cash out-flows…]. The implicit assumption that policyholders act strictly rational in exercising or abandoning their options is not in line with economic reality. Therefore, best estimate assumptions on take-up rates should be made instead. *"If in the situation defined in paragraph 3.14 the undertaking expects a loss from the additional future premiums then this loss relates to the existing contract because the obligation to pay the benefits which lead to the loss is already part of the existing contract."* As the policyholder has usually the right to cancel the contract this would even lead to the effect that all contracts can be valued only for the minimum guaranteed lifetime. This could lead to the effect that also life insurance contracts would have to be seen as a short term	Not agreed. See explanations in summary feedback statement on the outcome of the consultation. Former CP 26 deals with the valuation of the existing contract while former CP 30 defines the existing contract.

			insurance because the policyholder has no obligation to pay any future premium if he cancels the contract. A clear distinction between the right to cancel the contract and the treatment of future premium should be made; otherwise principles like 3.19 could be misinterpreted. *"On the other hand, if in the situation defined in paragraph 3.14 the undertaking expects a profit from the additional future premiums, then this profit does not relate to the existing contract as the existing contract does not include a policyholder obligation to pay the future premium."* Of most concern is that 3.15 and 3.19 suggest that only cash flows which produce losses should be taken into account. We feel that this is too conservative, and that it is more appropriate to allow for all future cash flows whether profit producing or loss producing, as long as reasonable consideration is taken into account of policyholder behaviours and contractual commitments in setting the best estimates. Furthermore, this condition may lead to practical difficulties as undertakings may not know which contracts or policies produce an economic loss or profit. Therefore, these requirements would generate further technical and operational issues for companies which would then have to be performed on both a regular and on an ad-hoc basis, depending upon the circumstances. We ask that CEIOPs be very careful in defining principles that contradict the principle of economic valuation. In these circumstances, the principle would invariably turn into a rule thereby possibly affecting the design of products and hamper offering meaningful insurance to consumers.	

94.	ICAEW	3.14 - 3.19	We advocate an approach which looks at the economic substance of the contract as a whole. Following on from this, where the proposals are inconsistent in their treatment of premiums and liabilities, we would take a consistent approach. We agree that losses from future premiums should be included (3.17) but disagree that profit from the same contracts should be excluded (3.19). The profits arising from future premiums should be included because this gives a more accurate picture of an insurer's position than does only taking into account one aspect of future cashflows. We note that on projects including Revenue Recognition and Leasing, the IASB appears to be increasingly prepared to consider the contract overall. We do not understand why in other areas of Solvency II, CEIOPS and the Level 1 Directive argues strongly for an economic and market consistent approach but for future premiums, a different approach is being proposed. The approach in the CP would practically be very difficult to apply. Whether a future premium gives rise to a profit or loss could vary by individual contract for a portfolio of contracts measured together and may vary for each future premium for a given contract. It is also not clear how the insurer will apply the CEIOPS requirements if expected profits for one contract switches to expected losses from one reporting period to the other. How frequently will the insurer be expected to assess the outcome of the contract?	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

			Finally, we would suggest that if regulators are uncomfortable with expected future profits from future cashflows, they adjust assumptions, the calibration for stress testings or prudential filters to calculate capital requirements, rather than focussing on measurement. For example, assumptions around lapse rates, can be made on a sound basis so that the resulting provisions are not over-optimistic. The advantage of such an approach will be to allow CEIOPS to align more closely with IFRS than will otherwise be the case. The CP looks at renewal considerations (3.14) for contracts. However, if renewal options are to be looked at, so too should the implications of policies which can be cancelled by the policy holder at nil cost as the economic substance of these is identical.	
95.	Munich Re Group	3.14	It is mentioned that ambiguous situation will need further analysis. If here further analysis is expected by the insurance undertakings in the supervision process this should be mentioned explicitly. If CEIOPS will give further advice to this point then the general context of this advice should be mentioned.	The analysis is made in the following paragraphs of the explanatory text.
96.	UNESPA	3.14, 3.15, 3.19, 3.22 and 3.30	<u>Inclusion of future premiums in calculating the Best Estimate of the insurance contract includes any option or guarantee granted to the policyholder which enables them to renew the contract under favourable terms (renewal with restrictions on re-pricing or further underwriting)</u> In these sections, the Consultation Paper, in summary, establishes the	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

			following: a. If the insurance contract includes any option or guarantee granted to the policyholder then the following analysis must be performed: i. If it is expected or forecast that the insurance undertaking will suffer a loss on future premiums as a result of the option or guarantee granted to the policyholder, then such future premiums should be included in cash flow projections. ii. If it is expected or forecast that the insurance undertaking will make a profit on future premiums as a result of the option or guarantee granted to the policyholder, then such future premiums should not be included in cash flow projections. b. In other words, only those future premiums (and their benefits, costs, etc) related to options or guarantees granted to the policyholder which increase the Best Estimate will be included (but not those which decrease the Best Estimate). As already stated in the General Comments, these sections should be modified substantially to establish that future premiums should be included in cash flow projections irrespective of whether the insurance undertaking expects or forecasts that it will make a profit or loss on the future premiums. The reasons for this are as follows: c. The regulation proposed by CEIOPS in this Consultation Paper is contrary to the economic approach established in article 75 (2) of	

			the Directive, as it proposes asymmetrical treatment for the inclusion of future premiums in calculating the Best Estimate which is in no way supported by level 1 regulation. d. In accordance with the joint position of the CEA/CFO Forum on this issue (CEA/CFO Forum "Insurance Contract Boundaries"), which in turn inspired the drafting of the technical specifications QIS 4 relating to this question (TS.II.B32 and TS.II.B.35), a fundamental characteristic of the Directive's economic approach is that all expected economic value should be recognised (therefore, all future profits and losses which might results from a policy should be considered). The technical provisions should therefore not include any additional margins for prudence. e. Using the Directive's economic approach (current exit value), future insurance premiums for temporary renewable life insurance policies should be taken into account in calculating provisions, as, although the client is free to decide whether to renew, the expectations of renewals for this insurance portfolios have an economic value which is taken into account in all transfers of portfolios between independent parties. f. The accumulated experience of insurance companies demonstrates that such contracts are renewed for a number of years, and this fact cannot be overlooked in calculating the Best Estimate.	

			g. In the final technical specifications of QIS4 for future premiums (TS.II.B32 to TS.II.B.35), as a result of the European Commission being sensitive to the arguments detailed above, there is recognition of the possibility of taking future premiums for renewable life insurance policies into account in calculating technical provisions, irrespective of whether the insurance undertaking expects or forecasts that it will make a profit or loss from such future premiums. h. If the regulation proposed in this Consultation Paper were actually to be applied, the Own Funds or Capital of Life Insurance undertakings would be significantly reduced compared to the results obtained under QIS 4, and the larger their renewable temporary business the greater this effect would be.	
97.	CEA	3.14 and 3.22	**We strongly oppose these sections of the paper** - Please see comments to Para 3.30 (c)-(d)	See response to those comments.
98.	AMICE	3.15 and 3.19 and 3.22 and 3.30	Future premiums relating to an option or guarantee where the policyholder can • renew the contract, • extend insurance coverage to another person, • extend the insurance period, • increase the insurance coverage or • establish a new insurance cover, should belong to the existing contract regardless of whether the inclusion of renewals increases or decreases best estimate. This is in line with the Level 1 text (Article 76(2) – "all cash in- and out-flows")	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

			and with economic reality.	
99.	CFO Forum	3.15 and 3.19 and 3.22	**Expected future profits as well as losses should be taken into account in the best estimate** – The CFO Forum strongly disagrees with the proposal by CEIOPS to include only the expected future cash flows from those options that are expected to produce losses. The reasons for this are set out below: • **The assumption contradicts Article 76 (2) of the Level 1 text** – Which requires all expected in-flows and out-flows to be included in the Best Estimate. • **The assumption is not in line with the economic reality** – If expected profit caused by policyholder options is not included, yet expected losses are included, the result will be an asymmetric calculation which is therefore against an economic approach and is not in line with the assumptions that would be used by a 3rd party when pricing the insurer's business. This is also not in line with Article 75 (2) of the Level 1 text. A clear distinction between the right to cancel the contract and the treatment of future premiums should be made; otherwise principles like 3.19 could be misinterpreted, as the policyholder usually has the right to cancel the contract. • **The SCR takes account of uncertainty in the best estimate** – Extra prudence should not be taken into account within the Best Estimate, the additional prudence required over and above the best estimate is allowed for via the SCR. This is returning to Solvency 1 type requirements. Any assumption that an insurer makes regarding the take-up of future options should be stressed under the SCR and so the uncertainty in this assumption would result in capital requirements under the SCR, not the Best Estimate.	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

			• **<u>Policyholders will decide whether to take up an option based on their own circumstances rather than whether the insurer is expected to give rise to a profit or a loss</u>** – Insurers have policyholder experience that shows that policyholders do exercise options which also give rise to profits for insurers, not just those that give rise to losses. In the majority of cases the policyholder will not have the information needed to determine whether or not an insurer expects to make a profit and this information is often irrelevant to the policyholder's decision. For example, if a policyholder in good health extends a policy using an extension option they will get the same terms and conditions as a healthy new customer. The profit the insurer makes arises from not incurring the cost of underwriting and possibly not paying commission whereas the policy holder neither loses nor gains. Therefore, an assumption that the take-up rate of these options is zero may not be consistent with normal policyholder behaviour. If an insurer has experience data for the expected take-up for options, then the undertaking should assess the appropriateness for use of this data in the calculation of the Best Estimate. In an Internal Model the undertaking can base assumptions on historic evidence of all expected policyholder behaviour. • **<u>This requirement may cause practical difficulties</u>** – An undertaking may not know which policies produce an economic loss or profit, so the undertaking would have to analyse at a certain level of granularity each time and in each central/stressed scenario. These requirements could therefore produce technical and operational issues for companies as from one year to another and depending on the market conditions; the scope of the Best Estimate will have to be updated.	

100	Munich Re Group	3.15/3.19	The waiving of expectable profits of future premiums is neither in line with economic valuation principles and best estimate assumptions nor with the assumptions which would be used by a third party who my price the insurer's business. If CEIOPS fears that uncertain future profits will distort solvency balance sheets this should be covered by additional risk margin calculations. A separate treatment of profit and losses in best estimate valuation would undermine the principle of objectivity (CP 32 Management actions) and also the principles for best estimate valuation given in Article 76 (2) […shall take account of all future cash in- and cash out-flows…]. Also the reason that the policyholder is not obliged to pay the new premium is in a certain way misleading. As the policyholder has usually the right to cancel the contract this would even lead to the effect that all contracts can be valued only in the minimum guaranteed lifetime. This could lead to the effect that also life insurance contracts can be seen as a short term insurance because the policyholder has no obligation to pay any future premium if he cancels the contract. CEIOPS should add a clear distinction between the right to cancel the contract and the treatment of future premium; otherwise principles like 3.19 could be misunderstood. Furthermore, the condition may lead to practical difficulties as undertakings may not know which contracts or policies produce an economic loss or profit. Therefore, these requirements would generate further technical and operational issues for companies which then have to be performed on a regular basis.	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.
101	Legal and General Group	3.16 (white)	The IASB's preliminary views on insurance contracts was published in November 2007. It is inappropriate to use that IASB document as the basis for setting supervisory guidance for the following reasons: 1. The IASB is concerned with financial reporting not supervisory regulation, therefore it make arrive at different conclusions than	Not agreed. Up to date, the IASB does not seem to have changed its preliminary view. Valuation standards for

			would be appropriate for supervisory regulation. 2. The paper referenced was published some time ago and the IASB's current thinking may have changed since then.	supervisory purposes should be compatible with international accounting developments, to the extent possible, so as to limit the administrative burden on insurance or reinsurance undertakings.
102	CRO Forum	3.16	See remark concerning IASB Discussions in the general comment.	See response to these comments.
103	Munich Re Group	3.16	See remark concerning IASB Discussions in the general comment.	See response to these comments.
104	Munich Re Group	3.17	Independently from the quotations in Para 3.16 the inclusion of expected and unavoidable losses in the economic valuation is acceptable.	Noted.
105	Legal and General Group	3.17 (white)	Paragraph 3.17 argues that not recognising expected losses on additional future in the technical provisions would misreflect the economic situation. However, we would argue that recognition of future premiums only when they result in a loss would not reflect the economic situation. The economic situation would be reflected only when policyholder behaviour is taken into account whether that results in future profits or losses.	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.
106	AVIVA	3.17	In relation to the discussion on contracts that include a policyholder option for future premiums, we agree that expected losses from such additional premiums should be included in technical provisions	Noted.
107	CFO Forum	3.17	**This paragraph should also apply to expected future profits** – The CFO Forum supports this paragraph. All expected losses should be included in a best estimate and any corresponding variability in these best estimates should be included in the Solvency Capital	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

			Requirements. The CFO Forum believes that the same should also be true for all expected profits.	
108	GDV	3.17	**<u>This paragraph should also apply to expected future profits</u>** - GDV supports this paragraph. But the same should also be true for all expected profits. Please see comments to Para 3.30 (c) - (d)	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.
109	CEA	3.17	**This paragraph should also apply to expected future profits** - The CEA supports this paragraph. All expected losses should be included in the Best Estimate and any corresponding variability is these Best Estimates should be included in the Solvency Capital Requirements. ⇨ The CEA believes that the same should also be true for all expected profits. Please see comments to Para 3.30 (c) - (d)	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.
110	AVIVA	3.19	However in principle we strongly disagree that if the undertaking expects a profit from additional future premiums that this profit does not relate to the existing contract, for the following reasons: - to exclude this element introduces an asymmetry with the case in 3.17; - the approach would be uneconomic; - practically this would be extremely difficult to apply: whether a	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

			future premium gives rise to a profit or loss could vary by individual contract within a portfolio of similar contracts managed together, and may vary for each future premium for a given contract; and - in practice for many life insurance contracts the future premiums are expected to be profitable, in order to contribute to the recovery of acquisition costs and profit.	
111	Legal and General Group	3.19 (white)	We disagree that future profits on additional future premiums do not relate to the existing contract. Future profits and losses to the insurance company would be based on policyholder behaviour. Policyholder behaviour is unrelated to whether the insurance company makes a profit or loss, but will be based on the policyholder's circumstances at the time, and the market prices for such contracts. Therefore, future profits should be recognised based on future policyholder behaviour.	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.
112	Legal and General Group	3.20 (white)	These examples do not take account that the policyholder is unlikely to know whether the insurer will make a profit or loss on exercise of the option. The policyholder's behaviour is more likely to be based on his personal circumstances at the time, and the market prices for such contracts. For example, an option that is profitable to an insurance company allowing a policyholder to renew without underwriting, may still be taken up by the policyholder if he perceives a need to have that insurance.	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.
113	AVIVA	3.20	We disagree with the example: to exclude future premiums for contract B is not an appropriate reflection of the economic situation if credible experience indicates that a proportion of holders of contract B will renew.	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

114	Institut des actuaires	3.20 and 3.21	CEIOPS doesn't take into account the experience inherited from rates of renewal of tacit reconduction options. In that case, the position of B is better than the position of A.	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.
115	CFO Forum	3.20	**<u>A best estimate should reflect the economic reality, prudence is reflected in the SCR</u>** – The CFO Forum rejects this narrow evaluation of the situation. The company should reflect the expected take up rate and the conditions resulting from such take, recognising that the take up may be skewed towards a particular subset of policyholders e.g. those in poor health. If such an assessment results in a positive value that is the economic reality and should be reflected. Prudence is accounted for within the SCR. The example states that if the best estimate of contract B was lower than contract A, then this is not an appropriate reflection of the economic situation, stating that the insurer selling B is not in a better position than A. The CFO Forum disagrees with this comment. Insurer B is certainly in a better position than A as insurer B has potentially profitable options, which could be exercised and do not exist for insurer A. The Technical Provisions should reflect the economic value of the contracts. Consider, for example a third party that is considering purchasing the contracts would certainly not ignore the potential profits arising from insurer B's options and would take into account the expected take-up rate of these options in its best estimate assessment. Any variability in the expected option take-up rates would be expected to be taken into account in the risk margin. Furthermore, we would like to point out that the argument of "same policy, same best estimate value" is non-economic and therefore	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

			inconsistent with the Framework Directive. Company A and B could sell identical policies but if one targets high socio-economic groups and the other low then they will get different economic results because experience will be different. <u>The CFO Forum requests that this section be re-drafted to include an equal treatment of expected future profits and losses. The economic reality of the entity should be reflected in the technical provisions.</u>	
116	CRO Forum	3.20 / 3.21	In line with the comments made above, we disagree with the conclusion of this illustration.	See response to above comments.
117	GDV	3.20	**<u>The Best Estimate should reflect the economic reality and not include additional margins for uncertainty</u>** -The example states that if the Best Estimate of contract B was lower than contract A, then this is not an appropriate reflection of the economic situation, stating that the insurer selling B is not in a better position than A. GDV disagrees with this comment. Insurer B is certainly in a better position than A as insurer B has potentially profitable options which could be exercised which do not exist for insurer A. The Technical Provisions should reflect the Fair Value or the Exit Value of the contracts i.e. the price that a 3rd party would be willing to pay to take over the business, or the costs to settle the business within the insurer. Any 3rd party considering purchasing the contracts would certainly not ignore the potential profits arising from insurer B's options and would take into account the expected take-up rate of these options in their assessment of the Best Estimate. Any variability in the expected option take-up rates would be expected to be taken into account in the Market Value Risk Margin. ⇨ GDV would request that this section was re-drafted to include an equal treatment of expected future profits and losses.	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

			Please see comments to Para 3.30 (c) - (d)	
118	ICAEW	3.20	We would find it useful if CEIOPS were to provide more examples of the approach it proposes to take, including for non-life insurance.	Noted.
119	Munich Re Group	3.20	We strongly disagree with this proposal. Within the Technical Provisions, only the economic reality should be reflected without any extra prudence for uncertainty. The uncertainty is considered via the SCR. The Best Estimate should solely reflect the Fair Value of a contract, i.e. the price that a third party is willing to pay to take over the contract and the costs to settle the business within the insurer, respectively. Any third party would obviously not ignore the options from insurer B such that this have to be into account determining the Technical Provisions.	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.
120	UNESPA	3.20 - 3.21	**<u>The example in the Consultation Paper is not correct and does not match economic reality</u>** The example contained in these two sections is not correct and does not match economic reality. In effect, it states that the economic position of an insurance undertaking with a renewable temporary annual insurance policy B (which differs from contract A as it includes a favourable option for the policyholder which enables renewal for one year with predetermined premiums and benefits) is certainly not better than the position of the insurance undertaking of contract A. At the same time, it is stating that by the mere fact of unilaterally granting this option to the policyholder, the contract B insurance company may be undermining its technical provisions. However, this example does not take into account the economic value of the option granted to the policyholder. Experience shows that when	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

			policyholders are granted options such as, for example, the option to renew the policy with re-pricing restrictions, or when the insurance company only examines the person's health at the outset and never again checks on this, then expectations of renewals increase significantly; this is because the policyholder is behaving rationally as they are aware that if they decide not to renew then they will have to seek coverage from another insurance company, and their current state of health may result in higher premiums for the same coverage as under the original policy. Increased expectations of renewal resulting from the option granted to the policyholder have an economic value which should be reflected when calculating the Best Estimate, and is taken into account in all transfers of portfolios between independent parties. However, there is no reason why the economic position of the insurance company with renewable temporary annual insurance policy B should be any worse than that of the company with contract A, to the extent that the option granted to the policyholder translates into subsequent contract renewals. There is no reason why the economic position of the insurance company with contract A should be better as, although it has more margin for adjustment in the future (via re-pricing), because its contracts do not include any favourable options for the policyholder the policies of other companies could represent an obstacle to its products being attractive to potential customers. In conclusion, this example should be removed.	In case the option is unfavourable to the undertaking (e.g. because the risk of the policyholder is higher than taken account for in the premium), then the value of the option is taken into account in the existing contract.
121	CEA	3.20	**The Best Estimate should reflect the economic reality and not include additional margins for uncertainty** - The CEA rejects this narrow evaluation of the situation. The company should reflect the expected take up rate. If such an assessment results in a positive	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

			value then that is the economic reality. The Best Estimate should reflect the expected value of future cash flows and should not include additional margins for uncertainty which would be taken into account in the market value risk margin and the SCR. The example states that if the Best Estimate of contract B was lower than contract A, then this is not an appropriate reflection of the economic situation, stating that the insurer selling B is not in a better position than A. The CEA completely disagrees with this comment. Insurer B is certainly in a better position than A as insurer B has potentially profitable options which could be exercised which do not exist for insurer A. The Technical Provisions should reflect the Fair Value or the Exit Value of the contracts i.e. the price that a 3rd party would be willing to pay to take over the business, or the costs to settle the business within the insurer. Any 3rd party considering purchasing the contracts would certainly not ignore the potential profits arising from insurer B’s options and would take into account the expected take-up rate of these options in their assessment of the Best Estimate. Any variability in the expected option take-up rates would be expected to be taken into account in the Market Value Risk Margin. Furthermore, we would like to point out that the argument of "same policy, same BEL" is non-economic and therefore inconsistent with the Framework Directive – the requirement should be “same risks, same BEL”. Company A and B could sell identical policies but if one targets high socio-economic groups and the other low then they will get different economic results because the risks and the experience will be different. Taking into account expected future experience is a key component of an economic approach.	

			⇨ The CEA would request that this section was re-drafted to include an equal treatment of expected future profits and losses. The economic reality of the entity should be reflected in the Technical Provisions. Please see comments to Para 3.30 (c) - (d)	
122	CFO Forum	3.21	<u>**Insurers will consider past experience when determining take-up rates**</u> - The CFO Forum disagrees with the comment: *"an undertaking with a portfolio of type A contracts could easily lower its best estimate provisions by granting the existing policyholders a renewal option."* Where such a new benefit is attached to an existing policy there will be no evidence for the take-up rate. The insurer would not assume an arbitrary take-up rate in its technical provisions without first being able to justify this with respect to their past experience. <u>Therefore the CFO Forum requests that this paragraph is removed or redrafted.</u>	Not agreed. This view is not in line with the requirement of the Level 1 text that option exercise rates should be realistic. This requirement also applies in cases where there is no option exercise experience.
123	ICAEW	3.21	We recognise that CEIOPS has concerns about regulatory arbitrage. In our view, an economic approach would help avoid manipulation.	Noted.
124	Munich Re Group	3.21	We do not agree that an undertaking with a portfolio of type A contracts could easily lower its Best Estimate provisions by granting the existing policyholders a renewal option because undertakings would not assume an arbitrary take-up rate rather than justify the added option with respect to their past experience. We hence suggest to remove this paragraph.	Not agreed. If the expected option exercise rate is positive, then the technical provisions are lower after granting the option.

125	CEA	3.21	Please see comments to Para 3.30 (c) - (d)	See responses to these comments.
126	Munich Re Group	3.22	Future premiums should belong to the existing contract if and only if they increase the best estimate. This is contradictory to the character of best estimate valuation. (see also para 3.19).	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.
127	ICAEW	3.22 – 3.23	As noted above, we disagree that future premiums belong to the existing contract 'if and only if the inclusion of the renewals increase the best estimate' of the provisions. We repeat that the IASB's 2007 views may not reflect their current position.	Noted.
128	Institut des actuaires	3.22	Institut des actuaires disagrees. See general comments.	See response to general comments.
129	FFSA	3.22 & 3-26 & 3-30	The Directive assesses the calculation of the Best Estimate based on: (i) the exit value of the technical provisions, along with (ii) prudent manners. Although, the supervisory authorities usually argue in favor of prudent approaches, the Directive addresses equally both the economical and the prudent approaches. The following requirements appears to be inconsistent with what is outlined in the Directive: – Future premiums should be reflected in the best estimate calculation only if their inclusion would increase the best estimate and would incur a loss to the insurer – Profitable future premiums should be excluded from the calculation of the best estimate. However, they should be reflected in the calculation of the SCR had existing options become unprofitable under adverse SCR scenarios	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

			We strongly disagree with the above which would reflect only an excessive prudent vision. The requirements above would not reflect properly the companies' management of the risk or their investment strategy. Among others, those requirements would not reflect properly the term projection periods in the models. Also, in situations where there is a transfer of portfolio following an acquisition, those future premiums will be reflected and included in the best estimate calculation. Furthermore, these requirements would emerge several technical and operational issues to companies: from one year to another and depending on the market conditions, the scope of the Best Estimate will have to be updated. Therefore, the FFSA recommends that had future premiums (whether on existing contracts or renewable premiums) been taken into account in the company's risk management, they should be consistency reflected in the calculation of the Best Estimate. In such a situation: – Companies should support and document the principles behind reflecting future premiums as part of their risk management process – Any emerging risk related to this treatment should be addressed and reflected in the SCR calculation (e.g. In the SCR lapse for life contracts)	
130	CFO Forum	3.23	**<u>The link to CP35 and the value of customer intangible assets needs to be considered</u>** - CEIOPS is referring to paragraph 154 of the IASB Discussion Paper on Insurance Contracts (May 2007). As noted in our general comments, this work has since been developed and so CEIOPS should not take this as the final position of the IASB.	Noted.

			Further, whilst the CFO Forum supports the use of IFRS as a reference framework for the Solvency II balance sheet, IFRS does not always provide an economic valuation for all assets and liabilities. Solvency II should not refer to IFRS when the appropriate IFRS standard is not based on sound economic principles.	
131	CRO Forum	3.23	*"This position is consistent with the preliminary view of the IASB as expressed in paragraph 154 of the discussion paper "Preliminary views on insurance contracts"."* See remark concerning IASB Discussions in the general comment.	See response to general comments.
132	Munich Re Group	3.23	See remark concerning IASB Discussions in the general comment.	See response to general comments.
133	Munich Re Group	3.24	The reference to CP 27 (Segmentation) is not valid for health insurance products because here further advice is promised by CEIOPS.	Noted. No special treatment for health insurance is envisaged in this respect.
134	ICAEW	3.24	We do not agree that the individual contract is, on principle, the most approriate unit of account to determine the boundary of insurance contracts. The business model of insurers sees contracts managed on a portfolio rather than a contract basis, for example as assumptions around lapse and renewal rates are made for portfolios, and we think it makes more sense for the information provided to supervisors to reflect this. On a practical note, many insurers' systems would not allow them to capture some of the information required at the individual contract level.	Not agreed. By definition, the boundary of a contract is determined on the contract level. Paragraph 3.24 ensures the proportionality of the assessment.
135	KPMG ELLP	3.24	Although it may be theoretically correct that a decision on the boundaries of (re)insurance contracts should be made on an individual contract basis, in practice this is unlikely to be practicable. Given the	Not agreed. By definition, the boundary of a contract is determined on the contract level.

			paper proposes that only unprofitable future premiums are taken into account (where these arise from policyholder options), since profitability or otherwise could depend on assumptions (such as lapse and renewal rates) that are determined on a portfolio basis, it may be more practical for this assessment to be made on a more granular level.	Paragraph 3.24 ensures the proportionality of the assessment.
136	CEA	3.24	Please see comments to Para 3.31	See response to this comment.
137	KPMG ELLP	3.25	We agree that information used should be 'realistic and based on current and credible information', but with an assessment made of the 'impact that future changes in financial and non-financial conditions may have on the exercise of those options'.	Noted.
138	ICAEW	3.25	We agree that information used should 'be realistic and based on current and credible information'.	Noted.
139	CRO Forum	3.25	"The choice of the rates usually requires an assessment of actual experiences and anticipated future experiences. According to Article 78 of the Level 1 text the assumptions on the option exercise rates shall take account, either explicitly or implicitly, of the impact that future changes in financial and non-financial conditions may have on the exercise of those options." The assumption of a realistic option exercise rate is in line with our position to strictly apply economic principles. Thus we believe it is also in line with our comments as to para 3.19 and 3.22.	Noted.
140	Munich Re Group	3.25	The assumption of a realistic option exercise rate contradicts para 3.19 and 3.22 where the option exercise rate is set to zero if the insurance undertaking expects profits from the exercise of the option.	Not agreed. The usage of realistic option exercise rates only applies to the existing contract.

				Paragraphs 3.19 to 3.22 define the existing contract.
141	Munich Re Group	3.26	The exclusion of future premiums with expected profits but the inclusion of future premiums in the SCR calculation seems questionable. Especially this treatment can lead to the effect that future premiums and future cash-flows are not assessed adequately because they are treated in a way which disadvantages the insurance undertaking.	Noted.
142	CRO Forum	3.26	*"The SCR should allow for the risk that if circumstances change the future premiums relating to an option may become unprofitable and the undertaking may incur a loss. "* The SCR subsequently should cover uncertainties, including those uncertainties associated with best estimates assumptions on take-up rates on options.	Noted.
143	AVIVA	3.26	It is noted that the SCR should allow for the risk that future premiums relating to an option may become unprofitable; we agree with this and is a further reason for not excluding profitable future premiums from the best estimate liability. To exclude profitable future premiums would introduce a disconnect with the SCR calculation, and is unnecessary as the risk relating to future premiums would be reflected in the SCR.	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.
144	ABI	3.26	We strongly disagree with this statement. This introduces a bias into the calculation of the best estimate. These requirements are also excessively complex. If certain future premiums are included in the SCR but not in the best estimate calculation, this will be an onerous extra requirement for undertakings. They should be able to use a certain cash flow for both calculations or not be considered at all.	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

145	Legal and General Group	3.26 (white)	This paragraph contradicts paragraph 3.17 (white). This paragraph states that excluding future premiums from an existing contract does not imply that the SCR does not take those risks into account. Paragraph 3.17 (white) states that excluding future premiums resulting in losses would not be included in the SCR. Future premiums and other cashflows should be taken into based on policyholder behaviour and the SCR should assess the risks that the policyholder behaviour changes.	Not agreed. The SCR standard formula takes only unexpected losses into account. Therefore, if an expected loss is not allowed for in the best estimate it is not addressed in the solvency assessment. However, paragraph 3.26 relates to the risk that a profitable option becomes unprofitable. The resulting loss is an unexpected loss and can and should therefore be addressed in the SCR.
146	GDV	3.26	**<u>These requirements are excessively complex</u>** - It makes no sense to consider certain future premiums in the calculation of the SCR and not consider them in the calculation of the Best Estimate. Insurance companies should either consider a certain cash flow for both calculations or not consider it at all.	Not agreed. The SCR calculation should allow for the risk relating to new contracts.
147	ICAEW	3.26	We agree that the risk attaching to certain profitable premiums needs to be taken into account in the Solvency Capital Requirement (SCR). We further note that to exclude profitable future premiums from the liability estimate would introduce an unneccessary difference between SCR calculation and the information reported by the insurer, which in our view should not arise.	Not agreed. The SCR calculation should allow for the risk relating to new contracts.
148	KPMG ELLP	3.26	We agree that the SCR should allow for the risk that profitable future premiums could become unprofitable. As stated above, in our view, this may be a more appropriate means of dealing with the issue of future premiums on profitable business arising from options, rather	Not agreed. The SCR calculation should allow for the risk relating to new contracts.

			than to ignore these altogether in the determination of technical provisions.	
149	UNESPA	3.26	**<u>Future premiums to take into account in calculating SCR</u>** The contents of this section -the exclusion of certain profitable future premiums from the existing contract does not imply that the risk connected to these potential premiums is not taken into account in calculating SCR- is one more sign of how this is breaching the economic approach. Nothing in the Directive establishes that there are certain profitable future premiums which should not be included in the calculation of the Best Estimate, but nevertheless the risk connected to these future premiums has to be taken into account in calculating capital requirements (SCR). If future premiums are to be taken into account when calculating capital requirements (SCR), they should also be included when calculating the Best Estimate, even if the undertaking expects a profit from the additional future premiums.	Not agreed. The SCR calculation should allow for the risk relating to new contracts.
150	RABA	3.26	**C) Consistency between the calculation of the Best Estimate Liability and the Solvency Capital Requirement** Article 26 of the Consultation Paper allows for a diversified approach to the assessment of profitable future premiums in the determination of both the Best Estimate Liability and the Solvency Capital Requirement. In our opinion, the latter leads to inconsistencies and it would be recommended to consider a uniform valuation basis.	Not agreed. The SCR calculation should allow for the risk relating to new contracts.
151	CEA	3.26	**These requirements are excessively complex** - We are not sure if CEIOPS understands the complexity of the calculations that is being requested in this paragraph. It makes no sense to consider certain	Not agreed. The SCR calculation should allow for the risk relating to new contracts.

			future premiums in the calculation of the SCR and not consider them in the calculation of the Best Estimate. Insurance companies should either consider a certain cash flow for both calculations or not consider it at all.	
152	KPMG ELLP	3.27	We agree with this approach. One element that could be further enhanced is in respect of future premiums that are dependent on claims experience, which is common feature in commercial non-life insurance and can include significant amounts. Given such features are contractual they do need to be included in premium provisions. Premiums that are dependent on experience should be calculated on a basis consistent with the estimation of claims due to the relationship between the two and we would suggest this is explicitly recognised within the level 2 text.	Noted.
153	AVIVA	3.27	We agree that the calculation of the best estimate should only include future cash-flows associated with existing insurance and reinsurance contracts. However our concern is around the proposals for how the boundaries of the existing contract are defined, and is discussed further under 3.30 below. It would have been helpful if the second sentence in 3.9 had been carried into the CEIOPS advice as (presuming this is the intention) this would clarify that all future premiums which are specified in the contract terms and conditions should be included in the best estimate.	Noted.
154	ABI	3.27	The ABI agrees with this point in principle, but believes that further clarification is needed. For example: • Our interpretation of the wording is that future premiums on a savings contract at the currently agreed level and term should	Noted. An agreed premium payment belongs to the current contract.

			be regarded as part of the existing insurance contract (along with related cash flow) even if the premiums are not enforceable. • Also, on pension contracts it is common for the date of retirement to be flexible and even where the contract has a defined retirement date either early or late retirement is usually allowed. Such occurences should we feel be taken account of as part of existing contract – in other words deferred retirements should be reflected in equivalent manner to early retirements rather than as a new coverage or extension under 3.30 c or d. • Some long term insurance contracts, for example protection contracts, can have reviewable premiums where the insurance company can revise premium levels or charges if claim experience is different to what was expected. In such cases firms do not have unilateral right to increase the premiums or charges to any level, only to a reasonable level. Firms should be allowed to make reasonable assumptions for outcomes of premium or charge reviews, subject to the requirements for future management actions. It is not clear that the draft advice of 3.27 to 3.32 as a whole will allow appropriate treatment of the above product features. Further clarification in the advice would be helpful.	If the retirement date is fixed then an earlier retirement is likely to come under paragraph 3.30(d). The premium adjustment is a management action. See former CP 36.
155	DAV	3.27	In article 101 of the level 1 text it is required to consider the new business of the next 12 months. Hence this paragraph contradicts article 101 of the level 1 text. We agree to consider increasing future premiums resulting from existing contracts for Life, to consider new business of the next year	Not agreed. Article 101 dealt with the SCR. The text is about the best estimate.

			seems to be not relevant for Life.	
156	Lloyd's	3.27	Lloyd's agrees with this approach. One element that could be further enhanced is in regard to future premiums that are dependent on claims experience. These are common features in commercial non-life insurance and can include significant amounts. Given such features are contractual they do need to be included in premium provisions. Premiums that are dependent on claims experience should be calculated on a basis consistent with the estimation of claims due to the relationship between the two and we would suggest this is explicitly recognised within the level 2 text.	Noted.
157	CFO Forum	3.27	The CFO Forum fully agrees with this principle and believe is should be the core of the valuation of future premiums. Both outflows and inflows should be included.	Noted.
158	CRO Forum	3.27	"The calculation of the best estimate should only include future cash-flows associated with existing insurance and reinsurance contracts, being these all the cash in- and out-flows required to settle the insurance and reinsurance obligations over the lifetime thereof." We fully agree with this principle; it should be the core of valuation of future premiums.	Noted.
159	Munich Re Group	3.27	This principle should be the core of valuation of future premiums.	Noted.
160	ABI	3.28	The ABI strongly disagrees with the initial recognition of the insurance contract as specified here. We believe that the contract should be initially recognized when risk cover commences. Tacit renewals which occur at a predetermined time after the date that the contract was signed should be included if the renewal date has	Not agreed. The obligation begins to exist with the conclusion of the contract. Agreed.

			passed before the reporting date.	
161	Lloyd's	3.28	Lloyd's agrees with this approach. CEIOPS may wish to consider whether clarity is required surrounding delegated or binding authority business. Lloyd's interpretation is that underwriters will normally have a unilateral right to cancel such agreements and therefore only business written at the valuation date would normally be included as "existing contracts". This would extend to unwritten contracts that are expected to make a loss. If there is any scope to clarify the position on delegated or binding authorities this would be most helpful.	Noted.
162	CFO Forum	3.28	The CFO Forum agrees with this basis for derecognition, which is consistent with the proposals for IFRS Insurance Contracts Project Phase II.	Noted.
163	Legal and General Group	3.28 (blue)	We agree that the recognition criteria should be set at the point when the insurer becomes a party to those contracts, including recognition for past tacit renewals.	Noted.
164	Deloitte EU	3.28	This paragraph could present an ambiguous reading in relation to what is the "renewed contract". We would recommend replacing the words "of the renewed contract" with "of a new contract rather than the continuation of the contract that had been renewed" to avoid the risk of an unintended reading. In addition, we recommend that clarification be provided as to what constitutes "tacit renewal".	Not agreed. The paragraph does not try to distinguish between continued and renewed contracts. The paragraph makes a statement about recognition. For this issue it is not relevant whether tacit renewal leads to a new or the continuation of the old contract.
165	ABI	3.29	The ABI strongly agrees with this point.	Noted.

166	Lloyd's	3.29	Lloyd's agrees with this approach.	Noted.
167	CFO Forum	3.29	The CFO Forum agrees with this basis for derecognition, which is consistent with current IFRS.	Noted.
168	AVIVA	3.30	We are concerned about the definition of boundaries of an existing contract, in particular in 3.30(c) on future premiums relating to an option or guarantee. There are some instances where a policy includes an option for the policyholder to take out a further policy on predefined terms which is clearly not the same as their current policy, such as a guaranteed annuity option at the maturity of a pension accumulation contract, or an option to take out a further protection contract without underwriting at the end of a term contract. In this case the proposal matches our current solvency treatment (and treatment in QIS4) of including the value of the option in technical provisions only if it is onerous. However it is not clear to what extent paragraphs 3.14-3.22 goes beyond this (if at all). This can be illustrated by example: consider a unit-linked contract with fixed charges and regular premiums. The policy can be made paid-up but provides no automatic right to resume payments (but unless the policy is made paid-up the insurer has to accept premiums). In this case we would interpret the advice in 3.9 as being that continuation of the existing level of premium should be included in the cash flows valued, but even this is not completely clear. As a) but where the insurer has an unlimited right to increase the annual management charge. Under 3.13 we think that future premiums could not be included. This does not seem right as the	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

			economic position of the insurer in b) must be better than in a). [unless 3.13 refers to 'underwriting risk' elements rather than the right to make changes which are likely to be minor charging changes relating to expense recovery?] As a) but where the annual management charge can be increased, but not to more than 1% per annum: the treatment is not clear. As a) but where under the contract the policyholder can stop premiums and resume them at a later date. Does 'option to increase the insurance coverage' include the option to pay next month's premium? Or does the continuation of the existing level of coverage mean continuing to pay the current level of premium? This is unclear and potentially unsatisfactory with arbitrary divisions between contracts which are economically virtually the same. Overall we suggest that the advice needs to be amended to restrict the analysis of options to those with an option to add further insurance risk to the policy without underwriting, and not include the option of policyholders to add to their savings which should be dealt with probabilistically.	
169	ABI	3.30 - general	The ABI strongly disagrees with this analysis of future premiums. This would provide a biased result, as when dealing with options/ guarantees only cash flows that result in a loss may be included. This is not an economic valuation and either all or none of the future premiums from options/ guarantees should be included. We believe that this treatment of future premiums is unclear and could lead to potentially arbitrary divisions between contracts that, from an economic perspective, could be said to be the same.	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

170	ABI	3.30 (a)	We agree with this statement but believe it should be rephrased for clarity as follows: "…or an unlimited ability <u>for the insurer</u> to amend the premium or benefits…" As mentioned in the CEA letter "Future Contract Boundaries", the key criteria should be that future premiums are included as existing contracts if the insurer cannot re-underwrite at individual policy level. However, the insurer should be able to change the premium of an existing contract based on their assessment of the experience of the whole portfolio, or other reasons that are based on the characteristics of the portfolio as a whole and not based on the individual policyholder contract.	Not agreed. Current text is clear.
171	ABI	3.30 (c) and (d)	We strongly disagree with this biased view of future cash flows. We believe that expected future profits as well as losses should be taken into account in the best estimate. This contradicts Article 76(2) which asks for a best estimate which implies one that is unbiased. The best estimate should not include additional margins, as this is already allowed for in the risk margin.	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.
172	Institut des actuaires	3.30	Institut des actuaires disagrees. See general comments.	See response to general comments.
173	GC	3.30	As stated above we believe that all future premiums associated with options in insurance contracts shall be included in the calculation of best estimate. This means that also premiums whose inclusion leads to a decrease in best estimate should be regarded. The view expressed in 3.30 c-d is in our view not correct as options could – deliberately or not – very well be overpriced for example by adding a safety margin in the premium calculation. Not including premiums associated with those options when calculating best estimate is as we see it not reasonable.	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

			"Legally enforceable" and "practically enforceable" are different perceptions, perhaps "reasonably enforceable". It is important not to forget reputation risk and market opportunities.	
174	Lloyd's	3.30	Lloyd's agrees with this approach.	Noted.
175	CFO Forum	3.30 (a)	We agree with this position, however, we would request clarification as follows: **The key criteria should be whether or not the insurer can re-underwrite the risks at individual policy level (as would be the case for new business)** - We would request clarification of the terminology an "*unlimited ability for the insurer to amend the premium or benefits (or otherwise re-underwrite the risk)*". The current guidance is unclear: The key criteria, as laid out by the CEA and the CFO Forum in their letter on "Future Contract Boundaries"[5] is that future premiums should be included under "existing" contracts if the insurer cannot re-underwrite at individual policy level i.e. if the insurer is obliged, if the policyholder wishes, to continue a policy without being able to re-assess the individual policyholder's risks. The insurer may however be able to change the premium based on, for example, a change in price that would be applicable to their whole portfolio. The use of the term "*unlimited ability*" is not clear. Rather the CFO Forum believes that the constraint should be whether or not the insurer can re-underwrite at an individual policyholder level. The CFO Forum would request that the text was clarified as follows:	Partly agreed. See revised text.

[5] http://www.cea.eu/uploads/DocumentsLibrary/documents/1241447091_joint-contract-boundaries-paper.pdf

			"Where the insurance or reinsurance undertaking has a unilateral right to cancel the contract, a unilateral right to reject the premium or an *(...)* ability for the insurer to amend the premium or benefits *by* re-underwrit*ing* the risk *at an individual policy level* at some point in the future, any premiums received beyond that point (and any resulting benefit payments to policyholders, expenses etc.) do not belong to the existing contract." **The Consultation Paper does not appear to be applicable to all types of insurance contract** - In particular we would request clarification of the most appropriate treatment of specific types of products, such as: - Group insurance products - Savings contracts, which do not undergo underwriting at inception. In this regard, the CFO Forum believes it would be appropriate to specify examples in the background text of the paper. Furthermore we would request that the re-worded advice, as specified above, be extended to include the following statement: "*Where the contract is not underwritten at individual policy level, for example group-life contracts or individual savings contracts, the boundary of the existing contract should be considered as the point at which a new contract is signed.*"	
176	CFO Forum	3.30 (c) - (d)	**Premiums associated with options that give profits as well as losses should be included** – The CFO Forum strongly believes that all future premiums, which are associated to options in insurance contracts, subject to the restriction that these relate to the current	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

			contracts, should be included in the calculation of best estimate. The CFO Forum does not agree, therefore, with the restriction which is expressed in Para 3.30 (c)-(d) that only premiums which are associated to options, whose inclusion leads to an increase in best estimate, should be regarded. Options could very well be overpriced, for example insurers would often add a safety margin in their premium calculations. Not including premiums associated with those options when calculating best estimate, is, as we see it not reasonable and is not in line with an "economic approach" as specified in the CEIOPS paper as the reasoning for this decision. CEIOPS' proposal moves away from best estimate valuation for the balance sheet items and introduces margins of prudence into the balance sheet that should be expressed in the Solvency Capital Requirement. ▪ All expected economic value should be recognised (i.e. all future profits and losses of the current policy) as per the requirements of the Framework Directive. ▪ Technical provisions should not allow for any additional margins or require arbitrary take-up rate assumptions for options which do not represent expected future experience. Please see also comments to Para 3.15 and 3.19	
177	CFO Forum	3.30 (e)	**"*Legally enforceable*" is not usually applicable in an insurance context** - This is superfluous as (a) to (d) already exclude premiums not deemed enforceable, so introducing this seemingly "new" requirement could cause confusion. Insurance premiums can normally not be forced to be paid. Only including legally enforceable cash-flows is not consistent with the	Not agreed. The last sentence of the paragraph does not imply that all future premiums which are not legally enforceable are excluded from the existing contract.

			economics of those contracts and hence is not consistent with the principle of economic valuation, which underlies Solvency II. The CFO Forum would request that the CEIOPS remove the sentence *"In particular, future premiums should be included if their payment by the policyholder is legally enforceable."*	
178	Legal and General Group	3.30 (a) (blue)	Long-term policies are sold where premiums and/or benefits are reviewable at the insurer's discretion. An example is reviewable accelerated critical illness business, which has reviewable premiums. Such policies may be reviewable annually or periodically. The non-recognition of premiums beyond the next review date does not result in a best estimate projection of cashflows on those policies, and therefore would not result in best estimate technical provisions.	The paragraph excludes these premiums only if there is an unlimited ability to review the premiums.
179	Legal and General Group	3.30 (c)	1. Recognition of a policy's future cashflows only when they result in an increase in technical provisions could result in a high level of implicit prudence within the technical provisions. This is inconsistent with the concept the technical provisions being comprised of best estimates with explicit risk margins. Recognition criteria should be set independently of whether they result in an increase or decrease in technical provisions 2. Policies are sold with a wide variety of options and guarantees to policyholders. It is spurious to distinguish between certain types of options and guarantees and also to cashflows before those options and guarantees. For example, virtually all policies give the policyholder the option discontinue or renew the policy at each premium payment. The paragraph as it currently reads would imply that all future cashflows on all policies beyond the next premium payment should only be recognised if they result in an increase in technical provisions. This would obviously result in a very high level of implicit prudence in the technical provisions.	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

			Recognition of future cashflows after the exercise point of options and guarantees should be based on policyholder behaviour, e.g. as it is currently for persistency at each future premium payment.	
180	Legal and General Group	3.30 (d) (blue)	As written above, recognition of future cashflows after the exercise point of options and guarantees should be based on policyholder behaviour.	See response to above comments.
181	Legal and General Group	3.30 (e)	We agree that legally enforceable premiums should be recognised, but would add "(and any other resulting benefit payments to policyholders, expenses, etc). However legally enforceable premiums are not the norm for insurance contracts. More commonly, the policyholder has the option to pay any future premiums on an insurance contract, often without penalty.	Agreed. See revised text. Noted.
182	CRO Forum	3.30	"For the calculation of the best estimate, the boundaries of an existing insurance or reinsurance contract should be defined as follows: (a) Where the insurance or reinsurance undertaking has a unilateral right to cancel the contract, a unilateral right to reject the premium or an unlimited ability to amend the premium or the benefits (or otherwise reunderwrite the risk) at some point in the future, any premiums received beyond that point (and any resulting benefit payments to policyholders, expenses etc.) do not belong to the existing contract. (b) Where the undertaking's right to cancel the contract or to reject the	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

			premium or the ability to amend the premium or the benefits relates only to a part of the contract, the same principle as defined in ((a)) should be applied to the part in question. (c) Future premiums and any resulting benefit payments to policyholders, expenses etc. which relate to an option or guarantee that provides rights under which the policyholder can renew the contract belong to the existing contract if, and only if, the inclusion of the renewals increase the best estimate. (d) The same principle as defined in ((c)) is applied to options or guarantees which allow the policyholder to extend the insurance coverage to another person, to extend the insurance period, to increase the insurance coverage or to establish new insurance cover. (e) All other cash-flows relating to the contract should be included in the calculation of the best estimate. In particular, future premiums should be included if their payment by the policyholder is legally enforceable." We do not agree. Please see our remarks to para 3.14, 3.15, 3.19, 3.22. 3.30 (a) and (b) are not in line with economic reality / best estimate management actions, in particular for profitable business. 3.30 (c) and 3.30 (d) are not consistent with best estimate and	

			economic valuation principles. We thus disagree with the contents.	
183	Deloitte EU	3.30	Although the development of the IFRS for insurance contracts is still progressing we note that this CP proposes the treatment of future premiums that would result in a different best estimate from that calculated under both the International Accounting Standard Board Discussion Paper "Preliminary views on insurance contracts" (the IASB DP) or the IASB recent tentative decisions on the development of the new IFRS for insurance contract. The difference arises from the restriction proposed in paragraph 3.30-(c) and 3.30-(d) to consider non-enforceable future premiums and associated benefits only when they increase the best estimate thus preventing the accounting for an asset when an insurance contract is initially recognised. The recognition of an asset was possible under the IASB DP and it is reasonable to expect that this will also be maintained in the final IFRS. The recognition of an insurance contract asset is typical for long term insurance contracts with regular premium payments. This reasonableness of this accounting outcome is corroborated by the economic reality surrounding the payment of commissions to intermediaries who sell these contracts that are usually a multiple of the initial premium. It is reasonable to expect that under the new IFRS the best estimate of these contracts would initially be an asset and subsequently change to a liability as more premiums are collected and the probability of a benefit payment (e.g. a death benefit) increases after the initial recognition date.	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

			We would recommend that the restriction on future premiums and associated benefits that the insurer cannot adjust on an individual contract basis is re-considered and that the final advice incorporates a requirement to treat future premiums that is fully aligned with that considered under the future IFRS for insurance contracts.	
184	GDV	3.30 (c) - (d)	**Expected future profits as well as losses should be taken into account in the Best Estimate** – GDV strongly disagrees with the proposal by CEIOPS to include only the expected future cash flows from those options that are expected to produce losses. These sections should be modified substantially to establish that future premiums resulting from options and guarantees on renewal should be included in cash flow projections irrespective of whether the insurance undertaking expects or forecasts that it will make a profit or loss on these options/guarantees. CEIOPS "asymmetric" treatment of expected profit and losses is similar to introduce an extra margin for prudence. The Best Estimate should not include additional margins.	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.
185	GDV	3.30 (e)	**"*Legally enforceable*" is not usually applicable in an insurance context** - This is superfluous as (a) to (d) already exclude premiums not deemed enforceable, so introducing this seemingly "new" requirement could cause confusion. Insurance premiums can normally not be forced to be paid. In the majority of cases the insurance undertaking is not able to legally enforce the payment of the premium; instead, in the event of non-payment, the undertaking may, depending on the circumstances, exercise its right to reduce the amount insured, or even suspend the coverage or terminate the contract. GDV would request that the CEIOPS remove the sentence "*In*	Not agreed. The last sentence of the paragraph does not imply that all future premiums which are not legally enforceable are excluded from the existing contract.

			particular, future premiums should be included if their payment by the policyholder is legally enforceable."	
186	KPMG ELLP	3.30	CEIOPS should consider whether reasonably foreseeable premiums (or increases to premiums) should be included even if these are not explicitly required under the contract. Some scenarios where this could be appropriate are where there is a direct debit agreement set up or if this is linked to payments of salary. Similarly if additional premiums were considered in the pricing of the contract, then it may be appropriate to include this as part of the existing insurance obligation. The (re)insurance undertaking should consider the implications of policyholder reasonable expectations. These can impact on whether the undertaking may be able to unilaterally reject a premium or unilaterally cancel a contract. Similarly the (re)insurance undertaking should consider the company's practice when it comes to the exercise of options held by the undertaking. The timing of when options can be taken up by policyholders is not necessarily based on a single date in the future. The timing can impact on the result and some additional guidance should be provided (for example, pensions saving products may allow for early retirements, options maybe available any time after a given date or at regular intervals such as quarterly or on policy anniversary). It is unclear whether the option to surrender or make a policy paid-up constitutes a change to the current insurance obligations and the future premiums that should be modelled. In this case it is unclear whether these implementing measures apply to the modeling of policies becoming paid-up or lapsing.	Not agreed. These examples do not seem justify a deviation from the proposed principles.

			The value of options to policyholders can depend on economic conditions. There is a need for CEIOPS to consider in which situations insurers will need to carry out stochastic calculations. In this case, future premiums and associated insurance cash flows will need to be modeled in scenarios where the policy is profitable. Again further guidance is required.	See former CP 26.
187	Munich Re Group	3.30	See the remarks to para 3.22 and 3.19. Especially 3.30 (c) and 3.30 (d) are not consistent with best estimate and economic valuation principles.	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.
188	PEARL GROUP LIMITED	3.30	We strongly disagree with this analysis of future premiums. This would provide a biased result as when dealing with options/ guarantees only cash flows that result in a loss may be included. This is not an economic valuation and either all of the future premiums from options / guarantees should be included or none of them should be.	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.
189	CEA	3.30 (a)	We agree with this position, however, we would request clarification as follows: **The key criteria should be whether or not the insurer can re-underwrite the risks at individual policy level (as would be the case for new business)** - We would request a review of the phrase a "*unilateral right to cancel the contract, a unilateral right to reject the premium or an unlimited ability for the insurer to amend the premium or benefits (or otherwise re-underwrite the risk)*". As laid out in our letter on "Future Contract Boundaries" and referred to in our "general comments" above, we believe that the key criteria should be that future premiums are included as "existing" contracts if the insurer cannot re-underwrite at individual policy level i.e. if the	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

			insurer is obliged, if the policyholder wishes, to take on a policy without being able to re-assess the individual policyholder's risks. The insurer should be able to change the premium of an existing contract based on, for example, their assessment of the experience of the whole portfolio of risks and this should continue to be treated as an existing contract as the insurer is not able to re-asses the individual risk situation of the policyholder and so price as it would for new business. There could also exist other external factors which may cause the insurer to be able to re-price the contract, which should not cause the premiums to be classified as part of a new contract. In this respect "*an unlimited ability to amend the premium or benefits*",as set out in the CP, is not clear. Furthermore, even if the insurer has a unilateral right to cancel the contract this does not mean that the insurer will do so in practice. As realistic assumptions should be used to calculate the best estimate, an assumption of 100% cancellation, which the CP assumes, may not in line with these assumptions. It may be that the insurer only actually cancels a proportion of these policies in practice and as such the insurer should be able to use their own experience assessment in the calculation of the proportion of future premiums included in the best estimate. Therefore we do not support the wording "*unilateral right to cancel the contract, a unilateral right to reject the premium".* ⇨ The CEA would request that the text was clarified in line with the previous CEA position on Insurance Contract Boundaries as referred to in our "general comments" section.	

190	CEA	3.30 (c) - (d)	**Expected future profits as well as losses should be taken into account in the Best Estimate if they relate to existing contracts** – The CEA strongly disagrees with the proposal by CEIOPS to include only the expected future cash flows from those options that are expected to produce losses. These sections should be modified substantially to establish that future premiums resulting from options and guarantees on renewal should be included in cash flow projections irrespective of whether the insurance undertaking expects or forecasts that it will make a profit or loss on these options/guarantees. The reasons for this are set out below: • **The assumption contradicts Article 76 (2) of the Level 1 text** – This requires the inclusion of all expected in-flows and out-flows in the Best Estimate. • **The assumption is not in line with the economic reality** – If expected profit caused by policyholder options is not included but expected loss is included, the result will be an asymmetric calculation which is thus against an economic approach and is not in line with the assumptions would be used by a 3rd party when pricing the insurer’s business. This breach of the economic approach can be clearly appreciated in the regulation proposed when it states that if a contract includes a policyholder option to increase the future premiums and the undertaking expects a profit from the additional future premiums then this profit does not relate to the existing contract and such future premiums should not be included in the Best Estimate. On the contrary, if the undertaking expects a loss from the additional future premiums then this loss relates to the existing contract and such	Not agreed. See explanations in summary feedback statement on the outcome of the consultation.

			future premiums should be included in the Best Estimate. This is also not in line with Article 75(2) of the Level 1 text. • As a result, in accordance with the terms of the Consultation Paper, only those future premiums (and their benefits, expenses, etc) related to options or guarantees granted to policyholders which increase the Best Estimate will be included (but not those which decrease the Best Estimate). This could not be more contrary to the economic focus, as it proposes asymmetrical treatment which is in no way supported by level 1 regulation. • **The Best Estimate should not include additional margins** – Extra margins for prudence should not be taken into account over and above what is already included within the SCR and the Market Value Risk Margin. This is returning to Solvency 1-type requirements. The additional prudence required over and above the Best Estimate is allowed for via the SCR. Any assumption that an insurer makes regarding the take-up of future options should be stressed under the SCR and so the uncertainty in this assumption would result in capital requirements under the SCR, not under the Best Estimate. • **Policyholders will decide whether to take up an option based on their own circumstances rather than whether the insurer is expected to give rise to a profit or a loss** – Insurers have policyholder experience to show that policyholders do exercise options which also give rise to profits for insurers, not just those that give rise to losses to insurers. Whether the insurer expects to make a profit or a loss on the exercise of the option is irrelevant in determining whether the policyholder will	

			continue the contract or not. For example, if a policyholder in good health extends a policy using an extension option they will get the same terms and conditions as a healthy new customer. The profit the insurer makes arises from not incurring the cost of underwriting and possibly not paying commission whereas the policyholder neither loses nor gains. Therefore, an assumption that the take-up rate of these options is zero is not realistic. If an insurer has experience data for the expected take-up for options, then the undertaking should assess the appropriateness for use of this data in the calculation of the Best Estimate. In an Internal Model the undertaking can base assumptions on historic evidence of all expected policyholder behaviour. • **This requirement may cause practical difficulties -** A priori an insurer may not know which policies produce an economic loss or a profit, so the undertaking would have to analyse at a certain level of granularity each time and in each central/stressed scenario. These requirements could therefore produce technical and operational issues for companies as from one year to another and depending on the market conditions as the scope of the Best Estimate will have to be updated. We note, as mentioned in our "general comments" above that the recent IASB work on this topic has recognised that separating contracts into those that are expected to give a profit and those that are expected to give a loss is "*virtually impossible*" and "*the resulting measurement is not a representation of an economic phenomenon*". Therefore "*defining one single test for the boundaries of an existing contract is preferable to an approach that requires one test for an onerous contract and a different*	

			test for a contract that is not onerous". ⇨ The CEA strongly believes that these paragraphs should be removed from the CEIOPS advice.	
191	CEA	3.30 (e)	**"*Legally enforceable*" is not usually applicable in an insurance context** - This is superfluous as (a) to (d) already exclude premiums not deemed enforceable, so introducing this seemingly "new" requirement could cause confusion. Insurance premiums can normally not be forced to be paid. In the majority of cases the insurance undertaking is not able to legally enforce the payment of the premium; instead, in the event of non-payment, the undertaking may, depending on the circumstances, exercise its right to reduce the amount insured, or even suspend the coverage or terminate the contract. ⇨ The CEA would request that the CEIOPS remove the sentence "*In particular, future premiums should be included if their payment by the policyholder is legally enforceable*".	Not agreed. The last sentence of the paragraph does not imply that all future premiums which are not legally enforceable are excluded from the existing contract.
192	ABI	3.31	We agree that a higher level of granularity should be allowed where necessary. We would like further clarification on how supervisors would expect it to be demonstrated that the difference does not result in a material amount as in most cases to demonstrate this, two calculations would need to be done, one using each method.	See definition of materiality in former CP 45.
193	AVIVA	3.31	We agree that the boundary assessment should in principle be per contract, but in practice at a higher level subject to materiality	Noted.
194	GC	3.31	We believe that – from a life insurance perspective – each contract should be treated separately i.e. premiums are included/excluded with regard to the characteristics of the single contract. A segmentation on	Noted.

			a higher level could be difficult to acheive and the motive for this must anyway be justified by comparsion on contract level.	
195	DAV	3.31	We would propose to change the sentence "The granularity should be maintained **at least** at the minimum level.." into "The granularity should be maintained **ideally** at the minimum level.."	Not agreed. The contract level is the ideal level for the assessment.
196	Lloyd's	3.31	Lloyd's agrees with this approach.	Noted.
197	CFO Forum	3.31	**Measurement of insurance contracts requires a portfolio approach** – for most insurance contracts the individual expected cash flows are uncertain and it is difficult to form a reliable estimate at an individual contract level. When those contracts are considered as part of a portfolio of contracts that are managed together, assumptions for future cash flows can be reliably estimated. Indeed this is the very essence of insurance business. It is not appropriate to set the criterion that an assessment at a higher level of granularity *"does not lead to a materially different result"* since the contract by contract assessment is likely to be a less reliable best estimate measurement. This paragraph should be redrafted to require insurance to consider the expected future inflows and outflows on all contracts in a portfolio of contracts that are managed together. Variability associated with the measurement of future cash flows is reflected in the risk margin.	Not agreed. By definition, the boundary of a contract is determined on the contract level. Paragraph 3.24 ensures the proportionality of the assessment.
198	Legal and General Group	3.31	We welcome the recognition that contract level data may not be available. However, the requirement to ensure that using data with a lower level of granularity than contract data does not lead to materially different results, implies that contract level data must be used to ensure that test is met. Further clarity is required about how this test is to be done.	See former CP 45
199	GDV	3.31	If this paragraph is retained, GDV requests that this para. is re-drafted to read: "The granularity should maintained at least at the minimum	Noted.

			level required comply with CEIOPS' Draft Level 2 Advice on Segmentation."	
200	Munich Re Group	3.31	This paragraph is only partially valid for health insurance as the CP 27 does not cover health insurance.	No different approach for health insurance is envisaged.
201	Munich Re Group	3.32	See Para 3.25	See response to earlier comment.
202	AVIVA	3.32	We agree with the advice on using current and credible information.	Noted.
203	ABI	3.32	We believe that this requirement duplicates the removal of those options/ guarantees that result in a profit to the insurer. Option exercise rates are generally based on whole portfolios, so it would not be appropriate to apply them where some of the future premiums have already been excluded. Rather option exercise rates should be applied to all contracts in the portfolio.	Not agreed. The assumptions on exercise option rates should correspond to the portfolio that needs to be valued.
204.	GC	3.32	The advice is that option exercise rates shall take account of the impact that future changes in financial and non-financial conditions may have on the exercise on these options. This condition can lead to the demand for more advanced macro-economic models which may not be material for some options, we thus believe that this condition should be handled with care.	Noted.
205	Lloyd's	3.32	Lloyd's agrees with this approach.	Noted.
206	CFO Forum	3.32	The CFO Forum is in agreement.	Noted.
207.	Legal and General Group	3.32 (blue)	We welcome the use of credible and current information to set option exercise rates. However, these option exercise rates are appropriate and should be used regardless of whether they result in an increase or decrease in the technical provisions.	Noted.

208	CRO Forum	3.32	"Where future cash-flows relating to a policyholder option belong to the existing contract and are included in the best estimate, the option exercise rates for the valuation shall be realistic and based on current and credible information and be chosen with an assessment of actual experiences and anticipated future experiences. The assumptions on the option exercise rates shall take account, either explicitly or implicitly, of the impact that future changes in financial and non-financial conditions may have on the exercise of those options." We agree to the extent that the assumptions on exercise rates are truly realistic, i.e. in line with our comments on 3.14/3.15/3.19/3.22	Noted.
209	PEARL GROUP LIMITED	3.32	We believe that this requirement duplicates the removal of those options/ guarantees that result in a profit to the insurer. Option exercise rates are generally based on whole portfolios, so it would not be appropriate to apply them where some of the future premiums have already been excluded. Rather option exercise rates should be applied to all contracts in the portfolio.	Not agreed. The assumptions on exercise option rates should correspond to the portfolio that needs to be valued.