Contribution ID: 668fb06d-3885-4a5e-981d-891a50081823
Date: 10/11/2021 19:23:17

Consultation paper on the revision of the Guidelines on Contract Boundaries

Fields marked with * are mandatory.

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

- ( ) Confidential
- (•) Public

* Stakeholder

Institut des actuaires

* Contact person (name and surname)

Samuel Cywie

* Contact person email

samuel.cywie@institutdesactuaires.fr

Contact person phone number

+33(0)650273124

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

2. Guideline 0 (NEW) - Contract Boundaries

2500 character(s) maximum

3. Guideline 5 (AMENDED) - Unbundling of the contract

2500 character(s) maximum

The credibility of Solvency II metrics for risk professionals lies in its consistency with real risk profiles. We deem it essential to maintain throughout time projections constant profiles. We would favour the unbundling of the contracts only when the components work independently. Thus, we consider the current proposal sets an appropriate aim therefore: “no discernible differences”, but which may let a large space for interpretation, whereas the guideline aim at harmonizing practices in the different jurisdictions.

As to the French market, and focusing mainly on multi-option products (main part of the life insurers balance sheets), we understand from the proposal that basically unit-linked liabilities and general account should not be unbundled:

- Insurers project dynamic lapses applicable to the whole contracts, but calibrated only on the general account part. Separating the contract in two parts would erase the dynamic lapses on UL-part.
- UL-part and euro-denominated part work commonly and are articulated through (structural, dynamic, contractual safeguarding) arbitrages.
- Contracts are usually subject to a policyholder redemption right at every time, which cannot legally be exercised in an unbundled manner, and which implies a joint calculation on all parts of the contract to model correctly this option.

Would it be assessed differently; it should be demonstrated that euro-denominated parts and UL-parts projected apart result in a significantly different cashflow profile than together projected. This should be an exception since we believe it results in risk profile distortion, and would pull away use tests, P&L attributions, and ORSAs from useful experience feedback.

4. Guideline 6a (NEW) - Identification of a financial guarantee of benefits with a discernible effect on the economics of a contract

2500 character(s) maximum

As to the assessment of the discernible effect of financial guarantees, we wish to raise your attention on the following points:
-The high complexity of the proposal.
-The side effects due to the fluctuating boundaries from one closing date to the other.
The proposal would have major impacts on the technical provisions' calculation process and on risk assessment metrics throughout time. One potential consequence of the guidelines could be to strengthen the diversity of practice and interpretations from NSAs.
We suggest developing an alternative, standardized and simplified approach, for instance in connection with AAE, and assessing it thoroughly throughout time, before implementation.
Complexity in time:
-The assessment cannot be performed under a unique run of Best Estimate calculation. After a first run, where it appears the financial guarantee does not prove discernible for some contracts, some boundaries should be changed, which will impact the cashflows of the other contracts due to the profit-sharing that works (at least in France) for all liabilities considered together. This requires a second additional run, and so on, until convergence after n runs.
-Perform full stochastic calculations adds complexity and time in the process, which is more time consuming and complex than BE calculation itself whereas is should be only a first step prior to BE calculation.
We recommend considering calculations on a deterministic average path and use a single scenario profit-sharing profile to avoid loop calculations.
Side effects : Please refer to our comment on guideline 6c
Harmonizing the different practices:
-We strongly advocate to set a common and objective criterion for the quantitative assessment requirement by NSAs, to ensure no divergence between markets.
-If EIOPA wants to introduce a quantitative threshold (0.5% and 2% are mentioned in explanatory section), we believe that with the current financial environment, a minimum guaranteed rate of 0% has a discernible effect on the economics of the saving contracts.
Legal aspects : We question the legal foundation for the addition "only if the financial guarantee is linked to the payment of the future premiums" (§2.8). We wonder whether this criterion is in line with level 2, since article 18 5. of the delegated regulation only deals with a discernible effect as a whole, not subjected to being related to future premiums or being already financed. Such a separation is treated by guideline 5.

5. Guideline 6b (NEW) - Identification of a coverage for a specified uncertain event that adversely affects the insured person with a discernible effect on the economics of a contract

2500 character(s) maximum

6. Guideline 6c (NEW) - Reassessment of the discernible effect of a cover or financial guarantee

2500 character(s) maximum

We believe that not performing at each closing date a full reassessment could be challenged:
- The assessment for the new contracts might be not consistent with the previous one achieved for identical policies but under the conditions of the last closing. Referring to the assessment at “inception date of the contract” implies treating differently contracts belonging to the same model points and having identical characteristics.
- It seems risky to maintain no reassessment during a long period since more the time is running more the scale of a forthcoming correction is growing.
- Looking back to recent past years (Covid, negative interest rates for long maturities) and under current market prospect, we do not believe it will be possible to avoid regular reassessment.

Therefore, in the prospect of a regular reassessment, we advocate for a simple valuation method that would lead to as stable as possible boundaries throughout time.

3. EXPLANATORY TEXT

7. Explanatory text on Guideline 0 (NEW) - Contract Boundaries

2500 character(s) maximum

8. Explanatory text on Guideline 5 (AMENDED) - Unbundling of the contract

2500 character(s) maximum

9. Explanatory text on Guideline 6b (NEW) - Identification of a coverage for a specified uncertain event that adversely affects the insured person with a discernible effect on the economics of a contract

2500 character(s) maximum

10. Explanatory text on Guideline 6c (NEW) - Reassessment of the discernible effect of a cover or financial guarantee

2500 character(s) maximum

4. IMPACT ASSESSMENT

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

2500 character(s) maximum

12. Section 4.2. Problem definition

2500 character(s) maximum

13. Section 4.3. Objectives pursued

2500 character(s) maximum

Section 4.4. Policy Options

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

2500 character(s) maximum

15. Section 4.4.2.Policy issue 2: Unbundling

2500 character(s) maximum

16. Section 4.4.3.Policy issue 3: Discernible effect

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

17. 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

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

2500 character(s) maximum

Section 4.5.2.Policy issue 2: Unbundling

19. Policy option 2.1 Contracts should be unbundled for valuation purposes where cash flows can be allocated to each part of the contract regardless of the (inter) dependencies among them.

2500 character(s) maximum

20. Policy option 2.2 Contracts should be unbundled for valuation purposes if and only if two (or more) parts of the contract are equivalent in terms of risk to two (or more) contracts that could be sold separately

2500 character(s) maximum

Section 4.5.3. Policy issue 3: Reassessment of the discernible effect

21. Policy option 3.1 Static contract boundaries. Whether a cover or financial guarantee has a discernible effect is determined at inception of the contract and does not depend on the economic environment.

2500 character(s) maximum

22. Policy option 3.2 Dynamic contract boundaries. Undertakings should perform a reassessment of the effect of a cover or financial guarantee where there is indication that it may lead to a different conclusion.

2500 character(s) maximum

Section 4.6. Comparison of Options

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

2500 character(s) maximum

24. Section 4.6.2.Policy issue 2: Unbundling

2500 character(s) maximum

25. Section 4.6.3. Policy issue 3: Reassessment of the discernible effect.

2500 character(s) maximum

ADDITIONAL COMMENTS

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

2500 character(s) maximum

Contact

[Contact Form]