

Consultation paper on the revision of the Guidelines on the Valuation of Technical Provisions

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- Confidential
 Public

* Stakeholder

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1. INTRODUCTION

1. General comments

2500 character(s) maximum

As a society of actuaries, Institut des Actuaires is subjected to a code of ethics and does not foster any personal view or any individual interest in its answer to the consultation. The proposals and remarks it has the pleasure to share in this consultation are guided by two general interest objectives:

- Ensure the ease of implementation of the forthcoming guidelines' consequences by actuaries in companies;
- Help risk identification and measurement by analysts, risk professionals and supervisory authorities.

2. GUIDELINES

Expert judgement

2. Guideline 24a (NEW) - Materiality in assumptions setting

2500 character(s) maximum

3. Guideline 24b (NEW) - Governance of assumptions setting

2500 character(s) maximum

4. Guideline 24c (NEW) - Communication and uncertainty in assumptions setting

2500 character(s) maximum

5. Guideline 24d (NEW) - Documentation of assumptions setting

2500 character(s) maximum

6. Guideline 24e (NEW) - Validation of assumptions setting

2500 character(s) maximum

Biometric risk factors

7. Guideline 24e (AMENDED) - Modelling biometric risk factors

2500 character(s) maximum

Expense allocation

8. Guideline 28a (NEW) - Investment management expenses

2500 character(s) maximum

We are surprised by the new guideline 28A relating to the measurement of investment management expenses on the investment backing at least SII technical provisions plus the SCR. While we believe that the current practice on the French market generally covers the requirement since the investment management expenses are projected based on the carrying amount of the assets backing the mathematical reserves, we believe that the rationale of this new guideline is not detailed, neither the requirement, nor the amount of “at least the SCR”. We also note the circular reference implying the need of proxys. Members of the Institut des Actuaires have also raised the question of the articulation with the concept of cost of capital for the risk margin since a cost is already measured due to the immobilization of the SCR.

9. Guideline 30 (AMENDED) - Apportionment of expenses

2500 character(s) maximum

We agree with the proposal that undertakings should project in a realistic and objective manner all the relevant expenses (and not only the overheads).

To the extent of our knowledge, based on French market observations, all known expenses are scoped within the allocation and projection process.

The consideration of long term business strategies is a plus that will allow expert judgment interpretation on specific expenses allocations.

10. Guideline 33 (AMENDED) - Changes in expenses

2500 character(s) maximum

We generally agree with the proposal, however we would point the operational complexity implied by a use of different inflation assumptions by expense type and believe that the impact is not material in many circumstances.

Treatment of financial guarantees and contractual options

11. Guideline 37a (NEW) - Dynamic policyholder behaviour

2500 character(s) maximum

12. Guideline 37b (NEW) - Bidirectional assumptions

2500 character(s) maximum

13. Guideline 37c (NEW) - Option to pay additional or different premiums

2500 character(s) maximum

Future management actions

14. Guideline 40a (NEW) - Comprehensive management plan

2500 character(s) maximum

15. Guideline 40b (NEW) - Consideration of new business in setting future management actions

2500 character(s) maximum

Methodologies for the valuation of contractual options and financial guarantees

16. Guideline 53a (NEW) - Use of stochastic valuation

2500 character(s) maximum

Economic Scenario Generator

17. Guideline 57a (NEW) - Market risk factors needed to deliver appropriate results

2500 character(s) maximum

Expected Profits In Future Premiums (“EPIFP”)

18. Guideline 77 (AMENDED) - Assumptions used to calculate EPIFP

2500 character(s) maximum

19. Guideline 78 (NEW) - Alternative approach to calculate EPIFP

2500 character(s) maximum

3. EXPLANATORY TEXT

Expert judgement

20. Explanatory text on Guideline 24a (NEW) - Materiality in assumptions setting

2500 character(s) maximum

Biometric risk factors

21. Explanatory text on Guideline 24e (AMENDED) - Modelling biometric risk factors

2500 character(s) maximum

Expense allocation

22. Explanatory text on Guideline 28a (NEW) - Investment management expenses

2500 character(s) maximum

23. Explanatory text on Guideline 30 (AMENDED) - Apportionment of expenses

2500 character(s) maximum

Observations argue extraordinary expenses do occur every now and then. To better appreciate the apportionment process of expenses and identify key drivers, the analyses of extraordinary expenses appear mandatory.

While some extraordinary expenses could be projected with appropriate drivers and duration, others might not be relevant due to the absence of future related cash in-flows (profitable new business) or decrease of out-flows (impact of investments on productivity gains...).

24. Explanatory text on Guideline 33 (AMENDED) - Changes in expenses

2500 character(s) maximum

Treatment of financial guarantees and contractual options

25. Explanatory text on Guideline 37a (NEW) - Dynamic policyholder behaviour

2500 character(s) maximum

Future management actions

26. Explanatory text on Guideline 40a (NEW) - Comprehensive management plan

2500 character(s) maximum

27. Explanatory text on Guideline 40b (NEW) - Consideration of new business in setting future management actions

2500 character(s) maximum

Methodologies for the valuation of contractual options and financial guarantees

28. Explanatory text on Guideline 53a (NEW) - Use of stochastic valuation

2500 character(s) maximum

Expected Profits In Future Premiums (“EPIFP”)

29. Explanatory text on Guideline 77 (AMENDED) - Assumptions used to calculate EPIFP

2500 character(s) maximum

4. IMPACT ASSESSMENT

30. Section 4.1. Procedural issues and consultation of interested parties

2500 character(s) maximum

31. Section 4.2. Problem definition

2500 character(s) maximum

32. Section 4.3. Objectives pursued

2500 character(s) maximum

Section 4.4. Policy Options

33. Section 4.4.1. Policy issue 1: Introduction of additional Guidelines vs status quo

2500 character(s) maximum

34. Section 4.4.2. Policy issue 2: Consistent approach regarding use of expert judgments for both technical provisions and internal model

2500 character(s) maximum

35. Section 4.4.3. Policy issue 3: Proportion of investment management expenses to be considered

2500 character(s) maximum

36. Section 4.4.4. Policy issue 4: Management of expenses that the fund manager reimburses to the undertaking

2500 character(s) maximum

37. Section 4.4.5. Policy issue 5: Detailed guidance on the calculation of EPIFP

2500 character(s) maximum

Section 4.5. Analysis and impact of policy options

Section 4.5.1. Policy issue 1: Introduction of new Guidelines vs status quo

38. Policy option 1.1. Introduction of additional EIOPA Guidelines to provide clarity on how the calculation of technical provisions shall be applied by insurance and reinsurance undertakings.

2500 character(s) maximum

39. Policy option 1.2 Keeping the status quo of the current Guidelines.

2500 character(s) maximum

Section 4.5.2. Policy issue 2: Consistent approach regarding the use of expert judgments for both technical provisions and internal model

40. Policy option 2.1. Introduction of a full set of guidelines on Expert judgment for the valuation of technical provisions

2500 character(s) maximum

41. Policy option 2.2. Introduction of a reference to the guidelines on Expert judgment for internal model purposes in a specific guideline

2500 character(s) maximum

42. Policy option 2.3. Reference to guidelines on Expert judgement for internal model purposes in the recitals (current situation)

2500 character(s) maximum

Section 4.5.3. Policy issue 3: Proportion of investment management expenses to be considered

43. Policy issue 3: Proportion of investment management expenses to be considered

2500 character(s) maximum

Section 4.5.4. Policy issue 4: Management of expenses that the fund manager reimburses to the undertaking

44. Policy issue 4: Management of expenses that the fund manager reimburses to the undertaking

2500 character(s) maximum

Section 4.5.3. Policy issue 3: Proportion of investment management expenses to be considered

45. Policy option 5.1: Clarification on the assumptions to be used to calculate EPIFP

2500 character(s) maximum

46. Policy option 5.2: No further clarification

2500 character(s) maximum

Section 4.6. Comparison of Options

47. Section 4.6.1. Policy issue 1: Introduction of new Guidelines vs status quo

2500 character(s) maximum

48. Section 4.6.2. Policy issue 2: Consistent approach regarding the use of expert judgments for both technical provisions and internal model

2500 character(s) maximum

49. Section 4.6.3. Policy issue 3: Proportion of investment management expenses to be considered

2500 character(s) maximum

50. Section 4.6.4. Policy issue 4: Management of expenses that the fund manager reimburses to the undertaking

2500 character(s) maximum

51. Section 4.6.5. Policy issue 5: Detailed guidance on the calculation of EPIFP

2500 character(s) maximum

ADDITIONAL COMMENTS

52. Please insert here any general comment not covered in the sections above.

2500 character(s) maximum

Contact

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