Summary of Comments on Consultation Paper 79 - CEIOPS-CP-79/09 CEIOPS-SEC-181-09 CP No. 79 - L2 Advice on Simplifications for Captives
CEIOPS would like to thank ACA , AGERE,AON,DIMA,ECIROA,FERMA,MARSH, Association of British Insurers, Association of Run-Off Companies, Assuralia, Cayman Islands Monetary Authority, CEA, CRO Forum, DIMA, European Union member firms of Deloitte Touche Toh, FFSA, GDV, GUERNSEY FINANCIAL SERVICES COMMISSION, Guernsey Insurance Company Management Association, Institut des actuaires (France), Investment & Life Assurance Group Ltd, IUA, PricewaterhouseCoopers LLP, and SOGECORE The numbering of the paragraphs refers to Consultation Paper No. 79 (CEIOPS-CP-79/09)

No.	Name	Reference	Comment	Resolution
1.	ACA	General Comment	☐ We consider that the number of captives who could use the simplifications will be small regards to the number of restrictions proposed. ☐ No simplifications are proposed at this stage to the life or health captive	Noted.
2.	AGERE,AON, DIMA,ECIROA,FERMA,MARSH	General Comment	When considering the following comments, it is important to recognise the particular nature of captive companies which differ from commercial insurance and reinsurance undertakings in that:- 1. They write a restricted number of lines of insurance business (e.g. property damage & liability) and normally issue a small number of policies (e.g. global programmes with only one policy per insurance class) 2. They insure or reinsure a restricted number of risk units (e.g. sites, premises, vehicles) 3. They have a restricted number of insureds / clients 4. The purpose of the captive is to add flexibility to the tools available to the group risk manager in managing and mitigating the risk of the parent group in a cost efficient manner. 5. Until all the captive simplifications are addressed in detail,	Noted. Simplifications are optional and of course captives can apply the standard model as well as general simplifications applicable to all (re)insurers.

			and in particular the Cat risk and concentration risk, it is difficult to see, what if any effect these simplifications may have on the overall simplification for a captive. The associations and captive management companies listed above, which represent a majority of the captive market stakeholders in Europe, consider that the proposed simplifications for captives as detailed in CP79 considerably limit the field of application for simplifications for captives to such an extent that the intention to allow a special status for captives is completely missed. This is primarily because the suggested Criteria for captives significantly limit the number of companies to which it can be applied. All the captive owners represented would prefer to follow the general Solvency II specifications. The above mentioned associations want to stress that:- 1. There is already a captive definition in the Solvency II framework directive which was agreed following consultation with relevant stakeholders who have knowledge and experience of captives. It is not necessary to further define captives (and to significantly reduce the number of companies which qualify for the captive simplifications) by introducing these criteria. 2. A very limited number of captives would fall under these revised definitions. The title of the CP is 'Advice on Simplifications for Captives'. If the criteria are applied, there will be very few companies that will qualify for simplifications so they will be applying to a very small number of undertakings. The remainder of captives will no longer be classified as captives so the simplifications will not apply to them. It is therefore not worthwhile to continue with the introduction of simplifications for only a very small number of companies. 3. This limitation on the definition of captives is contrary to the general approach of the process whereby Level 2 can not change	

			the definitions and principles agreed in Level 1. Level 2 rules can not offend the Level 1 framework of Solvency II. 4. Without specific measures for captives, the proportionality principle can apply to these undertakings. 5. We would like to come to a common understanding of how the proportionality principle can be applied. 6. This may lead to the consideration of using internal models based upon the proportionality principle.	
3.	Association of British Insurers	General Comment	We do not agree with the fact that : ☐ The definition of captive (re)insurances in this CP is more restrictive than the definition of the directive. ☐ Captives are banned from writing certain type of business. Further recognition should be given to the fact that captives form part and are backed by major group of companies. No differentiation is made for captives operating through a fronting arrangement.	Noted. The intention is not to give a new definition of captives in L2, but to specify criteria on which captives can apply simplifications in CP79.
4.	Association of Run-Off Companies	General Comment	As a unique and specific 'sub-module' of an insurance or reinsurance undertaking it would also seem appropriate for Run-off business to have tailored simplifications. The Association of Run-off Companies is prepared to work with CEIOPS to assist with the development of run-off simplification guidance addressing the issues which are specific and common among run-off carriers.	Noted.

5.	Cayman Islands Monetary Authority	General Comment	The Author's of this response are Ms. Cindy Scotland, Managing Director of the Cayman Islands Monetary Authority and Mr. Steve Butterworth who is the distinguished Fellow of the International Association of Insurance Supervisors (IAIS) and former Head of Insurance Supervision at the Guernsey Financial Services Commission. The Cayman Islands Monetary Authority ("CIMA") is the principle regulatory body for the insurance industry in the Cayman Islands. CIMA bases its regulatory regime on the core principles issued by the IAIS. These principles are applied in the context of the risk profile of the particular licensee such that regulation is appropriate to the risk of the business undertaken. Whilst the Cayman Islands is not a member state of the European Union and therefore Solvency II does not directly apply to our insurance entities, we hope that CEIOPS would welcome our comments as meaningfully based on forty years of experience in regulating captives together with understanding of captives and the global captive industry. The Cayman Islands recognizes and welcomes the efforts of CEIOPs to push solvency beyond simplified capital and solvency approaches and in particular, the role of risk management in capital and solvency. Solvency II is an extremely sophisticated method of taking a risk-based approach. Therefore, our comments should be viewed as adding context to the simplification process and, hopefully, raising awareness as to some issues affecting captives in the simplification document that may have unintended consequences.	Noted.

6.	CEA	General Comment	The CEA welcomes the opportunity to comment on the Consultation Paper (CP) No. 79 on Simplifications for Captives. 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. The CEA welcomes the fact that the new solvency regime should not be too burdensome for small and medium sized insurance undertakings and the proper application of the proportionality principle. The key requirement for any simplification should be nature, scale and the complexity of the risks inherent to the business of insurance/reinsurance undertakings and not the legal status of	Partially agreed. Because of the special nature of captives, CEIOPS wants to separate captive specific simplifications from simplifications applicable to all undertakings.

			undertakings. We therefore propose not to treat captives separately and rather merge these simplification issues with CP 76 and CP 77. We have therefore commented on some of the simplifications presented in this paper to the extent that some of them may be appropriate depending on the nature, scale and complexity of risks without any exception based on the legal status of undertakings.	
7.	CRO Forum	General Comment	A Further advice on Captives writing general liability or public liability business is required (priority: medium) Further thought does need to be given in situations where captives write general liability or public liability risks. Theoretically for general and public liability risks the primary claimant may be an individual with no connection to the Parent Group and therefore may be treated differently. Pure captives who write general and public liability business as part of a larger portfolio of risks should not be penalized across the board from a capital requirement perspective but it is worth considering a more granular approach with perhaps a higher capital requirement for the general and public liability risks. B The CRO Forum disagrees with the argument that it is too burdensome to investigate the rating of each bond (priority: medium) This should be a part of best practice and corporate governance. This investigation of each bond should be done as part of normal business activity. The BBB assumption is too simplistic and we would not agree with this approach. If the captive industry wanted to pursue this path then scope should be made for captives who can demonstrate to regulators a much higher credit rating in their	Noted.

			portfolio. C Standards should be set for Captives' use of Internal Models (priority: medium) The CRO Forum strongly believes that owners of captives or smaller non-life entities should be allowed to utilise internal models once they have demonstrated to regulators a commitment of resources and outlined a historical track record on model use within the entities business operations.	
8.	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. While DIMA generally welcomes the provision of simplifications for captives, we have serious misgivings about the substantial tightening of the definition of a captive in this consultation paper, compared with that embodied in the Level 1 text. We strongly feel there is no requirement to severely limit the criteria required for companies to be recognised as captive in nature, and would vigorously encourage CEIOPS to reconsider the strictures and limitations it is proposing which will constrain access to simplifications for businesses which currently are considered to be captives. If such a narrow definition is implemented, this will also impact on the other captives operating in the group, as outlined in section 3.6. If these drastic proposals are implemented at Level 2, we foresee significant and irreversible damage to this sector of the (re)insurance industry. If CEIOPS is unwilling to amend the proposals as they stand, we recommend either that this consultation paper is clarified to address to "certain types" of captives, or that consideration be given to the complete removal of the proposals for simplifications for captives. This latter action should be seen very much as a last resort.	Partially agreed. Reference to the IAIS text will be removed. Simplifications are optional and of course captives can apply the standard model as well as general simplifications applicable to all (re)insurers.

			The defined status of a captive undertaking that writes liability business should not be undermined, disadvantaged and excluded from the potential benefits of the simplification measures, as capital requirements in respect of such liability business will be appropriately calculated under the Solvency II model. In addition to the rationale given for simplifications in section 3 of this consultation paper, we feel it is important to also take into account that captives do not operate as a 'for profit' organisation – the objective is to add flexibility to the tools available to the risk manager in managing and mitigating risk of the parent group in a cost-efficient manner. Paragraph 3.12 quotes directly from an IAIS 'Guidance Paper on the Regulation and Supervision of Captive Insurers' and uses this one paragraph to justify a position in this consultation paper. It may be worthwhile revisiting other areas of the IAIS Guidance Paper to help inform the structure of CEIOPS' proposals. The overall impact of these simplifications for captives will remain difficult to identify until they are all addressed in detail, in particular the catastrophe risk and concentration risk. It may also be worth noting that foreign exchange risk, although not commented upon in as much detail as other factors, may have an impact on captives.	
9.	European Union member firms of Deloitte Touche Toh	General Comment	Due to the format of different captives, some of the simplifications are more difficult to apply than the standard formula. Luxembourg captives, for example, are different from Irish captives in terms of set up. Particular risk sub modules may be key concerns for captives in certain jurisdictions and these may differ across jurisdictions.	Noted.
10.	FFSA	General Comment	FFSA disagrees with CEIOPS approach which may lead to major market distortions. Indeed, simplifications for captives might not be available for undertakings with a similar risk profile which are not	Noted. Captives can apply simplifications foreseen in CP 79 in addition to simplifications

			captive (re)insurers: - For instance, FFSA does not understand why it would be too burdensome for captives to investigate on the rating of each single bond. - Regarding concentration risk, CEIOPS is providing simplifications for captives while under §3.74 of Consultation Paper 76 CEIOPS states that "…The simplicity of the calculation makes that no simplification is foreseen for the concentration sub-module." Captives should be allowed to use the same simplifications provided for (re)insurers.	applicable to all undertakings.
11.			Confidential comments deleted.	
12.	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: 1. restricting the consultation period of the 3rd wave to less than 6 six weeks 2. splitting the advice to the EU-commission in two parts ((1) first+second wave and (2) third wave) although both parts are highly interdependent 3. not taking into account many comments from the industry	Partially agreed. Because of the special nature of captives, CEIOPS wants to separate captive specific simplifications from simplifications applicable to all undertakings.

			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. The GDV welcomes with regard to CP 79 the fact that the new solvency regime should not be too burdensome for small and medium sized insurance undertakings and the proper application of the proportionality principle. Key requirement for any simplification should be nature, scale and the complexity of the risks inherent to the business of insurance/reinsurance undertakings and not the labelling of a certain business model itself. We therefore propose not to treat captives separately and rather merge these simplification issues with CP 76 and CP 77. In general the proposed simplifications for the SCR calculation are reasonable. According to the level 1 text those undertakings only cover risks associated with the industrial or commercial group to which they belong, appropriate approaches should thus be provided in line with the principle of proportionality to reflect the nature, scale and complexity of their business.	
13.	Guernsey Insurance	General Comment	The Guernsey Insurance Company Management Association represents Guernsey's (Re)Insurance Industry, Guernsey's Captive	Noted.

	Company Management Association		Industry and Guernsey's Captive Insurance Management Industry. Our website is www.gicma.gg. As at 30 November, Guernsey had 387(re)insurance companies registered of which 23 are domestic (re)insurers and 364 are international (re)insurers or captives. If one includes Cells in Protected Cell Companies the latter number (international (re)insurers or captives) increases to 702 While Guernsey is not in the EU and therefore Solvency II will not directly apply to our members, we are particularly interested in Solvency II because: ☐ Guernsey is currently in consultation with CEIOPS and the EU with regard to potentially achieving Solvency II equivalence for Guernsey regulation; ☐ Guernsey's captive industry includes many captives owned by EU parents and; ☐ Guernsey's captive industry extensively uses EU based insurers for fronting for a wide range of classes of insurance. We also thought CEIOPS would welcome our comments because, as the largest captive domicile in Europe we pride ourselves on our captive and general (re)insurance market expertise and thought leadership, and we felt our comments would add meaningfully to your understanding of captives and the captive industry in Europe. The Guernsey (re)insurance and captive industries welcome the efforts of CEIOPS to push solvency beyond the simplistic measurements of Solvency I to a more risk-based approach. Solvency II is an extremely sophisticated method of taking a risk-based approach. All efforts of CEIOPS to simplify the standard Solvency II approach and to facilitate the application of proportionality clearly have merit. We have used our comments to try and assist CEIOPS in their aim by applying our unparalleled expertise of captives to the Solvency	

			II framework and approach.	
14.	Institut des actuaires (France)	General Comment	CP 79 is different from CP 77/1.123 on the same issue. Various "simplifications" appear more complicated (spread risk in a matrix way for instance)	Noted.
15.	SOGECORE	General Comment	The Consultation Paper deals with simplifications /specifications for captives. We have limited comments on it but we are questioning the possibility for captives to apply these simplifications as detailed hereunder point 3.8.	Noted.
16.	GUERNSEY FINANCIAL SERVICES COMMISSION	1.	There is a reference in paragraph 3.12 to a specific paragraph of the IAIS Guidance Paper on the Regulation and Supervision of Captive Insurers. Many other aspects of this paper are relevant to the simplifications and specifications for captive insurers, including the definition of a captive and the role of insurance managers. It is suggested that greater weight should be given to the guidance given in this paper in formulating guidance on the application of Solvency II to captive insurers and reinsurers.	Partially agreed. Reference to the IAIS text will be removed.
17.	CRO Forum	1.2.	A general comment is that captives take many forms but the idea of more simplified calculations for "pure captives" makes sense. The majority of pure captive owners are industrial or retail organisations (e.g. Coca Cola, Heineken, Hewlett Packard etc) whose core business would not be insurance therefore the resources at their disposal do not mirror the resources available to commercial insurers and reinsurers with respects solvency matters. Pure captives only write the risks of the parent and its subsidiaries therefore risk complexity is not as severe as a commercial insurance company, as pure captive transactions tend to be intra group the effect of a captive failure for "the person on the street" is minimal. Captives do perform a significant role in the risk transfer world allowing large organizations to retain more predictable and	Noted.

			frequent risks in a formalised structure and therefore moving commercial insures further away from the risk. However further thought does need to be given where captives write general liability or public liability risks and where theoretically the primary claimant may be an individual with no connection to the Parent Group – where pure captives write these risks then it is worth considering a higher capital requirement for those particular lines of business.	
18.	CEA	1.3.	We agree with Ceiops that simplifications should not be understood to prevent captives from applying other simplification methods. Nevertheless Ceiops should always take account that also for captives the main objective of regulation and supervision is the adequate protection of policyholders and beneficiaries.	Noted. CEIOPS is well aware of the need for adequate protection of policyholders and beneficiaries.
19.	GDV	1.3.	We agree with CEIOPS that simplifications should not be understood to prevent captives from applying other simplification methods. Nevertheless CEIOPS should always take account that also for captives the main objective of regulation and supervision is the adequate protection of policyholders and beneficiaries.	Noted. CEIOPS is well aware of the need for adequate protection of policyholders and beneficiaries.
20.	Cayman Islands Monetary Authority	2.	With reference to Article 13-1a and 13-1b, the definition of a captive has been created by CEIOPS but, the International Association of Insurance Supervisors, in their Guidance Paper No. 3.6 "Guidance Paper on the Regulation and Supervision of Captives" make a clear definition of captives. We feel that it would be useful, from a consistency standpoint, to utilize one definition, although the CEIOPS definition is suitably broad in context. However, it should be noted both here (and in Section 3.2) that the definitions of captive insurance and reinsurance seem to preclude providing insurance to third party risks, which potentially serves to provide a mechanism for seeking diversification of risks, or	Partially agreed. Reference to the IAIS text will be removed.

			providing coverage as a logical extension of the parent insured/captive insurer relationship. Absence of this mechanism represents the potential increase in risk rather than the intended decrease in risk.	
21.	CRO Forum	2.	Article 13-1a Definitions 8. The definition of captive under Solvency II may have ramifications for Life Insurers who currently have captives within their organisations. Life insurers who use their captive purely for corporate risk will see the status of their companies change under Solvency II to Small Non Life Insurance Companies. The CRO Forum believes that if life insurers continue to use their captives for pure risks that whilst falling outside of the definition of captive that CEIOPS should consider ways for any exceptions allowed to captives to be extended to smaller nonlife entities.	Noted.
22.	Guernsey Insurance Company Management Association	2.	We believe the definitions of captives as set out represents Articles 13-1a and 13-3a are very suitably broad definitions of captives which could be maintained in that form for further work on captives such as defining what (re)insurance vehicles simplification could apply to.	Noted.
23.	Cayman Islands Monetary Authority	3.	This entire section fails to recognize one of the biggest facets of a captive insurer, the role of the Insurance Manager and their provision of Risk Management and infrastructure (e.g. Information Technology) for captives. Recognition of the Insurance Manager is an integral part of the risk management framework of a captive and in particular, the safeguarding of solvency and asset quality.	Noted.
24.	CRO Forum	3.	9. The CRO Forum strongly believes that owners of captives or smaller nonlife entities should be allowed to utilise internal models once they have demonstrated to regulators a commitment of resources and outlined a historical track record on model use within	Noted. All undertakings subject to the Directive may use internal models.

			the entities business operations.	
25.	Guernsey Insurance Company Management Association	3.	We are somewhat surprised that this section does not encompass any reference to the role of Licensed and Authorised Captive Managers in the captive management process. Of the world's captives the very great majority are managed by a Licensed Manager in their domicile of choice. Regulators in these domiciles recognise that the Manager plays a key role in how captives operate and acts as the eyes and ears of the regulator on a day to day basis and an efficient and effective liaison point between the captive (re)insurer and the regulatory authority. Licensed and Authorised Captive Managers provide a key risk mitigation for captive issues. Strength in depth of resource, succession planning, insurance, reinsurance, financial, and captive programme, technical expertise, IT infrastructure and systems, close relationships with insurance and reinsurance markets, access to related risk consulting resources and thought leadership are just some of the benefits the Captive Manager brings to a captive (re)insurer. The role of the Captive Managers as a guardian of a captive's solvency and assets and embedded place in the structure of how a captive (re)insurer operates should be recognised by CEIOPS as a valuable contribution to risk mitigation. One thing that is unclear is whether the proposed "simplifications" apply across the board or could be applied piecemeal. In other words, can a captive (re)insurer choose to avail itself of some of the simplifications and not others or must it elect on an overall basis?	Noted. Simplifications are optional and do need to be applied in a package.
26.	Cayman Islands Monetary Authority	3.1.	Section 3.1. references application of a proportionality principle for purposes of recognizing the nature of the risks inherent to the business ofan insurance or reinsurance undertaking. It is both reasonable and prudent to reflect the difference in risk	Not agreed, The modular structure is fixed by the Level 1 text.

			characteristics (insurance, operating and financial) based on class of company and size considerations. However, the paper seems to infer that such an approach can implemented by adjustments to the parameters in the risk modules or sub modules in the standard model. This implicitly assumes that changes in risk characteristics among companies can be measured and adjusted solely on a proportional basis. However, in reality, the risk characteristics of a particular class of company may be unique to the extent that a parametric proportionality adjustment may not capture the underlying risk. In such cases, instead of making an adjustment to the parameter in standard module, it may be better to reflect the underlying risk is a change in the formula to (include/exclude/adjust) particular risk modules to create a model that appropriately recognizes the key risk considerations. For example, (as noted in the paper), adjustments to the parameters for the underwriting module based on use of the entity's data are recommended. However, such an approach would not appear to contemplate the fact that underwriting risk for a captive is structurally and characteristically different for a captive due to the parent-insured/captive insurer relationship, absence of the risk of misclassification and the application of risk mitigating features such as (near or full) retrospective funding mechanisms. Consequently, given the uniqueness and significance of the underlying risk considerations, underwriting risk may be better	

			evaluated and contemplated by an adjustment/simplification to the risk modules residing within the formula used to determine the solvency capital requirement rather simply than tweaking the parameters in the standard modules in the standard formulas.	
27.	CEA	3.1.	We agree that simplifications and undertaking specific parameters may be necessary for captives. But on the other hand to be consistent, we propose not to treat captives separately and rather merge these simplification issues with CP 76 and CP 77.	Partially agreed. Because of the special nature of captives, CEIOPS wants to separate captive specific simplifications from simplifications applicable to all undertakings.
28.	GDV	3.1.	We agree that simplifications and undertaking specific parameters are necessary for captives. But on the other hand to be consistent and independent we propose not to treat captives separately and rather merge these simplification issues with CP 76 and CP 77.	Partially agreed. Because of the special nature of captives, CEIOPS wants to separate captive specific simplifications from simplifications applicable to all undertakings.
29.	GUERNSEY FINANCIAL SERVICES COMMISSIO N	3.1.	The paper focuses on modifications to the parameters inherent in the SCR standard formula. It would be helpful if the advice could be extended to the application of the proportionality principle to captives taking account of the fundamental differences in their business model as compared to conventional insurers and reinsurers. As the captive specific business model differs significantly from traditional (re) insurers, the principle of proportionality should be applied both to captive specific parameters and to the underlying sub risk modules.	Noted. The proportionality principle applies to the whole Directive.
30.	Cayman Islands Monetary Authority	3.2.	A premise is stated that, as captives cover a limited number of risks, the law of large numbers may not be operable to the same extent as in a traditional insurance setting where coverage is provided to a large volume of risks. As a consequence, there is inference that a higher capital charge is warranted for captives.	Noted.

			However, such an approach fails to recognize that homogeneity is a counterbalance to credibility (based on loss volume) and both should be considered in assessing risk. In reality, that is why risks are categorized based on expected loss considerations (homogeneous classes) for purposes of pricing and ratemaking considerations. In addition, assessing a capital requirement based solely on volume would not appear to reflect the uniqueness of the parent insured /captive insurer relationships and the opportunity to implement risk mitigation & risk management policies and procedures for which the impact can be directly demonstrated and measured.	
31.	CEA	3.2.	We agree that as the law of large numbers usually does not apply to captives, the results of the standard formula may produce inappropriate results.	Noted.
32.	DIMA	3.2.	Captives by their nature are set up in a situation where the insured group risk is deemed better than the general insured market risk as a result of better than average loss control and risk management policies adopted by the insured/group. The reinsurance market recognises this in providing premium ratings to captives that reflect their enhanced risk controls and lower than average claims history.	Noted.
33.	GDV	3.2.	Captives are specialised entities and their risk profile is the result of the inherent risks of their parent companies, which can change quickly. As the law of large numbers usually does not apply to them, the results of the standard formula may produce inappropriate results.	Noted.
34.	GUERNSEY	3.2.	Captive’s data is more homogeneous than traditional (re) insurers	Noted.

	FINANCIAL SERVICES COMMISSION		as they accept the business solely of their owners. Consequently, historical data is not as heterogeneous and less volume of historical data is needed to achieve credible statistical inferences.	
35.	Guernsey Insurance Company Management Association	3.2.	We do not agree that it is not appropriate for captives to rely on historical data. Many captives follow a steady and well thought out (re)insurance programme for many years, and hold and capture extensive and detailed data relating to their parent's risks. This lends itself to loss-forecasting and statistical reserving methodologies. We wholly agree that this should not be done in a mechanical way – in our view no solvency methodologies should be mechanical but should be considered.	Noted.
36.	ACA	3.3.	The simplification was considered to be acceptable if it led to a higher capital, what about the case when it led to lower capital?	Noted. The text was based on QIS4 results.
37.	AGERE,AON, DIMA,ECIROA,FERMA,MARSH	3.3.	This comment is making a connection between capital and costs but does not mention risk. The reference to 'necessary resources (like human resources or IT Resources)' does not take account of the utilisation of professional and regulated Insurance Managers which is the normal business model for the majority of captives. We make the point that it is strange that only simplifications requiring a higher capital charge are acceptable. It is clear that the 99.5% confidence level cannot be reduced by a simplification, but the nature of the business of captives could in certain situations be better assessed by a different formula and give the same level of confidence with a lower capital charge. If this principle cannot be accepted, we do not understand how an internal model achieving a lower capital requirement can be acceptable.	Noted. The text was based on QIS4 results.

38.	Cayman Islands Monetary Authority	3.3.	See comments under Section 3.0 and 3.2. There is a tendency to believe that higher capital amounts under QIS4 are a positive result from the simplification process. However, as suggested, there are fundamental assertions under the simplification process that are flawed e.g. homogeneity vs credibility and the failure to recognize the role of the Insurance Manager.	Noted. The text was based on QIS4 results.
39.	DIMA	3.3.	It is highly unlikely that a captive will use a full internal model due to its nature, scale and complexity; it is much more likely to use the standard formula or, in certain cases, a partial internal model.	Noted.
40.			Confidential comments deleted.	
41.	GUERNSEY FINANCIAL SERVICES COMMISSIO N	3.3.	It should be recognised that the majority of captives are managed by professional insurance managers who, in many jurisdictions, are subject to licensing requirements. The reasons for introducing simplifications for captives are to recognise the specific features of captives, e.g. a simple business model rather than to reflect a lack of human or IT resources. It is not practical to apply the standard formula to many captives, but a full or partial internal model may be a realistic option.	Noted.
42.	Guernsey Insurance Company Management Association	3.3.	The implications here are that any simplified approach should only allow for higher capital amounts. We believe this unfairly penalises captives. The captive approach should be more suitable for captives; the use of the word simplification implies that it is a less valid approach. A suitable approach is not less valid it is equally or indeed more valid. We believe that CEIOPS should focus on allowing the principles of Solvency II to be key to the regulation of captives, rather than the detailed methodology which might be applied or accepted by a regulatory body. In addition we do not feel that direct human resources or IT resources are key issues for captives. As set out in our comment to 3., we believe Licensed and Authorised Captive Managers play the key role here.	Noted. The text was based on QIS4 results. Outsourcing remains possible under the Level 1 text.

43.	Cayman Islands Monetary Authority	3.4.	See Comments in Section 2.	See corresponding resolution to comment.
44.	DIMA	3.4.	Addressing simplifications applicable to ceding undertakings to captive reinsurance undertakings is felt to be irrelevant in the context of a consultation on simplifications for captives.	Not agreed. It is useful to have one single document on captive simplifications and companies dealing with captives.
45.	European Union member firms of Deloitte Touche Toh	3.5.	The simplifications have been suggested by the supervisory authorities of Luxembourg, Ireland and Malta. It would be useful to understand the level of influence each of the member states had in the proposed simplifications in the national guidance paper as the captive model in each state is very different. The supervisors for the captive industry in general had concerns over the QIS4 calibrations for captives but the proposed simplifications may not reflect the views of the whole captive market. It would be useful to understand the views of all stakeholders to understand the wider issues (e.g. barriers to entry).	Noted. The CP is a compromise text based on agreement of the majority of CEIOPS Members.
46.	AGERE,AON, DIMA,ECIRO A,FERMA,MA RSH	3.6.	The definitions in 3.6 and 3.8 are much too narrow for captives. All the limitations must be eliminated and we should get back to the definition used in the Solvency II framework directive. There is no need for further limitations as the overall objective of 99.5% confidence level will be similarly applicable with the proposed simplifications	Noted. The criteria are only given for the purpose of the application of the simplifications. The Level 1 definition of captives is not being put into question.
47.	DIMA	3.6.	The definitions in Articles 13 (2) and 13 (5) of the Level 1 text should not be restricted further as proposed in 3.6-3.8, and the restrictions noted in respect of 3.8 a), b) and c) should not apply to any captives in the group. This point changes the application of group structure. Restricting a captive's owner group to only captive undertakings (not insurance	Noted. The criteria are only given for the purpose of the application of the simplifications. The Level 1 definition of captives is not being put into question.

			or reinsurance companies) will impact other sister company captives in group formed in other jurisdictions and/or other captives not following strict definitions described in 3.8 below. In most cases, a captive belongs to a group which are mixed activity insurance company and should be allowed to have other captives (in various jurisdictions, irrespective of definitions contained in articles in Solvency II text) or insurance and reinsurance companies (in fact they will be covering group risks but due to strict definition are excluded as a captive) in their group. There should be no restriction merely because the group has another captive which is not following the restricted definition.	
48.	Cayman Islands Monetary Authority	3.7.	See Comments in Section 2.	See corresponding resolutions to comment.
49.	ACA	3.8.	(a) Limitation of the simplification to the case where All insured persons and beneficiaries have to be legal entities of the group seems to be very restrictive. We don't understand the consistency of such limitation especially if the capital after simplification has to be higher than the capital under the standard formula as recommended in point 3.3. (b) Compulsory third party liability insurance has not to be considered as a captive undertaking. We don't completely agree because, first this risk could be a major risk (re) insured in the captive due to the volatility observed in the premium for this risk for the parent group, and the captive is often used as a tool to stabilise such volatility. Second because Ceiops doesn't consider any possible retrocession of this risk outside the captive. (c)This point has to be more precise and especially for how the cedent will not have any loss in practice.	Noted. Requirement c has been deleted and requirement b has been amended.
50.	AGERE,AON,	3.8.	All these limitations should be taken out as captives are not	Noted.

	DIMA,ECIROA,FERMA,MARSH		exempted from Solvency II and there is no need for any limitations.	
51.	Association of British Insurers	3.8.	We would like some clarification over the terms “unexpired”. Captives belong to group that are by nature movable structures. In our view the run off book of business should be allowed to include some run off elements outside the group. “insured person” policyholder? C) A key distinction should be made between reinsurance and insurance captive. As long as the fronting company support the loss in case of default of the reinsurance captive we do not see any reason to limit type of business neither the beneficiary.	Partially agreed. In requirement b, a distinction between insurance captive undertaking and reinsurance captive undertaking has been made.
52.	Assuralia	3.8.	(a) We are rather in favor of option 2 in order to make sure that no party external to the captive owner may be harmed by the insolvency of the captive, as for example beneficiaries in group life insurance contracts. (c) We find this requirement unclear. We understand that, in the case of a reinsurance captive, the fronting insurer should not suffer any loss in case of insolvency of the captive. This can only happen if an explicit and legally effective guarantee is given by the captive owner, and the captive owner cannot default himself. This is almost impossible in practice. The link with the concentration risk sub-module is also unclear. As a conclusion, we can understand this requirement in order to ensure that no party external to the captive owner (in this case, the fronting insurer) may be harmed by the insolvency of the captive, but we find that it is hardly applicable in practice.	Noted. Requirement c has been deleted.
53.	Cayman Islands Monetary	3.8.	As stated earlier, the International Association of Insurance Supervisors, in their Guidance Paper No. 3.6 “Guidance Paper on the Regulation and Supervision of Captives” make a clear definition	Noted.

	Authority		of captives. In the event that CEIOPs were to maintain one of the definition options set out in paragraph 3.8 of CP79 we would recommend Option 1 as it omits the additional complexities of beneficiaries.	
54.	CRO Forum	3.8.	10. 3.8 (a): Question to stakeholders: We agree with Option 2, but believe "beneficiary" should be well-defined to ensure transparency and consistency in treatment. 11. 3.8 (b): Question to stakeholders: It is too restrictive to say "do not relate". The intent should be that compulsory third party insurance ends up at a third party. The captive can play a role in this risk transfer process. 12. 3.8 (c) A significant number of captives within the EU would be termed reinsurance captives so the co-operation of commercial insurance carriers to issue primary policies to the parent company is very significant. In order to prevent destabilising this area of the captive world we would agree with 3.8 (c). Commercial insurance carriers also tend to be protected by captive default through a variety of measures like Letters of Credit, Simultaneous Payments Clauses and Parental Guarantees. If fronting for captives is marginalised it could lead to a complete lack of supply in the fronting market and thereby crippling captive reinsurers.	Partially agreed. The terms 'insured person' and 'beneficiary' are defined in the Level 1 text, and have been copied for clarity in the final advice.
55.	DIMA	3.8.	As noted above in 3.6, there should be no further restrictions to the definitions of captives as they appear in Level 1. It is unclear here whether the intention is to create a two-tier captives system, with one group having access to the simplifications in the paper, and the other not. This paragraph states: "The application of simplifications will be limited to captives meeting the following requirements"; what would be the position of entities which are classified as captives under the Level 1 definition	Noted. See amendments to requirement b and the examples introduced in the final advice.

			but do not meet these further requirements? The IAIS Guidance Paper on the Regulation and Supervision of Captives Insurers, as referenced above, states in Appendix 1 Para 6: 'Liability insurance is purchased to benefit the insured, not the injured party which is why it is related and note unrelated risk. There is therefore a strong argument that those companies referred to above are regarded as 'pure' captives as they are insuring a responsibility that would ultimately fall on the parent company if no insurance were in place'.	
56.			Confidential comments deleted.	
57.	GDV	3.8.	We agree with CEIOPS that option 2 reflects better the business model. Requirement (c) should not be included.	Noted. Requirement c has been deleted.
58.	GUERNSEY FINANCIAL SERVICES COMMISSIO N	3.8.	Both options 1 and 2 unnecessarily restrict the definition of captives that can benefit from simplifications relative to the definitions laid down in Articles 13(1a) and 13(3a) of the Level I text. In particular under option 2, captives that underwrite any form of third party liability business are unable to take advantage of the simplifications. Where a captive is situated in a third country, the captive is often prevented from directly underwriting compulsory third party liability risks in an EU State so the liability is taken on by an insurer situated in an EU state which "fronts" the business and reinsures to the captive. Sub -paragraph (b) is therefore unnecessary and the only captives that should be excluded from the simplifications are those writing third party liability business in Member States where third parties have a legal right to make a claim directly against an insurer. Requirement (c) should not be included as the whole point of a captive reinsuring business through a fronting insurer is to ensure that payment of claims is not dependent upon the ability of the	Partially agreed. Requirement b has been amended, and requirement c has been deleted.

			captive itself to pay. In the case of compulsory classes of business, this approach would clearly be unacceptable.	
59.	Guernsey Insurance Company Management Association	3.8.	We note that the International Association of Insurance Supervisors, in their Guidance Paper No. 3.6 "Guidance Paper on the Regulation and Supervision of Captives" make a clear definition of captives. Our view is that it would be consistent of CEIOPS to make use of this definition. In the event CEIOPS intended to pursue their own definition, then in our view this definition should be along the lines of: A captive may be defined as a (re)insurance company which ☐ Solely insures the risks of its Parent Group and/or ☐ Reinsures the risks of businesses related to its Parent Alternatively, a negative definition (ie what is not a captive) might be that a captive is not a (re)insurance company which ☐ (Re)insures unrelated business and/or ☐ Insures compulsory third party liability business In the event that CEIOPS were to maintain one of the definition options set out in paragraph 3.8 of CP79 we would recommend Option 1, as with Option 2 the definition of beneficiary may become unwieldy. In relation to b), in our view a captive can reinsure compulsory Third Party Liability Insurance but we would agree that a company that insures such a risk is not a captive. We do not see the relevance of item c) and would recommend that it should not be included.	Noted.
60.	Institut des actuaires	3.8.	The choice between option 1&2 is more a legal than an actuarial issue.	Agreed.

	(France)			
61.	Investment & Life Assurance Group Ltd	3.8.	Whilst option 2 would provide greater policy holder protection, it will limit the number of captives able to avail themselves of the simplifications.	Agreed.
62.	PricewaterhouseCoopers LLP	3.8.	From a policyholder protection perspective, option 2 would seem preferable. However, a consequence of this is that it would limit the number of captives that may be able to avail of the simplifications. We agree with 3.8(b) from the perspective of compulsory third party coverage (where the intention of the compulsory insurance is not to protect policyholders or insured persons but third party beneficiaries). We do not believe that a similar restriction should apply for non-compulsory third party coverage provided by captives.	Noted. Requirement b has been amended.
63.	SOGECORE	3.8.	Option 2 is our favourite. Although not requested, we have a view on requirement b: some risks underwritten by captives might include a share of risks relating to third party liability insurance (more often as a reinsurance agreement) that can be deemed compulsory in some countries but not in others (D&O covers, construction all risks, decennial risks, employees…). The ultimate insured would remain legal entities of the group. As the underwriting is often limited in the aggregate, these risks do not represent a bigger risk in terms of solvency than any others. We do not see why they should be excluded from the scope. On requirement c, we think that it should not be included. Often cut through clauses, hold armless clauses, simultaneous payment clauses are providing to the insurer extra protection. Meanwhile, reinsurance has never been in any jurisdiction committed to the	Partially agreed. Requirement c has been deleted.

			same legal requirements as an insurer which is the only undertaking that has made a commitment towards the insured. The default of a captive, with the default of the group to which it belongs, does not legally protect an insurer that will be requested to pay for claims by any liquidator of the group. This requirement is ineffective.	
64.	AGERE,AON, DIMA,ECIROA,FERMA,MARSH	3.10.	This should be taken out (see 3.6)	See corresponding resolution to comment.
65.	CEA	3.10.	We agree with Ceiops not to weaken the protection of the policyholders.	Noted.
66.	GDV	3.10.	We agree with CEIOPS not to weaken the protection of the policyholders.	Noted.
67.	GUERNSEY FINANCIAL SERVICES COMMISSION	3.10.	It is important to draw a distinction between captives that insure an owner in respect of liabilities that the owner could otherwise self insure and a captive that provides insurance that could only be provided by an insurance company. For example if a captive owner offers a free warranty on its products and insures this risk with a captive, then the captive should be entitled to benefit from any simplifications. On the other hand if it sells extended warranty insurance on a voluntary basis, this is effectively commercial insurance and should be excluded from any simplifications. The same principle should apply to employee benefits. If these could be provided directly by the employer on a non-insured basis, then simplifications should apply to a captive established by the employer to insure the same benefits. If on the other hand, the benefits could only be provided by an insurance company, then any	Noted.

			captive insuring the benefits should not be included in the simplifications.	
68.	Guernsey Insurance Company Management Association	3.10.	Please refer to 3.8	See resolution to comment to 3.8.
69.	SOGECORE	3.10.	This contradicts requirement b of 3.8	Noted.
70.	Association of British Insurers	3.11.	Requirement b would eliminate numerous captives from the scope of CP 79. This is inconsistent with the Level 1 text and is in no way implied by Recital 14c. It should therefore be eliminated.	Partially agreed. Requirement b has been amended.
71.	Cayman Islands Monetary Authority	3.11.	Thereappears to be an expressed concern in the paper that there could be disruption of coverage and, as a consequence, increased risk in situations where captives provide compulsory third party liability, a common example of which would be US statutory workers' compensation coverage. However, in evaluating any pertinent risk considerations, the mechanism by which the coverage is provided by the captive is an important consideration. For US statutory workers compensation coverage, captives are not allowed to provide coverage on a direct write basis. Instead coverage is provided through a reinsurance agreement with a primary insurer or through a deductible reimbursement policy by virtue of which the captive reimburses the parent for deductible losses paid to the front. Under these programs, mandated payments are paid by the front and then reimbursed by the captive. Consequently, the risk that the beneficiary will not receive the required benefit payments is	Partially agreed. Requirement b has been amended.

			mitigated via the primary carrier's involvement and the risk is reduced to a credit risk consideration, which is addressed by collateral required by the primary carrier. However, when coverage for third party liability exposure is provided by the captive on a direct write basis (example: professional indemnity), the risk consideration noted in the paper needs to be addressed through an appropriate risk mitigation consideration and/or capital requirement. Therefore, in relation to b), we believe that a captive should be allowed to reinsure compulsory Third Party Liability Insurance but agree that a company directly insures a risk is not a captive.	
72.	DIMA	3.11.	This paragraph is even more restrictive than paragraph 3.8. It is redefining captives by excluding almost all liability business from captives' scope. As stated in the beginning of this paragraph, the captive should be allowed to cover exclusively for the risk of the owners, that owner risk insurance should not be restricted. This paragraph should be removed.	Partially agreed. Requirement b has been amended.
73.	GUERNSEY FINANCIAL SERVICES COMMISSION	3.11.	It is agreed that simplifications should not apply to captives that directly write compulsory third party liability insurance. In the case of third country captives writing compulsory liability business for owners situated in the EU, the business normally has to be written through a fronting insurer and the captive is then undertaking reinsurance business.	Partially agreed. Requirement b has been amended.
74.	Guernsey Insurance Company Management Association	3.11.	Please refer to 3.8; in our view insurance companies which directly provide compulsory third party liability cover are not captives. Reinsurers which reinsure compulsory third party liability cover may be captives if this cover relates to the business of the parent group. In these instances an appropriately licensed, authorised and regulated insurer will be writing the risk and we see the third party element of this risk being encompassed by the authorisation,	Partially agreed. Requirement b has been amended.

			licensing and regulation (including solvency) of the insurer rather than the reinsurer.	
75.	IUA	3.11.	Requirement b would eliminate numerous captives from the scope of CP79. This is inconsistent with the Level 1 text and is in no was implied by Recital 14c. It should therefore be eliminated.	Partially agreed. Requirement b has been amended.
76.	AGERE,AON, DIMA,ECIROA,FERMA,MARSH	3.12.	This should be taken out (see 3.6)	Agreed.
77.	DIMA	3.12.	This is a further restriction of the definition of a captive as it appears in Level 1, and as such should be removed. Recital 21 provides that "As those undertakings only cover risks associated with the industrial or commercial group to which they belong". There is no reason to state that the risk associated with "compulsory third party liability insurance" is not a risk of the industrial or commercial group to which the captive belongs because it is compulsory and equally required to be insured. It is unclear why a legal requirement to insure makes a risk ineligible to be placed into a captive. It is also worth considering the inconsistency in compulsory insurances across the EU, which could result in certain risks being deemed applicable for captive business in some Member States but not in others.	Agreed.
78.	Guernsey Insurance Company Management Association	3.12.	Please refer to 3.8 and 3.11	See corresponding resolutions.
79.	AGERE,AON, DIMA,ECIRO	3.13.	This should be taken out (see 3.6)	Agree. See revised text

	A,FERMA,MARSH			
80.	DIMA	3.13.	Please see comments for 3.12 and elsewhere.	See corresponding resolution.
81.	GUERNSEY FINANCIAL SERVICES COMMISSION	3.13.	Insurance undertakings often act as fronting insurers to enable the captive to insure compulsory classes of business. In these circumstances a simultaneous payment clause would contradict the rationale for using a fronting insurer. Fronting insurers often mitigate the credit risk of the captive by requiring collateral such as a letter of credit to be provided.	Agreed. Requirement c has been deleted.
82.	Guernsey Insurance Company Management Association	3.13.	We also refer to 3.8 and 3.11. This paragraph causes us some confusion. We agree that "….. it should be ensured that the default of the captive undertaking does not cause a loss of the insurance undertaking ….."; however, we would anticipate that this will already be dealt with by two key controls: ☐ Under SII an insurer writing such risks will presumably have such risks modelled, controlled and capitalised in order to meet the requirements of SII in its entirety. ☐ We know, having discussed this with various EU insurers and fronters that they, in addition, apply their own credit criteria to reinsurance of such risks and, of course, substantial collateral requirements (Bank issued Letters of Credit, Security Trust Agreements or Security Interest Agreements) are typically associated with these activities. We do not understand why there would be additional control on captives when insurers seeking reinsurance will have controls/requirements embedded in their processes, both because of SII itself and because of internal corporate governance and market influenced mechanisms.	Agreed. Requirement c has been deleted.
83.	ACA	3.14.	All the restrictions suggested before using the simplification will limit considerably the number of captives who could use these	Noted.

			simplifications.	
84.	Cayman Islands Monetary Authority	3.14.	We agree with the principle of proportionality and the purpose behind Section 3.14. However, as stated under Section 3.1, the simplification method may not achieve the desired result.	Noted.
85.	DIMA	3.14.	See comments for 3.4 above.	See corresponding resolutions.
86.			Confidential comments deleted.	
87.	Guernsey Insurance Company Management Association	3.14.	We agree whole-heartedly, however we are not sure the proposed measures achieve the intended proportionality and hope our comments will assist this process.	Noted.
88.	European Union member firms of Deloitte Touche Toh	3.15.		Noted.
89.	Assuralia	3.16.	See 3.17., 3.19. and 3.22.	See corresponding resolutions.
90.	CEA	3.16.	Taking into account expected profit/loss from new business appears to be a risk-orientated consideration. Nonetheless, as stated in 3.17 if such an element will be introduced, it should apply to all undertakings.	Not agreed. Following EC decision, expected profit/losses cannot be taken into account.
91.	DIMA	3.16.	Numbers have been provided separately about the impact of these measures. Until all the captive simplifications are addressed in detail, in particular the catastrophe risk and the concentration risk, it is difficult to see what, if any, effect this simplification may have on the overall effect of 'simplifications' for a captive.	Noted.

92.	European Union member firms of Deloitte Touche Toh	3.16.	Bullet (a). The simplification is not strictly a simplification in methods but in the parameters. Using uniform parameters does not appear to reduce effort. Captives would still use the standard formula in a way to insurers. A separate standard set of parameters for captives which vary by line of business would reflect the risk profile of each captive more closely and this would not increase effort.	Noted.
93.	GDV	3.16.	Taking into account expected profit/loss from new business appears to be an risk-orientated consideration. Nonetheless, as stated in 3.17 if such an element will be introduced, it should be apply to all undertakings.	Not agreed. Following EC decision, expected profit/losses cannot be taken into account.
94.	Guernsey Insurance Company Management Association	3.16.	As per 3.3 and 3.8 our view is that the application of Solvency II principles, which we support at a fundamental level is the key. The difficulty is the application of set "simplifications" which we believe would better be applied on a case by case basis by the relevant regulatory body.	Noted.
95.	ACA	3.17.	We agree with the remark concerning the combined ratio of the captive, and we find that this it is unfairly that this captive specification will not be considered on the determination of the SCR.	Not agreed. Following EC decision, expected profit/losses cannot be taken into account.
96.	AGERE,AON, DIMA,ECIRO A,FERMA,MA RSH	3.17.	The formula should be calibrated to recognise that captives have a lower combined ratio than 100% (as assumed in the standard formula). It is important to recognise that the expenses structure and the business model of a captive typically give a lower combined ratio than for a commercial insurer. The effect of this lower combined ratio is a confidence level higher than the 99.5% requested. By using a uniform assumption of a 100% combined ratio companies with a lower ratio will produce a higher confidence level than requested and companies with a higher ratio will produce a	Not agreed. Following EC decision, expected profit/losses cannot be taken into account.

			lower confidence level. This should be recognised. It should be noted that having a captive vehicle to write group risks enable the risk management function within a group to closely monitor risk management issues and react more effectively and timely to deteriorating loss ratios. This explains why groups try to keep the risks with a good loss ratio. The allowance should be made to compensate for the operational and risk management efficiency associated with having a captive vehicle which assists the risk management functions in mitigating and being proactive on risks.	
97.	Assuralia	3.17.	Captives are not only used to retain profits within the group, but also to transfer risks that are not insurable (or considered as such by the market). Low frequency - high severity risks are often transferred to captives, which could give the impression that this business is more profitable as long as large events do not happen. There is in general no reason to think that the expected profit/loss should be treated differently for captive undertakings and non-captive undertakings.	Noted.
98.	CEA	3.17.	We agree with Ceiops that a CR of 100% should apply to all undertakings.	Noted.
99.			Confidential comments deleted.	
100.	GDV	3.17.	We agree with CEIOPS that a CR of 100% should apply to all undertakings.	Noted.
101.	GUERNSEY	3.17.	We agree that many captives have historical combined ratios of	Not agreed. Following EC

	FINANCIAL SERVICES COMMISSION		substantially less than 100%. It is important that a methodology is developed to allow for this to be included in the SCR calculation.	decision, expected profit/losses cannot be taken into account.
102.	Guernsey Insurance Company Management Association	3.17.	Captives are unusual (re)insurance vehicles in that in almost all cases their exposures are capped by aggregate loss limits. Dependent on the nature of the relevant limits in the related insurance policy(ies) or the nature of reinsurance protection and regulated/capitalised position of a reinsurer or reinsurance panel such aggregate protection can be of considerable risk mitigation. We do not believe this has been taken into account sufficiently within the proposals. We note that under 3.22 a risk mitigating formulae is proposed, but this appears to deal with modifying premium volume rather than reflecting the true mitigation of risk which arises from aggregate protection.	Noted.
103.	Investment & Life Assurance Group Ltd	3.17.	We agree that if such an element is introduced into the standard formula, it should apply to all undertakings.	Noted.
104.	PricewaterhouseCoopers LLP	3.17.	We agree that if such an element is introduced into the standard formula, it should apply to all undertakings.	Noted.
105.	SOGECORE	3.17.	A captive is not a tool to retain profits in within the group but a tool to maintain the overall price of insurances of the insured at its most efficient price over the years. So the 100% combined loss ratio can be ultimately reached after a sufficient number of exercises.	Noted.
106.	Guernsey Insurance Company Management Association	3.18.	One of the key purposes of captives is to allow Parent Groups to make use of for lower expense ratios (typically 5% to 10%) than those incurred by traditional market insurance companies (typically 20% to 30%); by extension a lower combined ratio should be considered to take into account these efficiencies. We believe the	Not agreed. Following EC decision, expected profit/losses cannot be taken into account.

			measures proposed are over prudent for captive (re)insurers	
107.	Assuralia	3.19.	We do not see why the fact of using uniform standard deviation and correlation assumptions is a real simplification of the calculations. Where do these parameters come from? In any case, the use of such a simplification should be motivated.	Noted.
108.	CEA	3.19.	The proposal that the standard deviations for premium and reserve risk for all lines of business are 30% seems a conservative assumption.	Not agreed. The 30% includes to some extend a cushion due to model error.
109.	European Union member firms of Deloitte Touche Toh	3.19.	Bullet (b & c) 30% may not reflect the differences in risk profiles of different captives and 35% correlation may not reflect reality. Using uniform parameters for standard deviation and correlation would mean there is no difference in risk profile for captives writing different business (ignoring CATS). Some captives writing much riskier business may have lower capital charges and vice versa.	Not agreed. The 30% includes to some extend a cushion due to model error.
110.	GDV	3.19.	The proposal that the standard deviations for premium and reserve risk for all lines of business are 30% seems a very conservative assumption.	Not agreed. The 30% includes to some extend a cushion due to model error.
111.	GUERNSEY FINANCIAL SERVICES COMMISSIO N	3.19.	In sub paragraph (b), the assumed standard deviations of 30% are excessively conservative. The maximum standard deviations specified in QIS4 national guidance issued by Ireland, Luxembourg and Malta were 15%. It is suggested that this is reconsidered.	Not agreed. The 30% includes to some extend a cushion due to model error.
112.	Investment & Life Assurance Group Ltd	3.19.	The simplification proposed 3.19(b) appears somewhat conservative. A lower figure might be more appropriate say 20%.	Not agreed. The 30% includes to some extend a cushion due to model error.
113.	Pricewaterho useCoopers	3.19.	The simplification proposed 3.19(b) appears overly conservative. A figure of 20% might be more appropriate.	Not agreed. The 30% includes to some extend a cushion due to

	LLP			model error.
114.	SOGECORE	3.19.	CEIOPS formulates a simplification for non-life premium and reserve risk. Those simplifications assume the standard deviations for premium and reserve risk for all lines of business are 30%. CEIOPS also proposes simplification on correlation factors for all pairs of business. Correlation factors will be set at 35% (average of the correlation factors excluding diagonal entries) We think that it is not clear that the impact of this simplification will suit all captive business. We would like a justification on the link between the specific business model of the captives and the 35% correlations which are at a high level.	Noted. The 35% is the average of the correlations between LoB's.
115.	Cayman Islands Monetary Authority	3.20.	The simplified formula presented attempts to determine a composite capital requirement for the premium and reserve risk residing within the insurance structure. It appears that the requirement is calculated on a per line of business basis. The formula considers both reserving and pricing risk and attempts to adjust for the correlation between the two risks. The metric used in the formula to determine the capital requirement appears to be premium and volume, which presumes that there is a direct relationship between increased premium volume, increased risk and increased capital requirements. However, this approach fails to recognize that premium volume alone may not be directly reflective of the inherent risk. As an example, equal premium volumes for frequency risk e.g. low limit automobile physical damage and severity risk e.g. excess medical malpractice would arguably require different levels of supporting	Noted. Correlation factors are derived from the general correlation matrixes applicable to all entities.

			capital. In addition, use of premium and volume as the single criteria may implicitly encourage under funding. There is mention made of the application of a correlations matrix, which would be used to generate a composite capital requirement for all lines of business. Without such an application, capital requirements determined on an individual line of business basis, would tend to overstate capital requirements as such an approach would fail to consider the potential of diversification between lines of business. No support for the correlation factors has been provided, so they cannot be evaluated.	
116.	GUERNSEY FINANCIAL SERVICES COMMISSIO N	3.20.	The standard formula for reserve risk assumes full correlation between all historical years. Diversification between underwriting years within a line of business should be reconsidered and included in the SCR standard formula.	Not agreed. The aggregation procedure is given by the Level 1 text.
117.	Guernsey Insurance Company Management Association	3.20.	As stated in our general comment we are strong supporters of a risk-based approach to solvency, and we believe that Solvency II is a risk-based approach, albeit a very technical and complicated one. Our concern in relation to captives is that in any corporate governance framework, transparency and understanding is key. In Guernsey, the Guernsey Financial Services Commission has introduced an Own Risk and Solvency Assessment, incorporating an Own Solvency and Capital Assessment. This has been applied to all Guernsey Licensed and authorised (re)insurance companies, by the (re)insurance company Boards and (where appropriate) their Licensed and Authorised Captive Managers during 2008 and 2009. The key advantage of the system is its effectiveness and the transparency and understanding brought by the ORSA an OSCA process. Boards (including Independent Non-Executive Directors)	Noted.

			are truly involved in valuing and predicting assets and liabilities, assessing risk and computing appropriate capital levels. These capital levels and underlying assessment and computations are reviewed and considered by the Guernsey Financial Services Commission. We would encourage CEIOPS to ensure that any system of applying simplification of Solvency II to captives should be as transparent as possible and while formula are of course required for computations, these computations in regard to Captives are generally simpler and more straightforward.	
118.	Assuralia	3.22.	If the captives are allowed to take into account the impact of an aggregate limit, this possibility should also be open for non-captive (re)insurance undertakings if the conditions mentioned under 3.23 are fulfilled.	Noted.
119.	Cayman Islands Monetary Authority	3.22.	There is a parametric adjustment which attempts to account for the risk mitigating impact of an aggregate limit. While acknowledged, an aggregate limit is recognized to be a loss limiting feature, the effectiveness of an aggregate limit can only be gauged in the context of the operating characteristics of the policy structure. For example, in many cases the effective risk mitigating constraint is the per claim or per occurrence limit (low per occurrence limit / high aggregate). Therefore, it is not clear that the adjustment in its current form achieves its intended purpose.	Noted.
120.	European Union member firms of Deloitte Touche Toh	3.22.	Further clarification on the treatment of aggregate limits is needed.	Noted.

121.	GUERNSEY FINANCIAL SERVICES COMMISSION	3.22.	The risk mitigating effect of an aggregate limit is welcomed. However, the formula should be reviewed to ensure it appropriately reflects the loss limiting feature of annual aggregate limit or maximum annual loss per line of business.	Noted.
122.	Guernsey Insurance Company Management Association	3.22.	Please refer to 3.17	See resolution to comment 3.17
123.	AGERE,AON, DIMA,ECIROA,FERMA,MARSH	3.23.	Captives typically limit their risk by underwriting insurance policies subject to an annual aggregate limit. This limits their exposure for a particular class of business They also put in place a reinsurance protection program. These aggregate limits should be taken into consideration in the calculation of premium and reserve risk. What is the logic behind disallowing the simplification if one captive policy does not have an aggregate limit? There may be legal or operational reasons why a policy does not have an aggregate limit. Dependent upon the materiality compared to the rest of the business activities of the captive there is not necessarily a reduction in Policyholder protection.	Noted. Developing the concept of aggregate limits in the presence of multi-line multi-year covers is a challenging task.
124.	Assuralia	3.23.	When an aggregate limit covers several lines of business, this paragraph mentions that "the choice of the aggregate limit (by lob?) should ensure that the probability of a loss exceeding the aggregate limit has a zero probability." In most of the cases, the only possibility to have this zero probability for all lines of business is to set the aggregate limit by lob equal to the umbrella limit. In such a case, possible solutions are :	Noted. Developing the concept of aggregate limits in the presence of multi-line multi-year covers is a challenging task.

			1. find a simplified formula to apply the umbrella limit on the global capital requirements (NLpr) 2. apply the umbrella limit to each line of business individually	
125.	European Union member firms of Deloitte Touche Toh	3.23.	Umbrella treaties are ignored in the capital risk calculation for the underwriting risk sub module. The impact of this may not be insignificant and as such the proportionality and materiality principals should be adopted instead of the treaty being ignored completely. Further clarification is needed.	Noted. Developing the concept of aggregate limits in the presence of multi-line multi-year covers is a challenging task.
126.	Guernsey Insurance Company Management Association	3.23.	Please refer to 3.17	See corresponding resolution to comments to 3.17
127.	ACA	3.24.	The proposal for captives mentioned in this CP and summarised in the CP 71 needs to be more detailed.	Noted. See revised text.
128.	AGERE,AON, DIMA,ECIRO A,FERMA,MA RSH	3.24.	Please refer to our comment on CP 71 submitted by the same Associations	Noted.
129.	Cayman Islands Monetary Authority	3.24.	The recognition of non life catastrophe risk is agreeably an important consideration. However, no distinction is provided with respect to classes of catastrophe losses (large number of small claims - natural catastrophe or small number of large severity events - institutional risk, oil tanker environmetal , etc) which have very different risk characteristics and considerations. In reality, capital requirements for catastrophe risk are prohibitive for captives in general and, as a consequence, catastrophe	Noted.

			exposures are transfered to the commercial reinsurance or financial (insurance linked securities) markets, where there is appropriate and adequate capital and the whererwithal to adequately spread and diffuse the exposure exists.	
130.	European Union member firms of Deloitte Touche Toh	3.24.	Agree that the QIS4 calibration for the CAT risk sub module was not appropriate for captives.	Noted.
131.			Confidential comments deleted.	
132.	Guernsey Insurance Company Management Association	3.24.	The examples you use demonstrate the danger of captives using solely a simplified version of Solvency II – in other words applying high or broad data without actually analysing the implications or reality of these assumptions. We believe captives should be encouraged to follow transparency and demonstrate understanding of risks.	Noted.
133.	Investment & Life Assurance Group Ltd	3.24.	We don't believe method 1 is appropriate for most captives.	Noted.
134.	PricewaterhouseCoopers LLP	3.24.	We do not believe that Method 1 is appropriate for the majority of captives.	Noted.
135.	AGERE,AON, DIMA,ECIROA,FERMA,MARSH	3.25.	Please refer to our comment on CP 71 submitted by the same Associations	Noted.
136.	Association of British	3.25.	We would like CEIOPS to provide some background on the method used to determine the ratio for the catastrophe risk module.	Noted. See revised text of CP71 and CP79 on CAT risk for

	Insurers			captives.
137.	Assuralia	3.25.	In the case of a reinsurance captive, the captive should base its calculations on the same scenarios than the one used by the company ceding the risk to the captive.	Noted.
138.	CEA	3.25.	We believe that CAT risks can in many cases be measured more appropriately using personalized CAT scenarios (as option 3 in QIS4). We furthermore stress that the standardized scenarios should reflect the different situations of the captives. Where such scenarios do not reflect appropriately the risk profile of the captive, captive specific scenarios, subject to supervisory approval, should be available as an alternative option in the standard formula. The criteria for the development of captive specific scenarios should be provided by Ceiops and foster the harmonisation of such scenarios across captive undertakings.	Noted.
139.	DIMA	3.25.	Numbers have been provided separately about the impact of these measures. Until all the captive simplifications are addressed in detail, in particular the catastrophe risk and the concentration risk, it is difficult to see what, if any, effect this simplification may have on the overall effect of 'simplifications' for a captive.	Noted.
140.	European Union member firms of Deloitte Touche Toh	3.25.	Agree that the standard formula factors for CATs should be higher for captives than for other insurers and is welcomed. The factors vary by line of business so it seems that the main differences in capital charges between captives will be due to the CAT charges since the standard deviation and correlation parameters are uniform across lines of business.	Noted.
141.	GDV	3.25.	We look forward to CEIOPS further work. We believe that CAT risks can in many cases be measured more	Noted. Personalised CAT scenarios are not allowed since no harmonisation can be achieved with them.

			appropriately using personalized CAT scenarios (as option 3 in QIS4). We furthermore stress that the standardized scenarios should reflect the different situations of the captives. Where such scenarios do not reflect appropriately the risk profile of the captive, captive specific scenarios, subject to supervisory approval, should be available as an alternative option in the standard formula. The criteria for the development of captive specific scenarios should be provided by CEIOPS and foster the harmonisation of such scenarios across captive undertakings.	
142.	AGERE,AON, DIMA,ECIRO A,FERMA,MA RSH	3.26.	Captives commonly engage in cash-pooling with their Parent company and the 'look through' facility for captives is welcomed	Noted.
143.	European Union member firms of Deloitte Touche Toh	3.26.	There is still a risk that the business written by the captive has a business strain on the owner and group as a whole. The credit risk may be of reduced importance but cannot be ignored.	Noted.
144.	Guernsey Insurance Company Management Association	3.26.	We actually rarely see such cash-pooling arrangements in use. If cash pooling results in legal offset, as it often does, then local domicile regulators would not normally consider such investments approved assets and would discount / ignore them for solvency purposes. We more often see use of loan-backs at commercial terms to Parent Groups (see also 3.28) and we also see Parent group treasury departments assisting to manage a captive's cash / investments effectively but with legal ownership clearly resting with the captive.	Noted.
145.	Pricewaterho useCoopers LLP	3.26.	We agree with this point.	Noted.

146.	SOGECORE	3.26.	We support this comment.	Noted.
147.	ACA	3.27.	The limitation of the rating to AA for a risk representing 34% of the SCR will limit again the number of captives using the simplifications proposed.	Noted.
148.	AGERE,AON, DIMA,ECIROA,FERMA,MARSH	3.27.	The rating of the cash pooling entity/credit institution should not be imposed as a minimum. How many banks do we still have with an AA rating? For cash pooling entities the number would even be more limited.	Noted.
149.	CEA	3.27.	We agree that simplifications for the concentration risk are necessary, but we think it is not realistic in daily business to expect that there is "no other dependency between each other".	Noted.
150.	CRO Forum	3.27.	13. Because of the business models and general size of captives we believe it makes sense to only simplify deposit counterparty risk for credit worthy institutions (AA or better).	Noted.
151.			Confidential comments deleted.	
152.	GDV	3.27.	We agree that simplifications for the concentration risk are necessary, but we think it is not realistic in daily business that there is "no other dependency between each other" and would therefore delete the second bullet point.	Noted.
153.	Investment & Life Assurance Group Ltd	3.27.	We agree a higher concentration threshold would be appropriate for captives.	Noted.
154.	PricewaterhouseCoopers LLP	3.27.	We agree that a higher concentration threshold should be allowed for captives.	Noted.

155.	SOGECORE	3.27.	We agree with this comment.	Noted.
156.	AGERE,AON, DIMA,ECIRO A,FERMA,MA RSH	3.28.	It is fundamental for captives to have a specific treatment of concentration risks, as: ☐ the size of captives does simply not allow the same spread of risk ☐ one of the purposes of a captive structure consists in keeping cash within the group Generally it is accepted by captive owners that intragroup loans are kept at a very short term maturity. Cash can generally be recovered by the captive within a few days, if not intraday. This positive element should be taken into account when defining the solvency margin requirements.	Noted.
157.	CRO Forum	3.28.	We agree with the proposed simplification.	Noted.
158.	DIMA	3.28.	The thresholds suggested are highly restrictive. It is felt that AA is unrealistic in the current environment, and the 15% proposal appears to suggest that captives would be required to increase their atypical number of deposit accounts from 3 to 7, which would be overly onerous. The maximum number for a 100% credit needs to be reassessed with the view to reducing it. It would be more realistic to follow the brokerage model, which requires a minimum of A-.	Noted. Please note that the ordinary threshold is substantially lower than 15%.
159.	GDV	3.28.	We welcome CEIOPS proposal for a specific treatment of concentration risks for captives.	Noted.
160.	GUERNSEY	3.28.	Many captives make loans on commercial terms to their parent	Noted.

	FINANCIAL SERVICES COMMISSION		companies. It is important that the treatment of concentration risk recognises the distinction between a credit exposure to the insured (the parent) and credit exposure to an unconnected party such as a bank particularly where there are no third parties entitled to make a direct claim on the captive.	
161.	Guernsey Insurance Company Management Association	3.28.	See also 3.26. We believe a key issue here is the allowance of loan-backs. Under any of the definitions of captive business proposed by IAIS, CEIOPS and indeed ourselves (see 2. and 3.8) a captive is seen as (re)insuring its parent. The risk to third parties is therefore minimal. In terms of concentration risk, we believe captives should not be penalised for lending back funds to parent groups. In addition the ability of captives to widely diversify investment portfolios is difficult. Within the EU captives typically make use of UCITs to ensure the underlying portfolio is diversified, even if the investment is through one channel (the UCIT manager or sponsor). While diversification is of some importance to captives, as the risk is primarily that of the Parent Group we believe concentration rules and diversification criteria should be relaxed.	Noted. The look-through principle is anyway applicable to UCITS to the extend it is feasible.
162.	Institut des actuaires (France)	3.28.	To have a more favourable treatment of concentration risk for captives would not be safe.	Not agreed. See 3.27.
163.	Investment & Life Assurance Group Ltd	3.28.	We agree with CEIOPS proposed approach.	Noted.
164.	PricewaterhouseCoopers LLP	3.28.	We agree with CEIOPS's suggested approach.	Noted.
165.	SOGECORE	3.28.	We support this comment. Considering the sums at stake, most of the captives feel necessary not to spread too much their assets,	Noted. The look-through principle is anyway applicable to UCITS to

			which leads to a high concentration risk. They sometimes hold their values in one type of assets only such as UCITS compounded of bonds only. Thus it would be preferable for captives to obtain the ability to consider this type of assets in "transparency", considering the assets that compose the UCIT rather than the UCIT as a whole. A certain threshold should be determined in value under which it would not be deemed necessary to consider the concentration risk if kept in within a AA credit institution.	the extend it is feasible.
166.	Cayman Islands Monetary Authority	3.29.	It is totally agreeable that cash flow projections for individual assets would be unduly cumbersome. However, applying percentage wise shocks to classes of assets according to maturity /duration may provide to be unwieldy as well, especially for mature captives with fairly diverse and sophisticated portfolios. Further, relying on maturity and applying percentage shocks raises issues with respect to contingent assets, such as MBS, CLOs, CDOs, where the maturity is not a major consideration, but the actual versus cash flows based on the performance of the underlying instruments with respect to prepayment, payment deferral, default would be. Since the goal is to ensure capital adequacy with respect to the overall insurance, operating and financial risk to which a captive is exposed, that purpose could be achieved by contemplating one composite adjustment to address interest rate risk and one composite adjustment to reflect asset depreciation risk.	Noted.

			In addition, liquidity risk could also be considered. However, cash flow matching is less of a consideration for property/casualty insurance captives than life insurance programs, as Property/Casualty captives generally fund loss payments through premiums rather than long term accumulation of investment returns (life products). In addition, to some degree, the market price (which is ultimately the market's mean value of possible outcomes) includes implicit compensation for remote but possible distressed scenarios, so applying shocks to compensate distressed scenarios causes some overlap with respect to contemplation of an impact. The single composite factor or several factor approach simplifies the application, gives recognition of the key asset / investment risks operating within the captive structure and achieves the same intended purpose.	
167.	CEA	3.29.	We do not agree that the standard calculation of the interest rate sub-module can be too burdensome for captive undertakings. To maintain a level playing field such an exemption should not be permitted.	Not agreed. QIS4 showed that capital requirements produced with this method are higher in most cases than with the standard model approach.
168.	European Union member firms of Deloitte Touche Toh	3.29.	This is really an issue for captives whom have extremely large investment portfolios way in excess of any of the insurance risks they might be carrying. These probably may have arisen from the build up of past surpluses retained as equalisation reserves but maybe just held to avoid or defer tax. This strategic angle needs to be addressed to ensure capital adequacy.	Noted.
169.	GDV	3.29.	We would delete that paragraph. We do not agree that the standard calculation of the interest rate sub-module can be too burdensome for captive undertakings. To maintain a level playing field such an	Not agreed. QIS4 showed that capital requirements produced with this method are higher in

			exemption should be avoided.	most cases than with the standard model approach.
170.	Guernsey Insurance Company Management Association	3.29.	This simplification appears to be a good example of appropriate proportionality.	Noted.
171.	Investment & Life Assurance Group Ltd	3.29.	This appears a sensible proposal.	Noted.
172.	PricewaterhouseCoopers LLP	3.29.	We agree with this point.	Noted.
173.	GUERNSEY FINANCIAL SERVICES COMMISSION	3.30.	It is assumed that the reference to TS.IV.I.6 should read TS. IV.J.6. We agree with the proposed methodology for the simplification of the interest rate risk applied to assets and liabilities. Further work will be needed by national supervisors to develop appropriate durations for captive insurers licensed in their jurisdiction.	Noted.
174.	Institut des actuaires (France)	3.31.	3.31 refers to QIS4 while giving other figures	Noted.
175.	PricewaterhouseCoopers LLP	3.31.	The duration set out for Motor, third party liability seems excessive.	Noted. Data needed for the calibration will have to be provided to national supervisors.
176.	ACA	3.33.	The suggestion of BBB rating to all bonds should normally cover bonds with higher rating but also bonds with lower one, so we can't understand why the bonds with rating less than BBB are excluded. Our idea is enforced by the fact that the origin of this suggestion is that the investigation on the rating of each single bond is difficult.	Noted.

			We agree with the exclusion of the structured bonds and credit derivatives.	
177.	Cayman Islands Monetary Authority	3.33.	The key issue to us here is whether the use of BBB as an approximation for captives will be compulsory or optimal. See our final paragraph of 3. Many captives will have portfolios of higher grade investments and because of the high solvency factors associated with BBB would be penalised if this was compulsory and not optional.	Noted. If the simplification is used, is has to be assumed that all bonds are rated at least BBB. If a higher rating is used, the standard model needs to be applied.
178.	CRO Forum	3.33.	15. It is hard to see how it is too burdensome to track the rating of each bond in one's investment portfolio. The majority of pure captives do not have large pools of funds or have complex investment portfolios so we struggle with the argument that it is too burdensome to investigate the rating of each bond, in fact as part of best practice and corporate governance this investigation of each bond should be done as part of normal business activity. The BBB assumption is too simplistic and we would not agree with this approach. If the captive industry wanted to pursue this path then scope should be made for captives who can demonstrate to regulators a much higher credit rating in their portfolio.	Noted.
179.			Confidential comments deleted.	
180.	GUERNSEY FINANCIAL SERVICES COMMISSIO N	3.33.	Many captives investing in corporate bonds would have a relatively small portfolio, with ratings higher than BBB. We feel that few captives would wish to use this simplification.	Noted. Captives can also use the simplification on spread risk in former CP 77 (simplifications in the SCR), provided the criteria listed there are met.
181.	Guernsey Insurance Company Management Association	3.33.	The key issue to us here is whether the use of BBB as an approximation for captives will be compulsory or optional. See our final paragraph of 3. Many captives will have portfolios of higher grade investments and because of the high solvency factors associated with BBB would be penalised if this was compulsory and	Noted. If the simplification is used, is has to be assumed that all bonds are rated at least BBB. If a higher rating is used, the standard model needs to be

			not optional.	applied.
182.	SOGECORE	3.33.	We ask for more practical details about structured bonds and bonds with a rating lower than BBB (more details on the provision in asset management example are also welcome).	Noted.
183.	AGERE,AON, DIMA,ECIROA,FERMA,MARSH	3.34.	The allowance of a 'look through' to the parent credit rating in the event that, counterparty is a related captive is welcomed.	Noted.
184.	Association of British Insurers	3.34.	We welcome the possibility to recognise parental guaranty however Captive owners might be reluctant to guarantee the liabilities of the captive as it can create tax issues. The advice should allow for other forms of parental support.	Noted.
185.	CEA	3.34.	Such a simplification may be appropriate depending of scale, nature and complexity of the undertakings without any exception based on the legal status of the undertaking.	Noted.
186.	DIMA	3.34.	It is unclear whether this is this applicable to captives both inside and outside the EU, and there may be other ramifications.	Noted. EC will decide on equivalence of third countries.
187.	GDV	3.34.	We agree with this simplification.	Noted.
188.	GUERNSEY FINANCIAL SERVICES COMMISSION	3.34.	We support this proposed approach and feel that consideration should be given to applying it more widely, i.e. not just limited to captives.	Noted.
189.	Guernsey Insurance Company Management Association	3.34.	We agree whole-heartedly with this approach which is reasonable and effective.	Noted.

190.	IUA	3.34.	Some captive owners might be reluctant to guarantee the liabilities of the captive, as that could have tax implications. The advice should also allow for other forms of parental support.	Noted.
191.	PricewaterhouseCoopers LLP	3.34.	We agree with this suggestion.	Noted.
192.	AGERE,AON, DIMA,ECIROA,FERMA,MARSH	3.35.		Noted.
193.	Association of British Insurers	3.35.	We welcome the possibility to recognise and formalise the existence of cut through agreements	Noted.
194.	Guernsey Insurance Company Management Association	3.35.	We assume that the concept of "cut-through-clause" liability or similar binding agreement extends to forms of collateral such as Letters of Credit, Securing Interest Agreements and Securing Trust Agreements all of which greatly mitigate counterparty default risk. While we believe this is implicit in the wording, it would be helpful if it was made explicit.	Noted.
195.	Assuralia	3.37.	See 3.8.	See corresponding resolution to comment to 3.8.
196.	PricewaterhouseCoopers LLP	3.37.	We agree with requirement (C) in the case of a pure fronting arrangement.	Noted. Requirement C has been deleted.
197.	SOGECORE	3.37.	Option 2 is our favourite. Although not requested, we have a view on requirement b: some risks underwritten by captives might include a share of risks	Noted.

			relating to third party liability insurance (more often as a reinsurance agreement) that can be deemed compulsory in some countries but not in others (D&O covers, construction all risks, decennial risks, employees…). The ultimate insured would remain legal entities of the group. As the underwriting is often limited in the aggregate, these risks do not represent a bigger risk in terms of solvency than any others. We do not see why they should be excluded from the scope. On requirement c, we think that it should not be included. Often cut through clauses, hold armless clauses, simultaneous payment clauses are providing to the insurer extra protection. Meanwhile, reinsurance has never been in any jurisdiction committed to the same legal requirements as an insurer which is the only undertaking that has made a commitment towards the insured. The default of a captive, with the default of the group to which it belongs, does not legally protect an insurer that will be requested to pay for claims by any liquidator of the group. This requirement is ineffective.	
198.	PricewaterhouseCoopers LLP	3.40.	We agree with the durations tabulated.	Noted.
199.	SOGECORE	3.46.	We ask for more practical details about structured bonds and bonds with a rating lower than BBB (more details on the provision in asset management example are also welcome).	Noted.
200.	SOGECORE	3.47.	We ask for more practical details about structured bonds and bonds with a rating lower than BBB (more details on the provision in asset management example are also welcome).	Noted.
201.	SOGECORE	3.48.	We support this comment.	Noted.

202.	European Union member firms of Deloitte Touche Toh	3.49.	The concentration threshold for captives shall be 15%. This is welcomed.	Noted.
203.	SOGECORE	3.49.	CEIOPS states that the threshold applicable for mortgage covered bonds and public sector covered bonds shall be 15%. FFSA understands that this threshold is between the two options proposed in CP47 and asks CEIOPS to provide detailed information for the choice of this specific threshold.	Noted.
204.	SOGECORE	3.51.	CEIOPS states that a look-through approach to intra-group asset pooling arrangements may be applied for the calculation of the market risk module. We support this comment.	Noted.
205.	Assuralia	3.52.	See 3.17.	See corresponding resolution.
206.	Assuralia	3.54.	See 3.22.	See corresponding resolution.
207.	SOGECORE	3.54.	CEIOPS states that the risk mitigating effect of an aggregate limit can be taken into account by modifying the volume measure for premium risk of a line of business in the following formula: ☐ We agree with the taking account of the aggregate limit. However, we question the calibration of the coefficient of 0.9 which creates an unnecessary extra burden.	Noted. Calibration will be updated in line with revision of CP 71.
208.	Assuralia	3.55.	See 3.23.	See resolution to comment.
209.	Institut des actuaires (France)	A.2.	Ratios like 1518% between calculations would justify a re-adjustment of the calibration.	Noted. Captive CAT factors have been deleted due to lack of data for an adequate calibration.
210.	Pricewaterho	A.5.	We agree with this point.	Noted.

	useCoopers LLP			
211.	PricewaterhouseCoopers LLP	A.6.	We agree with the sophistication and simplification approach. We believe that the standard deviation should reflect a best estimate figure.	Noted.