

# **CEIOPS final advice on Implementing Measures**

## **- “1<sup>st</sup> and 2<sup>nd</sup> Wave” Consultation Papers**

Dermot Corry

Breakfast Briefing

3<sup>rd</sup> December 2009

# High Level Comments

- Many comments on proportionality
- CEIOPS has made some amendments and has clarified in some places
- Overall comment that proportionality principle always applies even if not mentioned
- But need to get appropriate balance
- Particularly feel that proportionality taken into account in design of the standard formula
- Some concern in comments about overall coherence of CEIOPS advice given short timeframe
- CEIOPS comfortable but feels that QIS5 will be important
- Some concerns about use of Own Funds – insisting on loss absorbing capacity
- Some reductions in disclosure requirements with longer deadlines

# Some high profile changes

- CP 40 (now CEIOPS-DOC-34/09) Risk Free Rate
  - Illiquidity premium getting lots of comment
  - CEIOPS still believe there should be no allowance
  - However they are aware of the importance for some products
  - Advice that any recommendation should be limited to business in force
  - Interesting implications for the Bulk Annuity market in coming years
  - No decision on extrapolating rate – will address in Level 3 guidance
- CP 53 (now CEIOPS-DOC-45/09) SCR Operational Risk
  - Cap on Operational Risk as percentage reduced from 60% of BSCR to 30% (now same as QIS4)
  - Additional charges related to fund management actions and external fund management have been removed
  - Life factor as % of Technical Provisions reduced from 0.9%/1.0% to 0.6% (was 0.3% in QIS4)
  - Life factor as % of Premiums reduced from 7.6% to 5.5% (was 3% in QIS4)

# Some high profile changes

- CP 49 (now CEIOPS-DOC-42/09) Life Underwriting Risk
  - Mortality Catastrophe charge reduced from 2.5 per mille to 1.5 per mille - back to the same level as QIS4
- CPs 28/51 (now CEIOPS-DOC-23/09) SCR Counterparty Default Risk
  - Recovery rate for reinsurance increased from 40% to 50%, with adjustment if most of assets tied up in collateral arrangements
  - Some changes to the factors
  - Use second highest rating where a number of ratings apply
  - For unrated Insurers or banks who meet capital requirements, use BBB
- CP 58 (now CEIOPS-DOC-50/09) Disclosure Requirements
  - Risk Management items moved from SFCR to RTS
  - Section on remuneration added in SFCR
  - Clarification on areas where a capital add-on would be disclosed
  - 14 week deadline for SFCR and RTS with extension in the first two years

# Some high profile changes

- CP 46 (now CEIOPS-DOC-39/09) Own Funds
  - Restrict use of Hybrids to 20% in Tier 1 calculation
  - Tier 3 basic own funds and ancillary own funds can cover SCR but not MCR
  - Expected future profits excluded from Tier 1 - should be Tier 3
  - Some debate between CEIOPS and the Commission about whether CEIOPS advice is consistent with the Level 1 text
- Also many other changes to other items of detail
- For more information
  - CEIOPS produced a 30 page summary
  - We will have a summary on our website
  - All of the new documents can be accessed from our Website

- Financial Regulator letter to undertakings (December 1)
  - Further questionnaire on use of internal models
  - Requirement to confirm use of internal model by end March 2010
  - Will start to engage with undertakings after the publication of Level III advice on the internal approval process in January
  - Expects 100% participation in QIS5
  - Suggests attention starts to be paid to ORSA

# Questions?



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