ECIROA
European Captive Insurance and Reinsurance Owners' Association

CEIOPS
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By e-mail: secretariat@ceiops.eu

Luxembourg 12 November 2008

Dear Sirs,

Ref: CEIOPS-IGSRR-18/08

The European Captive Insurance and Reinsurance Owners' Association (ECIROA) is pleased to respond to your request for comments on the Issues Paper on Supervisory Review Process and Undertakings' Reporting Requirements. As you may be aware, ECIROA represents major industrial and financial groups owning European captives. For further information about the association and its members please visit www.eciroa.org .

General Comment

ECIROA welcomes the initiative from CEIOPS to undertake discussions with stakeholders and would like to offer to CEIOPS its participation and support in the process of developing a framework for supervisory review and reporting requirements.

The current financial crisis has shown that the focus on Risk Management and its integration into the management of a company inherent within the Solvency II framework will be a key issue for future supervision of companies whether these are operating within the Financial sector or not. It is clear that Pillar II and III addressed in the Issues Paper above will be essential both to the supervisor and to the supervised company itself. ECIROA therefore fundamentally supports the ideas presented in the Issues Paper. However there are a few specific areas that give rise to concern for the companies which it is representing.

Proportionality

In the draft directive accepted by the ECON Committee on the 7 October 2008 the proportionality principle and its applicability to captives is confirmed. Although frequently mentioned in every section of the Issues Paper it is as yet unclear to us to which extent this

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principle could actually be applied. We would therefore appreciate receipt of a more detailed description of the applicability of the proportionality principle with regard to the (daily) business of captives.

Composition of the Supervisory Review Process

Most captives are not complex operations supporting sophisticated internal functions but instead comply with the risk management function of the parent company. A captive is obliged to obey the established, sophisticated internal control and reporting guidelines and policies of the parent. We therefore believe that captives should only be asked the reasonable „minimum" requirement needed for supervisors. Any disproportionate requirements for actions, policies and information distribution would be burdensome and would give rise to costs.

SRP- Information analysis

As mentioned above a captive is obliged to obey internal guidelines including investment policies. Further more captives normally have a good knowledge of reported claims since their owner is the only claimant and therefore the establishment of ultimate loss reserves is easier to grasp. The risk actually retained within the group is fully known as captives tend to buy reinsurance including a stop-loss and/or maximum annual aggregate cover. Some captives are even conducting business fully on a net line basis. We therefore believe that the proportionality principle could reduce the requirements for captives to a great extent within this section.

Captives in principle, do not have a portfolio of different policyholders, but instead have a limited number of policies per line of insurance to optimise the risk transfer strategy of their corporate group. Therefore the system of Governance in place for the parent company should be applicable also under the Solvency II requirements for captives.

Captives are generally limited in size and typically many functions of the captive may be outsourced including the day-to-day management. Control over outsourced functions is required under the parent company's corporate governance obligation.

Regarding internal audit a captive is obviously too small an entity to establish such a function. However, the captive is normally falling under the internal audit department of the parent company which should also be sufficient for the Solvency II requirements.

Undertakings' Reporting Requirements

As captives are insuring the risks of their owners, requests for detailed public disclosure would result in a great risk for release of commercially sensitive information to which only their directors and officers need access. The policyholder has access to both narrative and quantitative information via the group accounting and risk management department whilst insurance and reinsurance companies are requesting information as a part of their security vetting. In addition, Corporate Risk and Insurance Management, including captive issues, are already dealt/treated in the annual report of the Stock Listed companies. These aspects should be given greater consideration when setting the requirements for captives.

Lay-out of the Issues Paper

Although we understand the need for CEIOPS to express its current thinking in a detailed way we strongly feel that the Issue Paper is overly prescriptive.

This makes it a time consuming task to grasp the information contained within the paper. We anticipate that the final text submitted to the European Commission will be more principle based.

We hope that you find these comments of value. With reference to our meeting from October 6, 2008 we are of course available for any further discussion on these and related issues especially during our next meeting which was agreed to be scheduled for early 2009.

We would be happy to assist in the development of a successful Solvency II regime, also for captives.

Yours truly,

On behalf of ECIROA

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