Summary of Comments on Consultation Paper 76 - CEIOPS-CP-76/09 CEIOPS-SEC-178-09

CP No. 76 - L2 Advice on Simplifications for TP

CEIOPS would like to thank ACA , AFS, AMICE, ARC, Association of British Insurers, Assuralia/IA|BE, CEA, CFO, CRO Forum, CTIP, Danish Insurance Association, Deloitte, DIMA, ECIROA, FEE, FFSA, GDV, Groupe Consultatif, ILAG, Institut des actuaires , IUA, Just Retirement Limited, KPMG ELLP, Legal & General Group, Lloyds, Lucida , Munich Re, PricewaterhouseCoopers LLP, RBS Insurance, ROAM, RSA Insurance Group, and Unum Limited

The numbering of the paragraphs refers to Consultation Paper No. 76 (CEIOPS-CP-76/09)

No.	Name	Reference	Comment	Resolution
1.	ACA	General Comment	1. We believe that cogent simplifications are specific to products, portfolio and countries, often embedded in very specific tax system. Instead of a general solution, we would prefer a close discussion with the local control authorities. 2. In some cases, we also believe that the CoCMlob could be approximated on the basis of Best estimate. In order to achieve this, a similar calibration to the one proposed for the calculation of MCR (based on 35% of SCR) could be built.	Noted
2.	AFS	General Comment	The Association of Friendly Societies represents the friendly society sector in the UK. We have 45 friendly society members, who are all member-owned mutual organisations. Typically they offer long term savings and protection policies, with generally low minimum premiums. Friendly societies are typically small, though well-capitalised, and have a distinctly different business model to shareholder-owned insurers. We welcome the chance to comment on this paper. Overall, we believe that the paper is well balanced and does outline a workable process for simplifications of the technical provisions. We would	Noted

			like to see more emphasis on the judgement of the AFH and on the Board. We are in agreement with CEIOPS on the variation likely in methods used to carry out the technical provisions and agree with them that all (re)insurers are likely to be using simplifications of one type or another to keep the calculation practicable.	
3.	AMICE	General Comment	These are AMICE's views at the current stage of the project. As our work develops, these views may evolve depending in particular, on other elements of the framework which are not yet fixed. ☐ AMICE Members would like to reiterate that Simplifications are at the core of the proportionality principle – a principle that AMICE continuously emphasises on behalf of its many small and medium-sized members. It must be acknowledged that, in addition to the central dimensions of proportionality ("nature, scale, and complexity of risks"), the framework directive explicitly calls for not overburdening small and medium-sized insurers, thus introducing an element of size as follows: "Proportionality" when displaying in the new placing of Recital 19 ("should not be too burdensome for small and medium-sized insurance undertakings") immediately after Recital 21 ("proportionate to the nature and the complexity of the risks") and the insertion of par 4 in Art.29 ("The Commission shall ensure implementing measures include the principle of proportionality, thus ensuring the proportionate application of the Directive, in particular to very small insurance undertakings."). ☐ The application of the principle of proportionality should follow the principle-based feature of the Solvency II framework.	

			This means that proportionality should not be applied using a pre-scribed approach and should not constitute a hard rule. ☐ In our opinion, nature and complexity should be defined following a qualitative approach and the definition of scale would resemble that of materiality. AMICE members believe that the potential use of thresholds, either absolute or relative, and the methodology for its calculation should be defined in Level 2. ☐ The degree of model error in the measurement of technical provisions is closely linked to the reliability and suitability of the valuation. AMICE members welcome the introduction of the paragraph stating that undertakings should not be required to quantify the degree of model error in precise quantitative terms, or to re-calculate the value of its technical provisions using a more accurate method in order to demonstrate that the difference between the result of the chosen method and the result of a more accurate method is immaterial. It would be sufficient for the undertaking to demonstrate that there is reasonable assurance that the model error implied by the application of the chosen method is immaterial. ☐ The list of simplifications included in this consultation paper should act as a guidance of general accepted solutions, that avoid an excessive burden not only on SMEs but also on undertakings with non-risky profiles irrespective of their size, and which are used to approximate the valuation methodology which is consistent with the general principles of Solvency II. In this regard undertakings should be allowed to use alternative simplifications if deemed necessary.	Noted Noted Agreed. The list of simplifications refers not to SMEs but to portfolios of risks that the principle of proportionality can be applied. Agreed. The simplifications proposed should not be seen as a

			☐ Some of the simplifications detailed in the paper are recognized as actuarial best practice in many cases and should therefore not be considered a simplification. In this regard, an undertaking should not be required to justify their application. Risk Margin ☐ Companies should not be required to use more sophisticated methods to calculate the risk margin if it can be demonstrated that simplifications capture the risk in the same manner as the standard calculation does; Consequently, AMICE members regard it essential that the general approach is considered as the default method for the calculation of the risk margin. Remarks regarding the paragraphs that are not consulted ☐ We strongly support CEIOPS definition of scale in terms of the SCR. However, we would prefer relating SCR to the vulnerability of the risk over one-year to a 1 in 200 confidence level as defined in the Level 1 text rather than to the "worst case" scenario.	prescriptive list of methods, but a principle based paper with an open list describing the more relevant examples. Noted.But these simplifications for other cases can be considered only as simplifications. Arild will deal with it Noted
4.	ARC	General Comment	In general, when estimating technical provisions for run-off business, some form of simplification is sometimes necessary, as compared with "live" business, due to difficulties in obtaining the full data necessary for advanced methods. An acknowledgement to this effect, together with a reference to the types of simplification that are acceptable, would be helpful. Paul Corver, the Chairman of the Association of Run-off Companies, wrote to Karel Van Hulle on 17 November 2009 and introduced certain concerns for run-off carriers. In 2010 we are prepared to	Noted

			work with CEIOPS to assist with the development of run-off specific guidance.	
5.	Association of British Insurers	General Comment	The ABI welcomes the opportunity to comment on the Consultation Paper (CP) No. 76 on Simplifications for Technical Provisions. In line with the principles of the directive, we strongly believe that proportionality should be the default approach for the calculation of technical provision and not a simplification. We consider that the requirements in order to apply the simplification are overly complex. The overall simplification process cannot be more complex than the direct application of the standard formula otherwise it misses the point. In our view specific formulae should be specified at level 3 not 2. The risk margin calculation in CP42 is considered by many undertakings as overly complicated and we believe that the method proposed in this CP should be the standard approach.	Not Agreed.Undertakings should calculate their TP with the highest degree of accuracy possible. Noted.If the requirements seem to be very complex, the undertaking can use the standard formula. Noted Level 2 IM on simplifications cannot override the content and the requirements set out in Articles 75 to 85. In particular, definition of risk margin in Article 77(5) leads to the formula provided in CP42 as the standard approach. Furthermore, according proportionality principle,

			In our view the most effective and favoured way to apply simplification would be to apply a deterministic approach as default approach and then use stochastic when necessary. We do not understand why CEIOPS did not open the entire CP for consultation.	simplifications are applicable only where the model error is negliblbe/non-material. If a simplification is considered as a standard approach, then there will be no mean to ascertain that model error is kept appropriately small. Not Agreed. If the risk profile is of the kind that a stochastic approach should be applied, then simplifications should be incorporated e.g. in the number of the scenarios run or the asummptions used. The items of CP 76-09 not open for consultation were already consulted as part of the second wave of advices. It has no sense to consult twice the same text. Coordination between CP76-09 and CP 77-09.For the sake of flexibility, CEIOPS open the door to having specific rules regarding proportionality principle in respect TP (CP 76-09) and in respect SCR (CP 77-09), although the bulk is obviously common to both papers.
6.	Assuralia/IA	General	As the methods to be used to determine the technical provisions	Noted

	|BE	Comment	are prescribed in detail, it is difficult to judge when a "simplification" is used. Showing that a simplified methodology can be used is quite burdensome. Therefore, it should be more clearly defined when the appropriateness of the used methodology should be shown as an acceptable simplification. The use of model points is a common practice for life insurances. This simplification should be mentioned as an "overall" simplification, for the determination of the best estimate liabilities as well as the risk margin.	Noted.Model points in many cases are considered to be standard methods.Only an application of proportionality on them could be considered as a simplification.
7.			Confidential comments deleted.	
8.	CEA	General Comment	The CEA welcomes the opportunity to comment on the Consultation Paper (CP) No. 76 on Simplifications for Technical Provisions. 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. Moreover, it should be noted that this consultation has been carried on an extremely short time frame which has not allowed a complete analysis of all the advice. Therefore, the following comments focus	

			only on the main aspects of Ceiops' advice and are likely to be subject to further elaboration in the future.	
			As the CEA stated in its advice on CP45, specific formulae for simplified methods or thresholds to use them should not be specified in level 2.	Noted
			The possible simplifications that could be used by undertakings should not be restricted to the simplifications suggested in this consultation paper. Undertakings should be allowed to use simplifications whenever it's duly justified.	Agreed. The simplifications proposed should not be seen as a prescriptive list of methods, but a principle based paper with an open list describing the more relevant examples.
			It is unclear however whether Ceiops intends to specify possible simplifications at level 2 or 3. But even for level 3 it is doubtful whether these formulas should be fixed by Ceiops in their supervisory guidelines. Having such concrete formulae as technical standards may be helpful with these being tested in QIS5.	Noted
			As was evidenced by their use in the QIS4 exercise, there is a need for a wider range of simplifications and proxies than those considered in this document.	Noted
			This is likely to especially be the case at the outset of Solvency II. Simplifications are likely to be needed for discounting. More basic simplifications, perhaps incorporating a degree of conservatism, are also likely to be needed in a range of areas.	Noted.Maybe CEIOPS will deal with further simplifications In level 3.
			Undertakings should be able to identify which are the most appropriate methods to be used, based on the specificities of their	Noted

			risk profile without being restricted by rigid criteria set in Level 2.	
			For this purpose, the CEA advocates that criteria for choosing simplified methods are needed under level 2 which should strike the balance between the need for the harmonised use of simplifications and the flexibility required by the different practical situations.	Noted.Solvency II is principles based and not rules based.Apart from that, a method which is appropriate for a certain LoB and Undertaking might not be appropriate for the same LoB but for another Undertaking.
			When determining what simplifications might be appropriate for a particular line of business in an undertaking it is also important that the expert actuarial judgement of the Actuarial Function is both sought and respected.	Noted. Actuarial judgement is always assumed.
			It needs to be made clear in the level 2 text and throughout this document that undertakings are not expected to perform significant additional calculations (e.g. using more sophisticated approaches) in order to assess the potential impact of model error as doing so would be disproportionate and defeat the objectives of having simplifications.	See paragraph 3.113 of CP76.
			The paper gives inconsistent messages. In some areas it is stated that the undertaking is not required to use more sophisticated methods to quantify possible model error (see 3.113) and in others (3.305) they are required to assess the impact of using a particular simplification, which could be interpreted as requiring a calculation using a more sophisticated method. A pragmatic and reasonable approach that requires relatively few and relatively simple calculations should be all that is required to assess the possible impact of the model error associated with a particular simplification.	Not Agreed.Paragraph 3.305 means that attention should be drawn so as the simplified TP will not distort the pragmatic simplified SCR.
			Life and Non-life specific simplifications are considered but none for Health business?	Agreed. .

			The need for simplifications for this business should also be considered. The Life "simplifications" include approaches that would not be considered simplifications and in some instances would be considered disproportionately complex. The focus should be on simplifications as opposed to possible approaches. The standards being set by Ceiops should not be too restrictive or difficult to assess elements such as the loss absorbing capacity of technical provisions Calculation by line of business should not be a requirement as they may not appropriate in some cases, in particular when they do not reflect how undertakings manage their business (see CEA comments on Segmentation CP).	Noted Agreed. CEIOPS will continue to investigate possible simplifications for the calculation of the best estimate in life insurance business in the context of level 3 supervisory guidelines. Calculation by LoBs/HGR is a requirement of article 80. The level 1 text does not refer to 'segmentation' when opeing the door to simplifications. 'Segmentation' is regarded as a core basement to produce a reliable calculation of TP. Grouping contracts as a less granular level than that advised in doc 22-09 is not considered a simplification, but as an undesirable practice. See resolutions to comment 5

			The proportional approach should be declared the default method for the calculation of the risk margin.	Noted. There is **no** matter of initial and subsequent phase.
			The CEA welcomes the recognition of the practical difficulties associated with projecting future SCRs for the purposes of calculating risk margins and agrees that allowing use of the proportional approach is a sensible approach. However, rather than being the method to be used during an initial phase of Solvency II it should the default methodology. Applying more complex calculation methods to derive a proxy for an unknown value (as market prices for insurance liabilities do not exist) will not increase accuracy, but will increase the cost and burden on companies and their policyholders. In terms of process, we do not understand why Ceiops is not willing to get feedback on paragraphs 3.1 to 3.160? This is especially puzzling as consultation is sought on equivalent section in CP77 and some of the issues there have not been discussed as part of CP45.	Noted
			In the assessment of proportionality assessment an assessment of scale is required with this being linked to the scale of the risks relative to the level of technical provisions for a particular segment / homogeneous risk group. The CEA disagrees with this and believes that the assessment should be made relative to the overall technical provisions as this is the level materiality at which the financial figures reported will be used.	Agree.
			The numbering of the subsections should be tidied up and made consistent throughout. In several paragraphs there are references	

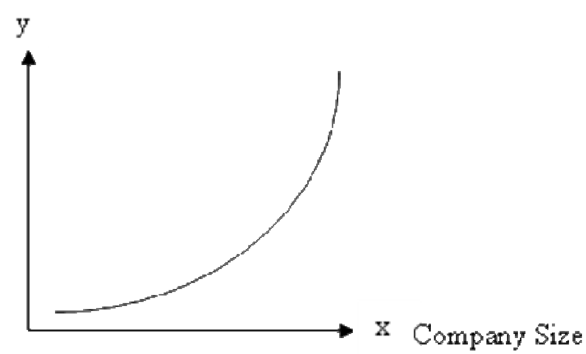
			to subsections such as 3.3.2.4.2 (in 3.336), which is not the case in the rest of the document and so it makes difficult to read.	
9.	CFO	General Comment		
10.	CRO Forum	General Comment	A Specific lists for simplified methods should not be restricted (Priority: high) The possible simplifications that could be used by undertakings should not be restricted to the simplifications suggested in this consultation paper. Undertakings should be allowed to use simplifications when it is duly justified. B Criteria for choosing simplified methods are needed under level 2 (Priority: medium) Undertakings should be able to identify which are the most appropriate methods to be used, based on the specificities of their risk profile without being restricted by rigid criteria set in Level 2 and with relative thresholds being used as a guide for both supervisors and undertakings as to the likely suitability of a particular simplified approach. In this regard the CRO Forum notes that the advice given on Non-life specifications is helpful as it is structured in terms of a description, scope, calculation approach and criteria for application. The same approach should be used for the Life specific simplifications. In addition, it is appropriate to use the principle of proportionality to determine the appropriateness of using simplifications, however, the requirement that a method is proportionate if model error is expected to be non-material is potentially onerous.	Agreed. The simplifications proposed should not be seen as a prescriptive list of methods, but a principle based paper with an open list describing the more relevant examples. Not Agreed.Specific criteria for choosing simplified methods can't be given and are out of the scope of SOLVENCY II. Not Agreed.There is no difference in the philosophy of the structure. Noted

			C There is also a need for simplifications regarding Health business? (Priority: medium)The need for simplifications for this business should also be considered. D "Simplifications" should also be considered as appropriate techniques (Priority: medium) The focus should be on simplifications as opposed to possible approaches. The standards being set by CEIOPS should not be too restrictive or difficult to assess elements such as the loss absorbing capacity of technical provisions. In certain cases a "simplification" may be the appropriate technique to apply to determine the best estimate while in other cases the same technique is deemed to be a simplification (e.g. For the quarterly calculation of the risk margin).	In my opinion we could say that if health business has characteristics similar to non-life insurance, then, "non –life" simplifications should be applied. If health business has characteristics similar to life insurance, then, "life" simplifications should be applied. Agreed. CEIOPS will continue to investigate possible simplifications for the calculation of the best estimate in life insurance business in the context of level 3 supervisory guidelines. Noted
11.	CTIP	General Comment	Consistent evaluation of technical provisions remains the foremost condition for implementing Solvency II. The CP 76 discusses on general simplification methods, about which we have no major issues.	

			In the material preparation for Solvency II, simplified methods are best discussed at the same time as "precise" methods. To this day a lot of essential work and concertation are still to do; for instance, in a comment to CP 39 (Technical Provisions – best estimate) we had mentioned that in order to eliminate divergences of interpretation, further guidance is necessary in the following areas: – Mortality tables Considering the important differences between national mortality tables (well-known by CEIOPS), due to different statistical data used and to construction methods, it is essential to harmonize the methodology (e.g. prospective vs. current tables, national demographic data vs. insured persons data, regular updating the table) and to construct new tables. If this can not be completed before Solvency II implementation, it will then be necessary to set temporary rules to derive harmonized technical provisions, in line with our comments on CP 49 §3.50. - Future discretionary benefits (FDB) In Life (and Health SLT) insurance, future "conditional discretionary benefits" and "pure discretionary benefits" representent a very significant part of technical provisions, which reduce the effect of stress scenarios, either automatically (for "conditional discretionary benefits") either by management decision (for "pure discretionary benefits"). In our judgment, it is most important to complement the Solvency II directive by more specific rules defining FDB, corresponding to the main life (and Health SLT) insurance products existing in the member states.	Not Agreed.Ideally, each Undertaking should construct its own Mortality tables which correspond to the insured persons of the certain undertaking.There is no need of harmonisation as far as mortality tables are concerned. Noted. CEIOPS will carry out further technical work on these issues in the context of level 3 supervisory guidelines. Maybe we should discuss it with Jernej in the TP Subgroup

			In particular, to assess FDB consistently with the SCR market risk, it is necessary to set a future asset return hypothese for each asset class, in relation with the risk-free interest rates.	
12.	Danish Insurance Association	General Comment	Solvency II is based on a total balance sheet approach where the total amount of assets must exceed the TP plus SCR. We do very much agree in and welcome this approach. We do also agree in a proper application of the Principle of Proportionality and acknowledge the underlining of this principle as in section 3.1.1 of CP 76. A proper application must necessarily mean that there should be consistency between how the principle of proportionality is applied to the TP and to the SCR. However the principle does not seem to have been followed sufficiently in the rest of the CP in the sections following section 3.1.1. Even with the simplified methods described in CP 76 the accuracy demanded for the calculation of the TP exceeds the accuracy in the standard SCR disproportional. It seems thus that the undertakings are demanded to develop rather (unnecessary) complex models to calculate the TP while CEIOPS delivers very approximate and undocumented methods and parameters to calculate the standard SCR. It should be permitted to calculate the TP in a manner with a precision that satisfy the demands for general reporting as long as it can be demonstrated that the TP is no less than calculated by a more complex method.	Noted Noted Not Agreed Noted
13.	DIMA	General Comment	DIMA welcomes the opportunity to comment on this paper. Comments on this paper may not necessarily have been made in conjunction with other consultation papers issued by CEIOPS. It is clear that a lot of thought and effort has gone into this paper	

			and it is extremely difficult to give detailed advice on a subject like this for both life and non-life business. The paper varies from an almost encyclopaedic approach to certain topics to broad outlining of general methods in others. It is questionable whether it is necessary in a principles-based framework to give such detailed advice and whether guiding principles combined with a reliance on expert judgment in this area may not be a better approach. Also it is felt that model error resulting from using simplified methods could be compensated for by a capital buffer. It would be helpful if it was known what degree of buffer would be acceptable in this scenario. Alternatively, if a firm is required to perform a disproportionate amount of work to justify the use of a particular simplification, it is likely that the simplification is not appropriate in the first place. Thus materiality should be a key consideration as to the amount of assessment required. If simplified methods are appropriate in terms of proportionality, then requiring a disproportionate amount of effort to justify using the method is in itself not proportional.	Noted
14.	ECIROA	General Comment	ECIROA strongly believes that a proportionality principle cannot be expressed in mathematical forms. From a common sense point of view and due to the diversity of insurance undertakings, each and every single company has to be assessed on its own scale, nature and complexity. It is not possible to accept the description, where besides scale "nature and complexity of risks are closely related". There are three different criteria: Scale determining the size/amount of a risk	Noted. ECIROA doesn't suggest a mathematical form for proportionality principle.

			Nature determining the risk, either from Underwriting or Market or, with a huge variety of single risks and different curve shapes (based on line of business, sub lines, country, jurisdiction, costumer groups, retail-commercial-industry-FI's etc., investment strategies (asset classes / again different per country)). All of these have to be aligned and added up. Complexity describes how "easy" it is to understand i.e. to know about details of a company or group and all their interdependencies. This might be expressed in a table such as this: Complexity  Smallest largest This means: with increasing company size, the complexity is growing steeply. This demonstrates why large insurers will have a lot more difficulty presenting a consistent / transparent / true picture of a big group in comparison to small undertakings.	Not Agreed

			The more or less identical use of uncertainty and model error is not acceptable. Uncertainty is a basis which allows more or less aggressive / volatile / conservative / restrictive strategies, i.e. wilful act and decision to use the parameters and calibration an insurance company wants to start with. = i.e. ex ante. Model errors are discovered always ex post and may be distinguished between those based on a wilful decision and those caused by a negligent or unexpected mistake.	
15.	FEE	General Comment	We have considered as we have been developing our detailed responses to individual Consultation Papers whether there are any matters which come to mind as generic observations that CEIOPS and the European Commission might find helpful. We are mindful that the general principle underlying the regulatory framework is to develop Level 2 and Level 3 regulation and guidance which supports the intention of the Directive. Whilst we recognise the challenge faced by CEIOPS in sustaining where possible a principles based regulatory framework, our sense is that the detail developed in most of the Consultation Papers have tended to be more prescriptive than might initially have been envisaged. There is little doubt that to achieve consistency of application a degree of clarification is necessary. Accountants and auditors face the same challenge when interpreting Accounting Standards with many correspondents seeking greater clarity. However, the temptation to publish detailed supplementary guidance or rules should be strenuously avoided where possible. We suggest that the European Commission in making the final Level 2 regulation might best be focused on narrowing down rather	Noted

			than extending the guidance proposed by CEIOPS where possible. This would have the added advantage of reducing the apparent and ever increasing weight of the regulatory text.	
16.	FFSA	General Comment	FFSA believes that the standards being set by CEIOPS should not be too restrictive or difficult to assess such as the loss absorbing capacity of technical provisions. Some flexibility needs to be considered to avoid highly burdensome calculations and adjustments. FFSA believes that calculation by line of business might not be appropriate in some cases. Whenever it's possible, calculations should be limited to the following lines of business: with profit contracts, non- participating contracts, unit liked contracts and accepted reinsurance. FFSA considers that the possible simplifications that could be used by undertakings should not be restricted to the simplifications suggested in this consultation paper. Undertakings should be allowed to use simplifications whenever it's duly justified. Regarding the risk margin calculation, FFSA considers that the first 4 suggested simplified methods should be considered, although undertakings will seldom apply the first two methodologies.	See resolutions to comment 5 See resolutions to comment 5 See resolutions to comment 8 See resolutions to comment 5 See resolutions to comment 5
17.			Confidential comments deleted.	
18.	GDV	General Comment	GDV recognises CEIOPS' effort regarding the implementing measures and likes to comment on this consultation paper. In general, GDV supports the detailed comment of CEA. Nevertheless, the GDV highlights the most important issues for the German market based on CEIOPS' advice in the blue boxes. It should be noted that our comments might change as our work develops. Based on our experience during the previous two consultation	

			waves we also want to express our concerns with regard to CEIOPS decisions: - restricting the consultation period of the 3rd wave to less than 6 six weeks - splitting the advice to the EU-commission in two parts ((1) first+second wave and (2) third wave) although both parts are highly interdependent - not taking into account many comments from the industry due to the high time pressure (first+second wave) These decisions could reduce the quality of the outcome of this consultation process. Therefore we might deliver further comments after we fully reviewed the documents. From our point of view, it could be foreseen that especially the calibration of the QIS5 will not be appropriate nor finalised when beginning in August 2010.	Noted
			Specific formulae for simplified methods or thresholds to use them should not be specified in level 2. The possible simplifications that could be used by undertakings should not be restricted to the simplifications suggested in this consultation paper.	Noted. Agreed. The simplifications proposed should not be seen as a prescriptive list of methods, but a principle based paper with an open list describing the more relevant examples.
			As was evidenced by their use in the QIS4 exercise, there is a need for a wider range of simplifications and proxies than those considered in this document e.g. simplifications such as determining best estimate liabilities for profit sharing business. In contrast to this we see a tendency of high hurdles, esp. regarding	Noted.Maybe CEIOPS will deal with further simplifications In level 3.

			interdependencies, that have to be assessed, when different simplifications are used (e.g. best estimate / risk margin – 3.305): If an undertaking first "has to assess the impact of simplifications" then the undertaking is urged to use the "exact" method. Such kind of advice is not practicable. We want to indicate a general topic across all simplifications. A significant part of the written business stems from coinsurance. The associated risks are not necessarily of minor nature, scale or complexity. However, companies often do not have data in order to conduct projections on a policy-by-policy or on a portfolio basis. Hence, the question how to simplify the calculation of TP or rather how to approximate the TP for coinsurance business should be addressed and needs future discussions. The proportional approach should be declared the default method for the calculation of the risk margin. The GDV welcomes the recognition of the practical difficulties associated with projecting future SCRs for the purposes of calculating risk margins and agrees that allowing use of the proportional approach is a sensible approach. However, rather than being the method to be used during an initial phase of Solvency II it should the default methodology. Applying more complex calculation methods to derive a proxy for an unknown value (as market prices for insurance liabilities do not exist) will not increase accuracy, but will increase the cost and burden on companies and their policyholders and may increase model error.	Noted.Maybe CEIOPS will deal with further simplifications In level 3. Not Agreed.Undertakings should calculate the risk margin with the highest degree of accuracy possible. Noted. There is **no** matter of initial and subsequent phase.
19.	Groupe	General	The Groupe Consultatif does not believe as a general principle that	

	Consultatif	Comment	acceptable simplifications should be enumerated at either Level 2 or Level 3 other than as examples. Instead there should at Level 2 be a general principle that undertakings may adopt simplifications provided that the actuarial function can show that the simplification is likely to be no lower than alternative generally accepted methods of calculation. This CP offers a wide range of possible simplifications. It is not always clear if these lists are complete. It might be possible / necessary to have an additional simplification. Nevertheless it is important to pay attention to 3.13 We welcome the chance to comment on this paper. Overall, we believe that the paper is well balanced and does outline a workable process for simplifications of the technical provisions. However, we would like to see more emphasis on the judgement of the actuarial function and on the Board. We are in agreement with CEIOPS on the variation likely in methods used to carry out the technical provisions and agree with them that all (re)insurers are likely to be using simplifications of one type or another to keep the calculation practicable. We note the magnitude and complexity of this and the other consultation papers. It is our understanding that the short response time is insufficient to provide complete and valuable professional feedback and advice and we do not believe that this round of consultation paper is exhaustive to identify, clarify and solve all open issues. We notice (1.10) that CEIOPS is not consulting on a large part of the paper as it is considered to have been fully covered by CP45. We further note that several of these sections are repeated in CP77	Agreed. The simplifications proposed should not be seen as a prescriptive list of methods, but a principle based paper with an open list describing the more relevant examples. Noted Noted. Actuarial judgement is always assumed. Noted See resolutions to comment 5

			with continued consultation. We would have appreciated more transparency as to how CEIOPS have dealt with comments on CP45, and how the text subsequently has been updated. We would have thought it would still be relevant to comment on the now slightly changed text (could have been managed by showing track changes). We agree with the conclusion in 3.14 that it would not seem appropriate to introduce in level 2 (on the basis of a ""hard"" definition of what can be considered to be a ""simplified method) a categorisation of the range of available methods for the valuation of technical provisions. We note that the remaining part of the paper continues to seek to clarify the use of simplification and the circumstances in which they may be used. Although slightly inconsistent with the point above, we found that the descriptions are now clearer compared to previous papers. We are conscious of the difficulty of identifying when a company should be allowed to use a simplified or non-simplified method. We also find it difficult to distinguish between simplified and non-simplified methods as recognised by CEIOPS there is no ''hard'' definition. The process of proving that a simplified method is appropriate may in many ways be more difficult/ time consuming than carrying out the non-simplified method in the first place. In addition having to demonstrate this on a quarterly rather than annual basis makes it even more difficult. In our view the interpretation of the phrase ''nature, scale and complexity'' would be better left to local regulators interpretation, and not be set out in the Level 2 text. The discussion in CP76 does not seem to make the interpretation easier in any particular situation.	Noted Noted Noted See paragraph 3.113 of CP76. Noted Not Agreed Agreed. The simplifications proposed should not be seen as a

			The prescription of some simplified methods may need to be included at level 2 due to the Article 85h, however this should not be an exhaustive list. We note that the prescribed ‘‘general methods’’ for the calculation of the risk margin already encapsulate a number of simplifications. We wonder if this has implications for those who wish to do this ‘‘properly’’. Furthermore, we have noticed that there appears to be no simplified method for the SCR in the calculation of the risk margin for non-life insurers, if this is indeed the case it should be explicitly mentioned. Given that CEIOPS have advised that the calculation of risk margin undiversified by line of business (our preference was to include it at an overall level) CEIOPS may wish to think about starting a discussion on the following points: ☐ How to allocate catastrophe risks to a specific line of business (or underlying homogeneous risk groups) ☐ How to allocate reinsurance cover that covers several lines of business down to specific lines of business (or underlying homogeneous risk groups) ☐ How to take into account intra-group capital and risk transfers instruments ☐ How to allow for diversification within a line of business (or underlying homogeneous risk groups) between premium, claims and catastrophe risks	prescriptive list of methods, but a principle based paper with an open list describing the more relevant examples. See resolutions to comment 5 Agreed. The fourth simplification shall be consider in the final version.

			☐ How to allocate financial market risks for certain unit linked life products between different lines of business (or underlying homogeneous risk groups)	
20.	ILAG	General Comment	We welcome the chance to comment on this paper. Overall, we believe that the paper is well balanced and does outline a workable process for simplifications of the technical provisions. We would like to see more emphasis on the judgement of the AFH and on the Board. We are in agreement with CEIOPS on the variation likely in methods used to carry out the technical provisions and agree with them that all (re)insurers are likely to be using simplifications of one type or another to keep the calculation practicable.	Noted. Actuarial judgement is always assumed. Noted
21.	Just Retirement Limited	General Comment	Just Retirement welcomes this opportunity to comment on CP76. Overall we agree that proportionality is the key principle which should be adhered to in the usage of simplified methods. We also believe that simplified methods should be available to all entities, not just subcategories (e.g. we do not agree with the proposed restriction of risk margin simplification to firms using the standard formula, since this type of simplification is likely to be important to many firms applying for an Internal Model). We support the principle of a hierarchy of approaches to simplifying the risk margin calculation, but we believe that this hierarchy should be supplemented by a ""default"" approach, with undertakings then being able to use a more complex approach if they are reasonably able to do so, or use a more simple approach if they can justify doing so. An appropriate default approach would be the ""proportionate"" approach (""level 3"" in the proposed hierarchy).	Not Agreed.An undertaking which has the know-how to develop an internal model,has also the ability to fully calculate the risk margin. See resolutions to comment 5

			In some cases we believe that the requirements which need to be satisfied in order to apply the simplification are too complex. The overall process of using a simplified method should not be more complex than applying the non-simplified approach.	See paragraph 3.113 of CP76.
22.	KPMG ELLP	General Comment	We understand that the idea of referring to materiality as defined for IFRS is that the concept shall be transferred by exchanging the intended use from capital market to supervisory authorities. For this purpose it is necessary to expand further what decisions of the supervisory authority are referred to. It could be decisions regarding the question of adequate security. Hence anything could be defined as immaterial for solvency purposes if it is so small that it could not affect the decision making process of the supervisory authority regarding adequate security. However, that would require, that the entity has an idea of that decision making process. In case of general purpose accounting, the fiction of a participant in the capital market allows the (re)insurance undertaking and the auditor to identify a general well-known concept – in addition, (re)insurance undertakings act as participants in capital markets. The decision making process of supervisory authorities is not necessarily as transparent and based on a common understanding. The convincing idea of the definition of materiality in IFRS is the reference to a generally used benchmark, being the views of the participant in the capital market. That model cannot be transferred to the views of the supervisory authority. Hence, we recommend considering a direct definition of materiality for solvency purposes without making reference to IFRS. In any case, since the benchmark is exchanged, it cannot be expected and should be made clear, that materiality considerations for IFRS and for Solvency II should generally lead to the same	Noted

			results. While it could be assumed that, with respect to security, the IFRS understanding of immateriality is more generous, this is not generally the case: in particular the fact that the concept of materiality is also being applied to disclosure information, and materiality levels have to be set with reference to quantitative and qualitative considerations, can lead to a situation where materiality under IFRS is smaller, for the assessment of specific questions, than materiality derived with regard to financial statements (balance sheet and profit or loss information. In such cases, the IFRS immateriality could be less generous than the Solvency II immateriality. We would expect that the levels of immateriality for Solvency II purposes will significantly depend on guidance provided by the supervisory authorities regarding that level of information which is relevant to their decision-making process. The problem with model risk (risk of error) is that often the “parameter” causing the error is not even identified as being a parameter. That means that there is a specific aspect of the risk which would not appear in experience. That applies as well if circumstances change where it had not been assumed that there could be any change. Hence, the proposed measures will not capture such issues. However, using less or more sophisticated approaches would not normally allow an assessment of such model risks. Regarding simplification, the relevant question is whether identifiable risks are not considered since the simplified approach ignores them. It is important that supervisory authorities care that risks identified by entities applying more sophisticated approaches are implemented in the test of whether simplifications are suitable for other entities.	

			The issue here is not simplification, since the most sophisticated approach would also, as a consequence of lacking data, not result in better quality. The uncertainty referred to is not a consequence of simplification but of the unavoidable uncertainty of the position. Addressing the increased level of estimation uncertainty in the setting of the risk margin means ultimately that a simplified approach might result in higher technical provisions. It is accepted that risk margins would be higher if the available knowledge is very limited, since such a level ofuncertainty would be the same for any acquirer, irrespective of the sophistication level that might be applied there. But it is cannot be assumed that an acquirer would increase the risk margins to cope with effects of simplifications. We believe however that it might be a suitable pragmatic solution, but this should be stated as such.	
23.	Lloyds	General Comment	The simplifications proposed are welcomed in most cases although we do not agree with all of them. It is important to allow undertakings to choose simplified methods. In general, the decision to use a simplified method will be subjective. It is important that the proposed advice makes it clear who is expected to take responsibility for the decision to use a simplified method for technical provisions (we see this as the actuarial function) and that the decision is well documented. We welcome the recommendation of caution for the inclusion of specific methods and/or external thresholds into the Level 2 text.	Agreed. The simplifications proposed should not be seen as a prescriptive list of methods, but a principle based paper with an open list describing the more relevant examples. Partly Agreed since CEIOPS poses conditions under which an undertaking can use simplified methods. Documentation of high quality is

			Our specific comments are: Proportionality Although not consulted on it is important to re-emphasise that, as the complexity of risks increases, it is not a given that the complexity of modelling should. To do so would ignore the data limitations that are often associated with complex risks. The point should focus on: as the complexity of risk increases then so should the level of expertise required to assess it and underlying modelling only to the extent available data allows. The advice suggests that the greater the nature, scale and complexity of risks the more scientific the method for calculating technical provisions should be. This is not necessarily desirable for extremely complex cohorts of risk. There are risks which are significantly complex where using a simple valuation technique is more suitable. This could be in cases of - over parameterisation / too many assumptions underlying more scientific approaches - inadequate data to undertake ""complex"" modelling or - inability to adequately segment into sufficiently homogeneous groups. In these cases a simpler method may be more appropriate - - it will demonstrate the true degree of the ability to model the risks and would be likely to eliminate spurious modelling - - which would lower the model error. Secondly, it is important that when assessing materiality of model error an undertaking is not required to calculate to non-simplified approach as this would defeat the objective of the simplification. Part of the discussion in the paper focuses on the measurement in respect of model error. The paper correctly highlights the	always needed. Agreed See paragraph 3.113 of CP76. Noted

			difficulties within the practicalities of calculating the model error. However, much of the discussion appears to assume that the model errors of various valuation techniques are known – this is unlikely to be the case in practice. Experience and technical training will provide knowledge of the strengths and weaknesses of various methods - - which will help in the assessment of which method is most appropriate. However, this does not necessarily translate into the lowest error terms. The advice should allow more for judgment and experience. Simplification of best estimate Great care needs to be taken when applying IBNR to outstanding factors. An additional required criterion is that the level of outstanding claims remains demonstrably stable. If this does not hold then the results of the method are unreliable. The proposed method for estimating the premium provision makes no allowance for expected future cash flows in that are required when calculating the premium provisions. The simplification only works where expected future cash in flows (e.g. future premiums on existing contracts) is zero or immaterial. The proposed method could be adapted to include an estimate of future premium income from existing contracts to make the simplification more widely applicable. Simplification of risk margin We agree with the decision tree proposed and note that (as mentioned later) the level 3 & 4 approaches are the most appropriate to apply at the current moment in time. This is based on the current development of techniques used for estimating future SCRs.	Agreed. Agreed. Agreed. The final text will introduce some change to reflect this Agreed Noted

			Simplification of reinsurance recoveries We agree it is appropriate to use “"gross to net"” ratio techniques for estimated reinsurance recoveries. We note: - these methods are not always simplifications. For proportional reinsurances they are the non-simplified approach too - these methods could be described a “"directly"” calculated from the gross (and not 3 step approach “"indirect"”) - it is important to include judgement in the selection of methods. Given reinsurance programmes changes and issues such as reinsurance exhaustion can distort results, judgement is a key element of the process - in some cases the ratio method is the most superior/appropriate method available (for example with bulk IBNRs) - reported/case reserves have less need to be estimated using ratio techniques - different ratios for different years is suitable - splitting of large and small claims will only be appropriate for some (but not all) books of business and reinsurance programmes.	Agreed Agreed Agreed Agreed Agreed
24.	Lucida	General Comment	Lucida is a specialist UK insurance company focused on annuity and longevity risk business. We currently insure annuitants in the UK and the Republic of Ireland (the latter through reinsurance).	Noted
25.	Munich Re	General Comment	We fully support all of the GDV statements and would like to add the following points: ☐ Tendency of high hurdles, esp. regarding interdependencies,	

			that have to be assessed, when different simplifications are used (e.g. best estimate / risk margin – 3.305) ☐ We note the magnitude and complexity of this and the other consultation papers. It is our understanding that the short response time is insufficient to provide complete and valuable professional feedback and advice and we do not believe that this round of consultation paper is exhaustive to identify, clarify and solve all open issues.	Noted Noted
26.			Confidential comments deleted.	
27.	PricewaterhouseCoopers LLP	General Comment	In general, the simplifications outlined in this paper may all be reasonable in certain circumstances. We note that careful consideration will be needed in defining the conditions in which they apply in order to avoid undermining the robustness of the regulatory regime.	Noted
28.	RBS Insurance	General Comment	The context of use of simplifications is complex. We believe proportionality should be able to be exercised for small lines of business (rather than requiring an assessment of the risks for complexity) in order to allow simplifications to be made. We believe specific formulae may be more appropriate at level 3 rather than at level 2. We also believe that proportionality should be the default approach for the calculation of technical provisions and not a simplification. For outstanding claims provision and IBNR provision there are only two simplification methods stated for each one (3.222-3.237). There are other methods of simplification such as survival ratio techniques, curve fitting, benchmarking against similar portfolios etc that will also provide estimates of outstanding and IBNR provisions. The consultation paper could be seen as being too prescriptive.	Not Agreed. See paragraph 3.113 of CP76. Not Agreed. Agreed. The list is not exhaustive.

			We continue to believe that the calculation for the risk margin as outlined in CP42 is too complex, and that firms should be permitted to use the "simplifications" as their basic method without proving proportionality.	See resolutions to comment 5
29.	ROAM	General Comment	ROAM agrees with AMICE comments. We add only a comment on 3.441.	Noted
30.	RSA Insurance Group	General Comment	As we understand this CP it would seem CEIOPS are moving away from the concept of "simplification". Instead the preference seems to be for a choice of method, from a spectrum of potentially appropriate methods, that reflects the underlying riskiness of the portfolio (or sub-portfolio) being valued. If so, we support this approach. This will require the undertaking, supported by its Actuarial Function, to apply judgement in a proportionate and appropriate way, and to carefully document the rationale for the selection made. We think such an approach can only sensibly be operated using principles. These principles should apply to actuarial standards and should not be enshrined in wither Leve2 or Level 3. In particular we see no need for thresholds in either Level 2 or Level 3 as we agree with CEIOPS that these will be difficult to apply in practice.	Noted
31.			Confidential comments deleted.	
32.	Unum Limited	1.	In line with the principles of the directive, we strongly believe that proportionality should be the default approach for the calculation of technical provision and not a simplification. We consider that the requirements in order to apply the simplification are overly complex. The overall simplification process	noted

			can not be more complex than the direct application of the standard formula otherwise it misses the point.	
33.	Groupe Consultatif	1.10.	What was the result of CEIOPS consulting during Apr. through Sep. 2009 on CP45 and how would it affect the final L2 advice? We note, that changes to CP45 have been made but missing a track changes version makes it difficult to respond in the short return time with a reconciliation to earlier comments. Does CP 76 replace CP 45 or is it in addition to CP 45?	CP76 incorporates the changes made to CP45
34.	Institut des actuaires	1.10.	Does CP 76 replace CP 45 or is it in addition to CP 45?	CP76 incorporates the changes made to CP45
35.	Groupe Consultatif	2.6.	In some cases, it might not be possible respectively reasonable to calculate the best estimate gross of reinsurance. E.g. for German life business it is not possible, due to the profit sharing rules.	noted
36.		3.1.-3.87	See comment template CP45	
113.	FEE	3.77.	NO CONSULTATION ON THIS PARAGRAPH The concern with the assessment of the model error (risk of error) implicit to the calculations is that often the “parameter” causing the error is not identified as being a parameter. This means that there is a specific aspect of the risk with no past experience data. That applies also if circumstances change and it has not been assumed that there could be a change. The proposed measures will not capture this type of issues. Having said this, using less or more sophisticated approaches would not normally allow an assessment of such model errors. On simplification, the relevant question is whether risks that are identifiable are considered, since the simplified approach would ignore them.	

			Regulators may consider how the knowledge about risks, that have been identified by entities applying more sophisticated approaches, must be considered by other entities that apply simplifications in order to test whether such simplifications are (still) suitable.	
117.	FEE	3.80.	NO CONSULTATION ON THIS PARAGRAPH Paragraph 3.80 notes that in some circumstances it may be unavoidable for the undertaking to apply a valuation method which leads to an increased level of estimation uncertainty in the valuation, and that this would be the case where the undertaking, to carry out the valuation, would need to make assumptions which are uncertain or conjectural and which cannot be validated. If as in the example provided, there are deficiencies in the data, the issue is not related to simplification, since a more sophisticated approach would not lead to better quality data but rather relate to the unavoidable uncertainty of a particular situation.	the advice incorporates the changes made to CP45
120.	FEE	3.82.	NO CONSULTATION ON THIS PARAGRAPH Addressing the increased level of estimation uncertainty in the setting of the risk margins means ultimately that a simplified approach might result in higher technical provisions. It is accepted that risk margins would be higher if the knowledge that is available is very limited, for the reason that such an environment of uncertainty represents a threat to any potential acquirer, regardless of the degree of sophistication that would be applied. However, it is not explicitly assumed that an acquirer would increase the risk margins to cope with effects of simplification. We believe that doing so might be a suitable pragmatic solution, and we recommend that this be stated as such.	the advice incorporates the changes made to CP45
121.	CRO Forum	3.83.		

138.	AFS	3.100.	We believe that there will still be simplifications for more complex risks simply because these risks are more complex. However, we would agree that more care should be used in selecting the methods used to make sure that the simplification reflects fully the interdependencies of the risks. We suggest that CEIOPS removes the more complex risks from the list of items to restrict simplifications but instead ask firms to apply methods which allow fully for these complications.	
139.	CRO Forum	3.100.		
140.	ILAG	3.100.	We believe that there will still be simplifications for more complex risks simply because these risks are more complex. However, we would agree that more care should be used in selecting the methods used to make sure that the simplification reflects fully the interdependencies of the risks. We suggest that CEIOPS removes the more complex risks from the list of items to restrict simplifications but instead ask firms to apply methods which allow fully for these complications.	
141.				
142.				
143.				
144.	CEA	3.104.	This paragraph has not been consulted as part of CP45 and as such stakeholders' views should be sought. Article reference 79 should be updated 80. The CEA disagrees with the interpretation of this article. Article 80 stipulates that the undertakings shall segment their insurance obligations into	

			homogeneous risk group / lines of business when calculating technical provisions. It doesn't state anything about how the proportionality shall be applied. According to the definition of the materiality (3.69), the only benchmark for a relative measurement of scale is the overall level of the technical provisions. It is not appropriate to apply the scale criteria inside a small segment.	
145.	CRO Forum	3.104.	NO CONSULTATION ON THIS PARAGRAPH	
146.	CEA	3.105.	NO CONSULTATION ON THIS PARAGRAPH See our comments to 3.104. With respect to segmentation please see our comments to CP 27: The CEA believes that segmentation of technical provisions should not conflict with the way business is managed. For calculation purposes, it is extremely important that the segments chosen do not conflict with the way insurers manage their business. For this reason, it is likely that only a few high-level segments are appropriate. In particular we would not support any segmentation requirements that split up an 2 of 2 insurer's lines of business, rather insurers should be able to map the lines of business they work with into the segments chosen by CEIOPS. In particular, the CEA only supports the use of the first 4 segments stated in the Ceiops paper for life business (with-profit, non-profit, unit-linked and accepted reinsurance) and not the further segmentation by main risk-driver.	
153.	AFS	3.111.	We agree that exact quantification of the degree of model error should not be required.	
154.				

155.	ILAG	3.111.	We agree that exact quantification of the degree of model error should not be required.	
156.				
157.	CEA	3.113.	We agree. It is important that the undertaking is not required to quantify the degree of model error in precise quantitative terms.	
162.	AFS	3.117.	We understand CEIOPS concern on lack of data here but believe that this is best dealt with in Pillar 2 rather than in Pillar 1 of Solvency 2. It is likely that any lack of data that affects the best estimate will be more of a problem in deriving the SCR. The risk margin is purely derived from the SCR and it would not be appropriate to change the risk margin. We would recommend that CEIOPS changes this paragraph to state that any lack of data (which will be the norm for most insurers) is dealt with by judgement of the AFH and back testing. It should also be an element in any Pillar 2 assessment of the firm.	
163.				
164.	ILAG	3.117.	We understand CEIOPS concern on lack of data here but believe that this is best dealt with in Pillar 2 rather than in Pillar 1 of Solvency 2. It is likely that any lack of data that affects the best estimate will be more of a problem in deriving the SCR. The risk margin is purely derived from the SCR and it would not be appropriate to change the risk margin. We would recommend that CEIOPS changes this paragraph to state that any lack of data (which will be the norm for most insurers) is dealt with by judgement of the AFH and back testing. It should also be an element in any Pillar 2 assessment of the firm.	
199.				

200.	AFS	3.153.	While it is correct that policyholders should not expect a lower degree of protection according to the size of the undertaking it is also important that their security is not eroded by the imposition of excessive costs.	
201.				
202.	ILAG	3.153.	While it is correct that policyholders should not expect a lower degree of protection according to the size of the undertaking it is also important that their security is not eroded by the imposition of excessive costs.	
210.	Association of British Insurers	3.161.	The advice on simplifications is incomplete. Ceiops views on other simplifications such as determining best estimate liabilities for profit sharing business should be discussed as part of this advice.	Agreed See revised text
211.	CEA	3.161.	The advice on simplifications is incomplete. Ceiops views on other simplifications such as determining best estimate liabilities for profit sharing business should be discussed as part of this advice. An example of this is how to implement the advice given in CP27 Technical Provisions - Lines of business. In paragraph 3.10 of this paper it is stated that "there could be circumstances where, for a particular line of profit-sharing business (participating business), the insurance liabilities can in a first step not be calculated in isolation from those of the rest of the business. For example, an undertaking may have management rules such that bonus rates on one line of business can be reduced to recoup guaranteed costs on another line of business and/or where bonus rates depend on the overall solvency position of the undertaking. However, even in this case it should be possible to assign to each line of business a technical provision." Ceiops doesn't give any advice on the above advice and no guidance on the simplifications that many companies may need to calculate the best estimate and future discretionary	See above.

			benefits inside the best estimate. It is possible to assign to each LOB the technical provision by discounting the cash flows of each LOB inside the joint calculation. This point is reiterated in comments to 3.203, 3.250 and 3.260 below.	
212.	Deloitte	3.161.	We note that several of the simplifications suggested here are currently in very common use in calculating technical provisions and would not be regarded by many as being simplifications. We would encourage supervisors to take a proportionate approach in asking entities for justification of simplifications. Also see 3.165 and 3.172 below.	Agreed See revised text
213.	CEA	3.163.	Separate assumptions should not necessarily be required on current observed experience and expected future changes. While such consideration should be given to both aspects on proportionality grounds there should not be requirement to necessarily have separate assumptions. We suggest changing the wording to: When modelling biometric risk factors, undertakings should ensure that the best estimate assumptions for biometric risk factors take into account: • the current observed experience which reflects the best estimate of experience on the valuation date; • the expected change in this experience in the future which reflects the best estimate of the future trend.	Agreed See revised text
214.	CRO Forum	3.163.	Separate assumptions should not necessarily be required current observed experience and expected future changes.	See above

			While such consideration should be given to both aspects on proportionality grounds there should not be requirement to necessarily have separate assumptions. We suggest changing the wording to: When modelling biometric risk factors, undertakings should ensure that the best estimate assumptions for biometric risk factors take into account: ☐ the current observed experience which reflects the best estimate of experience on the valuation date; ☐ the expected change in this experience in the future which reflects the best estimate of the future trend.	
215.	Groupe Consultatif	3.163.	This point should be examined more in detail. It is not clear if the best estimate of own experience only is meant, or also considering market experience in comparable situations.	Agreed See revised text
216.	Groupe Consultatif	3.164.	The aspect of embedded options should be looked into more detailed. It is unclear, what options are meant, because there might be embedded options related to life events such as birth of a child, marriage, divorce etc. that are not mentioned under biometry. Modelling only has advantages when appropriate market statistics on the biometric variable being projected is available, current and of good quality.	Agreed See revised text
217.	AFS	3.165.	We agree with the list of simplifications against a full stochastic	Noted

			projection of the mortality / morbidity/ disability rates applied stochastically to the in force. We would suggest that stochastic improvements in biometric rates may not be helpful in understanding the drivers of biometric change or improvement. We would suggest that most insurers will use a standard table adjusted to reflect a proportion and then (maybe) adjusted by a trend line for future change.	Noted Noted
218.	Association of British Insurers	3.165.	The undertakings should have the initiative to propose a method of simplifications. We do not think that method should be set at level 2.	Agreed See revised text
219.	CEA	3.165.	Not all of these methods should necessarily be seen as simplifications as there will be many circumstances where some of these methods will be perfectly acceptable approaches with more complex approaches being disproportionate. Indeed, there may well be instances where other simpler simplifications (with, if appropriate, a degree of conservatism in the calibration) are appropriate and the simplifications that could potentially be used should not be restricted. It should be acknowledged that proportionality is two-way. Such considerations demonstrate why the criteria for selecting simplifications should be specified at level 2 as opposed to specific approaches and formulae. With regard to the first bullet point, static mortality tables can also allow for future changes in biometrical risk factors. A static mortality table should not necessarily be seen as a simplification.	Noted This is in line with proportionality principle Agreed See revised text Agreed See revised text

			Specifically with regard to the second bullet point, the best estimate liability should be calculated using single point best estimate assumptions and as such a dependency structure is not needed (in contrast to the SCR calculations). With regard to the third bullet point, use of cohort data to analyse some biometric risks is generally seen as a more sophisticated approach where this can explain material differences for a material risk, e.g. longevity assumptions on UK annuity business. It should not be categorised as a simplification. We recommend rewording as follows: Techniques which in some cases can be seen as simplifications for obtaining biometric risk factors include the following' with the 3rd bullet point being dropped.	Not agreed Mortality of single policyholder is dependent on his/her morbidity/disability status. Not agreed In recent years the cohort approach has gained significant ground. Traditional analyses of mortality however fail to describe differences in mortality between generations. Agreed See revised text
220.	CRO Forum	3.165.	Not all of these methods should necessarily be seen as simplifications as there will be many circumstances where some of these methods will be perfectly acceptable approaches with more complex approaches being disproportionate. It should be acknowledged that proportionality is two-way. Such considerations demonstrate why the criteria for selecting simplifications should be specified at level 2 as opposed to specific approaches and formulae. With regard to the first bullet point, static mortality tables can also allow for future changes in biometrical risk factors. A static mortality table should not necessarily be seen as a simplification. Specifically with regard to the second bullet point, a dependency	See above

			structure is part of the theoretical evaluation of the mean but in practice it will generally be regarded as unjustified complication (See also comment under 3.198). With regard to the third bullet point, use of cohort data to analyse some biometric risks is generally seen as a more sophisticated approach where this can explain material differences for a material risk, e.g. longevity assumptions on UK annuity business. It should not be categorised as a simplification. We recommend rewording as follows: 'Techniques which in some cases can be seen as simplifications for obtaining biometric risk factors include the following' with the 3rd bullet point being dropped.	
221.	Deloitte	3.165.	The use of industry tables with a multiplier applied is in very common use currently, particularly where changes in mortality do not have a significant effect on results and is not generally regarded by the industry as a simplification.	Noted
222.	Groupe Consultatif	3.165.	Assume independency between biometric factors and other factors, such as economic factors. It is well known, that there is a strong link between economic prosperity and incidence of disability. This point needs further advice. The methods should be examined more in detail, e.g. aspects like the method of completely ignoring the impact of biometric risk in an assessment where biometric risk is immaterial to the overall risk in a product or ignoring the impact of biometry on cashflows leads to a more conservative result. Or as	Noted

			a second example, the method of making some kind of implicit adjustment to results in order to cover the biometric portion of risk. We agree with the list of simplifications against a full stochastic projection of the mortality / morbidity/ disability rates applied stochastically to the in force. We would suggest that stochastic improvements in biometric rates may not be helpful in understanding the drivers of biometric change or improvement. We would suggest that most insurers will use a standard table adjusted to reflect a proportion and then (maybe) adjusted by a trend line for future change. To neglect biometric risk factors implies to have no reserving for growing risk. What is the threshold of such tolerance?	See response to AFS comment on 3.165. This is the question of materiality.
223.	ILAG	3.165.	We agree with the list of simplifications against a full stochastic projection of the mortality / morbidity/ disability rates applied stochastically to the in-force. We would suggest that stochastic improvements in biometric rates may not be helpful in understanding the drivers of biometric change or improvement. We would suggest that most insurers will use a standard table adjusted to reflect a proportion and then (maybe) adjusted by a trend line for future change.	See response to AFS comment on 3.165.
224.	Institut des actuaires	3.165.	To neglect biometric risk factors implies to have no reserving for growing risk. What is the threshold of such tolerance?	See response Groupe Consultatif comment on 3.165.

225.			Confidential comments deleted.	
226.	Unum Limited	3.165.	We should be able to use an element of expert judgement in setting these simplifications.	Agreed This is impliciteli included in 3.30 (open dialoge beween undertaking and supervisirs) and with making a reference that provisions of "Lile insurance specific" subsection should be readed in conjunction with previous subsections. See new paragraph after para. 3.161
227.	CEA	3.166.	The advice should not restrict what simplifications permitted, but should instead be principles based. It should also acknowledge proportionality, i.e. what is a simplification in one instance may be a perfectly acceptable approach in another. The advice should be clear that it does not restrict simplifications to the list provided in 3.165 and that these methods are not necessarily simplifications. We recommend changing the wording to: The above represent possible approaches, which for the avoidance of doubt should not necessarily be seen as simplifications. An undertaking's selection of the appropriate technique should depend on materiality and the particular characteristics and materiality of its business.	Adreed See revised text
228.	CRO Forum	3.166.	The advice should not restrict what simplifications permitted, but	See above

			should instead be principles based. It should also acknowledge proportionality, i.e. what is a simplification in one instance may be a perfectly acceptable approach in another. The advice should be clear that it does not restrict simplifications to the list provided in 3.165 and that these methods are not necessarily simplifications. We recommend changing the wording to: The above represent possible approaches, which for the avoidance of doubt should not necessarily be seen as simplifications. An undertaking's selection of the appropriate technique should depend on materiality and the particular characteristics and materiality of its business.	
229.	Groupe Consultatif	3.166.	The principle of proportionality should also be mentioned here.	Agreed See revised text
230.	AMICE	3.167.	Surrender Options	
231.	Association of British Insurers	3.167.	It is important that a distinction is drawn between when the amount paid on surrender is guaranteed and when it is at the discretion of the company. It is only the former that poses a material risk to insurers.	Agreed See revised text

232.			Confidential comments deleted.	
233.	CEA	3.167.	It is important that a distinction is drawn between when the amount paid on surrender is guaranteed and when it is at the discretion of the company. It is only the former that poses a material risk to insurers.	See response to ABI on 3.167
234.	CRO Forum	3.167.	It is important that is a distinction is drawn between when the amount paid on surrender is guaranteed and when it is at the discretion of the company. It is only the former that poses a material risk to insurers.	See response to ABI on 3.167
235.	Groupe Consultatif	3.167.	This point needs to be looked into more detailed. E.g. if Surrender also includes Lapse/premium waiver, then all policies have this feature.	Agreed Lapse are considered under subsection “Other issues”
236.	Association of British Insurers	3.168.	See 3.167	Agreed See revised text
237.	CEA	3.168.	See the comment for 3.167	Agreed See revised text
238.	CRO Forum	3.168.	See the comment for 3.167	Agreed See revised text
239.				
240.				
241.	DIMA	3.170.	This is an example of the encyclopaedic approach referred to in the general comments. The paragraph describes a measure theoretic approach using the stochastic calculus. While this is interesting	Noted

			from an academic perspective, it is not necessarily helpful in the context of advice on simplifications. This is clearly a technique that would see an implementation in products that have a lot of optionality such as with profits contracts in the context of a full internal model. We do not believe that a description of the theoretic method of treatment using the stochastic calculus helps practitioners seeking a simplification of the treatment of surrender values. See 3.172.	
242.	AFS	3.171.	Experience of surrenders would tend to suggest that the drivers are: (a) quality of sales advice and whether any misselling may occur leading to early surrenders in excess of later surrenders; (b) the economic cycle affecting clients' ability to pay further premiums; (c) the personal circumstances of clients and whether they can afford premiums. Income protection insurers frequently find clients cancel their insurances in claim periods (even though this means they lose their future claim payments) because they cannot afford to keep up the contributions. These are all rational reasons for movements in lapse rates. Most UK insurers currently find that lapse rates are level by duration. We agree that some allowance must be made for higher lapses when guarantees become payable and believe this is best modelled by an additional lapse rate being allowed for. Trends in lapse rates would be difficult to model and may need some form of econometric model which may not be justified due to the uncertainties surrounding the modelling of lapses against the economic cycle. A stochastic approach appears to be seeking spurious accuracy at the cost of greater clarity.	Agreed See revised text

243.	DIMA	3.171.	The concluding sentence of the paragraph suggests that the preceding paragraphs have been somewhat of an academic aside to the pertinent question of simplification.	Noted
244.	Groupe Consultatif	3.171.	The reason for irrational policy behaviour is not simply information asymmetry, but also the influence of personal factors on a policyholder''s decision whether or not to surrender his policy (same with buying the policy) as well as whether the product sold to the policyholder was really the correct fit. Also the subjective influence of intermediaries (not always acting in a manner than would be of greatest benefit to the Policyholder) should be considered. Experience of surrenders would tend to suggest that the drivers are: (a) quality of sales advice and whether any misselling may occur leading to early surrenders in excess of later surrenders;; (b) the economic cycle affecting clients'' ability to pay further premiums;; (c) the personal circumstances of clients and whether they can afford premiums. Income protection insurers frequently find clients cancel their insurances in claim periods (even though this means they lose their future claim payments) because they cannot afford to keep up the contributions. These are all rational reasons for movements in lapse rates. Furthermore, purely economically rational decisions would mean that no policyholder would purchase an insurance product as the expected premiums are higher than the expected payout. However, the policyholders'' aversion to the risk of a large loss following a claim event combined with the concept of pooling of risk and a lack of a cheap and easy way to access the investment	See response to AFS on 3.171

			markets (including guarantees) means that the purchase of insurance (and the continued payment of premiums) is entirely rational after allowing for the utility function of the policyholders even if it is no maximising economic value for the policyholder. We agree that some allowance must be made for higher lapses when guarantees become payable and believe this is best modelled by an additional lapse rate being allowed for. Trends in lapse rates would be difficult to model and may need some form of econometric model which may not be justified due to the uncertainties surrounding the modelling of lapses against the economic cycle. A stochastic approach appears to be seeking spurious accuracy at the cost of greater clarity.	
245.	ILAG	3.171.	Experience of surrenders would tend to suggest that the drivers are: (a) quality of sales advice and whether any misselling may occur leading to early surrenders in excess of later surrenders; (b) the economic cycle affecting clients' ability to pay further premiums; (c) the personal circumstances of clients and whether they can afford premiums. Income protection insurers frequently find clients cancel their insurances in claim periods (even though this means they lose their future claim payments) because they cannot afford to keep up the contributions. These are all rational reasons for movements in lapse rates. Most UK insurers currently find that lapse rates are level by duration. We agree that some allowance must be made for higher lapses when guarantees become payable and believe this is best modelled by an additional lapse rate being allowed for.	See response to AFS on 3.171

			Trends in lapse rates would be difficult to model and may need some form of econometric model which may not be justified due to the uncertainties surrounding the modelling of lapses against the economic cycle. A stochastic approach appears to be seeking spurious accuracy at the cost of greater clarity.	
246.	AFS	3.172.	Where the effect of surrenders is not large firms should have the option to assume that no surrenders take place.	Agreed See revised text
247.	AMICE	3.172.	AMICE members agree with the proposal. However, flexibility should be allowed to apply some variants of the methods proposed.	Agreed See revised text
248.	Association of British Insurers	3.172.	See 3.165	Agreed See revised text
249.	CEA	3.172.	Similar to the comments in 3.165 and 3.166, these methods should not necessarily be seen as simplifications. Companies should not be expected or required to use a stochastic process for surrender rates. This is not current industry practice let alone a simplification. Furthermore, the best estimate liability should be based on point best estimate assumptions for non financial risk with the risk margin capturing the uncertainty associated with non-financial assumptions.	Agreed See revised text Not agreed Point best estimate assumptions for financial risks are interdependent with other risk factors which require use of stochastic process for modelling surrenders to derive best estimate of liability.
250.	CRO Forum	3.172.	Similar to the comments in 3.165 and 3.166, these methods should not necessarily be seen as simplifications.	See above

			Companies should not be expected or required to use a stochastic process for surrender rates. This is not current industry practice let alone a simplification. Furthermore, the best estimate liability should be based on point best estimate assumptions for non financial risk with the risk margin capturing the uncertainty associated with non-financial assumptions. See also comment under 3.198.	
251.	Deloitte	3.172.	1. The use of tables of surrender rates that are differentiated by factors such as age, time since policy inception and product type is in very common use currently and is not generally regarded by the industry as a simplification.	Noted
252.	DIMA	3.172.	This paragraph is helpful as it suggests possible simplifications.	Noted
253.	ILAG	3.172.	Where the effect of surrenders is not large firms should have the option to assume that no surrenders take place.	See response to AFS on 3.172
254.			Confidential comments deleted.	
255.	AFS	3.173.	These alleged simplifications are all quite complex to model for small undertakings.	Noted
256.	DIMA	3.173.	Only the most sophisticated of internal models would use a hazard approach to surrender values in modelling life insurance business. This paragraph gets to the nub of the problem in its last sentence which highlights that policyholder surrender behaviour is variable. It may also often be irrational.	Noted
257.	FEE	3.173.	Paragraph 3.173 points out that independency between the surrender time and the evaluation of economic factors is not a realistic assumption since policyholder behaviour is not static and is expected to vary as a result of changing economic environment. We believe that variations of policyholders' behaviour as a result of	Noted We could not say that there is no independency between surrender time and the evaluation of economic factors.

			changing economic environment are highly speculative. Moreover, while in some circumstances such a relationship may exist, it is likely to be hardly quantifiable and there is often likely to be little evidence in which way the variations would react to changes. Therefore, assumptions about such relationship are likely to represent guesses. For this reason, in our view, a similar level of quality is likely to be achieved with simplified methods, since the more sophisticated methods would only expand on subjective but not well founded estimations. Stochastic models regarding policyholders' behaviour are often based on poor objective information and highly speculative assumptions. They describe merely possible scenarios and were originally developed in an area of speculation to describe the sensitivities. Neither the runtime of a stochastic calculation nor the number of economic scenarios considered may compensate for lacking objective data as input.	
258.	ILAG	3.173.	These alleged simplifications are all quite complex to model for small undertakings.	noted
259.	KPMG ELLP	3.173.	We caution against over estimating the results of stochastic models and defining them as a benchmark. Variations of policyholders' behaviour as a result of changing economic environment are always highly speculative. It might be observed in some cases (countries, product types, clientele) that such a relationship exists, however, that is not really quantifiable and more than that, there is often little evidence in which direction the variations react to changes. Therefore assumptions about such relationships are often pure guesses and the same actually objective quality could often be achieved with more simple methods, since the more sophisticated method simply expands on subjective and not well founded estimations. Hence, stochastic models regarding policyholders' behaviour are often based on very poor objective information and highly speculative assumptions. They describe merely possible scenarios and were originally developed in an area of speculation to	Noted We could not say that there is no independency between surrender time and the evaluation of economic factors.

			describe at least sensitivities. Neither the runtime of a stochastic calculation nor the number of economic scenarios considered may compensate lacking objective input data. It just inflates the use of subjective inputs.	
260.	Association of British Insurers	3.174.	See 3.165	Agreed See revised text
261.	CEA	3.174.	See comments to 3.172.	Agreed See revised text
262.	CRO Forum	3.174.	See comments to 3.172.	Agreed See revised text
263.	Groupe Consultatif	3.174.	Models giving surrender rates above 100% are not relevant.	Agreed See revised text
264.	Institut des actuaires	3.174.	Models giving surrender rates above 100% are not relevant.	Agreed See revised text
265.			Confidential comments deleted.	
266.	Association of British Insurers	3.176.	See 3.165	Agreed See revised text
267.	CEA	3.176.	See comments to 3.172.	Agreed See revised text
268.	CRO Forum	3.176.	See comments to 3.172.	Agreed See revised text
269.			Confidential comments deleted.	
270.	Association	3.177.	See 3.167	Agreed

	of British Insurers			See revised text
271.	CEA	3.177.	As described in 3.167, the situation is very different when a company has discretion over the surrender value basis.	Agreed See revised text
272.	CRO Forum	3.177.	As described in 3.167, the situation is very different when a company has discretion over the surrender value basis.	See response to paragraph 3.177
273.	FEE	3.177.	We suggest refraining from stating that the surrender option and the minimum guarantees are clearly dependent for with-profit contracts, as suggested in paragraph 3.177. Experience in many cases has demonstrated that policyholders' surrender behaviour is unchanged if the guarantees are significantly in the money. This might significantly depend on the transparency of the product. Specifically, an implicit interest guarantee inherent in a premium and a benefit is hardly to understand for policyholders. In addition, we note that management actions are not necessarily relevant here. Furthermore, there are often management actions which have little impact, if any, to the individual policyholder or management actions which are assumed to be neutral to the profitability of contracts. For example, if an insurer decides to provide additional information to policyholders, even if the information demonstrates that contracts are favourable, the fact that policyholders are reminded that they have a contract with an immediately withdrawable surrender value might motivate them to execute the option.	Not agreed It is not the question if guarantee is in the money but if guarantee could e invested in other financial instruments which will generate higher returns.
274.	Groupe Consultatif	3.177.	It is not clear whether simplifications for with profits business are appropriate or not.	Noted
275.	KPMG ELLP	3.177.	We suggest refraining from stating that surrender options and contractual minimum benefits are clearly dependent. Experience in	Not agreed

			many cases demonstrated that policyholders' surrender behaviour is unchanged even if the guarantees are significantly in the money. That might significantly depend on the transparency of the product. Specifically an implicit interest guarantee inherent in a premium and a benefit imay be hard for policyholders to understand. As well, management actions are not necessarily relevant here. Further, there are often management actions which have little if any impact to the individual policyholder or management actions which are assumed to be neutral to the profitability of contracts, showed extreme consequences (e.g. if a (re)insurance undertaking decides to provide additional information to policyholders, even if the information demonstrates that contracts are favourable, the fact that policyholders are reminded that they have a contract with an immediately withdrawable surrender value might motivate them to execute the option).	It is not the question if guarantee is in the money but if guarantee could e invested in other financial instruments which will generate higher returns.
276.	AMICE	3.178.	Financial options and guarantees	
277.	AFS	3.179.	We would note that some allowance must be made for the investment policy that will be undertaken by the firm and how investments are hypothecated to individual policies in determining discretionary benefits. A common method in the UK is to match the currently guaranteed benefits in the contract with bonds of the same duration. This reduces the scale of the cost of the guarantee.	Agreed See revised text
278.	AMICE	3.179.	AMICE members agree with the proposal. However, flexibility should be allowed to apply some variants of the methods proposed.	Agreed See revised text
279.	FEE	3.179.	Paragraph 3.179 states that the benefits of with-profit contracts are for instance linked to a reference fund that is influenced by the undertaking's strategy. We note that this represents only one example out of many and very diversed participating features. The variety of participating features is so wide across different countries that in our view it might be preferable to avoid providing such a specific example.	Agreed See revised text

280.	Groupe Consultatif	3.179.	We would note that some allowance must be made for the investment policy that will be undertaken by the firm and how investments are hypothecated to individual policies in determining discretionary benefits. A common method in the UK is to match the currently guaranteed benefits in the contract with bonds of the same duration. This reduces the scale of the cost of the guarantee.	Agreed See revised text
281.	ILAG	3.179.	We would note that some allowance must be made for the investment policy that will be undertaken by the firm and how investments are hypothecated to individual policies in determining discretionary benefits. A common method in the UK is to match the currently guaranteed benefits in the contract with bonds of the same duration. This reduces the scale of the cost of the guarantee.	Agreed See revised text
282.	KPMG ELLP	3.179.	The wording in the first sentence is describing only one example, as found in the UK, out of a variety of participating features. In many other countries such a separation is entirely unknown and participating contracts refer to any investment income of the (re)insurance undertaking. The variety of participating features is so extreme that such generalizing sentences should be avoided.	Agreed See revised text
283.	DIMA	3.180.	In the first bullet point, the spelling of "hedgeable" is incorrect (currently reads as hedgeadle).	Agreed See revised text
284.	Assuralia/IA |BE	3.183.		
285.	FEE	3.183.	In our opinion, a disadvantage of stochastic simulations is that it increases the subjectivity of the measurement significantly. For this reason, we believe that stochastic modelling without adequate objective information is not necessarily "better" than deterministic approaches. On the contrary, it could be of lower quality despite the significantly higher calculation costs. Only when it is possible to observe and estimate the interdependencies in each individual scenario, the additional cost of measurement can be justified with	Agreed See revised text

			the additional information value that would result from making use of available objective information, which would be otherwise ignored when applying deterministic approaches.	
286.	KPMG ELLP	3.183.	A disadvantage of stochastic modelling is that it increases the subjectivity of the measurement significantly. Stochastic modelling without adequate objective information is not necessarily "better" than deterministic approaches. To the contrary, it may be even worse despite significantly higher calculation costs. Only if there is an adequate possibility to observe and estimate the interdependencies in the individual scenario would the additional cost of measurement be justified by the additional information value resulting from making actually use of available objective information, which would be otherwise ignored applying deterministic approaches.	Agreed See revised text
287.	DIMA	3.184.	This reasoning seems circular. The reason closed-form approaches are used is to be practical and proportional, yet this paragraph suggests that Black-Scholes approaches should be used to give a valuable first insight, using a sophisticated process to reach a simplified approach. This is particularly onerous for small entities.	Agreed See revised text
288.	Groupe Consultatif	3.184.	Black & Scholes models are rarely appropriate but are tolerated as interim valuation: for how long?	Agreed See revised text
289.	Institut des actuaires	3.184.	Black & Scholes models are rarely appropriate but are tolerated as interim valuation: for how long?	Agreed See revised text
290.	DIMA	3.185.	In this paragraph, "Scholes" has been spelt incorrectly (Sholes).	Agreed See revised text
291.	Groupe Consultatif	3.185.	We suggest having these simplifications also in QIS5.	Noted
292.	AMICE	3.186.	Investment guarantees	

293.	AMICE	3.187.	AMICE members agree with the proposal. However, flexibility should be allowed to apply some variants of the methods proposed.	Agreed See revised text
294.	Association of British Insurers	3.190.	Put-call parity means that the results are identical for the assumptions inherent in the closed form approach. Management actions that would only be taken in certain scenarios cannot be accurately incorporated into a closed form approach as this is a mathematical solution to stochastic differential equations that make no allowance for such management actions. Making allowance for management actions when using a closed form solution is therefore necessarily approximate whether a put or call option is used. It is suggested that this paragraph is replaced by "It should be recognised that management actions cannot usually be allowed for precisely when using closed form approaches. Where management actions are material consideration should be given to using a simulation approach or perhaps using a simulation approach for representative sample model points and using these to estimate the effect on the closed form results for the whole of the business (which is akin to a control variate approach). "	Agreed See revised text
295.	CEA	3.190.	This discussion of call vs. put options is incorrect for the reason given in 3.188, i.e. put-call parity. It is recommended that this paragraph is deleted.	Agreed See revised text
296.	CRO Forum	3.190.	The discussion of call vs. put options is incorrect for the reason given in 3.188, i.e. put-call parity. We recommend deleting this paragraph.	Agreed See revised text

297.	CEA	3.191.	This is incorrect for the same reason as 3.190. Put-call parity means that the results are identical for the assumptions inherent in the closed form approach. Management actions that would only be taken in certain scenarios cannot be accurately incorporated into a closed form approach as this is a mathematical solution to stochastic differential equations that make no allowance for such management actions. Making allowance for management actions when using a closed form solution is therefore necessarily approximate whether a put or call option is used. It is suggested that this paragraph is replaced by "It should be recognised that management actions cannot usually accurately be allowed for when using closed form approaches. Where management actions are material consideration should be given to using a simulation approach or perhaps using a simulation approach for representative sample model points and using these to estimate the effect on the closed form results for the whole of the business (which is akin to a control variate approach).	Agreed See revised text
298.	CRO Forum	3.191.	This is incorrect for the same reason as 3.190. Put-call parity means that the results are identical for the assumptions inherent in the closed form approach. Management actions that would only be taken in certain scenarios cannot be accurately incorporated into a closed form approach as this is a mathematical solution to stochastic differential equations that make no allowance for such management actions. Making allowance for management actions when using a closed form solution is therefore necessarily approximate whether a put or call option is used.	Agreed See revised text

			We suggest replacing this paragraph by "It should be recognised that management actions cannot usually accurately be allowed for when using closed form approaches. Where management actions are material consideration should be given to using a simulation approach or perhaps using a simulation approach for representative sample model points and using these to estimate the effect on the closed form results for the whole of the business (which is akin to a control variate approach).	
299.	CEA	3.192.	See comments for 3.191	Agreed See revised text
300.	CRO Forum	3.192.	See comments for 3.191	Agreed See revised text
301.	AMICE	3.194.	Other options and guarantees	
302.	Association of British Insurers	3.194.	The undertakings should have the initiative to propose a method and the type of simplifications. We do not think that any prescriptive method should be set at level 2.	Agreed See revised text
303.	Assuralia/IA |BE	3.194.	The last simplification in this paragraph states "apply stochastic simulation techniques to group of contracts instead of individual policies". The use of "model points" instead of "individual policies" could be seen as a common practise in the market. We wonder why this simplification method is explicitly mentioned in this paragraph? It should be an overall simplification method, for the determination of BEL and risk margins.	Agreed See revised text
304.	CEA	3.194.	The advice should make clear that these are not the only	Agreed

			simplifications allowed We agree that these may be reasonable simplifications, but it should be clarified that these are not the only simplifications allowed. We recommend changing wording to 'Possible simplifications for calculating the values of investment guarantees include: …'	See revised text
305.	CRO Forum	3.194.	The advice should make clear that these are not the only simplifications allowed We agree that these may be reasonable simplifications, but it should be clarified that these are not the only simplifications allowed. We recommend changing wording to 'Possible simplifications for calculating the values of investment guarantees include: …'	Agreed See revised text
306.			Confidential comments deleted.	
307.	AMICE	3.195.	AMICE members agree with the proposal. However, flexibility should be allowed to apply some variants of the methods proposed.	Agreed See revised text
308.	Association of British Insurers	3.195.	It is not that common for insurance contracts to include other options and guarantees that give rise to time value as well as intrinsic value. It is recommended that this section is amended as follows "Life insurance contracts may include other types and option and	Agreed See revised text

			guarantees, which are too varied to be described here.”	
309.	CEA	3.195.	It is not that common for insurance contracts to include other options and guarantees that give rise to time value as well as intrinsic value. It is recommended that this section is amended as follows “Life insurance contracts may include other types and option and guarantees, which are too varied to be described here.”	Agreed See revised text
310.	CRO Forum	3.195.	It is not that common for insurance contracts to include other options and guarantees that give rise to time value as well as intrinsic value. We recommend amending this section as follows “Life insurance contracts may include other types and option and guarantees, which are too varied to be described here.”	Agreed See revised text
311.	Association of British Insurers	3.198.	Only options and guarantees giving rise to optionality should be considered and these should be considered here, i.e. where there is time value as well as intrinsic value.	Agreed See revised text
312.	CEA	3.198.	Only options and guarantees giving rise to optionality should be considered and these should be considered here, i.e. where there is time value as well as intrinsic value. Guaranteeing an expense or mortality charge does not give rise to optionality and is no different to the position on non profit business. In such circumstances the Framework Directive requires the best	Agreed See revised text

			estimate to be based on best estimate non financial assumptions with the risk margin taking account of the future uncertainty relating to the non-financial assumptions. Only where a non-financial option is likely to give rise to material time value (not in relation to market risk as this will have already been captured) should there be any need to perform the additional calculations envisaged here.	
313.	CRO Forum	3.198.	Only options and guarantees giving rise to optionality should be considered and these should be considered here, i.e. where there is time value as well as intrinsic value. Guaranteeing an expense or mortality charge does not give rise to optionality and is no different to the position on non profit business. In such circumstances the Framework Directive requires the best estimate to correspond to the probability weighted future cash flows with the risk margin taking account of the future uncertainty relating to the non-financial assumptions.	Agreed See revised text
314.	Association of British Insurers	3.199.	See comments for 3.198.	Agreed See revised text
315.	CEA	3.199.	See comments for 3.198. It is essential that proportionality is applied here. Also, it should be noted that in practice there is seldom data available to calibrate a non financial stochastic process.	Agreed See revised text
316.	CRO Forum	3.199.	See comments for 3.198. It is essential that proportionality is	Agreed

			applied here. Also, it should be noted that in practice there is seldom data available to calibrate a non financial stochastic process.	See revised text
317.	Association of British Insurers	3.200.	See comments for 3.198.	Agreed See revised text
318.	CEA	3.200.	See comments for 3.198.	Agreed See revised text
319.	CRO Forum	3.200.	See comments for 3.198.	Agreed See revised text
320.	Association of British Insurers	3.201.	The intrinsic value will already have been captured in the best estimate liability. Double counting should be avoided. Time value will only exist if there is an asymmetric distribution, i.e. the option is valuable in some scenarios and worthless in others (i.e. has a floor of zero).”	Not agreed The intristic value of “Other options and guarntees” has not been already captured in best estimate liability.
321.	CEA	3.201.	The intrinsic value will already have been captured in the best estimate liability. Double counting should be avoided. Time value will only exist if there is an asymmetric distribution, i.e. the option is valuable in some scenarios and worthless in others (i.e. has a floor of zero).	Not agreed The intristic value of “Other options and guarntees” has not been already captured in best estimate liability.
322.	CRO Forum	3.201.	The intrinsic value will already have been captured in the best estimate liability. Double counting should be avoided. Time value will only exist if there is an asymmetric distribution, i.e. the option	Not agreed The intristic value of “Other options and guarntees” has not

			is valuable in some scenarios and worthless in others (i.e. has a floor of zero).	been already captured in best estimate liability.
323.	AMICE	3.203.	Distribution of future discretionary benefits	
324.	Association of British Insurers	3.203.	See the comment to 3.161 about the simplifications needed.	See para 3.161
325.	CEA	3.203.	See the comment to 3.161 about the simplifications needed.	See para 3.161
326.	AMICE	3.205.	Flexibility should be allowed to apply some variants or alternatives to the method proposed.	Agreed See revised text
327.	Association of British Insurers	3.205.	The 2nd approach is inappropriate. In addition the advice should make clear that these are not the only simplifications allowed. The second bullet point is inappropriate. Average past bonus rates will reflect actual past investment experience whereas in order to produce market-consistent best estimate liabilities the future bonus rates assumed need to be consistent with the appropriate risk-free rates in order to be consistent with market prices. It should be clarified that these are not the only simplifications allowed. For example, a better simplification to assuming constant crediting rates based on past crediting rates might be to derive one consistent with the risk-free curve. We recommend changing the wording to 'Possible simplifications for the distribution calculating the values of investment guarantees include: …'	Agreed See revised tex

328.	Assuralia/IA |BE	3.205.	If "profit sharing" falls under the label "future discretionary benefits", it seems illogical to assume that there could be "non-path dependency" for these extra benefits.	Agreed See revised tex
329.	CEA	3.205.	The 2nd approach is inappropriate. In addition the advice should make clear that these are not the only simplifications allowed. The second bullet point is inappropriate. Average past bonus rates will reflect actual past investment experience whereas in order to produce market-consistent best estimate liabilities the future bonus rates assumed need to be consistent with the appropriate risk-free rates in order to be consistent with market prices. It should be clarified that these are not the only simplifications allowed. For example, a better simplification to assuming constant crediting rates based on past crediting rates might be to derive one consistent with the risk-free curve. We recommend changing the wording to 'Possible simplifications for the distribution calculating the values of investment guarantees include: …'	Agreed See revised tex
330.	CRO Forum	3.205.	The advice should make clear that these are not the only simplifications allowed We agree that these may be reasonable simplifications, but it should be clarified that these are not the only simplifications allowed. For example, a better simplification to assuming constant crediting rates based on past crediting rates might be to derive one consistent with the risk-free curve.	Agreed See revised tex

			We recommend changing the wording to 'Possible simplifications for the distribution calculating the values of investment guarantees include: …'	
331.	Groupe Consultatif	3.205.	Assume constant distribution of FDB is contradictory to the cushion effect of FDB.	Agreed See revised tex
332.	Institut des actuaires	3.205.	Assume constant distribution of FDB is contradictory to the cushion effect of FDB.	Agreed See revised tex
333.			Confidential comments deleted.	
334.	Groupe Consultatif	3.207.	This point needs further examination. It is not clear how to derive the assumption for expense inflation.	Agree See revised text
335.	AFS	3.210.	We would suggest that the business plans (as within the ORSA process) of the firm should also be allowed for in the expense projections. If the business plan shows a need to increase the policy maintenance costs, it would seem perverse not to reflect this within the technical provisions.	Not agreed Business plan is not the only source on which assumptions should be based.
336.	Groupe Consultatif	3.210.	This is not clear. The consequences for companies that have a plan to reduce the costs over the next years should be respected adequately. We would suggest that the business plans (as within the ORSA process) of the firm should also be allowed for in the expense projections. If the business plan shows a need to increase the policy maintenance costs, it would seem perverse not to reflect this within the technical provisions.	Not agreed CP 39 defines how cost reductions could be taken into account. Not agreed Business plan is not the only source on which assumptions should be based.

337.	ILAG	3.210.	We would suggest that the business plans (as within the ORSA process) of the firm should also be allowed for in the expense projections. If the business plan shows a need to increase the policy maintenance costs, it would seem perverse not to reflect this within the technical provisions.	Not agreed Business plan is not the only source on which assumptions should be based.
338.	PricewaterhouseCoopers LLP	3.210.	We question the rationale for basing an expense analysis on several financial years. While trends should be examined and understood, we do not believe that expenses should be averaged over a number of years as this would dilute the effect of deteriorating expenses.	Not agreed The Para. 3.210 does not require that average should be taken into account.
339.	AMICE	3.222.	Non-life insurance specific Outstanding reported claim provision. First simplification	No comments
340.	Association of British Insurers	3.222.	3.222 to 3.224 should not go into level 2 (implementing measures). But even for level 3 We believe that the simplifications listed in this paragraph should not be the only allowed and the advice should explicitly leave the possibility for further simplifications.	Disagreed. Level implementing measure in simplification is needed as a consequence of the Directive. Agreed the simplifications proposed should not be seen as a prescriptive list of methods, but a principle based paper with an open list describing the more relevant examples.
341.			Confidential comments deleted.	
342.	CEA	3.222.	3.222 to 3.224 should not go into level 2 (implementing measures).	Disagreed. Level implementing

			But even for level 3 it is doubtful, whether these formulas should be fixed by Ceiops in their supervisory guidelines. However, such concrete formulae may be helpful as technical standards and should be tested in QIS5.	measure in simplification is needed. However the simplifications proposed should not be seen as a prescriptive list of methods, but a principle based paper with an open list describing the more relevant examples.
343.	CRO Forum	3.222.	Is this simplification referring to formula estimation? Would reliance on claims handlers' case estimates be considered more or less "simplified"?	There is not a hierarchy between both simplifications.
344.	Lloyds	3.222.	This simplification should only apply in very limited circumstances. If data relating to the potential claim size is available on notification, this should be used. This data is normally collected when claims are notified.	Disagreed. The method aims to obtained the more objective data that is the data related with closed claims
345.			Confidential comments deleted.	
346.			Confidential comments deleted.	
347.	Association of British Insurers	3.223.		No comments
348.			Confidential comments deleted.	
349.	CEA	3.223.	5. The documentation of the formulas is insufficient with their meaning often being unclear: ☐ How should this reserve be completed with IBNR and ULAE by adding or …? ☐ "Claims closed" are highly dependent on extreme or NatCat-claims. What is proposed would generate a high model error especially for small undertakings, which is not appropriate.	this reserve shall be completed by adding IBNR and ULAE In the criteria for application is stated that the size of claims should have little variance.

			☐ What is the meaning of N, what is the meaning of year: reporting yr, accident yr, development yr accounting yr, …? ☐ Should the values of Ni, Ai, Pi undertaking specific or market wide values? ☐ What is the meaning of Ai: cumulated payments of all development yrs up to closing date?	Therefore NATCatclaims could add a big degree of volatility and its existence should be considered before the appliance of the method. N is the number of claims reported, Incurred in year I (accident year) Undertaking specific Yes , this is the value needed for the calculation of the average cost
350.	CRO Forum	3.223.	The formula does not allow for the risk that the unsettled claims arising from a particular accident year may be more likely to settle for a higher cost (for instance because the settlement delay indicates a lengthy legal process, resulting in a higher settlement).	Agreed. See The criteria for application
351.			Confidential comments deleted.	
352.	Unum Limited	3.223.		No comment included
353.	AMICE	3.224.	Flexibility should be allowed to apply some variants of the methods proposed.	The simplifications should not be seen as a prescriptive list of methods, but a principle based paper with an open list describing the more relevant examples

354.	CEA	3.224.	Additionally to all the questions raised in our comment on para. 3.223 it should be noted that the claims which are still open are the more complex ones with higher average of expected ultimate loss. Therefore there are limitations for situations, where only few development years or occurrence years respectively are available. Additionally to all the questions raised in our comment on para. 3.223 this simplification method seems not appropriate in situations, where only few development years or occurrence years respectively are available. Especially in these cases it is probable, that the claims which are still open are the more complex ones with higher average of expected ultimate loss. Especially for reinsurance business, this simplification is not applicable, as the necessary data is not available. Further comments regarding CEIOPS' questions concerning simplifications see also para. 3.252/ 3.253.	Agreed. See advice. Agreed. See advice.
355.	CRO Forum	3.224.	12. CEIOPS States that "this method is an allowable simplification when the size of claims incurred in a year has a little variance, or the number of claims incurred in a year is big enough to allow the average cost to be representative" 13. In our opinion these thresholds should be based on the assessment made by the undertaking and should be laid down in a policy document accompanying the appropriateness of methodology used (Pillar II). This simplification method seems not appropriate in situations, where only few development years or occurrence years respectively are available. Especially in these cases it is probable, that the	Undertaking should made an assessment on the appropriateness of the methodology

			claims which are still open are the more complex ones with higher average of expected ultimate loss. Especially for reinsurance business, this simplification is not applicable, as the necessary data is not available. Further comments regarding CEIOPS' questions concerning simplifications see also para. 3.252/ 3.253.	Agreed. See advice.
356.	FFSA	3.224.	Outstanding reported claim provision. First simplification CEIOPS States that "this method is an allowable simplification when the size of claims incurred in a year has a little variance, or the number of claims incurred in a year is big enough to allow the average cost to be representative" FFSA would like CEIOPS to disclose quantitative thresholds.	Disagreed, Ceiops considers that it shall not include in a level 2 advice.
357.	GDV	3.224.	Further comments regarding CEIOPS' questions concerning simplifications see also para. 3.252/ 3.253.	No comments included
358.	Groupe Consultatif	3.224.	This simplification method seems not appropriate in situations, where only few development years or occurrence years respectively are available. Especially in these cases it is probable, that the claims which are still open are the more complex ones with higher average of expected ultimate loss.	Agreed. See advice.
359.	Lloyds	3.224.	This simplification should only apply in very limited circumstances. An undertaking will have to demonstrate that the variability in	Noted. The criteria states that the size of claims should have little

			claim size is immaterial.	variance.
360.	Munich Re	3.224.	This simplification method seems not appropriate in situations, where only few development years or occurrence years respectively are available. Especially in these cases it is probable, that the claims which are still open are the more complex ones with higher average of expected ultimate loss. Especially for reinsurance business, this simplification is not applicable, as the necessary data is not available. Further comments regarding CEIOPS' questions concerning simplifications see also para. 3.252/ 3.253.	Agreed. See advice.
361.			Confidential comments deleted.	
362.	RBS Insurance	3.224.	We believe that if validation and backtesting justifies use of this method, then this should be a valid method regardless of whether the line of business meets the criteria for applying a simplification. This comment applied to all simplifications outlined in this paper.	Disagreed. Validation and backtesting are not considered the only criteria for the validity of a method
363.			Confidential comments deleted.	
364.	AMICE	3.225.	Outstanding reported claim provision. Second simplification	No comment included
365.	RBS Insurance	3.225.	We believe this to be the best approach in many cases so we do not consider this to be a simplification.	Disagreed. This method should be considered as a simplification
366.			Confidential comments deleted.	
367.	AMICE	3.226.	Flexibility should be allowed to apply some variants of the methods proposed.	The simplifications should not be seen as a prescriptive list of methods, but a principle based paper with an open list describing the more relevant examples
368.			Confidential comments deleted.	

369.	CRO Forum	3.226.	This "simplification" is currently standard practice, with allowance for IBNER (as described in the 4th bullet of 3.228). What would constitute a non-simplified method for calculating an outstanding claims reserve?	The non simplified method is the approach described in previous CP
370.	CEA	3.227.	Documented rules of claims management are available in undertakings. But the requirements mentioned here should not have the meaning of fixed rules. 1st bullet: Drop 2nd sentence "valuation must be based on …" because exactly this information is not available in a case-by-case approach. 2nd bullet: indirect expenses are a lump-sum for all claims which is not attributable to individual case. 3rd bullet: drop "... which must be at least quarterly "because a fixed frequency is not appropriate.	The requirements included are not fixed rules but a minimum necessary for the appliance of the simplification Disagreed. Agreed. See the advice. Disagreed. The calculation of TP should be made quarterly.
371.	PricewaterhouseCoopers LLP	3.227.	When estimating reserves for companies in run-off, with specific liabilities such as asbestos and pollution, it is difficult to value claims every quarter owing to lack of information. Further guidance on what might be expected in a quarterly valuation would be helpful.	Disagreed. The calculation of TP should be made quarterly.If there is not new information, no amendment to the provision would be made.
372.	CEA	3.228.	1st bullet: drop „reliable" and replace by "realistic" or "plausible" 2nd, 4th and 5th bullet: these requirements cannot be fulfilled on a single claim but for a portfolio of claims	Agreed. See the advice. Disagreed. Inflation should be considered, back testing is needed and this reserve should be completed with the IBNR and ULAE.
373.	Lloyds	3.228.	It is important that a suitable allowance for IBNR and ULAE is	Agreed. This is included in 3.228.

			included and that a case by case approach is not applied to estimate the technical provisions in totality.	
374.	CEA	3.229.	Join para. 3.229 and 3.230.	Noted.
375.	CRO Forum	3.229.	states that "this method is an allowable simplification in the case of small portfolios where the undertaking has sufficient information, but the number of claims is too small to test patterns of regularity" In our opinion these thresholds should be based on the assessment made by the undertaking and should be laid down in a policy document accompanying the appropriateness of methodology used (Pillar II).	The simplifications should not be seen as a prescriptive list of methods, but a principle based paper with an open list describing the more relevant examples
376.	FFSA	3.229.	Outstanding reported claim provision. Second simplification CEIOPS states that "this method is an allowable simplification in the case of small portfolios where the undertaking has sufficient information, but the number of claims is too small to test patterns of regularity" FFSA would like CEIOPS to disclose quantitative thresholds.	Disagreed, Ceipos considers that it shall not include in a level 2 advice.
377.	RBS Insurance	3.229.	Think it should also be allowed to be used regardless of size but where claims are sufficiently mature for case estimates to be the best estimate. (E.g. large losses on a large mature motor book.)	Noted. The example consulted could be considered as a high severity low frequency claim
378.			Confidential comments deleted.	
379.	Association of British Insurers	3.230.	"…use extensively adequate expert opinion and judgement". Expert opinion and judgement on claims in most businesses would come from claims handlers, who would have already incorporated this opinion and judgement into their case estimates.	Disagree. Undertakings should look for any source of information to complement the data available.

380.			Confidential comments deleted.	
381.	CEA	3.230.	As mentioned in our comment to CP45, deterministic or analytical methods should not always be considered as simplifications, in particular in the case of non-life.Indeed, it seems to us that for the high-severity-low-frequency portfolios the described case-by-case calculation may be the most appropriate one in many cases for which there may be no additional benefit from moving to the standard methods. Delete: "According to level 1 text" as it is incorrect Delete: "However, where the lack of…." should be dropped.	Deterministic methods are not considered simplifications by Ceipos Agreed. See the advice. Disagree. No reason has been provided for the deletion.
382.	CRO Forum	3.230.	"…use extensively adequate expert opinion and judgement". Expert opinion and judgement on claims in most businesses would come from claims handlers, who would have already incorporated this opinion and judgement into their case estimates.	Disagree. Undertakings should look for any source of information to complement the data available.
383.	GDV	3.230.	As mentioned in our comment to CP45, deterministic or analytical methods should not always be considered as simplifications, in particular in the case of non-life.	Deterministic methods are not considered simplifications by Ceipos
384.	RBS Insurance	3.230.	Should be able to continue to be used as a method regardless of whether the volume grows because there are too few cases for a pattern to be applicable in the tail.	Noted. The method is applicable where the criteria included is met.
385.	AMICE	3.231.	Incurred but not reported claims provision. First simplification	No comment included.
386.			Confidential comments deleted.	
387.	CEA	3.231.	It is not appropriate to specify these techniques and this level of technical detail at Level 2. It is also perhaps questionable whether	The simplifications should not be seen as a prescriptive list of

			this level of prescription should be at Level 3, however, having such concrete formulae may be helpful in technical standards and this should be tested in QIS5. We also note that there are a number of typos that need to be fixed.	methods, but a principle based paper with an open list describing the more relevant examples
388.	CRO Forum	3.231.	This simplified method seems reasonable. A more sophisticated might be the chain ladder technique.	Agreed.
389.			Confidential comments deleted.	
390.	AMICE	3.232.	Flexibility should be allowed to apply some variants of the methods proposed.	The simplifications should not be seen as a prescriptive list of methods, but a principle based paper with an open list describing the more relevant examples
391.	Association of British Insurers	3.232.	Some clarification is needed, e.g. is the accounting year? Also, the definition of Ct seems incomplete?	t is the accounting year Disagreed. We do not see why is incomplete.
392.	CEA	3.232.	Some clarification is needed, e.g. is t the accounting year? Also, the definition of Ct seems incomplete?	t is the accounting year Disagreed. We do not see why is incomplete.
393.	Deloitte	3.232.	Which provisions are meant here? Those provisions should be best estimate provisions and therefore the bias should be zero. How may the bias be determined if case reserves are taken? We would welcome clarification.	For example, back testing can evidence bias in the valuations.
394.	Lloyds	3.232.	It is important to emphasise that the 3 years quoted is used for illustration only and the actual period used should be chosen by the	Agreed. See the advice. The numbers of years could be less

			undertaking''s actuarial function. The selection will be based on the data available.	than four when it is appropriatenes is justified.
395.	Association of British Insurers	3.233.	The formula does not allow for the risk that the unsettled claims arising from a particular accident year may be more likely to settle for a higher cost (for instance because the settlement delay indicates a lengthy legal process, resulting in a higher settlement).	Noted. However, this should be taken intio account to calculate the average cost.
396.	Deloitte	3.233.	What is the reason for the selection of 4 years as a minimum of years of experience?	The period of less than 4 years was selected to achieve a big degree of certainty about the inclusion of the most number of IBNR claims. Nevertheless, The numbers of years could be less than four when it is appropriatenes is justified. See the advice.
397.	AMICE	3.235.	Incurred but not reported claims provision. Second simplification	No comment included.
398.			Confidential comments deleted.	
399.	CRO Forum	3.235.	This simplified method seems reasonable. A more sophisticated might be the chain ladder technique.	Agreed.
400.	RBS Insurance	3.235.	We believe the second method will sometimes give a better answer than the first method. Therefore we do not believe testing against the first method should be a pre-requisite, rather that the results of the second method should be validated and back-tested. We believe this should form part of level 3 advice rather than included at level 2.	Disagreed. Ceiops considers that the first method would provide a more accurate calculation.
401.			Confidential comments deleted.	
402.	AMICE	3.236.	AMICE asks for more clarification on how CEIOPS envisages to define a specific factor for each lob. Flexibility should be allowed to apply some variants of the methods proposed	NOTED. CEIOPS should decide how to get these factors.

403.	Association of British Insurers	3.236.	This "simplification" is currently standard practice, with allowance for IBNER (as described in the 4th bullet of 3.228). What would constitute a non-simplified method for calculating an outstanding claims reserve?	NOT AGREED. As a simplification it's standard practice, but only as a simplification. There are several methods more sophisticates, for instance: chain ladder, B-F, etc
404.	CEA	3.236.	It is not clear how the factors would be derived? Delete: section para. 3.235 to 3.237 because the "factorLoB" is inappropriate.	NOT AGREED. This method is necessary for cases where an undertaking doesn't have experience (for instance, because is a new undertaking or a new line of business)
405.	FFSA	3.236.	Incurred but not reported claims provision. Second simplification FFSA would like CEIOPS to explain how the factor specific for each lob is set.	NOTED. CEIOPS should decide how to get these factors.
406.	Groupe Consultatif	3.236.	IBNR could be a % of provision for claims: this is not safe if provisions for claims are underestimated. The factor per LOB should be explicated.	NOTED. CEIOPS must decide how to get these factors and to correct a possible bias in provision for reported claims.
407.	Institut des actuaires	3.236.	IBNR could be a % of provision for claims: this is not safe if provisions for claims are underestimated. The factor per LOB should be explicated.	NOTED. CEIOPS must decide how to get these factors and to correct a possible bias in provision for reported claims.
408.			Confidential comments deleted.	
409.	Lloyds	3.237.	Great care needs to be taken when applying IBNR to outstanding factors. An additional required criterion is that the level of outstanding claims remains demonstrably stable. If this does not hold then the results of this method are unreliable.	NOTED. CEIOPS must decide how to get these factors and to correct a possible bias in provision for reported claims.
410.	PricewaterhouseCoopers	3.237.	Typically, given the data sources and the layers of insurance participated in, it is a long process to estimate IBNR when a	Partially AGREED. Simplification 1 wasn't thought for run-off

	LLP		benchmarking approach is NOT used. Simplification 1 - an average costs method, is not sufficient for estimating IBNR for companies in run-off owing to the volatile nature of the claims and the nature of the insurance cover. Guidance on whether a benchmarking approach may be sufficient for run-off companies (which contrary to the guidance provided, have more than four years of experience), at least on a quarterly basis three times a year, would be helpful.	companies: For that kind of situations Simplification 2 could be sufficient (IBNR provision is not supposed to be very important in these companies).
411.	AMICE	3.238.	Simplification for claims settlement expenses	
412.	Association of British Insurers	3.238.	3.238 to 3.241: These paragraphs should not go into level 2 (implementing measures).	NOT AGREED
413.	CEA	3.238.	3.238 to 3.240: see comment to para. 3.222:These paragraphs should not go into level 2 (implementing measures). But even for level 3 it is doubtful whether these formulas should be fixed by Ceiops in their supervisory guidelines. However, such concrete formulas may be helpful as technical standards and should be tested in QIS5.	NOT AGREED AGREED with the last suggestion: it'd be interesting to test this method in QIS5.
414.			Confidential comments deleted.	
415.			Confidential comments deleted.	
416.	Unum Limited	3.238.		
417.	AMICE	3.239.	Flexibility should be allowed to apply some variants of the methods proposed.	AGREED, but undertaking should justify the differences
418.	CEA	3.239.	It is unclear why the parameter for the simplification for claims settlement expenses has been set at 50% of outstanding reported claims provisions.	AGREED. That parameter can be different to 50%The undertaking should justify the chosen

			The indicated footnote 63 does not correspond to QIS 4 specifications TS.IV.g.4	percentage (including the 50% if that is the option)
419.	FFSA	3.239.	Simplification for claims settlement expenses FFSA would like to know why the parameter a (the percentage of claims provisions) is set at 50%. The indicated footnote 63 does not correspond to QIS 4 specifications TS.IV.g.4	AGREED. That parameter can be different to 50%The undertaking should justify the chosen percentage (including the 50% if that is the option)
420.			Confidential comments deleted.	
421.			Confidential comments deleted.	
422.			Confidential comments deleted.	
423.	AMICE	3.241.	Simplification for premium provision	
424.	Association of British Insurers	3.241.	This method should also allow for the expected profit margin on the business, based on any technical pricing work performed or the business plan.	NOT AGREED. It should be taken into account if the undertaking is using a more sophisticated method, since only in that case every future cash flow is adequately considered.
425.			Confidential comments deleted.	
426.	CEA	3.241.	These paragraphs should not go into level 2 (implementing measures). But even for level 3 it is doubtful whether these formulas should be fixed by Ceiops in their supervisory guidelines. However, such concrete formulas may be helpful as technical standards and should be tested in QIS5. Additionally drop whole section 3.242 to 3.43 and replace it by the following section for QIS5:	Partially AGREED. The CEIOPS method should take into account the PVP and an allowance for large claims. NOT AGREED. The method proposed is considered not adequate because:

			A prediction for the combined ratio expected in the future (loss ratio incl. loss adjustment expenses and incl. operating expenses) is assumed to be given for the sub-portfolio to be evaluated; it should be determined on the basis of accident years, e.g. based on a run-off-triangle, and not on the basis of figures on financial/accounting years. Moreover, a forecast of the present value of the expected premiums that have not yet been written until the balance sheet date of 31st December until the legal expiration of the contract is assumed to be given. On this basis, the following equation may provide a simple way to determine the premiums provisions per segment: "best estimate" premiums provisions = (CR-1) • PVP + CR • UP CR = combined ratio, PVP = present value of future premiums, UP = unearned premiums The expected future gross paid losses also have to include an expected percentage of excessive losses through large or accumulated losses. Provided that the average time until the legal expiration of the contract, which is to be considered for premiums provisions, amounts to 9 months, a gross technical provisions of 0.75 x 1/200 x S is to be taken into account for an expected loss amounting to EUR S with a return period of 200 (once in 200 years, on average).If the pricing is more than sufficient (CR smaller than 1), the time until the end of the year following the balance sheet year at maximum shall be taken into account as contract period. Cancellations or other options of the policyholder as well as discounting have not been considered within the scope of this simplification, which results in a slightly conservative estimation of the actually expected value.	• Future profits should only be taken into account in more sophisticated methods, where every potential future cash-flow is considered. • Past CR may not be useful for the present and future circumstances. This proposal only is a good method if the undertaking can prove the stability of the CR components.
427.	CRO Forum	3.241.	This method should also allow for the expected profit margin on the business, based on any technical pricing work performed or the business plan.	NOT AGREED. It should be taken into account if the undertaking is using a more sophisticated

				method, since only in that case every future cash flow is adequately considered
428.	GDV	3.241.	These paragraphs should not go into level 2 (implementing measures). But even for level 3 it is doubtful whether these formulas should be fixed by CEIOPS in their supervisory guidelines. However, such concrete formulas may be helpful as technical standards and should be tested in QIS5. Additionally drop whole section 3.242 to 3.43 and replace it by the following section for QIS5: A prediction for the combined ratio expected in the future (loss ratio incl. loss adjustment expenses and incl. operating expenses) is assumed to be given for the sub-portfolio to be evaluated; it should be determined on the basis of accident years, e.g. based on a run-off-triangle, and not on the basis of figures on financial/accounting years. Moreover, a forecast of the present value of the expected premiums that have not yet been written until the balance sheet date of 31st December until the legal expiration of the contract is assumed to be given. On this basis, the following equation may provide a simple way to determine the premiums provisions per segment: “best estimate” premiums provisions = (CR-1) • PVP + CR • UP CR = combined ratio, PVP = present value of future premiums, UP = unearned premiums The expected future gross paid losses also have to include an expected percentage of excessive losses through large or accumulated losses. Provided that the average time until the legal expiration of the contract, which is to be considered for premiums provisions, amounts to 9 months, a gross technical provisions of 0.75 x 1/200 x S is to be taken into account for an expected loss	Partially AGREED. The CEIOPS method should take into account the PVP and an allowance for large claims. NOT AGREED. The method proposed is considered not adequate because: • Future profits should only be taken into account in more sophisticated methods, where every potential future cash-flow is considered. • Past CR may not be useful for the present and future circumstances. This proposal only is a good method if the undertaking can prove the stability of the CR components.

			amounting to EUR S with a return period of 200 (once in 200 years, on average). We note that it is not reasonable to just extrapolate the CR of the past, because of cumulative losses or other changes of the premium level If the pricing is more than sufficient (CR smaller than 1), the time until the end of the year following the balance sheet year at maximum shall be taken into account as contract period. Cancellations or other options of the policyholder as well as discounting have not been considered within the scope of this simplification, which results in a slightly conservative estimation of the actually expected value.	
429.			Confidential comments deleted.	
430.				
431.	AMICE	3.242.	Flexibility should be allowed to apply some variants of the methods proposed.	AGREED, but undertaking should justify the differences
432.	Association of British Insurers	3.242.	Reported acquisition expenses should be deducted from the proxy of the best estimate premium provision, because the part of the unearned premium corresponding to theses expenses is used to acquire the contracts, and not to pay claims. Consequently the reported acquisition expenses should be valued to zero in the asset sheet.	AGREED
433.	CEA	3.242.	Reported acquisition expenses should be deducted from the proxy of the best estimate premium provision, because the part of the unearned premium corresponding to theses expenses is used to acquire the contracts, and not to pay claims. Consequently the reported acquisition expenses should be valued to zero in the asset sheet.	AGREED

434.	CRO Forum	3.242.	Reported acquisition expenses should be deducted from the proxy of the best estimate premium provision, because the part of the unearned premium corresponding to theses expenses is used to acquire the contracts, and not to pay claims. Consequently the reported acquisition expenses should be valued to zero in the asset sheet.	AGREED
435.	FFSA	3.242.	FFSA thinks that reported acquisition expenses should be deducted from the proxy of the best estimate premium provision, because the part of the unearned premium corresponding to theses expenses is used to acquire the contracts, and not to pay claims. Consequently the reported acquisition expenses should be valued to zero in the asset sheet.	AGREED
436.	Lloyds	3.242.	This method makes no allowance for expected future cash in-flows that are required when calculating the premium provisions. The simplification only works where expected future cash-in flows (e.g. future premiums on existing contracts) are zero or immaterial.	AGREED. The CEIOPS method should take into account the future premiums on existing contracts
437.	Lloyds	3.243.	The simplification only works where expected future cash-in flows (e.g. future premiums on existing contracts) are zero or immaterial. This should be included in the criteria as this simplification would not apply to most undertakings. An improvement would be to include a term for the expected cash-in flow from existing contracts.	AGREED. The CEIOPS method should take into account the future premiums on existing contracts
444.	ACA	3.250.	Simplified methods are specific to the market, products and available data. We believe in a close exchange of view with the local authorities to make up a best practice.	Noted

445.			Confidential comments deleted.	
446.	CEA	3.250.	It is not clear whether Ceiops intends to specify particular simplified methods and their specific formulae at level 2. The CEA would not support this and instead believes that the criteria for choosing simplified methods are needed under level 2. The range of simplifications a company could potentially use should not be restricted, which would be the case if they were to only be specified at Level 2. The CEA advocates that a balance needs to be struck between the need for the harmonised use of simplifications and the flexibility required by the different practical situations. Undertakings should be able to identify which are the most appropriate methods to be used, based on the specificities of their risk profile without being restricted by rigid criteria set in Level 2. See the comment to 3.161.	Noted CEIOPS support the principle based approach.
447.	CRO Forum	3.250.	It is not clear whether CEIOPS intends to specify particular simplified methods and their specific formulae at level 2. Only criteria should be presented within level 2. There should be no exhaustive list of possible simplifications. Furthermore in the one case a technique is considered to be a simplification while in another the technique is the standard.	Noted CEIOPS support the principle based approach.
448.			Confidential comments deleted.	
449.	GDV	3.250.	It is not clear whether CEIOPS intends to specify particular simplified methods and their specific formulae at level 2. The GDV would not support this and instead believes that the criteria for	Noted CEIOPS support the principle based approach.

			choosing simplified methods are needed under level 2. The range of simplifications a company could potentially use should not be restricted to the ones mentioned in this CP.	
450.	ACA	3.251.	Usually simplification is linked with more prudence in the calculation. BE should reflect this prudence.	Not agreed Technical provisions calculated with simplified method should not require more prudency compared to non-simplified methods.
451.	AMICE	3.251.	CEIOPS asks for areas not listed in the current advice where simplifications according to paragraphs 3.243 and 3.244 are relevant; AMICE members argue that Simplifications, detailed in the Level 2, should act as a guidance of general accepted solutions to approximate the valuation methodology which is consistent with the general principles of Solvency II. We also agree that simplifications should not be restricted to SMEs; Undertakings with non-risky profiles, should also be allowed to apply simplifications irrespective of their size.	Noted Therefore paper separately considers proportionality and simplifications.
452.	Association of British Insurers	3.251.	1) Simplifications are also relevant for: - use of deterministic valuation techniques, when it can be demonstrated that there are no, or immaterial, asymmetries in cash flows around a best estimate economic scenario; - allowance for management and policyholder actions, in addition to those covered under the topics in 3.250 2) Simplifications may be necessary for each of the areas listed in 3.250. 3) Criteria to allow for simplifications in each area include: - materiality of impact on technical provisions; - availability and credibility of data that would be required for	Noted Noted Agreed See revised text

			a more complex approach; - cost and practicality of implementing a more complex approach; - understanding and communication of the valuation technique used. 4) We agree with the broad technical design in each area	Noted
453.			Confidential comments deleted.	
454.	CEA	3.251.	A flexible approach is needed as the circumstances of individual companies will vary. The focus at level 3 should be on possible simplifications. Some of the approaches described earlier in this paper are likely to be too complex to be simplifications. What is an appropriate simplification for one company might be disproportionately complex for another company. Indeed, some of “simplifications” included in the paper are more sophisticated and complex than the approaches currently used by the industry. Examples include the surrender option and other options and guarantees. References to 3.243 and 3.244 need to be replaced by 3.244 and 3.245.	Noted Therefore paper separately considers proportionality and simplifications. Agreed See revised text
455.	CFO	3.251.	Comments in 3.253 are also relevant here.	
456.	CRO Forum	3.251.	A flexible approach is needed as the circumstances of individual companies will vary. Detailed simplifications should be specified at level 3 not 2.	Noted Therefore paper separately considers proportionality and simplifications.

			What is an appropriate simplification for one company might be disproportionately complex for another company. Indeed, some of "simplifications" included in the paper are more sophisticated and complex than the approaches currently used by the industry. Examples include the surrender option and other options and guarantees. Simplifications are also relevant for: - use of deterministic valuation techniques, when it can be demonstrated that there are no, or immaterial, asymmetries in cash flows around a best estimate economic scenario; - allowance for management and policyholder actions, in addition to those covered under the topics in 3.250 Simplifications may be necessary for each of the areas listed in 3.250. Criteria to allow for simplifications in each area include: - materiality of impact on technical provisions; - availability and credibility of data that would be required for a more complex approach; - cost and practicality of implementing a more complex approach; - understanding and communication of the valuation technique used.	Agreed See revised text See response to ABI on 3.251
457.	DIMA	3.251.	The broad principles around nature, scale and complexity have encapsulated the criteria that an expert practitioner needs to consider when determining the appropriateness of a particular	Noted

			simplification. It should be left to the expert judgment of the practitioner as to the choice of methods. The specification of the technical design of simplifications is out of place in this context and would complicate the Level 2 text.	
458.			Confidential comments deleted.	
459.	GDV	3.251.	A flexible approach is needed as the circumstances of individual companies will vary. Detailed simplifications may be specified in QIS5 but not at level 3 or 2. What is an appropriate simplification for one company might be disproportionately complex for another company. Indeed, some of “simplifications” included in the paper are more sophisticated and complex than the approaches currently used by the industry. References to 3.243 and 3.244 need to be replaced by 3.244 and 3.245.	See No
460.	Lucida	3.251.	It would appear more appropriate to refer to 3.245 rather than 3.243	Noted Therefore paper separately considers proportionality and simplifications. Agreed

				See revised text
461.	PricewaterhouseCoopers LLP	3.251.	We agree that the list of areas where simplified methods might be developed covers an appropriate range. The various simplifying methods outlined throughout the paper may all be reasonable in certain circumstances but, without more detail of the criteria which must be met in order to apply them, it is hard to comment on them in a meaningful way.	Agree See revised text
462.			Confidential comments deleted.	
463.	CEA	3.252.	Simplifications that allow the estimation of outstanding claims provision and provision for incurred but not reported claims as a whole are needed. The distinction between Outstanding Claims Provision and Incurred but Not Reported claims is not made in the standard formula. Therefore, the suggested split may be difficult to apply, especially for reinsurers for proportional business, where the data available are not based on single loss information and not compulsory. The CEA therefore recommends that simplifications are allowed which estimate the two items as a whole.	NOTED. A possible method will be the one described in 3.223, adding to Ni the IBNR claims calculated as Nt in 3.232.
464.	CFO	3.252.	Comments in 3.253 are also relevant here.	noted
465.	CRO Forum	3.252.	The distinction between outstanding claims provisions and IBNR provisions (which means to separate IBNeR and IBNyR provisions) is not made in the standard formula. The split seems (a) to be difficult to apply especially for reinsurers at least for proportional business the data available are not based on single loss information and (b) not compulsory. Therefore we suggest, that simplifications are also allowed, which estimate both, the outstanding claims provisions as well as (pure) IBNyR provision as a whole, e.g. the initial expected loss ratio	NOTED. A possible method will be the one described in 3.223, adding to Ni the IBNR claims calculated as Nt in 3.232. The expected loss ratio method will be an adequate simplified method if undertaking can justify

			method. Especially regarding the numeric example in Annex A for calculation the IBNR provisions seems to be as complex as the projection on claims count triangles and loss severity, which could be seen as deterministic approach under the former CP 39. Additionally, this simplification method seems not appropriate in situations, where only few development years or occurrence years respectively are available.	it (stability of loss ratio,etc).
466.	Deloitte	3.252.	Simplifications where ALAE (direct expenses) are not included in available claims data are also relevant. Which simplification to the calculation of the best estimate of IBNR is allowed if the number of claims incurred but not reported at the end of year t-i is not available but the number of years of experience is more than 4 years?	You can use the CEIOPS method with more than 4 years
467.	GDV	3.252.	The distinction between outstanding claims provisions and IBNR provisions (which means to separate IBNeR and IBNyR provisions) is not made in the standard formula. The split seems (a) to be difficult to apply especially for reinsurers at least for proportional business the data available are not based on single loss information and (b) not compulsory. Therefore we suggest, that simplifications are also allowed, which estimate both, the outstanding claims provisions as well as (pure) IBNyR provision as a whole, e.g. the initial expected loss ratio method. Especially regarding the numeric example in Annex A for calculation the IBNR provisions seems to be as complex as the projection on claims count triangles and loss severity, which could be seen as deterministic approach under the former CP 39. Additionally, this simplification method seems not appropriate in situations, where only few development years or occurrence years respectively are	NOTED. A possible method will be the one described in 3.223, adding to Ni the IBNR claims calculated as Nt in 3.232. Of course, the first IBNR simplification can be not appropriate where only few development years or occurrence years respectively are available. For these cases CEIOPS provided the second simplification.

			available. We agree, that premium provisions, which belong to future risk periods, should be estimated separately, also if simplifications are applied.	
468.	Groupe Consultatif	3.252.	The approach to split technical provisions into three different areas is new compared to QIS4 and the use of simplifications. This distinction is also not made in the standard formula. Given the increased effort regarding the data base and data availability alone, this can hardly be seen as a simplification considering e.g. proportionality. The split seems (a) to be difficult to apply especially for reinsurers at least for proportional business the data available are not based on single loss information and (b) not compulsory. In the context of simplification a separation of technical provisions for outstanding claims (IBNER) and pure IBNR claims and hence separate simplified methods and approaches should be reconsidered. We suggest, that simplifications are also allowed, which estimate both, the outstanding claims provisions as well as (pure) IBNyR provision as a whole, e.g. the initial expected loss ratio method.	NOTED. A possible method will be the one described in 3.223, adding to Ni the IBNR claims calculated as Nt in 3.232.
469.	Lloyds	3.252.	Please see the specific comments by method. In general the proposed methods may only have limited scope as they assume immaterial variation in the level of outstanding claims. This assumption would not hold for most classes of business for most undertakings. The simplification for premium provisions does not allow for future cash-in flow and it needs to (unless only applying to the situation	Agreed. The methods aren't the only methods and they are simplifications. CEIOPS method should take into account future premiums

			where no future premium in flow is expected). The proposed method could be adapted to include an estimate of future premium income from existing contracts to make the simplification more widely applicable.	
470.	Munich Re	3.252.	The distinction between outstanding claims provisions and IBNR provisions (which means to separate IBNeR and IBNyR provisions) is not made in the standard formula. The split seems (a) to be difficult to apply especially for reinsurers at least for proportional business the data available are not based on single loss information and (b) not compulsory. Therefore we suggest, that simplifications are also allowed, which estimate both, the outstanding claims provisions as well as (pure) IBNyR provision as a whole, e.g. the initial expected loss ratio method. Especially regarding the numeric example in Annex A for calculation the IBNR provisions seems to be as complex as the projection on claims count triangles and loss severity, which could be seen as deterministic approach under the former CP 39. Additionally, this simplification method seems not appropriate in situations, where only few development years or occurrence years respectively are available. We agree, that premium provisions, which belong to future risk periods, should be estimated separately, also if simplifications are applied.	NOTED. A possible method will be the one described in 3.223, adding to Ni the IBNR claims calculated as Nt in 3.232. Of course, the first IBNR simplification can be not appropriate where only few development years or occurrence years respectively are available. For these cases CEIOPS provided the second simplification.
471.	RSA Insurance Group	3.252.	We understand that the IBNR provision is a subset of the Outstanding Claims Provision. We do not believe that an IBNR provision needs to be calculated separately under the Solvency 2 valuation principles provided the chosen methodology allows for the	Partially agreed. There could be circumstances when these methods are totally appropriate.

			risk of claims being reported after the valuation date. The first and second simplifications for outstanding claims both reflect methodologies, from the spectrum of possible methods, that might be appropriate given the risks of the portfolio being valued. We do not think it is helpful to describe these methods as "simplifications" as there could be circumstances when these methods are totally appropriate. For the premium provision we believe the premium is often a reliable estimate of the future claims and expenses for the in force business. Provided that it can be shown that the premium provision deceases linearly over the remainder of the forthcoming year we believe the simplification should be able to be used automatically, without further analysis. We believe this would be a proportionate response to this issue but, given its potential widespread use, it would be preferable for CEIOPS to recognise this as an appropriate simplification in a wide range of cases.	
472.	AMICE	3.253.	See our comments to paragraph 3.251	NOTED.
473.	ARC	3.253.	We suggest that a specific reference is made to simplifications that may be particularly relevant in a run-off context. In particular, for some run-off portfolios, although there can be considerable complexity associated with determination of the technical provisions (e.g. due to legal uncertainties), the data may not always be readily available to allow the more "ideal" or sophisticated methods to be applied.	NOTED.
474.	Association of British Insurers	3.253.	A flexible approach is needed as the circumstances of individual companies will vary. Detailed simplifications should be specified at level 3 not 2.	AGREED, but undertaking should justify the differences

475.			Confidential comments deleted.	
476.	CEA	3.253.	A flexible approach is needed as the circumstances of individual companies will vary. Detailed simplifications should be specified at level 3 not 2. In the context of level 3, our views on the simplifications contained in this paper are: a) 2.2.3.3 Incurred but not reported claims provision, First simplification: There is no particular need for this method to be included at level 2. Furthermore, variants of this method with a different number of years being reviewed might be more adequate under certain circumstances. b) 2.2.3.4 Incurred but not reported claims provision, Second simplification: There is no particular need for this method to be included at level 2. Furthermore, the criterion for its application states that this simplification shall only be allowed if the first simplification cannot be reliably applied. Therefore, if the first simplification is not included at level 2, neither can this. c) 2.2.3.5. Simplification for claims settlement expenses: There is no particular need for this method to be included at level 2. d) 2.2.3.5. Simplification for premium provision: There is no particular need for this method to be included at level 2. References to 3.243 and 3.244 in point 1 need to be replaced by 3.244 and 3.245 respectively The simplified methods described in this paper are more applicable for primary insurers, where single loss information including claims numbers is available for almost all portfolios (exceptions could be pool business, coinsurance). For reinsurers, claims count is often not available, especially for proportional business. Therefore it	AGREED with the first sentence, but undertaking should justify the differences. The first simplification for IBNR is flexible in number of years. AGREED the simplifications described in this paper are a non-exhaustive enumeration

			should be clearly stated that the simplifications described in this paper are a non-exhaustive enumeration, i.e. the same general principle as stated in para. 3.362 regarding the risk margin should be applied here. In terms of the criteria allowing the use of simplifications in each area, the CEA is against external thresholds being established at Level 2. The CEA also recommends that care is needed not to diminish or constrain the role of the Actuarial Function. As we discussed in our response on CP33, the actuarial function will be staffed by highly qualified individuals and the correct way of ensuring appropriate technical and professional standards is for actuarial functions to rely on technical standards that are widely accepted in the industry and profession, i.e. Option 2. However, some judgement is also likely to be needed from time to time in deciding whether these "best practice standards" should be applied or whether simplified methods should be used e.g. in the case of non-European business. The (highly qualified) actuarial function should be able to express their opinion on this based on professional judgement.	
477.	CFO	3.253.	Comments from CFO Forum on 3.252.1 and 3.252.2: The CFO Forum believes that simplifications should also allow the combined estimation of outstanding claims provision and provision for incurred but not reported claims. The distinction between Outstanding Claims Provision and Incurred but Not Reported claims is not made in the standard formula. The suggested split may be difficult to apply, especially for reinsurers for proportional business, where the data available are not based on single loss information and not compulsory.	NOTED. A possible method will be the one described in 3.223, adding to Ni the IBNR claims calculated as Nt in 3.232.

			The CFO Forum recommends that simplifications are allowed which estimate the two items together.	
478.	CRO Forum	3.253.	A flexible approach is needed as the circumstances of individual companies will vary. Ad 3.: External thresholds should not be established on level 2. The actuarial function should decide, if "best practice Standards", which are widely accepted in the industry, are to be applied or if simplified methods should be used. The (highly qualified) actuarial function should be able to express his opinion, based on professional judgement. Ad 4: The simplified methods described in this paper are more applicable for primary insurers, where single loss information including claims numbers is available for almost all portfolios (exceptions could be pool business, coinsurance). For reinsurers, claims count are often not available, especially for proportional business. Therefore it should be stated clearly, that the simplifications described here are a non-exhaustive enumeration, i.e. the same general principle as stated in para. 3.362 regarding the risk margin should be applied here.	AGREED, the approach is flexible, but undertakings should justify the differences in the simplified methods used. AGREED the simplifications described in this paper are a non-exhaustive enumeration The first simplification for IBNR is flexible in number of years.
479.	GDV	3.253.	Flexible approaches are needed as the circumstances of individual companies will vary. Detailed simplifications e.g. as mentioned in this consultation paper, should no be specified at level 2 but should be tested in QIS5. In the context of QIS5, our views on the simplifications contained in this paper are: a) Incurred but not reported claims provision, First simplification	AGREED, the approach is flexible, but undertakings should justify the differences in the simplified methods used. AGREED the simplifications described in this paper are a non-exhaustive enumeration

			(misprints and clarification of symbols are needed): variants of this method with a different number of years being reviewed might be more adequate under certain circumstances. b) Incurred but not reported claims provision, Second simplification: There is no particular need for this method because the determination of the factor seems impossible. c) Simplification for claims settlement expenses: helpful but see general comment. d) Simplification for premium provision: helpful but see general comment. References to 3.243 and 3.244 shall be replaced by 3.244 and 3.245 Ad 3.: External thresholds should not be established on level 2. The actuarial function, as discussed in CP 33, is said to be highly qualified. Regarding the technical standards, as discussed in CP 33, we quoted for Option 2, where technical standards should be used that are widely accepted in the insurance industry. As a consequence, the actuarial function should decide, if these "best practice Standards", which are widely accepted in the industry, are to be applied or if simplified methods should be used. Ad 4: The simplified methods described in this paper are more applicable for primary insurers, where single loss information including claims numbers is available for almost all portfolios (exceptions could be pool business, coinsurance). For reinsurers, claims count are often not available, especially for proportional business. Therefore it should be stated clearly, that the simplifications described here are	The first simplification for IBNR is flexible in number of years NOTED a clarification on the example will be provided

			a non-exhaustive enumeration, i.e. the same general principle as stated in para. 3.362 regarding the risk margin should be applied here.	
480.	Groupe Consultatif	3.253.	In particular with respect to No. 3 and 4 of the listed questions, we strongly believe that these criteria and a technical design cannot be developed appropriately. The distinction into simplified and non-simplified methods is rather arbitrary and we believe any criteria or test procedures to be alike. We rather recommend to have professional standards for the actuarial function to select the appropriate methods according to business, data and applicability for any estimate. Ad 3.: External thresholds should not be established on level 2. The actuarial function, as discussed in CP 33, is said to be highly qualified. Regarding the technical standards, as discussed in CP 33, we quoted for Option 2, where technical standards should be used that are widely accepted in the insurance industry. Not only European standards should be used, as the business especially for worldwide operating undertakings might need expertise developed based on non-European business. As a consequence, the actuarial function should decide, if these ""best practice Standards"", which are widely accepted in the industry, are to be applied or if simplified methods should be used. The (highly qualified) actuarial function should be able to express his opinion, based on professional judgement. Ad 4:	NOT AGREED. Circumstances in which simplifications can be used must be described, although it's made through principles. AGREED the simplifications described in this paper are a non-exhaustive enumeration

			The simplified methods described in this paper are more applicable for primary insurers, where single loss information including claims numbers is available for almost all portfolios (exceptions could be pool business, coinsurance). For reinsurers, claims count are often not available, especially for proportional business. Therefore it should be stated clearly, that the simplifications described here are a non-exhaustive enumeration, i.e. the same general principle as stated in para. 3.362 regarding the risk margin should be applied here.	
481.	Lloyds	3.253.	It is not appropriate to attempt to specify acceptable ""simplified"" methods within Level 2 guidance. The guidance already requires the technical provisions to be carried out by an individual with the appropriate skills and experience. That individual should be free to select the most appropriate method(s) for each circumstance, and be required to justify their selection in accordance with the measures relating to expert judgement.	NOT AGREED. Circumstances in which simplifications can be used must be described, although it's made through principles, but the simplifications described in this paper are a non-exhaustive enumeration
482.	Lucida	3.253.	It would appear more appropriate to refer to 3.245 rather than 3.243	NOTED
483.	Munich Re	3.253.	Ad 3.: The actuarial function, as discussed in CP 33, is said to be highly qualified. Regarding the technical standards, as discussed in CP 33, we quoted for Option 2, where technical standards should be used that are widely accepted in the insurance industry. Not only European standards should be used, as the business especially for worldwide operating undertakings might need expertise developed based on non-European business. As a consequence, the actuarial function should decide, if these	NOT AGREED. Circumstances in which simplifications can be used must be described, although it's made through principles, but the simplifications described in this paper are a non-exhaustive enumeration

			"best practice Standards", which are widely accepted in the industry, are to be applied or if simplified methods should be used. The (highly qualified) actuarial function should be able to express his opinion, based on professional judgement. Ad 4: The simplified methods described in this paper are more applicable for primary insurers, where single loss information including claims numbers is available for almost all portfolios (exceptions could be pool business, coinsurance). For reinsurers, claims count are often not available, especially for proportional business. Therefore it should be stated clearly, that the simplifications described here are a non-exhaustive enumeration, i.e. the same general principle as stated in para. 3.362 regarding the risk margin should be applied here.	
484.			Confidential comments deleted.	
485.	AMICE	3.254.	Calculation of the risk margin-general approach	–
486.	CEA	3.254.	The CEA reiterates its position that it is unrealistic to not take into account diversification effects between lines of business for the purposes of calculating the risk margin and refers to its comments on CP42.	Noted. See, however, CEIOPS' final advice regarding the calculation of the risk margin (the former CP 42 and the resolutions regarding CP 42).
487.	FFSA	3.254.	As already stated in CP 42, FFSA thinks that diversification between Line of Business should be taken into account	See, however, CEIOPS' final advice regarding the calculation of the risk margin (the former CP 42 and the resolutions regarding

				CP 42).
488.	GDV	3.254.	The GDV reiterates its position that diversification effects between lines of business for the purposes of calculating the risk margin should be taken into account.	See, however, CEIOPS' final advice regarding the calculation of the risk margin (the former CP 42 and the resolutions regarding CP 42).
489.			Confidential comments deleted.	
490.	AMICE	3.255.	See our comment to 3.280	Noted.
491.	ACA	3.256.	We prefer a formula based on duration : CoCMlob = Σt≥0 CoC· DurationLob SCRRU,lob(0)/(1+rt+1)t+1, especially in Life insurance. But we have noted that SCR(t) is too heavy to calculate even in NL. And because MCR is somewhat calculated on (BE + Risk margin) and more than once a year, it would be easier and more economical to use this simplified formula.	Noted. Noted. In practice, the use of this simplification should be qualified (in each individual case).
492.			Confidential comments deleted.	
493.	Groupe Consultatif	3.256.	It might not always be possible to calculate the SCR for one line of business. E.g. this is not possible for with profit business in Germany. The definition of SCR… is not clear. Does this also include the market risk?	Noted. It follows from CEIOPS' final advice on the calculation of the risk margin that in this context the SCR includes only unavoidable market risk. See also para 3.262.
494.			Confidential comments deleted.	
495.	Groupe	3.258.	The projection of future SCRs per line of business is not easy and	Noted.

	Consultatif		requires substantial thought and resources.	This is the main rationale for proposing simplified methods for calculating the risk margin.
496.			Confidential comments deleted.	
497.	Groupe Consultatif	3.259.	In an internal model the split of SCR per line of business might not be available or easily estimated, since the risk categories are all interlinked.	Noted. See, however, CEIOPS' final advice regarding the calculation of the risk margin (the former CP 42 and the resolutions regarding CP 42).
498.	Groupe Consultatif	3.260.	Simplification: Calculate SCR for line of business and project the run off in line with some other variable such as premiums or reserves.	Noted. This issue is covered by e.g. the proportional approach.
499.			Confidential comments deleted.	
500.			Confidential comments deleted.	
501.	CRO Forum	3.262.	What about operational risk?	No simplifications are proposed regarding the calculation of the capital charge for operational risk. Para 3.262 concerns the basic SCR.
502.	Legal & General Group	3.263.	Projecting SCRs is not a straightforward matter. Furthermore, all projections are inherently inaccurate since even best estimate assumptions will certainly prove to be wrong. The method of projecting SCRs should therefore be chosen on the basis of a number of criteria, accuracy being one, but practical considerations such as run-time, cost, and spurious accuracy being others. It seems unlikely to me that many firms will be able to carry out full projections of all future SCRs.	Noted.

503.			Confidential comments deleted.	
504.	CEA	3.264.	The CEA agrees that the calculation of the risk margin according to what Ceiops calls "the general approach" is unnecessarily complex and time-consuming. The CEA agrees that there is considerable need for simplification and that the proportional approach is an appropriate approach. Indeed, it should be the default approach. The benefits of using an approach that requires the projection of future SCRs is highly questionably, especially as the risk margin is a proxy to an unknown value (as market prices do not exist) and that a common, subjectively set, cost of capital rate is used for all companies, which introduces a significant element of approximation.	Noted. (However, CEIOPS does not use the qualifier "unnecessary".) Not agreed. A simplification cannot be used as the default approach.
505.	CRO Forum	3.264.	The CRO Forum agrees that the calculation of the risk margin according to what CEIOPS calls "the general approach" is unnecessarily complex and time-consuming. The CRO Forum is the opinion that the default method used should be simplified. Based on the risk profile a company is always able to determine the risk margin by means of an internal formula. The benefits of using an approach that requires the projection of future SCRs is highly questionably, especially as the risk margin is a proxy to an unknown value (as market prices do not exist) and that a common, subjectively set, cost of capital rate is used for all companies, which introduces a significant element of approximation. We are glad that CEIOPS has acknowledged the complexity of projecting the SCRs in future periods. A key reason for this is the requirement for "simulations on simulations", where the number of simulations grows exponentially with the settlement period of the liabilities.	Noted. (However, CEIOPS does not use the qualifier "unnecessary".) Not agreed. A simplification cannot be used as the default approach.

506.	Unum Limited	3.264.	If the full calculation of the Risk Margin according to the general approach is considered too complex for most firms, and most firms will use the simplification approach – then why should the general approach remain in the text?	Not agreed. A simplification cannot be used as the default approach.
507.	AMICE	3.269.	Simplifications	–
508.	Association of British Insurers	3.269.	The requirement to calculate unavoidable market risk in the risk margin could result in excessive complexity Conceptually, unavoidable market risk should be included in the risk margin to the extent that it is non-hedgeable. However, this will require undertakings to carry out disproportionally complex calculations even though we expect that in most cases unavoidable market risk will be minimal. Therefore, we believe that unavoidable market risk should not be explicitly addressed for in Pillar 1”	Partially agreed. See the proposed simplifications regarding the calculation of capital charge for unavoidable market risk.
509.	CEA	3.269.	28. The requirement to calculate unavoidable market risk in the risk margin could result in excessive complexity (CEA position on CP42) Conceptually, unavoidable market risk should be included in the risk margin to the extent that it is non-hedgeable. However, this will require undertakings to carry out disproportionally complex calculations even though we expect that in most cases unavoidable market risk will be minimal. Therefore, we believe that unavoidable market risk should not be	Partially agreed. See the proposed simplifications regarding the calculation of capital charge for unavoidable market risk.

			explicitly allowed for in Pillar 1.	
510.	CRO Forum	3.269.	17. The requirement to calculate unavoidable market risk in the risk margin could result in excessive complexity 18. Conceptually, unavoidable market risk should be included in the risk margin to the extent that it is non-hedgeable. However, this will require undertakings to carry out disproportionally complex calculations even though it is expected that in most cases unavoidable market risk will be residual. Therefore, we believe that unavoidable market risk should not be explicitly allowed for in Pillar 1. Only when circumstances are different from "normal" for example major parts of the markets becomes inactive and hedge opportunities disappear, it could be advised to include the unavoidable market risk within the risk margin.	Partially agreed. See the proposed simplifications regarding the calculation of capital charge for unavoidable market risk.
511.	FFSA	3.269.	Risk margin – simplifications As already stated in CP42, FFSA believes that the "unavoidable market risk" component should be removed from the risk margin calculation.	Partially agreed. See the proposed simplifications regarding the calculation of capital charge for unavoidable market risk.
512.	Just Retirement Limited	3.269.	As set out in our response to CP42, we do not believe that unavoidable market risk should be included in the calculation of the risk margin, on the grounds that to do so introduces unwarranted complexity into the calculation, even allowing for the proposed	Partially agreed. See the proposed simplifications regarding the calculation of

			simplification in this paper (see comment under 3.358).	capital charge for unavoidable market risk.
513.			Confidential comments deleted.	
514.			Confidential comments deleted.	
515.			Confidential comments deleted.	
516.	CRO Forum	3.271.	What is the methodology that CEIOPS has in mind for carrying out a full projection of SCRs?	The general methodology is described in CEIOPS' final advice regarding the calculation of the risk margin (the former CP 42). Para 3.271 should be interpreted in that context.
517.	Lloyds	3.271.	We agree that if it is reasonable to assume an undertaking can carry out a projection of future SCRs by line of business then they should do so. However, to correctly calculate future SCRs using internal models potentially involves complex nested simulation approaches which are, in practice, disproportionally complex to the accuracy obtained.	Noted. However, issues arising from the use of internal models should be addressed in the context of the individual models.
518.	Lucida	3.271.	We believe that the wording should refer to the undertaking being able to carry out a full projection of all future SCRs without the cost/effort being disproportionate.	Noted. The wording of para 3.271 should be sufficiently general.
519.	ARC	3.272.	This paragraph suggests that simplifications regarding the risk margin should be done at the class of business level. In a run-off context, this consideration should normally also take into account claim type (e.g. asbestos, pollution etc.).	Noted.
520.	Groupe Consultatif	3.272.	It might not always be possible to calculate the SCR for one line of business. See comment on 3.256.	Noted. The problems that may arise should be assessed in the

				individual cases.
521.	ACA	3.274.	Simplification (4) based on duration is our favourite choice but by Lob, in Life as well as in Non-Life. We believe that (5) 'approximation as a percentage of the best estimate' should be left possible when simplifications are needed in the calculation of the SCR itself. This can happen for small volume of business. In that case statistical data are too poor to be exploited.	Noted. Noted.
522.	AMICE	3.274.	A hierarchy of simplifications	–
523.	CEA	3.274.	See comment on para. 3.368.	Noted.
524.	Deloitte	3.274.	We support the introduction of a fifth very simple method for calculating the risk margin, particularly for lines of business which are immaterial in the context of a business as a whole. We encourage the re-testing of all simplifications as part of QIS5 to ensure they remain fit for purpose.	Noted.
525.	DIMA	3.274.	The hierarchy is helpful. The final paragraph following 'nevertheless' could be omitted as it should be presumed that extreme simplification will only be used when 3.270 has been considered and the nature, scale and complexity have already been taken into account. In other words, reliance on a judgment about materiality should be trusted.	Noted. However, it seems necessary to stress that the fifth level of simplifications will only be allowed/used in special cases.
526.			Confidential comments deleted.	
527.	Lloyds	3.274.	Method 5 should be included but stressed that it is only applicable in extreme circumstances.	Noted.
528.			Confidential comments deleted.	
529.	PricewaterhouseCoopers	3.274.	We believe that the fifth level is inappropriate as it would lead to an oversimplification of the risk margin which could result in	Not agreed.

	LLP		companies setting aside inadequate amounts of capital for their risk profile. If it was to be permitted, the conditions under which it could be used would need to be tightly controlled. In addition, guidance would be required on the appropriate percentage of the best estimate to use. This comment also applies to paras 3.331 to 3.340 and para 3.367.	There are cases where such a simplification will be appropriate (sufficiently accurate). Noted.
530.	Unum Limited	3.274.	The note " a 5th level could be added" seems as if a considerable numbers of firms may need to use this approach – but it seems to be dismissed as not eligible. The 3rd approximation was used by many firms so why can this not be considered to be the main calculation?	See the resolutions regarding e.g. response to comment from DIMA on 3.274 nd PWC on same para. Not agreed. A simplification cannot be the default approach.
531.	AMICE	3.275.	AMICE members generally agreed with the hierarchy of methods defined in this paragraph.	Noted.
532.	DIMA	3.276.	It seems unnecessary to supply an algorithm for rational choice of an appropriate method.	Noted. The purpose of this section is mainly as an illustration of the procedures to be carried out by the undertakings when choosing the appropriate level of simplifications.
533.	PricewaterhouseCoopers LLP	3.276.	We suggest that guidance should be given as to what is an "appropriate" method in this decision approach. We question whether firms should be encouraged to use the most sophisticated approach they can managed rather than being allowed to start at the simplest appropriate approach.	Noted. In general the risk margin should be calculated as accurate as possible, cf. para 3.271. More detailed guidelines regarding the choice of appropriate levels of

				simplifications could be given on level 3.
534.	Deloitte	3.278.	We would take CEIOPS' assertion "It seems likely that the majority of undertakings will not be in a position to apply the most advanced methods for calculating the risk margin as indicated by level no. 1 in of the hierarchy" further and suggest that it is highly likely that no company will be able to use method 1, ie full projection with no simplifications, for all its lines of business.	Noted.
535.	Groupe Consultatif	3.278.	We would agree with this statement.	Noted.
536.	Lloyds	3.278.	To ""correctly"" calculate the risk margin is extremely complex. We agree that the complexity appears disproportionate to the quantum of the risk margin and the subjectivity that already underlies the calculation.	Noted.
537.	RBS Insurance	3.278.	We believe that there are considerable practical difficulties in calculating the risk margin on an unsimplified basis. We commented at CP42 that the calculations were too complicated, but that paper was not about simplifications. We strongly believe that it is not in anybody's interest (companies, regulators, policyholders) to mandate a calculation that is too difficult for people to perform. Therefore we believe a calculation in line with option 3 or 4 of the hierarchy of simplifications should form the basic calculation, and not be considered a simplification.	Noted. Noted. However, a simplification cannot be the default approach.
538.	Unum Limited	3.278.	If the majority of undertakings are unlikely to be able to apply the advanced methods then why are they set as the "standard"?	A simplification cannot be the default approach

539.	AFS	3.280.	Firms should only be encouraged to move to more sophisticated methods where this will not lead to a disproportionate increase in costs	Noted. However, the focus should be on what is necessary in order to capture the undertaking's risk profile (as well as framework set out for the proportionality principle).
540.	AMICE	3.280.	Companies should not be required to use more sophisticated methods to calculate the risk margin if it can be demonstrated that simplifications capture the risk in the same manner as the standard calculation does; Consequently, AMICE members regard it essential that the general approach is considered as the default method for the calculation of the risk margin.	Noted.
541.	Association of British Insurers	3.280.	We do not agree that the use of a simplified method in calibrating the risk should necessarily be seen as a step towards more sophisticated approach. Instead a simplification may be the most effective way of assessing risk based on proportionality.	Partially agreed. The proportionality principle should be taken into account when considering more sophisticated methods for calculating the risk margin. However, the undertakings should also take into account the general principle stated in para 3.271.
542.	CEA	3.280.	The CEA does not agree that over time companies should be expected to move to methods 1 and 2 in 3.274 as for the reasons given in 2.264 there is no real benefit in adding extra complexity to what is by definition an approximate proxy to an unknown quantity.	See the resolutions to AFS comment on 3.280 and ABI on same para.
543.	DIMA	3.280.	This encouragement has a cost to the policyholder. It should be presumed that simplifications are used in line with the general	Noted.

			guidance and thus are appropriate when materiality has been taken into account. This 'encouragement' is likely to take on different meaning for different regulators.	See the resolutions to AFS comment on 3.280
544.	ILAG	3.280.	Firms should only be encouraged to move to more sophisticated methods where this will not lead to a disproportionate increase in costs	Noted. See the resolutions to AFS comment on 3.280
545.	Lucida	3.280.	We do not agree that undertakings should be encouraged to move to more sophisticated methods where the cost/effort of such methods is disproportionate.	Noted. See the resolutions to AFS comment on 3.280
546.			Confidential comments deleted.	
547.	Unum Limited	3.280.	Do not agree that the use of a simplified method in calibrating the risk should necessarily be seen as a step towards more sophisticated approach. Instead a simplification may be the most effective way of assessing risk based on proportionality.	See the resolutions to AFS comment on 3.280 and ABI on same para.
548.	Association of British Insurers	3.288.	The proportional approach should be declared the default method for the calculation of the risk margin.	Not agreed. A simplification cannot be the default approach. However, this should not per se be interpreted as a narrowing down of the possibilities to use simplifications.
549.			Confidential comments deleted.	
550.	CEA	3.288.	The proportional approach should be declared the default method for the calculation of the risk margin. The CEA acknowledges that Ceiops accepts the difficulties associated with projecting future SCR values as being too	Not agreed. A simplification cannot be the default approach.

			burdensome so that "a clear priority should be given" to the proportional approach and the duration approach. The CEA believes this is a general issue that must be seen independent of any potential introductory difficulties companies may face. Therefore, the statement above should generally apply and not only "in the initial phase of Solvency II". (cf. also the comment on 3.264).	However, this should not per se be interpreted as a narrowing down of the possibilities to use simplifications. On the other hand, the undertakings should also take into account the general principle stated in para 3.271.
551.	CRO Forum	3.288.	The proportional approach should be declared the default method for the calculation of the risk margin. The CRO Forum acknowledges that CEIOPS accepts the difficulties associated with projecting future SCR values as being too burdensome so that "a clear priority should be given" to the proportional approach and the duration approach. One might question the appropriateness of the cost of capital approach when the majority of insurers would need to use gross simplifications in order to apply it. Practicality seems to have been an afterthought in CEIOPS' adoption of this approach.	See the resolution regarding comment above
552.	Just Retirement Limited	3.288.	We agree with this paragraph – the outcome of QIS4 suggests strongly that levels 3 and 4 in the hierarchy were preferred by the majority of undertakings, and therefore should be permitted as a default option. Beyond this, undertaking should be encouraged (but not forced) to use more sophisticated methods.	Noted. However, a simplification cannot be the default approach.
553.	Lloyds	3.288.	We agree that the level 3 & 4 approaches are the most appropriate to apply at present. This is based on the current development of techniques for estimating future SCRs.	Noted.

554.	Unum Limited	3.288.	The proportional approach should be declared the default method for the calculation of the risk margin.	Not agreed. A simplification cannot be the default approach.
555.	AFS	3.289.	It is very important that simplifications are available for the quarterly calculation, particularly in view of the timetable for production of the figures and the relative costs involved.	Agreed.
556.			Confidential comments deleted.	
557.	CRO Forum	3.289.	We welcome CEIOPS' acknowledgement that ratio of best estimate to risk margin may be applied for alternate quarterly reserve reviews.	Noted.
558.	ILAG	3.289.	It is very important that simplifications are available for the quarterly calculation, particularly in view of the timetable for production of the figures	Agreed.
559.	AMICE	3.290.	Specific simplifications	–
560.	ARC	3.290.	We suggest that it might be desirable to have a separate section that deals with the specific simplifications that might be acceptable in a run-off context.	Noted. However, this issue is not developed further at the present stage.
561.	AMICE	3.291.	Members agreed with the proposed simplification.	Noted.
562.	Association of British Insurers	3.291.	Proportionality in respect of the risk margin should apply to all companies and not just those using the standard formula.	Noted. Issues arising from the use of internal models should, however, be addressed in the context of the individual models.
563.			Confidential comments deleted.	
564.	CEA	3.291.	Proportionality in respect of the risk margin should apply to all	Noted.

			companies and not just those using the standard formula. This paragraph can be read as proportionality not applying for companies with internal / partial models. If this is Ceiops intention then the CEA strongly disagrees with this. Risk margins form part of the technical provisions, which cannot be calculated using an internal model. As such proportionality considerations in respect of risk margins should not be affected by whether or not a company decides to develop an internal model. Also, given the 1 year VaR capital requirement for the SCR it cannot be assumed that an internal model will project the future SCR values needed for the risk margin calculation. Thus using one of the first 2 methods in 3.274 will result in very significant expenditure for companies and this, like the rest of Solvency II, should be subject to the proportionality principle. However, if Ceiops is merely saying that given the potential variety in design of internal/partial models it has not attempted to specify possible simplifications in the paper, but that simplifications similar to the proportional approach could apply, then this would be acceptable. However, it would need to be made clear.	Issues arising from the use of internal models should, however, be addressed in the context of the individual models.
565.	CRO Forum	3.291.	Proportionality in respect of the risk margin should apply to all companies and not just those using the standard formula. This paragraph can be read as proportionality not applying for companies with internal / partial models. If this is CEIOPS intention then the CRO Forum is not supporting this. The calculation of the SCR by means of an internal formula should not automatically imply that the risk margin is also calculated using the internal formula.	Noted. Issues arising from the use of internal models should, however, be addressed in the context of the individual models.

			In the context of the calculation of risk margins, the use of simplifications are equally, if not more, relevant for those cases where the SCR is assessed with internal models. The use of internal models for capital requirements should not be discouraged or inhibited by any inflexibility in the use of appropriate simplifications for the calculation of technical provisions.	
566.	Just Retirement Limited	3.291.	We believe that the application of simplified methods to calculate the risk margin should be available to all undertakings, not just those using the standard formula. A common reason for using simplifications might well be in relation to the projection of the SCR, not in the calculation of the SCR itself. Level 3 in the hierarchy is a useful technique that would apply equally to SCRs calculated on the Standard Formula and an internal model.	Noted. Issues arising from the use of internal models should, however, be addressed in the context of the individual models.
567.	Unum Limited	3.291.	Proportionality in respect of the risk margin should apply to all companies and not just those using the standard formula.	Noted. Issues arising from the use of internal models should, however, be addressed in the context of the individual models.
568.	AMICE	3.298.	Simplifications for the overall SCR for each future year	–
569.	AMICE	3.301.	We agree with the CEA that assessing whether the deviation from the assumptions is material or not (assumptions that the risk profile linked to the obligations remains unchanged over the years.) could be very burdensome. As stated in CP42 Risk Margin, we consider that the unavoidable market risk is not material.	Noted. However, it should be stressed that this para refers to the assumptions on which the present simplification (the proportional approach) is based. These assumptions should not be understood as criteria to be fulfilled in order to use the

				simplification. Assessments of the (impact of) deviations from these assumptions are addressed in para 3.302. Some kind of assessment should in any case be carried out. The wording of the relevant para will be changed in order to avoid further misunderstandings.
570.	Association of British Insurers	3.301.	3. In practice most of these conditions required for being able to use simplifications for the overall SCR for each future year, will be impossible to meet and should therefore be removed	See the resolution regarding comment above.
571.	CEA	3.301.	29. In practice most of these conditions required for being able to use simplifications for the overall SCR for each future year, will be impossible to be met and should therefore be removed. ☐ Regarding underwriting risk, we believe that the composition of the sub-risks will unavoidably evolve through time, according to the portfolio features and future maturities, lapses and mortality. ☐ We also believe that it will be impossible for undertakings to ensure that the average credit standing of reinsurers and SPVs will remain the same over the years. ☐ The requirement to calculate unavoidable market risk in the risk margin could result in excessive complexity and as we describe above in 3.269 is likely to have minimal effect in most cases. ☐ Regarding the proportion of reinsurers' and SPVs' share of the obligations, it could be considered as an assumption which holds by default rather than an assumption to be validated by	See the resolution regarding comment above. Noted. Noted. Noted. Noted.

			undertakings. Indeed, it will be impossible for undertakings to know in advance how the undertaking's reinsurance programme will evolve. ☐ Finally, it is also questionable how undertakings will be able to prove that the loss absorbing capacity of the technical provisions in relation to the net best estimate will remain the same. Hence, these conditions should be ignored.	Noted.
572.	CRO Forum	3.301.	In practice most of these conditions required for being able to use simplifications for the overall SCR for each future year, will be impossible to be met and should therefore be removed ☐ Regarding underwriting risk, we believe that the composition of the sub-risks will unavoidably evolve through time, according to the portfolio features and future maturities, lapses and mortality. ☐ We also believe that it will be impossible for undertakings to ensure that the average credit standing of reinsurers and SPVs will remain the same over the years. ☐ The requirement to calculate unavoidable market risk in the risk margin could result in excessive complexity. ☐ Regarding the proportion of reinsurers' and SPVs' share of the obligations, it could be considered as an assumption which holds by default rather than an assumption to be validated by undertakings. Indeed, it will be impossible for undertakings to know in advance how the undertaking's reinsurance programme will evolve. ☐ Finally, it is also questionable how undertakings will be able to prove that the loss absorbing capacity of the technical provisions in relation to the net best estimate will remain the same.	See the resolution regarding comment from AMICE on 3.301 and comment above

			Hence, these conditions should be ignored.	
573.	FFSA	3.301.	Risk margin – Simplifications for the overall SCR for each future year Regarding underwriting risk, FFSA believes that the composition of the sub-risks will unavoidably evolve through time, according to the portfolio features and future maturities, lapses and mortality. FFSA believes that it will be impossible for undertakings to assess whether the average credit standing of reinsurers and SPVs will remain the same over the years. As stated in CP42, FFSA would like "unavoidable market risks" to be removed from the risk margin calculation. Regarding the proportion of reinsurers' and SPVs' share of the obligations, it could be considered as an assumption which holds by default rather than an assumption to be validated by undertakings. Indeed, it will be impossible for undertakings to know in advance how the undertaking's reinsurance programme will evolve. In addition, FFSA wonders how undertakings will be able to prove that the loss absorbing capacity of the technical provisions in relation to the net best estimate will remain the same. Hence, these conditions should be ignored.	See the resolution regarding comment from AMICE on 3.301 and comment above
574.	Lloyds	3.301.	In practice the first bullet point underlying assumptions is hard to satisfy as there is generally a step change in the composition of the underwriting risk from time 0 to time 1. Time 0 tends to include significant unexpired premium and catastrophe risk which has generally being earned by time 1. An alternative would be to estimate the SCR at time 1 and then	See the resolution regarding comment from AMICE on 3.301 and comment above

			proportionally run this off. The actual SCR at time 0 can still be used in the cost of capital calculation but the simplification would apply to time 1 onwards. This is similar to the underlying principles of the ""all future SCRs at once"" approach supplied later in the paper.	
575.	Munich Re	3.301.	In practice most of these conditions required for being able to use simplifications for the overall SCR for each future year, will be impossible to be met and should therefore be removed ☐ Regarding underwriting risk, we believe that the composition of the sub-risks will unavoidably evolve through time, according to the portfolio features and future maturities, lapses and mortality. ☐ We also believe that it will be impossible for undertakings to ensure that the average credit standing of reinsurers and SPVs will remain the same over the years. ☐ The requirement to calculate unavoidable market risk in the risk margin could result in excessive complexity. ☐ Regarding the proportion of reinsurers' and SPVs' share of the obligations, it could be considered as an assumption which holds by default rather than an assumption to be validated by undertakings. Indeed, it will be impossible for undertakings to know in advance how the undertaking's reinsurance programme will evolve. ☐ Finally, it is also questionable how undertakings will be able to prove that the loss absorbing capacity of the technical provisions in relation to the net best estimate will remain the same. Hence, these conditions should be ignored.	See the resolution regarding comment from AMICE on 3.301 and comment above
576.			Confidential comments deleted.	

577.	PricewaterhouseCoopers LLP	3.301.	We believe that, in practice, the assumption of the risk profile remaining unchanged over time is very unlikely to hold. This comment also applies to para 3.321.	See the resolution regarding comment from AMICE on 3.301 and comment above
578.			Confidential comments deleted.	
579.	Unum Limited	3.301.	In practice most of these conditions required for being able to use simplifications for the overall SCR for each future year, will be impossible to meet and should therefore be removed	See the resolution regarding comment from AMICE on 3.301 and comment above
580.	AMICE	3.302.	AMICE members consider that if simplifications capture the risk as a more standard calculation does, then the simplification should be considered as the standard calculation.	Noted. However, a simplification cannot be the default approach.
581.	Association of British Insurers	3.302.	It would be too burdensome if assessing materiality would require more complex calculations	Not agreed. Some kind of assessments of the impact of deviations from the assumptions on which the proportional approach is based should be carried out. However, further guidelines may be necessary regarding the content (degree of detail) of these assessments. Especially, the distinction between material and non-material deviations (from the assumption on which the proportional approach is based) should be clarified.

582.	CEA	3.302.	It would be too burdensome if assessing materiality would require more complex calculations Ceiops states that this approach is based on an assumption that the risk profile linked to the obligations remains unchanged over the years and "When some or all of these assumptions do not hold, then an undertaking that intends to use this simplification should assess how material the deviation from the assumptions is…". Assessing the deviation would require a calculation of the risk margin without simplifications which is highly burdensome and may be subject to feasibility (as stated in §3.285, in QIS4 most of the undertakings used simplifications to project the SCR for the purposes of calculating the risk margin). In addition, to ensure consistency among supervisors, we would like Ceiops to disclose on the "materiality" level of the deviation.	See the resolution regarding comment above. (This is not the intention or scope of the assessments to be carried out.)
583.	FFSA	3.302.	Risk margin – Simplifications for the overall SCR for each future year CEIOPS states that this approach is based on an assumption that the risk profile linked to the obligations remains unchanged over the years and "When some or all of these assumptions do not hold, then an undertaking that intends to use this simplification should assess how material the deviation from the assumptions is…" Assessing the deviation would require a calculation of the risk margin without simplifications which is highly burdensome and may be subject to feasibility (as stated in §3.285, in QIS4 most of the undertakings used simplifications to project the SCR for the purposes of calculating the risk margin).	See the resolution regarding comment above.

			In addition, to ensure consistency among supervisors, FFSA would like CEIOPS to disclose on the "materiality" level of the deviation.	
584.	Just Retirement Limited	3.302.	Some assessment of the materiality of the simplification should be made, but the required analysis should be proportionate – otherwise the rationale for using the simplified method is undermined.	Noted.
585.			Confidential comments deleted.	
586.			Confidential comments deleted.	
587.	Unum Limited	3.302.	It would be too burdensome if assessing materiality would require more complex calculations	See the resolution regarding comment from ABI on 3.302.
588.	CRO Forum	3.303.		–
589.	FFSA	3.303.	FFSA requests more clarification regarding "sub-portfolio": is it ring-fenced funds or products? Performing calculations at product level would lead to highly burdensome calculation. FFSA disagrees with this approach.	Noted. The word "sub-portfolio" will be replaced by "sub-lines (of business)".
590.			Confidential comments deleted.	
591.	AMICE	3.310.	Estimation of all future SCRs "at once"	–
592.	AMICE	3.311.	AMICE believes that it will be impossible for undertakings to assess whether the average credit standing of reinsurers and SPVs will remain the same over the years. We therefore request to delete this condition.	This is in fact a comment on para 3.314. The resolution regarding comment from AMICE on 3.301 applies in this case as well.
593.	Association of British Insurers	3.315.	See comment to 3.301	See the resolution regarding comment from AMICE on 3.301.

594.	CEA	3.315.	See comment to 3.301.	See the resolution regarding comment from AMICE on 3.301.
595.	CRO Forum	3.315.	See comment to 3.301	See the resolution regarding comment from AMICE on 3.301.
596.	FFSA	3.315.	Estimation of all future SCRs "at once" – Non life insurance FFSA believes that it will be impossible for undertakings to assess whether the average credit standing of reinsurers and SPVs will remain the same over the years. Hence, this condition should be ignored.	See the resolution regarding comment from AMICE on 3.301.
597.			Confidential comments deleted.	
598.	Lloyds	3.317.	We agree and note this should not be a significant task in most cases.	Noted.
599.	ACA	3.320.	We fully agree with the proposed formula.	Noted.
600.	CEA	3.320.	The reference to non-life is not clear: what is meant with "similar". The formulae for should be given in detail although they might be similar.	Noted. Para 3.320 will be amended in order to achieve this.
601.			Confidential comments deleted.	
602.	Association of British Insurers	3.321.	See comment to 3.301	The resolution regarding comment comment from AMICE on 3.301applies in this case as well.
603.	CEA	3.321.	See comment to 3.301.	The resolution regarding comment comment from AMICE on 3.301applies in this case as well.

604.	CRO Forum	3.321.	See comment to 3.301	The resolution regarding comment comment from AMICE on 3.301applies in this case as well.
605.	FFSA	3.321.	Estimation of all future SCRs "at once" – Life insurance Regarding underwriting risk, FFSA believes that the composition of the sub-risks will unavoidably evolve through time, according to the portfolio features and future maturities, lapses and mortality. FFSA believes that it will be impossible for undertakings to assess whether the average credit standing of reinsurers and SPVs will remain the same over the years. As stated in CP42, FFSA would like "unavoidable market risks" to be removed from the risk margin calculation. Regarding the proportion of reinsurers' and SPVs' share of the obligations, it could be considered as an assumption which holds by default rather than an assumption to be validated by undertakings. Indeed, it will be impossible for undertakings to know in advance how the undertaking's reinsurance programme will evolve. In addition, FFSA wonders how undertakings will be able to prove that the loss absorbing capacity of the technical provisions in relation to the net best estimate will remain the same. Hence, these conditions should be ignored.	The resolution regarding comment from AMICE on 3.301 applies in this case as well.
606.	PricewaterhouseCoopers LLP	3.321.	We refer to our comment at para 3.301.	The resolution regarding comment from AMICE on 3.301applies in this case as well.
607.			Confidential comments deleted.	
608.	Unum Limited	3.321.	See comment to 3.301	The resolution regarding comment comment from AMICE

				on 3.301 applies in this case as well.
609.	Association of British Insurers	3.322.	See comment to 3.302	The resolution regarding comment no. 581 applies in this case as well.
610.	CEA	3.322.	See comment to 3.302.	The resolution regarding comment from ABI on 3.302 applies in this case as well.
611.	FFSA	3.322.	Estimation of all future SCRs "at once" – Life insurance CEIOPS states that this approach is based on an assumption that the risk profile linked to the obligations remains unchanged over the years and "When some or all of these assumptions do not hold, then an undertaking that intends to use this simplification should assess how material the deviation from the assumptions is…" Assessing the deviation would require a calculation of the risk margin without simplifications which is highly burdensome and may be subject to feasibility (as stated in §3.285, in QIS4 most of the undertakings used simplifications to project the SCR for the purposes of calculating the risk margin). In addition, to ensure consistency among supervisors, FFSA would like CEIOPS to disclose on the "materiality" level of the deviation.	The resolution regarding comment no. 581 applies in this case as well. (This is not the intention or scope of the assessments to be carried out.)
612.			Confidential comments deleted.	
613.	Unum Limited	3.322.	See comment to 3.302	The resolution regarding comment from ABI on 3.302 applies in this case as well.
614.	AMICE	3.331.	A simple method based on percentages of the best estimate More guidance is needed to understand how CEIOPS intends to calibrate the factor per line of business.	Agreed. In order to be an approach that may be applied in practise,

				further work should be carried out on level 3.
615.	CEA	3.331.	See comment on para. 3.368.	Noted.
616.	PricewaterhouseCoopers LLP	3.331.	Our comment at para 3.274 applies here and to the following paragraphs.	See the resolution regarding comment from PWC on 3.274.
617.	Association of British Insurers	3.334.	It would be too burdensome if assessing materiality would require more complex calculations	Noted. See also the resolution regarding comment from ABI on 3.302.
618.	CEA	3.334.	It would be too burdensome if assessing materiality would require more complex calculations Ceiops states that alternatives B (Cases where the impact of the risk margin calculated for a given line of business on the overall risk margin is not material) and C (Cases of small undertakings for which the more advanced calculations of the risk margin may be very time-consuming compared to the undertakings available (human) resources) presuppose that some prescribed percentages (per line of business) are readily available for the undertaking. The CEA believes that assessing materiality requires more complex calculations (based on the simplifications already described). If undertakings are able to perform more complex calculations, obviously supervisors would expect undertakings to do so. Hence, in order to avoid market distortions, Ceiops should ensure a harmonised approach among regulators for assessing materiality. In addition, it is unclear how and who will assess the prescribed percentages.	Noted. Noted. In order to be an approach that may be applied in practise, further work should be carried out on level 3.

619.	FFSA	3.334.	Simple method based on a percentage of the best estimate CEIOPS states that alternatives B (Cases where the impact of the risk margin calculated for a given line of business on the overall risk margin is not material) and C (Cases of small undertakings for which the more advanced calculations of the risk margin may be very time-consuming compared to the undertakings available (human) resources) presuppose that some prescribed percentages (per line of business) are readily available for the undertaking. FFSA believes that assessing materiality requires more complex calculations (based on the simplifications already described). If undertakings are able to perform more complex calculations, obviously supervisors would expect undertakings to do so. Hence, FFSA believes that to avoid market distortions, CEIOPS should ensure a harmonised approach among regulators for assessing materiality. In addition, how and who will assess the prescribed percentages.	See the resolution regarding comment above.
620.	AFS	3.336.	We would suggest that the unavoidable market risk and credit risk will be the hardest risks to model within the SCR projection for life insurance risk margin. The projection will need to allow for new issues of bonds in the future and whether the credit status of the reinsurer will be changing. We would suggest that these risks will need to be modelled as a constant percentage of the best estimate technical provision for most firms.	Noted.
621.	Deloitte	3.336.	We believe that, particularly for some small life insurance entities, the calculation of a risk margin for some very small lines of business using anything other than simplified method 5 would be excessively time consuming and disproportionate to the scale of the risks, even if only done once as a benchmark.	Noted. However, in order to be an approach that may be applied in practise, further work should be carried out on level 3.
622.	Groupe	3.336.	We would suggest that the unavoidable market risk and credit risk	Noted.

	Consultatif		will be the hardest risks to model accurately within the SCR projection for life insurance risk margin. The projection would need to allow for new issues of bonds in the future and the shortening duration of the liabilities (and hence greater ability to find matching instruments). We would suggest that these risks may need to be modelled as a constant percentage of the best estimate technical provision for most firms.	
623.	ILAG	3.336.	We would suggest that the unavoidable market risk and credit risk will be the hardest risks to model within the SCR projection for life insurance risk margin. The projection will need to allow for new issues of bonds in the future and whether the credit status of the reinsurer will be changing. We would suggest that these risks will need to be modelled as a constant percentage of the best estimate technical provision for most firms.	Noted.
624.	CEA	3.338.	This seems only to be true, if a simplified method for discounting is used, as otherwise the payout pattern and also the duration should be known. Compare our comment on para. 3.368.	Does this comment refer to para 3.338?
625.	Munich Re	3.338.	This seems only to be true, if a simplified method for discounting is used, as otherwise the payout pattern and also the duration should be known.	Does this comment refer to para 3.338?
626.	AMICE	3.339.	CEIOPS states that it may be “circumstances” where an insurance undertaking will have to calculate its technical provisions even more frequently than quarterly. CEIOPS should define which should be these circumstances.	This comment refers in fact to para 3.439. The circumstances referred to may be cases where the solvency position of the undertaking is such that more frequent

				calculations of the technical provisions are required.
627.	Lloyds	3.352.	We agree that this approximation could be applied for most future years where t>==1.	Noted.
628.	Munich Re	3.353.	It should be stated clearly, that the prerequisites of CP 75 regarding the usage of undertaking specific parameters have to be met.	Noted.
629.			Confidential comments deleted.	
630.	CEA	3.358.	There should be no double counting of basis risk in the best estimate and the risk margin A key consideration is how n, the longest duration of available risk-free financial instrument, is determined as this will have a big impact on the reasonableness or otherwise of the allowance for unavoidable risk. This is especially so as the formula assumes a full SCR interest rate stress, i.e. there is a 100% mismatch. This would be inappropriate where the company is able to partially mitigate the mismatch, e.g. using a combination of instruments that create a synthetic, risk-free instrument (e.g. corporate bonds plus derivatives such as credit default swaps) or corporate debt where the credit risk is much smaller than the duration mismatch that would otherwise apply or by using instruments with the necessary duration but denominated in a different currency (i.e. with the currency risk being less than the associated currency risk). In such circumstances companies should be able to reflect the reduced unavoidable mismatch risk in their allowance for unavoidable market risk.	Noted. The simplified approach for calculating unavoidable market risk needs some further considerations.

631.	GDV	3.358.	12. The requirement to calculate unavoidable market risk in the risk margin could result in excessive complexity. Conceptually, unavoidable market risk should be included in the risk margin to the extent that it is non-hedgeable. However, this will require undertakings to carry out disproportionally complex calculations even though we expect that in most cases unavoidable market risk will be minimal. Therefore, we believe that unavoidable market risk should not be explicitly allowed for in Pillar 1	Noted. The simplified approach for calculating unavoidable market risk needs some further considerations.
632.	Just Retirement Limited	3.358.	We believe that the potential inaccuracies and distortions in this calculation outweigh the benefits of the simplification. We reiterate that we believe unavoidable market risk should not be included explicitly in the risk margin calculation. In general we consider that it is of low materiality and could be covered by the high degree of prudence included in the cost-of-capital parameter.	Noted. The simplified approach for calculating unavoidable market risk needs some considerations.
633.			Confidential comments deleted.	
634.			Confidential comments deleted.	
635.			Confidential comments deleted.	
636.			Confidential comments deleted.	
637.	Association of British Insurers	3.362.	Proportionality should apply regardless of whether a company chooses to opt for simplified method or not.	Noted. The principle of proportionality applies “everywhere”. However, the purpose of this paragraph is to state explicitly that this is the case also for simplified valuation methods (regarding the risk

				margin calculation).
638.	CEA	3.362.	The CEA agrees and would add that this should apply regardless of whether a company chooses to develop an internal model or not.	See the resolution regarding comment from ABI on 3.362.
639.	GDV	3.362.	The GDV agrees and would add that this should apply regardless of whether a company chooses to develop an internal model or not.	See the resolution regarding comment from ABI on 3.362.
640.	Just Retirement Limited	3.362.	Proportionality should apply whether or not company chooses to opt for simplified method. Clarification should also be made that simplifications are available to all undertakings, i.e. not only those using the standard formula for the SCR calculation (see comment on 3.291, above).	See the resolution regarding comment from ABI on 3.362..
641.	RSA Insurance Group	3.362.	We agree that the approach to the risk margin needs to be proportionate. The calculation of the risk margin could be made extremely complicated and this risk should be explicitly mitigated.	See the resolution regarding comment from ABI on 3.362.
642.	Unum Limited	3.362.	Proportionality should apply regardless of whether a company chooses to opt for simplified method or not.	See the resolution regarding comment from ABI on 3.362.
643.	Association of British Insurers	3.363.	The statement here that the risk margin should be “as accurate as possible” conflicts with the general statement in 3.362 and the general requirements of Solvency for proportionality relative to the nature, scale and complexity of the risks.	Noted. The relation between the proportionality principle and the request for risk margin calculations “as accurate as possible” may need further clarification. The wording of the advice will be amended in order to achieve this. See also the resolution regarding

				comment no. 649.
644.			Confidential comments deleted.	
645.	CEA	3.363.	The statement here that the risk margin should be "as accurate as possible" conflicts with the general statement in 3.362 and the general requirements of Solvency for proportionality relative to the nature, scale and complexity of the risks. Using more complex methods will not necessarily achieve greater accuracy. The risk margin is a proxy for the amount needing to be added to the best estimate liability to be consistent with market prices. As the relevant market prices do not exist (otherwise they would be used directly) there is no correct answer with which to assess the accuracy of different methods. Furthermore, if such market prices did exist they would most likely show that different cost of capital rates would be needed for differently rated companies, whereas Solvency II requires a common rate to be used by all companies. The risk margin is therefore necessarily an approximate proxy. Requiring very complex and burdensome methods will not increase accuracy and as such fails the proportionality principle.	See the resolution regarding comment from ABI and GC on 3.363
646.	CFO	3.363.	The expectation that undertakings should carry out a full projection of SCR whenever possible fails to consider the principle of proportionality. The requirement to perform a full projection of all future SCRs whenever possible is at odds with the principle of proportionality which is specifically asserted in relation to the use of simplifications. In many cases it is possible to carry out a full projection of future SCRs. However, such an exercise may be very costly and may contain highly judgemental assumptions for many years into the	See the resolution regarding comment from ABI and GC on 3.363

			future. In these cases, such an exercise may be of very little benefit. CEIOPS should recognise that it would be rare for a full projection of future SCRs to be an appropriate method.	
647.	CRO Forum	3.363.	The statement here that the risk margin should be "as accurate as possible" conflicts with the general statement in 3.362 and the general requirements of Solvency for proportionality relative to the nature, scale and complexity of the risks. Using more complex methods will not necessarily achieve greater accuracy. The risk margin is a proxy for the amount needing to be added to the best estimate liability to be consistent with market prices. As the relevant market prices do not exist (otherwise they would be used directly) there is no correct answer with which to assess the accuracy of different methods. Furthermore, if such market prices did exist they would most likely show that different cost of capital rates would be needed for differently rated companies, whereas Solvency II requires a common rate to be used by all companies. The risk margin is therefore necessarily an approximate proxy. Requiring very complex and burdensome methods will not increase accuracy and as such fails the proportionality principle. This states that if an undertaking is able to carry out a full projection of all future SCRs – for all or some lines of business – it would be expected to do so. This requires clarification in the context of the general principle of proportionality and the hierarchy of methods in 3.366. An undertaking may be able to carry out a full projection of SCRS for a line of business, but at excessive cost and with no material improvement in reliability of the result. In general, use of a proportional or duration method (hierarchy levels 3 & 4) should be	See the resolution regarding comment from ABI and GC on 3.363

			considered appropriate for all lines of business.	
648.	GDV	3.363.	The statement here that the risk margin should be "as accurate as possible" conflicts with the general statement in 3.362 and the general requirements of Solvency for proportionality relative to the nature, scale and complexity of the risks. Using more complex methods will not necessarily achieve greater accuracy. The risk margin is already a proxy for the amount needing to be added to the best estimate liability to be consistent with market prices. As the relevant market prices do not exist (otherwise they would be used directly) there is no correct answer with which to assess the accuracy of different methods. Requiring very complex and burdensome methods will not increase accuracy and as such fails the proportionality principle.	See the resolution regarding comment from ABI and GC on 3.363
649.	Groupe Consultatif	3.363.	We would suggest that ""practically able"" is a more appropriate condition. Many companies would be ""able"" to project the SCR if they invested large sums in system enhancements, but this would not be proportionate.	Noted.
650.	Just Retirement Limited	3.363.	The phrase ""as accurately as possible"" contradicts paragraph 3.362, i.e. it does not take account of proportionality.	See the resolution regarding comment from ABI and GC on 3.363
651.	Lloyds	3.363.	We agree that if it is reasonable to assume an undertaking can carry out a projection of future SCRs by line of business then they should do so. However, to correctly calculate future SCRs using internal models potentially involves complex nested simulation approaches which are, in practice, disproportionally complex to the accuracy obtained.	See the resolution regarding comment from ABI and GC on 3.363
652.	Lucida	3.363.	We believe that the wording should refer to the undertaking being able to carry out a full projection of all future SCRs without the cost/effort being disproportionate.	See the resolution regarding comment from ABI and GC on 3.363

653.	Munich Re	3.363.	The statement here that the risk margin should be "as accurate as possible" conflicts with the general statement in 3.362 and the general requirements of Solvency for proportionality relative to the nature, scale and complexity of the risks. Using more complex methods will not necessarily achieve greater accuracy. The risk margin is a proxy for the amount needing to be added to the best estimate liability to be consistent with market prices. As the relevant market prices do not exist (otherwise they would be used directly) there is no correct answer with which to assess the accuracy of different methods. Furthermore, if such market prices did exist they would most likely show that different cost of capital rates would be needed for differently rated companies, whereas Solvency II requires a common rate to be used by all companies. The risk margin is therefore necessarily an approximate proxy. Requiring very complex and burdensome methods will not increase accuracy and as such fails the proportionality principle. This states that if an undertaking is able to carry out a full projection of all future SCRs – for all or some lines of business – it would be expected to do so. This requires clarification in the context of the general principle of proportionality and the hierarchy of methods in 3.366. An undertaking may be able to carry out a full projection of SCRS for a line of business, but at excessive cost and with no material improvement in reliability of the result. In general, use of a proportional or duration method (hierarchy levels 3 & 4) should be considered appropriate for all lines of business.	See the resolution regarding comment from ABI and GC on 3.363
654.	Unum	3.363.	The statement here that the risk margin should be "as accurate as	See the resolution regarding

	Limited		possible" conflicts with the general statement in 3.362 and the general requirements of Solvency for proportionality relative to the nature, scale and complexity of the risks.	comment from ABI and GC on 3.363
655.	ACA	3.366.	See 3.256 and 3.274	Noted.
656.	Association of British Insurers	3.366.	The calculation by line of business or by sub-portfolios may lead to unduly burdensome calculations	Not agreed. This issue has been treated in the context of CEIOPS' final advice regarding the calculation of the risk margin (the former CP 42), cf. also the resolutions regarding CP 42.
657.	CEA	3.366.	The calculation by line of business or by sub-portfolios may lead to unduly burdensome calculations 30. In addition, the adjustment for the loss absorbing capacity of technical provisions by using a scenario based approach is not clear. We suggest not using such scenarios. The adjustment is taken is already taken into account in the formula described in 3.300: SCRRU,lob(t) = (SCRRU,lob(0)/BENet,lob(0))* BENet,lob(t)	See the resolution regarding comment no. 657. Noted.
658.	FFSA	3.366.	Simplifications regarding risk margin Regarding the third option: "approximate the whole SCR for each future year, e.g. by using a proportional approach", FFSA believes that the calculation by line of business or by sub-portfolios may lead to some burdensome calculations. In addition, the adjustment for the loss absorbing capacity of technical provisions by using a scenario based approach is not clear. FFSA suggests not using such	See the resolutions regarding comment from ABI and CEA on 3.366.

			scenarios. The adjustment is taken is already taken into account in the formula described in 3.300: SCRRU,lob(t) = (SCRRU,lob(0)/BENet,lob(0))* BENet,lob(t)	
659.			Confidential comments deleted.	
660.	GDV	3.366.	The calculation by line of business or by sub-portfolios may lead to unduly burdensome calculations 13. In addition, the adjustment for the loss absorbing capacity of technical provisions by using a scenario based approach is not clear. We suggest not using such scenarios. The adjustment is taken is already taken into account in the formula described in 3.300: SCRRU,lob(t) = (SCRRU,lob(0)/BENet,lob(0))* BENet,lob(t)	See the resolutions regarding comment from ABI and CEA on 3.366.
661.	Legal & General Group	3.366.	The simplification methods allowable should take into account proportionality and materiality as indicated in sections 3.275-3.282.	Noted.
662.	Lloyds	3.366.	We agree with the decision tree proposed and note that (as mentioned later) the level 3 & 4 approaches are the most appropriate to apply at the current moment in time. This is based on the current development of techniques used for estimating future SCRs.	Noted.
663.	RSA Insurance Group	3.366.	We believe option (1) will be generally impossible. We believe option (3) will often strike the right balance between calculation complexity and theoretical accuracy.	Noted.
664.	Unum Limited	3.366.	Same as 3.274	Noted.
665.	Groupe Consultatif	3.367.	A RM as a % of the BE is an old method, but what is this %?	Noted.

				In order to be an approach that may be applied in practise, further work should be carried out on level 3.
666.	Institut des actuaires	3.367.	A RM as a % of the BE is an old method, but what is this %?	Noted. In order to be an approach that may be applied in practise, further work should be carried out on level 3.
667.	PricewaterhouseCoopers LLP	3.367.	We refer to our comment at para 3.274.	Noted.
668.	ACA	3.368.	Our suggestion is to value this in QIS5.	Noted.
669.	ARC	3.368.	The fifth level of hierarchy (i.e risk margin as a percentage of best estimate) may be all that is practical in some run-off contexts, where data might be very limited, although careful review will be required by the local regulators to ensure that the percentage loadings to a best estimate are appropriate.	Noted. However, in order to be an approach that may be applied in practise, further work should be carried out on level 3.
670.	Association of British Insurers	3.368.	We believe that fifth level of risk margin calculation hierarchy is helpful but would expect it to apply to only the smallest of companies.	Noted.
671.			Confidential comments deleted.	
672.	CEA	3.368.	The CEA believes that fifth level of risk margin calculation hierarchy is helpful but would expect it to apply to only the smallest of companies when using case-by-case approach.	Noted.

673.	CRO Forum	3.368.	The fifth level in the hierarchy (to approximate the risk margin by calculating it as a percentage of the best estimate) is relevant for immaterial lines of business. Calibration of percentages could be made by reference to more accurate risk margin calculations for material lines of business.	Noted.
674.	DIMA	3.368.	See 3.274.	Noted.
675.			Confidential comments deleted.	
676.	GDV	3.368.	The GDV believes that fifth level of risk margin calculation hierarchy is helpful but would expect it to apply to only the smallest of companies when using case-by-case approach.	Noted.
677.	Lloyds	3.368.	We agree that focus should be on level 3 & 4. The fifth level can be left in but does need to be recognised as applying in ""extreme"" situations.	Noted.
678.			Confidential comments deleted.	
679.	Association of British Insurers	3.369.	Same as 3.368	Noted.
680.			Confidential comments deleted.	
681.	CEA	3.369.	The CEA believes that the simplifications are generally helpful. However, it believes that the proportional approach on proportionality grounds should generally be the default approach rather than a simplification.	Noted. However, a simplified approach cannot be the default method.
682.	CRO Forum	3.369.	The CRO Forum believe that simplifications for the overall SCR for each future year (i.e. using the level 3 or proportional approach) are appropriate for most major lines of life business.	Noted.

			In many cases, proportionality of future SCRs to the best estimate technical provisions is an appropriate assumption. However the advice should be generalised to require consideration of the most appropriate driver for projecting future SCRs for each line of business. For example, for protection business the driver may be capital at risk.	
683.	GDV	3.369.	The GDV believes that the simplifications are generally helpful. However, it believes that the proportional approach on proportionality grounds should generally be the default approach rather than a simplification.	Noted. However, a simplified approach cannot be the default method.
684.	Lloyds	3.369.	Please see comments above on specific methods.	Noted.
685.			Confidential comments deleted.	
686.	CEA	3.370.	Ad E: a reference to CP 75 should be given regarding the usage and the prerequisites of undertaking specific parameters.	Noted.
687.	DIMA	3.370.	All the simplifications proposed may have their place once the nature, scale and complexity have been adequately addressed. There should be no limitations on the use of these simplifications other than that the practitioner must use the most appropriate method in the 'hierarchy' of simplifications having justified the use of the method chosen. The method should be validated in terms of providing a range of error. Too much prescription in this area will increase the cost of compliance and will create a burden for regulators in terms of having to continually review and refine the prescribed methods. The practitioner should parameterise the method used appropriately in order to reduce the model error.	Noted.
688.	GDV	3.370.	Ad E: a reference to CP 75 should be given regarding the usage and the prerequisites of undertaking specific parameters.	Noted.

689.	Groupe Consultatif	3.370.	The 5th simplification might not be relevant for all undertakings. E.g. it is irrelevant for German life business. On the other hand it is not easily possible to split the SCR per line of business.	Noted.
690.	Lloyds	3.370.	Please see comments above on specific methods.	Noted.
691.	Munich Re	3.370.	Ad E: It should be stated clearly, that the prerequisites of CP 75 regarding the usage of undertaking specific parameters have to be met.	Noted.
692.			Confidential comments deleted.	
693.			Confidential comments deleted.	
694.			Confidential comments deleted.	
695.			Confidential comments deleted.	
696.	CEA	3.377.	The CEA agrees that a general framework for the use of Gross-to-Net techniques under Solvency II is required and supports the work that has been carried out by the Ceiops & Groupe Consultatif coordination group on proxies in this area. It must be noted that the application of Gross-to-net techniques is in most practical cases considered to be actuarial best practice and not as a simplification This is acknowledged in the final bullet of 3.409 where it is explained that “direct” techniques will not yield a more accurate result than a Gross-to-Net technique.	Noted

697.	Lloyds	3.377.	Gross to net analyses should not necessarily be classified as indirect approaches. The name suggests estimating the net provisions based on the gross and then estimating the reinsurance recoveries as the difference. An alternative definition is that the reinsurance recoveries are being directly estimated off the gross estimates (reinsurance to gross ratios) – the only difference is the naming convention. If this were the name of the method it would imply a ""direct approach"".	Noted
698.	FEE	3.381.	The advice referred to in paragraph 3.381 is not really clear. That the "calculation by insurance and reinsurance undertakings of amounts recoverable from reinsurance contracts … shall comply with Articles 76 to 80" (as stipulated in Art. 81 if the final Directive) needs interpretation. The reinsurance recoverable is an asset and normally uncertainty is a reducing element of the current exit value of an asset. However, reinsurance recoverable is an asset, which hedges exactly the ceded cash flows and is contractually linked to the losses of the cedant. It is impossible to transfer the reinsurance asset without the ceded business. Reinsurance is a risk-reducing tool, i.e. it off-sets the risk inherent in the ceded liability. Therefore, an asset reflecting a cession is not increased by the risk margin, but reinsurance reduces the risk margin needed by the entity for a price, since the asset compensates the risk provided for in the risk margin of the ceded liability. The net position does not include a risk margin for the ceded risk, since it is not born by the cedant. Therefore, the requirement that the measurement of the reinsurance recoverable "shall comply with" the measurement of the ceded liability, means that the reinsurance recoverable should have the same value (i.e. current estimate plus risk margin) as the actually ceded part of the liability. As a consequence, the difference	Agreed. Para 3.380-3.384 will be reworded in order to clarify the issue at stake.

			between the liability and the reinsurance recoverable equals the direct measurement of the net position.	
699.	KPMG ELLP	3.381.	The advice in Article 3.381 is not very clear. The sentence that the "calculation by insurance and reinsurance undertakings of amounts recoverable from reinsurance contracts … shall comply with Articles 76 to 80" needs interpretation. The reinsurance recoverable is an asset and normally uncertainty is a reducing element of the current exit value of an asset. However, reinsurance recoverable is an asset that hedges exactly the ceded cash flows and is contractually linked to the losses of the cedant. It is impossible to transfer the reinsurance asset without the ceded business. Reinsurance is a risk-reducing tool, i.e. it off-sets the risk inherent in the ceded liability. Therefore, an asset reflecting a cession is not increased by the risk margin, but reinsurance reduces the risk margin needed by the entity for a price, since the asset compensates the risk provided for in the risk margin of the ceded liability. The net position does not include a risk margin for the ceded risk, since it is not born by the cedant. Therefore, we believe that the requirement that the measurement of the reinsurance recoverable "shall comply with" the measurement of the ceded liability means that the reinsurance recoverable should have the same value (i.e. current estimate plus risk margin) as the actually ceded part of the liability. As a consequence, the difference between the liability and the reinsurance recoverable equals the direct measurement of the net position.	Agreed (Arild undertook to take care for this paragraph)
700.	CEA	3.385.	The CEA agrees that more research is necessary in this area to further clarify a number of details in this area (3.385). A particular area where more research and guidance is needed is the recognition of the time lag between the payments of the direct insurer and the corresponding recoveries from the reinsurer, as required by article 80 of the level 1 text. None of the Gross-to-Net	Agreed (additional level 3 guidance will be provided)

			techniques discussed in CP 76 provide any solution as to how to properly address this requirement.	
701.	FEE	3.385.	Annex E of the paper contains a detailed analysis of the gross-to-net techniques ("proxies") developed. The gross-to-net technique does not represent a simplification but the correct current exit value of reinsurance recoverable which is a contractual off-setting of the ceded liability. Clearly, there needs to be a deduction based on the credit standing of the reinsurer.	Noted
702.	ARC	3.390.	Overall, we think that the most appropriate approach in most general insurance situations is to derive the Gross provisions, and then the use these to derive the reinsurance provisions (or to derive the reinsurance provisions as a function of the Gross provisions). The net provisions are then simply the Gross provisions less the reinsurance provisions. The reinsurance provisions should preferably be derived directly from the Gross provisions. Any approach that involves separate, independent derivations of the Gross and Net provisions should, in our view, be avoided. Furthermore, in general insurance, the key area of uncertainty in deriving the reinsurance (and hence the Net) provisions is in the determination of the "Reinsurance IBNR" (i.e. that part of the Gross IBNR which is estimated to be recoverable from the reinsurance programme), since the determination of the reinsurance outstanding (or case) reserves is usually a direct calculation derived from the Gross outstanding reserves.	Noted
703.	Association of British Insurers	3.391.		
704.	Groupe Consultatif	3.391.	""Reinsurance recoverables == gross - - net provisions"" confuses assets (recoverables) and lialibilities (provisions). Accepted recoverables could be capped at this level bur are rarely equal to	Not Agreed (There is no point of confusion, but only a matter of accounting depiction)

			this difference.	
705.	Institut des actuaires	3.391.	"Reinsurance recoverables = gross - net provisions" confuses assets (recoverables) and lialibilities (provisions). Accepted recoverables could be capped at this level bur are rarely equal to this difference.	Not Agreed (There is no point of confusion, but only a matter of accounting depiction)
706.	Lloyds	3.392.	An alternative definition is that the reinsurance recoveries are being directly estimated off the gross estimates (reinsurance to gross ratios) – the only difference to a gross to net ratio is the naming convention.	Noted
707.	Lloyds	3.393.	This could easily be described as a 2 step approach with a ratio method used to estimate the reinsurance recoveries on the technical provision as step 1. There appears to be an over emphasis on ""gross to net"" ratios not calculating the reinsurance recoveries directly. If a method states that the net provisions are 75% of the gross provisions this is identical to saying the allowance for expected reinsurance recoveries are 25% of the gross provisions.	Not Agreed (It could be done only for proportional reinsurance programms) Noted
708.	Lloyds	3.394.	We agree that the analysis needs to be split into suitable groups for analysis.	Noted
709.	Lloyds	3.396.	As noted above, the same approach could have been used to estimate the expected reinsurance recoveries (RR) on the premium provision and claims provision in this step. (This would make step 2 unnecessary as the RR will have already been calculated)	Not Agreed (The remark does not make sense with 3.396 and also with the above Lloyds comments)
710.	Groupe Consultatif	3.397.	RR is defined as an amount at 3.397 and as a rate at 3.428	Not Agreed as a meaning/Agreed as a symbol
711.	Institut des actuaires	3.397.	RR is defined as an amount at 3.397 and as a rate at 3.428	Not Agreed as a meaning/Agreed as a symbol

712.	Association of British Insurers	3.399.	As stated above (3.377) more guidance is required as to how to recognise the time difference between direct payments and recoveries.	Agreed (additional level 3 guidance will be provided)
713.	CEA	3.399.	As stated above (3.377) more guidance is required as to how to recognise the time difference between direct payments and recoveries.	Agreed (additional level 3 guidance will be provided)
714.	CRO Forum	3.399.	As stated above (3.377) more guidance is required as to how to recognise the time difference between direct payments and recoveries.	Agreed (additional level 3 guidance will be provided)
715.	Lloyds	3.401.	A separate and explicit adjustment for counterparty default risk (or bad debt) should be made. This could also follow the ratio principles but may be more reinsurance specific depending on the reinsurance programme. For example, if all the reinsurance was placed on a motor account with 2 reinsurers then the estimated reinsurance recoveries on the gross provision could be explicitly allocated to these reinsurers and their counterparty default risk calculated individually.	Noted
716.	Association of British Insurers	3.404.	We disagree with this statement. This consultation paper is about simplified approaches. In this context, CEIOPS should not be providing complex and sophisticated calculations.	Not Agreed(More sophisticated calculations refer mainly to RBNS-claims of a reference portfolio)
717.	CEA	3.404.	We disagree with this statement. This consultation paper is about simplified approaches. In this context, Ceiops should not be providing complex and sophisticated calculations.	Not Agreed(More sophisticated calculations refer mainly to RBNS-claims of a reference portfolio)

718.	FFSA	3.404.	Scope of gross to net techniques CEIOPS states that "it can be expected that the Gross-to-Net methods to be applied would in general need to be more sophisticated than the Gross-to-Net proxies tested in QIS4." FFSA disagrees with this statement. This consultation paper is about Simplified approaches. In this context, CEIOPS should not be providing complex and sophisticated calculations.	Not Agreed(More sophisticated calculations refer mainly to RBNS-claims of a reference portfolio)
719.	Lloyds	3.404.	At times the only realistic way of estimating reinsurance recoveries off gross estimates is via ratio techniques. For example bulk IBNRs can never be put through a risk excess of loss programme ""exactly"". This means these methods should not be seen as simplifications.	Noted
720.	Lloyds	3.406.	This list is not complete and should be removed. It is incorrect to assume that directly estimating the net provisions is superior – net provisions are notoriously difficult to assess accurately (without very stable data). The requirements / proposed methods for estimating reinsurance recoveries should always first aim to estimate the reinsurance recoveries from the gross estimates (as gross to net ratios effectively do). This point is made in 3.410. If a case-by-case estimate is made then reinsurance recoveries can be made directly. This is consistent with later suggestions that the reported claim estimates could (and should) be treated differently to IBNR estimates.	Not Agreed
721.	Lloyds	3.407.	We agree.	Noted
722.	Lloyds	3.410.	We agree with the third bullet point that ""direct"" estimates of the net should not be seen as superior to ratio estimates of reinsurance recoveries. This area is notoriously difficult to estimate accurately (due to changing reinsurance programmes, non-proportional	Noted

			covers, reinsurance exhaustion etc).	
723.			Confidential comments deleted.	
724.	Lloyds	3.417.	It is still possible to estimate a split between premium and claims provisions on an underwriting year basis but does require additional assumptions that may not enhance the calculation.	Noted
725.	Lloyds	3.420.	We agree that: - Different ratios for different years are appropriate. - Different approaches for reported and IBNR claims are encouraged (reported claims can normally be estimated accurately). - Only depending on the book/reinsurance programme could there be a tangible benefit from differentiating between large and small claims. - This may not be practical for some books. However, it is worth noting that ratio methods are not simplifications for many proportional covers.	Noted
726.	Lloyds	3.421.	We agree	Noted
727.	Lloyds	3.422.	We agree	Noted
728.	Lloyds	3.423.	We agree and note that this split will not be appropriate for all lines of business and/or reinsurance programmes	Noted
729.			Confidential comments deleted.	
730.	Lloyds	3.427.	We agree	Noted
731.	Association of British Insurers	3.428.	An allowance for reinsurance default within the technical provisions will add complexity to the calculation and may be immaterial for non-life companies with a reinsurance program placed with secure reinsurers. We suggest that CEIOPS defines conditions under which this adjustment should be made e.g. if some reinsurers are rated	Not Agreed (Rather incompatible with level 1 text)

			below A.	
732.	Groupe Consultatif	3.428.	RR is defined as an amount at 3.397 and a rate at 3.428	See 3.397
733.	Institut des actuaires	3.428.	RR is defined as an amount at 3.397 and a rate at 3.428	See 3.397
734.	IUA	3.428.	An allowance for reinsurance default within the technical provisions will add complexity to the calculation and may be immaterial for non-life companies with reinsurance programmes placed with secure reinsurers. We suggest that CEIOPS defines conditions under which this adjustment should be made e.g. if some reinsurers are rated below an 'A' rating?	Not Agreed (Rather incompatible with level 1 text)
735.	Lloyds	3.428.	We note this only works for high quality security, as the expected default probabilities are small. Some form of threshold should be introduced (e.g. only a 1 year probability of default <1%) to ensure this applies in appropriate cases.	Not Agreed (Rather incompatible with level 1 text)
736.	PricewaterhouseCoopers LLP	3.430.	Will a threshold be specified such as all parties that are less than a certain credit rating	Not Agreed (Rather incompatible with level 1 text)
737.	AMICE	3.433.	1. We agree with the CEA that the application of Gross-to Net techniques is recognised as actuarial best practice in many cases and should therefore not be considered a simplification. An undertaking should not be required to justify the application of Gross-to-Net techniques.	The comment is irrelevant to the 3.433
738.	CEA	3.433.	With regard to CEIOPS' questions: 1. The simplifications for life reinsurance recoverables seem reasonable.	• There are no 6 questions.

			2. The CEA agrees that Gross-to-Net techniques are in most circumstances the most reasonable approach for producing a best estimate of reinsurance recoverables and net retained business (although in some cases it might be possible and adequate to do direct calculations by employing an approach similar to the assessment gross of reinsurance). 3. The application of Gross-to_Net techniques is recognised as actuarial best practice in many cases and should therefore not be considered a simplification. An undertaking should not be required to justify the application of Gross-to-Net techniques. 4. On a more detailed and therefore technical level, there are quite a few variations of how to calculate Gross-to-Net ratios and how to apply them. The CEA supports the work that has been carried out by the Ceiops& Groupe Consultatif coordination group on proxies in this area. While some of these variations are more sophisticated than others the CEA agrees that the concrete approach for an given portfolio can only be chosen under consideration of the individual circumstances. 5. None 6. The CEA welcomes the practical approach of assessing counterparty default risk as described in 4.427.	Noted
739.	CRO Forum	3.433.		
740.	GDV	3.433.	With regard to CEIOPS' questions: 1) The simplifications for life reinsurance recoverables seem reasonable2) The GDV agrees that Gross-to-Net techniques are in most circumstances the most reasonable approach for producing a best estimate of reinsurance recoverables and net retained business (although in some cases it might be possible and adequate	1. Noted 2. Where does this refer to? 3. Noted 4.Agreed (additional level 3 guidance will be provided)

			to do direct calculations by employing an approach similar to the assessment gross of reinsurance). The application of Gross-to_Net techniques is recognised as actuarial best practice in many cases and should therefore not be considered a simplification. An undertaking should not be required to justify the application of Gross-to-Net techniques. 3) None 4) The approach of assessing counterparty default risk as described in 4.427 may be reasonable although most of the variables used in the formula seem difficult to quantify. Further work on simplifications is needed.	
741.	DIMA	3.434.	Please see comments under 3.370.	Noted
742.	Just Retirement Limited	3.434.	Regarding (1), we believe that the proposed simplifications for the calculation of reassurance recoverable are acceptable.	Noted
743.	Lloyds	3.434.	We agree it is appropriate to use ""gross to net"" ratio techniques for estimated reinsurance recoveries. We note: - These methods are not always simplifications. For proportional reinsurances they are the non-simplified approach too. - These methods could be described as ""directly"" calculated from the gross (and not 3 step approach ""indirect""). - It is important to include judgement in the selection of methods. As reinsurance programme changes and issues such as reinsurance exhaustion can distort results, judgement is a key element of the process. - In some cases the ratio method is the most superior/appropriate method available (for example with bulk IBNRs).	Agreed Noted Agreed Agreed

			- Reported/case reserves have less need to be estimated using ratio techniques. - Different ratios for different years are suitable. - Splitting of large and small claims will only be appropriate for some (but not all) books of business and reinsurance programmes. We agree with the reinsurance counterparty simplification but note that this only works where the probability of default is small and some boundaries should be set.	Agreed Agreed Agreed Noted Agreed (CEIOPS should give additional help on calculating the Modified duration of the recoverables.Furthermore, PD could be related to the rating of

				the counterparty)
744.	Groupe Consultatif	3.435.	If MCR are calculated quarterly, it implies normally quarterly calculations of SCR?	Noted. The quarterly calculation of MCR requires a quarterly calculation of the technical provisions. The quarterly calculation of SCR (which is needed for the floor and ceiling of the MCR) can be carried out according to simplified methods.
745.	Institut des actuaires	3.435.	If MCR are calculated quarterly, it implies normally quarterly calculations of SCR?	See the resolution regarding comment no. 744.
746.	Association of British Insurers	3.436.	We disagree with the target that the data collection quarterly for non-life claims provisions shall be done.	Noted. However, this target/requirement follows from the required quarterly calculation of the MCR.
747.	CEA	3.436.	We disagree with the target that the data collection quarterly for non-life claims provisions shall be done.	See the resolution regarding comment above.
748.	Deloitte	3.436.	We support the use of simplifications for quarterly calculations, backed up by more accurate methods on an annual basis and believe that this reflects a proportionate response. Which approximations could be used to produce quarterly claims provisions? We request that simplifications are provided to estimate BEnet,lob(t).	Noted.
749.	GDV	3.436.	We disagree with the target that the data collection quarterly for	See the resolution regarding

			non-life claims provisions shall be done.	comment from ABI on 3.436
750.	AMICE	3.441.	CEIOPS mentions in this paragraph they might develop Level 3 guidance setting out appropriate values for these parameters. AMICE members wonder how CEIOPS would ensure harmonisation among different jurisdictions.	There is no reference to Level 3 guidance in this paragraph.
751.	ROAM	3.441.	It is mentioned that no complete evaluation of the SCR is required in the course of the year. Yet the MCR that must be quarterly calculated and its value that must be included between 25 % and 45 % of the SCR will make it necessary to calculate the SCR quarterly, which will result in a mass of enormous work for companies. ROAM proposes therefore this following solution: for one year N to keep during the year the same values of the MCR Cap and Floor as those estimated late in the year N-1.	Noted. However, this seems to be a comment regarding simplified calculations of the MCR during the year.
752.	Lucida	3.442.	It isn''t clear to us what ""in relative terms to the business"" covers as an exception. We would anticipate the best estimate technical provisions of annuity business to decrease over time, and we would welcome clarification that this would not preclude use of the simplification being discussed.	Noted. The assessment of cases where the formula given in para 3.441 can / cannot be used should be developed further.
753.	AMICE	3.450.	CEIOPS states that in the application of the proportionality principle, the particular challenges of quarterly calculations of technical provisions should be taken into account AMICE members welcome the introduction of this paragraph	Noted.
754.	CEA	3.450.	The CEA welcomes this pragmatic approach. But we disagree with the target that the data collection quarterly for non-life claims provisions shall be done (see para. 3.436).	Noted.
755.	CFO	3.450.	The risk margin may not always be proportionate to the claims reserve. Where undertakings can identify a more appropriate	Noted.

			simplification, this should also be permitted. The CFO forum agrees that it is appropriate to permit simplification of risk margin for quarterly reporting. However, the CFO Forum notes that the risk margin may not always be proportionate to claims reserves as suggested in the proposed formula. Where entities can identify a more appropriate simplification, this should also be permitted.	A further development of (simplified) methods to be applied when calculating the risk margin during the year is appreciated.
756.	GDV	3.450.	The GDV disagrees with the target that the data collection quarterly for non-life claims provisions shall be done (see para. 3.436)	See the resolution regarding comment from ABI on 3.436
757.	AFS	3.451.	We agree that this will be useful. We would also suggest that a lesser form of simplification may be the use of the same SCR positions within the technical provision model. For example, the unavoidable market risk may be modelled at the year end and then assumed to be the same throughout the quarters following probably as a percentage of the projected best estimate.	Noted.
758.	CEA	3.451.	CEA reiterates its proposal that the risk margin should take into account diversification (cf. comments by CEA on CEIOPS-CP 42).	See the resolution regarding comment no. 486.
759.	CFO	3.451.	Comments in 3.450 are also relevant here.	Noted.
760.	Deloitte	3.451.	Simplifications to estimate BEnet,lob(t) should be mentioned if they would be allowed. It is not stable to base simplifications on results of other simplifications.	Noted.
761.	GDV	3.451.	GDV reiterates its proposal that the risk margin should take into account diversification (cf. comments by GDV on CEIOPS-CP 42).	See the resolution regarding comment no. 486.
762.	Groupe Consultatif	3.451.	Any reassessment of the COC-Margin should be linked to the approach for the Best Estimate calculation. In general, there is no quarterly update of BE-technical provisions available.	Noted. However, the technical provisions should be calculated quarterly,

			We understand, that currently the SCR calculation needs to be done once a year only. So we do not see the necessity of a simplified approach for the risk margin calculation during the year. In case, the company is required to reassess their model and hence their technical provisions throughout the year, it should follow the ""regular"" approach for COC-Margin an in its model. We agree that this will be useful. We would also suggest that a lesser form of simplification may be the use of the same SCR positions within the technical provision model. For example, the unavoidable market risk may be modelled at the year end and then assumed to be the same throughout the quarters following probably as a percentage of the projected best estimate. The COC refers to a reference portfolio which is a chimera. The COC has to be simply defined.	see e.g. para 3.435. The technical provisions should be calculated quarterly, see again para 3.435. Noted. Noted.
763.	ILAG	3.451.	We agree that this will be useful. We would also suggest that a lesser form of simplification may be the use of the same SCR positions within the technical provision model. For example, the unavoidable market risk may be modelled at the year end and then assumed to be the same throughout the quarters following probably as a percentage of the projected best estimate.	Noted.
764.	Institut des actuaires	3.451.	The COC refers to a reference portfolio which is a chimera. The COC has to be simply defined.	Noted.
765.	Just Retirement Limited	3.451.	We support this approach which we believe is pragmatic and proportionate.	Noted.
766.	Legal & General	3.451.	Estimating Risk Margin based on Technical Provisions is circular since Technical Provisions include Risk Margin. Resolving the	Noted.

	Group		equation to remove the circularity leads to the Risk Margin changing in proportion to the best estimate liabilities. This is not natural since Risk Margin is calculated with reference to SCR not best estimate liabilities (consider the case of a unit linked fund with large best estimate liabilities but little risk and little SCR).	A discussion of how to avoid this circularity is covered by CEIOPS' final advice regarding the calculation of the risk margin (the former CP 42). It should be stressed that in the present case (i.e. calculations during the year) the risk margin is estimated by using the best estimate (not the overall technical provisions).
767.	CFO	3.452.	Comments in 3.450 are also relevant here.	Noted.
768.	Deloitte	3.452.	In the other case no simplifications are allowed e.g. in run-off segments? We would welcome clarification.	Noted. The assessment of cases where the formula given in para 3.451 can / cannot be used should be developed further.
769.	Groupe Consultatif	3.452.	Provided one would follow the formula in 3.451, it is not clear, why a lower assessment of BE-technical provision should not lead to a lower COC-Margin.	See the resolution regarding comment no. 768.
770.	Legal & General Group	3.452.	Artificially capping the Risk Margin at the start of year value in cases where the simplifying formula is used does not seem to accord with the market consistent principle. There may well be good reasons why the Risk Margin decreases in cases, and if justifiable this should be allowed in the approximation.	See the resolution regarding comment from Deloitte on 3.452.
771.	Lucida	3.452.	It isn''t clear to us what ""in relative terms to the business""' covers as an exception. We would anticipate the best estimate technical provisions of annuity business to decrease over time, and we would welcome clarification that this would not preclude use of the	See the resolution regarding comment from Deloitte on 3.452

			simplification being discussed.	
772.	Deloitte	A.3.	Bias of 0.9 seems to be high. How was it estimated?	
773.	AMICE	Annex	AMICE members welcome the introduction of this simplification. The sufficiency of this method should be regularly checked using run-off results. However, we argue that the method proposed in Annex A should not be the only one permissible and therefore would like to submit the following proposal as a complementary option: AMICE Proposal a. Number of claims incurred but not reported at the end of the year t: $N_t = [(N_{t-1} + N_{t-2} + N_{t-3}) / (P_{t-1} + P_{t-2} + P_{t-3})] \times P_t$ N_{t-i} = number of claims incurred but not reported at the end of the year t-i, independently of the accident year. b. Average cost C of claims incurred but not reported at the end of the year t independently of the accident year: $C_t = [(C_{t-1} + C_{t-2} + C_{t-3}) / (Q_{t-1} + Q_{t-2} + Q_{t-3})] \times Q_t$ C_{t-i} = Average cost of claims incurred but not reported at the end of the year t-i, independently of the accident year Q_t is the average cost of claims incurred and reported at year t. Q_{t-1} is the average cost of claims incurred and reported at year t-i.	Partially AGREED. The sufficiency of this method should be regularly checked using run-off results. NOT AGREED. Regarding AMICE proposal, that method underestimate the IBNR provision if IBNR claims need more than a year to be reported. Moreover, premiums as a exposure measure can fail if there is inflation, commercial pressure to calculate them, etc. Finally, Ct doesn't correct any possible bias arising from case reserves nor adjustment for inflation or discount (we need the current value). We could consider the AMICE proposal as a complementary option only for the cases where this method produces a higher IBNR provision than the CEIOPS method
774.	CEA	Annex	Any formulas are helpful but a verbal description might lead to mis-interpretation: compare CP 77	Noted

775.	GDV	Annex	any formulas are helpful but a verbal description might lead to mis-understanding: compare CP 77	Noted
776.	AMICE	Annex	As mentioned in our comments to CP42, the concept of unavoidable market risk should be limited to liabilities in currencies where the market is not deep (this risk should be valued at nil for liabilities assessed in euro). Moreover, the unavoidable market risk should only be applicable for long term cash flows if the entity, to which the liabilities are transferred, matches its cash flows and does not invest in equities. Having said that, AMICE members welcome the introduction of a simplification formula.	Noted
777.	CEA	C.6.	Point (c) - this is not applicable to the disability benefits where there is the cap on the period of benefit payment.	Noted
778.	ARC	G.3.	We note that the table only includes durations up to 5 years. What approach should be used beyond 5 years?	The simplification applies for durations above 5 years (provided the threshold is respected). Thus, including a table with only 5 years is just a presentational detail.
779.			Confidential comments deleted.	