

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

Fields marked with \* are mandatory.

\* Please indicate the desired disclosure level of the comments you are submitting:

- Confidential  
 Public

\* Stakeholder

Insurance and Reinsurance Stakeholder Group

\* Contact person (name and surname)

Anthony O'Riordan

\* Contact person email

apmoriordan@gmail.com

Contact person phone number

+353862214855

## 1. INTRODUCTION

---

### 1. General comments

*2500 character(s) maximum*

IRSG welcomes measures aimed at ensuring consistency of assessment of technical provisions. The measures introduced are likely to require additional resource and cost on the part of affected undertakings. Demonstrable benefit in the form of materially changed assessment of technical provisions should be evident before introducing such additional requirements.

A proportionate approach should be applied in assessing the need for additional complexity in calculations emerging from these guidelines.

Application of the revised guidelines is assumed to be in 2022 (according to paragraph 1.18). Currently no transitional phase for revised guidelines application is foreseen. We believe that a transitional period of at least 3 years in order for undertakings to properly implement these changes, especially given the concurrent work required by institutions on IFRS 17 implementation.

Proposed changes increase the granularity of the calculation model. The effort to prove that the amendments could be immaterial seems to lie entirely on the insurance undertakings and it would be appreciated if sufficient demonstration of expected materiality of the changes could be performed before introducing new guidelines.

## 2. GUIDELINES

---

### Expert judgement

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

*2500 character(s) maximum*

The IRSG recognises the importance of assessing the degree of uncertainty in the estimate of technical provisions. This includes uncertainty which is addressed through the application of expert judgement. This is already reflected in the solvency II regulation, notably in the description of the role of actuarial function in Article 272(5) of the regulation which states “Information submitted to the administrative, management or supervisory body on the calculation of the technical provisions shall include at least a reasoned analysis on the reliability and adequacy of their calculation and on the sources and the degree of uncertainty of the estimate of the technical provisions. That reasoned analysis shall be supported by a sensitivity analysis that includes an investigation of the sensitivity of the technical provisions to each of the major risks underlying the obligations which are covered in the technical provisions. The actuarial function shall clearly state and explain any concerns it may have concerning the adequacy of technical provisions.”

Application of internal model guidelines to technical provisions is unnecessary in the context of the existing regulation. We believe that the existing regulation is sufficient in this regard. The internal model guidelines on which the proposed guidelines (24a to 24e) are based, apply to expert judgement in the context of insurers setting their capital requirements in extreme scenarios. It is not proportionate to bring in the same requirements for expert judgements in the context of best estimate assumptions. Proportionality should be recognised in any new requirements for expert judgements with the extent of work and documentation reducing the lower the significance of the judgement and it should not be assumed that internal model expert judgement requirements are appropriate across the board for all companies/expert judgements. Certainly, the most effective use of such extensive guidance would be for it to relate in its fullest extent only to material or key areas of judgement, which would focus the process on the most important drivers of the technical provisions. Extending a full governance process to all areas of expert judgement, some of which may be immaterial in nature, could lessen the focus on the most important areas.

#### 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*

This proposes that investment management expenses which insurance and reinsurance undertakings should take into account are related to an amount of investments at least equal to Solvency II Technical Provisions plus the Solvency Capital Requirement. Including Risk Margin and SCR would create a circular reference in the calculations. Moreover, article 77 (2) of the Directive 2009/138/EC states that the cash-flow projection used in the calculation of the Best Estimate shall take account of all the cash in- and out-flows required to settle the insurance and reinsurance obligations over the lifetime. Risk Margin is not cash-flow required to settle the insurance and reinsurance obligations, therefore it shouldn't be included as currently proposed. Additionally, and in order to avoid double counting, investment management expenses pertaining to an SCR scenario situation should be included in the SCR capital requirement only, and not in the best estimate of liabilities, as the best estimate does not correspond to a 99.5 VAR situation. The IRSG considers that investment management expenses to be taken into account in setting technical provisions should only be those relating to assets which support the liabilities which are being valued in the best estimate.

**9. Guideline 30 (AMENDED) - Apportionment of expenses**

*2500 character(s) maximum*

## 10. Guideline 33 (AMENDED) - Changes in expenses

*2500 character(s) maximum*

## Treatment of financial guarantees and contractual options

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

*2500 character(s) maximum*

The IRSG questions whether the substantial additional effort of implementing dynamic policyholder behaviour, where not already implemented, would add value given the expected limited impact on liability best estimates. We believe that there should be such a requirement only if there is clear evidence of material impact, such that only dynamic policyholder behavior models can capture the accurate best estimate and its risk profile, and there is sufficient data to support modelling.

## 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*

Future management actions need to be as realistic as possible, and this guideline requires new business to be factored into the consideration of management action. This is a realistic assumption, but the uncertainty involved in estimating future new business, and potential difficulties in modelling new business, may lead to a requirement for some flexibility and transitional arrangements for implementation of this guideline.

## Methodologies for the valuation of contractual options and financial guarantees

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

*2500 character(s) maximum*

This requires application of stochastic valuation or to prove that the options and guarantees are not material and thus stochastic valuation is not relevant. The IRSG believes that the use of stochastic modelling should not be a requirement where there is not a material impact on overall liability values or solvency position. For instance, the implementation of stochastic modelling on a contract which is immaterial in the context of an overall book of business is unlikely to be worthwhile unless (and perhaps not even if) its implementation would have a very significant impact on the relevant liability values. We suggest that the guideline should have more regard to the context and introduce a proportionality provision. The implementation of stochastic valuation where currently not existing is likely to require more time than assumed, and we suggest that there be appropriate allowance for transition.

## 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*

There is no requirement under Article 272 of the delegated regulation, which describes the tasks of the actuarial function, for the actuarial function to validate the EPIFP calculation. The wording here should be amended to reflect that “if the actuarial function validates the EPIFP, this should be done with specific reference to....”.

## 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*

**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

[Contact Form](#)

