

To: Solvency II Working Group  
From: Prudential Team  
cc:  
Date: 07-10-2021  
Reference: ECO-SLV-21-254  
  
Subject: High level summary of Q&A - EIOPA Best Estimate conference call event

## Summary

On 6 October, the secretariat attended EIOPA Best Estimate conference call event. The aim of the event was to provide insights on the two sets of revised Guidelines on Technical Provisions and Contract Boundaries published by EIOPA for consultation ([here](#)) and to collect participant's initial feedback.

EIOPA displayed a presentation (see [ECO-SLV-21-253](#)) covering:

- An overview of the main proposed changes in the sets of Guidelines and the rationale behind
- Further background on the quantitative information request
- Next steps

The main objective of the revised Guidelines is to provide more clarity following some divergent practices that were identified across European countries following in the context of the SII 2020 review.

Members will find a high-level summary of the Q&A in the background section of the document.

## Next steps

- The secretariat plans to circulate a V2 draft response for both consultations by the end of this week
- Deadline to submit feedback on the consultations is 12 November.
- EIOPA will publish a final version by end of Q1/early Q2 2022.

## Background

### Q&A - Technical Provisions

- A participant asked if it was possible to explain how the revised Guideline 28 is in line with the exit value of the best estimate as the SCR is based on the own risk profile and not on the notion of a third party would be willing to use
  - EIOPA replied that to serve insurance obligations you have to take into consideration expenses that occur during insurance obligation. The easiest way is to consider the real SCR. It would be too complex to make SCR more notional but EIOPA welcomes alternative approaches.
- One participant asked whether all administrative management expenses have to be taken into account
  - EIOPA replied that the discussion on this issue is still ongoing and more clarity is needed. The idea is that all expenses should be taken into account based on the assumptions on the continuity of business and service of obligations.

- Insurance Europe raised the following preliminary industry concerns, stating that the Insurance Europe response to both consultations is still under development.
  - The proposal will overall increase granularity of the calculation and will be burdensome. The industry would appreciate a transitional period to allow a smooth implementation.
  - There should be allowance for proportionality in relation to expert judgement.
  - With the current EIOPA proposal on expense allocation, simplifications will have to be used and there should be sufficient time for implementation.
  - In general, sufficient time for implementation would be needed for: modelling kickbacks as other incoming cashflows.
  - Changes in expenses in Guideline 33 related to inflation would require remodelling of calculation, therefore sufficient time for implementation is needed.
  - The new Guidelines for financial guarantees and contractual options require remodelling in order to consider dynamic behaviour. Also, the behaviour was pretty stable during the pandemic, therefore the concern is that these changes will imply high effort with limited effect.
  - On Guideline 37c, if indexation of premiums will have to be considered together with the proof of immateriality, it will be burdensome therefore sufficient time for implementation is needed.
  - Guideline 40b on future management action, only run-off is projected, so investment decisions will not be aligned with the portfolio. The requirement is not considered reasonable by the industry.
  - The stochastic evaluation is expected to apply to the lines of business and HRG, therefore it requires additional data and remodelling. `
  - In new Guideline 53a no proportionality is foreseen, the industry would prefer an explicit reference to proportionality.
  - In Guideline 57a explicit requirements on default risk should be removed. The requirements are already implied in the delegated act and more clarity is needed on the implementation.
  - Related to EPIFP, there is no requirement in the delegated regulation describing the tasks in the actuarial function that should be validated, so more clarity is needed.
- EIOPA responded as follows:
  - EIOPA might consider a transition period for implementation, but the discussion on this issue is still ongoing.
  - The Guidelines proposed by EIOPA are applicable to standard undertakings. Depending on business, contracts etc proportionality might apply. Undertakings should discuss proportionality with NSAs individually. It would be difficult to provide for each guideline the possible simplification and possible proportionate approach.
  - EIOPA is looking forward to receive the detailed feedback on 12 November.
- One participant asked why expenses linked to SCR should be in Best Estimate.
  - EIOPA noted that it has to be discuss internally in order to provide more detailed explanations.

#### **Q&A - Contract Boundaries**

- One participant asked whether the new guidelines will apply only for new business or also for those already assessed.
  - EIOPA replied that this issue has not been discussed yet.
- A participant noted that the definition of discernible effect of guarantees in Guideline 6a goes beyond L2 and it does not necessarily uniquely translate in discernible financial advantage in terms of increasing best estimate.
  - EIOPA replied that the aim was to provide more clarity and not to introduce changes on how the assessment. It was already included in the initial set of guidelines and in the explanatory text.

- Insurance Europe presented some preliminary industry concerns:
  - How did EIOPA define the thresholds for identifying a discernible effect? The thresholds are very sensitive to economic context and are not appropriate for all jurisdictions.
    - EIOPA clarified that it is NOT the intention to prescribe thresholds, but the proposed examples provide only an order of magnitude, a range.
  - The quantitative assessment has to be based on expected present value. It was not clear whether the calculation should be based on expected value or on existent scenarios or potential cash flows. More clarification is needed.
    - EIOPA noted that the consideration of stochastic evaluation is recommended where it could be relevant
- One participant raised concerns related to the implementation and relevance for risk appreciation.
  - EIOPA noted that there has been a misunderstanding on how to look at discernibility. It is performed at inception because when a contract is launched it is necessary to check if there are discernible effects quantitatively for the guarantees. This will show if there is need to project future premiums. The idea is to assess at the beginning of the contract.
- A member flagged that at this stage it is uncomfortable that quantitative assessment should prevail on the qualitative one. It is a redundant requirement.
  - EIOPA is aware that qualitative and quantitative analysis might be burdensome and welcomes any alternative approach.

#### **On the data request**

- EIOPA proposed a data request on contract boundaries in order to monitor the impact it might have, because the information from the QRTs at EIOPA's disposal is not sufficient. The objective is to know the level of Best Estimate and how it would change following the changed guidelines regarding unbundling and discernible effect.
- The request of data is on best effort basis and companies can use proxies to determine the effect. EIOPA encourages undertakings to provide data in order to run a better analysis.