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<tr><td colspan="2">Comments Template on
Consultation Paper on EIOPA’s second set of advice to the European Commission on specific items in the Solvency II Delegated Regulation</td><td>Deadline
5 January 2018
23:59 CET</td></tr>
<tr><td>Name of Company:</td><td colspan="2">Svenska Aktuarieföreningen</td></tr>
<tr><td>Disclosure of comments:</td><td>Please indicate if your comments should be treated as confidential:</td><td>Public</td></tr>
<tr><td></td><td colspan="2">Please follow the following instructions for filling in the template:
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The numbering of the reference refers to the sections of the consultation paper on EIOPA’s second set of advice to the European Commission on specific items in the Solvency II Delegated Regulation. Please indicate to which paragraph(s) your comment refers to.</td></tr>
<tr><td>Reference</td><td colspan="2">Comment</td></tr>
<tr><td>General Comment</td><td></td><td></td></tr>
<tr><td>Introduction</td><td></td><td></td></tr>
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2.4.2	For one-year contracts the difference going from option 1 to option 2 will give an increase in volume measure for premium risk with approximately 15 percent at an alpha of 30%. This under the assumption that policies are renewed evenly during the year. As most non-life policies on the Swedish market are one-year contracts we would expect a significant increase in the volume measure which does not seem to be in line with the table under paragraph 149 where an alpha is supposed to give a decrease in volume measure with 2 percent. We think that the reason is either lack in data quality or a large difference in	

	length of contracts on the European market. If it is the latter, we would suggest that option 2 has an alpha that differs by country. If it is the data quality that is at fault, we agree it should be cleansed further as stated in paragraph 152.	
2.4.3	For one-year contracts the difference in risk between what lies within the following 12 months and the risk that falls after the following 12 months should be substantial since unexpected risk 2 is not included in the risk after the following 12 months and since the other risks, unexpected risk 1 and expected risk should be very small for one-year contracts. We concluded that the main reason for the “gap” that exist under option 1 is to take into account that FP future is approximately null for one-year contracts but increasing with longer length of contracts. We see the rational for closing the gap, but an adjustment should be applied to decrease the volume measure for short contracts compared to long contracts. We suggest a formula for FP future like, FP future = alfa * k, where k is the number of years of the contract and an alpha that is lower than under the current option 2 calculation. This would give an FP future that increases with time, which should describe the risk better and should be easy to implement. An alternative to this would be to set one-year contracts to null, however the use of an additional length-factor k still seem reasonable to ably for multi-year contracts.	
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3.4.3	As EIOPA highlights in paragraph 235, there are numerous limitations to the methodology it followed for the recalibration exercise on longevity and mortality risks. Given the limitations of the recalibration methodologies, we believes that no changes are justified for either longevity or mortality risk factors. Furthermore, if the mortality risk factors changes but not the longevity risk factors, the correlation should also change. Otherwise it seems not reasonable to raise mortality stress	

	while leaving longevity stress unchanged.	
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5.4.2.3	The suggested simplification under paragraph 308 does not solve the main issue with finding the highest exposure within a 200m radius since the main problem usually is to find the actual area where the exposure is highest and how to assess which risks to include based on their geographic location. The assumption may give some aid but will in general not make the assessment less manual or more accurate regarding which risks to include.	
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5.5.2.3	We concur with the assessment under paragraph 310 to 312 that a wider range of vessels than tankers and platforms should give a CAT charge. However, the threshold of 100,000 EUR will include small leisure crafts and we question if that is the purpose of the Marine	

	risk sub-module. This threshold would affect companies that do not really have a Marine business but insure small leisure crafts within their private property business. This does not seem to be in line with the purpose of the assessment under paragraph 310 to 312 where cf. Costa Concordia is mentioned as an example. It seems reasonable to include smaller vessels than Costa Concordia, but the threshold should still be significantly higher than 100.000 EUR, our suggestion is a threshold somewhere in the range of 2.000.000 to 5.000.000 EUR, which would exclude most small and medium sized private vessels.	
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18.4.3	The risk margin is based on a cost of capital approach for non-hedgeable risks, which	

	currently includes the mass lapse risk. Although possible to identify contradictory examples, the existence of a large mass lapse risk is closely linked to a large part of the own funds being “financed” by the value of future profits. Contrary to sources of own funds corresponding to Shareholders´ Equity, companies are usually not applying return requirement on the value of future profits in the business. Actually it could be argued that if the reference undertaking referred to in EU 35/2015 Article 38 receives a portfolio dominated by mass lapse risks, it takes over a profitable portfolio with a large value of future profits, which to start with is unlikely to end up in a situation with solvency problems triggering the transfer to a reference undertaking. In addition, the required own funds is to a large extent covered by the value of future profits, hence not leading to additional return requirements. As already mentioned, it is possible to identify examples where the existence of mass lapse risk does not imply the existence of a positive value of future profits as part of the own funds, but in a normal situation that can be expected to be the case. Suggestion: To the extent that it can be shown that the amount of mass lapse risk corresponds to a positive value of future profits in own funds, mass lapse risk should not be part of the risks leading to a cost of capital for the assumed reference undertaking in Article 38-39, i.e. the mass lapse risk should in those cases be reduced or removed from the risk margin calculation.	
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