



Comments Template on CEIOPS-CP 48 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Non-Life underwriting risk		Deadline 11.09.2009 4 p.m. CET
Name of Company:		
Disclosure of comments:	CEIOPS will make all comments available on its website, except where respondents specifically request that their comments remain confidential. Please indicate if your comments should be treated as confidential:	No
The numbering of the paragraphs refers to Consultation Paper No. 48 (CEIOPS-CP-48/09).		
Reference	Comment	
General Comment	<p>The premium risk for captives is significantly less volatile than that for larger commercial undertakings. Captives normally underwrite a limited number of policies with premiums fixed at inception for, in most cases, annual policies.</p> <p>ECIROA suggests that the formula should be calibrated to recognise that captives have a lower combined ratio than 100% (as assumed in the standard formula).</p> <p>Captive Insurance Companies are exposed to CAT risk but on a much smaller scale than other larger undertakings. They manage these risks by the inclusion of annual aggregate limits on policies and by the purchase of stop loss reinsurance. These risk management techniques should be recognised in the calculation. Captives should be permitted to use their own catastrophe scenarios which can be documented and demonstrated to Supervisors.</p> <p><i>Please note that where a comment has not been made on a particular paragraph, this does not indicate that we agree with the paragraph.</i></p>	



Comments Template on CEIOPS-CP 48 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Non-Life underwriting risk		Deadline 11.09.2009 4 p.m. CET
1.		
1.1.		
1.2.		
1.3.		
1.4.		
1.5.		
2.		
2.1.		
3.		
3.1.		
3.2.		
3.3.		
3.4.		
3.5.		
3.6.		
3.7.		
3.8.		
3.9.		
3.10.		

Comments Template on CEIOPS-CP 48 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Non-Life underwriting risk		Deadline 11.09.2009 4 p.m. CET
3.11.	<p>QIS4 outputs and feedback on captives indicate that on average, underwriting risk contributes for 75% to the SCR calculation mostly due to the catastrophe risk calculation. ECIROA believes that the impact is too high and do not reflect the real risk exposure of captives insurance portfolios.</p> <p>In particular, these portfolios are generally protected by Aggregate limits and/or Stop loss. These protections are not sufficiently taken into account in the calculations.</p>	
3.12.		
3.13.	<p>ECIROA believes that Captives are less subject to Premium and reserve risks than other insurance and insurance undertakings. Premiums are not subject to competitive pressures and because of a “captive” customer base, premiums can be adjusted over time to spread the cost of risk over a longer period. Also Return on Investment expectations of stake holders are much less for captives than for commercial insurers.</p>	
3.14.	<p>Reserve risks are also considered lower for captives because of the intimate knowledge of the insured business and the transparency and rapid flow of information within subsidiaries belonging to a same group.</p> <p>Therefore calculations methods should take these comments into account in the volume measures and standard deviations per LoB</p>	
3.15.	<p>In relation to catastrophe risks, specificities of captives include that captives usually underwrite very different types of CAT risks on limited but global portfolios and also that Captives are generally protected by Aggregate limits, Stop loss and other types of covers whose purpose is to limit their exposure to any catastrophe risk in any policy year.</p> <p>Market loadings, regional scenarios and market share approaches will not be accurate for captives. Catastrophe risk protections used by the captives have to be considered and calculations of Cat risk and Premium risk should therefore be linked.</p>	



Comments Template on CEIOPS-CP 48 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Non-Life underwriting risk		Deadline 11.09.2009 4 p.m. CET
3.16.		
3.17.		
3.18.		
3.19.		
3.20.		
3.21.		
3.22.		
3.23.		
3.24.		
3.25.		
3.26.		
3.27.		
3.28.		
3.29.		
3.30.		
3.31.		
3.32.		
3.33.		
3.34.		



Comments Template on CEIOPS-CP 48 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Non-Life underwriting risk		Deadline 11.09.2009 4 p.m. CET
3.35.		
3.36.		
3.37.		
3.38.		
3.39.		
3.40.		
3.41.		
3.42.		
3.43.		
3.44.		
3.45.		
3.46.		
3.47.		
3.48.		
3.49.	Although standardized scenarios could not be used by captives we would like to point out that any model involving market share of total premium would not be suitable for captives.	
3.50.		
3.51.		
3.52.		



Comments Template on CEIOPS-CP 48 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Non-Life underwriting risk		Deadline 11.09.2009 4 p.m. CET
3.53.		
3.54.		
3.55.	Captives would be subject to either an alternative method (factor-based) or personalised scenarios (partial internal model). The alternative method should be simplified for captives to recognise the simple insurance portfolio.	
3.56.		
3.57.		
3.58.		
3.59.		
3.60.		
3.61.		
3.62.		
3.63.		
3.64.		
3.65.		
3.66.		
3.67.		
3.68.		
3.69.		
3.70.		

Comments Template on CEIOPS-CP 48 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Non-Life underwriting risk		Deadline 11.09.2009 4 p.m. CET
3.71.	Captive insurance companies underwrite a restricted number of lines of insurance business and normally issue a small number of policies. They protect their exposure by the inclusion of annual aggregate limits (i.e. the maximum amount payable for all claims for a particular policy is limited) and by the purchase of stop loss reinsurance either for individual policies or across all the business they underwrite. They are therefore aware of the expected maximum loss exposure during the year.	
3.72.		
3.73.	Captives do not have volatility of expense payments as they underwrite a limited number of policies. The principle of proportionality should be applied in this calculation.	
3.74.		
3.75.		
3.76.		
3.77.		
3.78.		
3.79.		
3.80.		
3.81.		
3.82.		
3.83.		
3.84.		
3.85.		
3.86.		

Comments Template on CEIOPS-CP 48 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Non-Life underwriting risk		Deadline 11.09.2009 4 p.m. CET
3.87.		
3.88.		
3.89.		
3.90.		
3.91.		
3.92.		
3.93.		
3.94.	<p>The CAT risk sub module should take into account the aggregate limits that stop the Captive commitment. Furthermore, there should be a link to premium risk. The maximum claim charge is limited by the aggregate limit. Part of this exposure limit is covered by the premium and the premium risk sub module capital charge. The CAT risk sub module is therefore linked to the premium risk sub module to avoid double-counting.</p>	
3.95.		
3.96.		
3.97.		
3.98.		
3.99.		
3.100.	We refer to our comment under 3.49	
3.101.		
3.102.		



Comments Template on CEIOPS-CP 48 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Non-Life underwriting risk		Deadline 11.09.2009 4 p.m. CET
3.103.		
3.104.		
3.105.		
3.106.		
3.107.		
3.108.		
3.109.		
3.110.	<p>When using a stop-loss cover or annual aggregate this cover will be subject to risks maturing under both premium and CAT risk. Therefore this cover should also be considered in the CAT risk module.</p>	
3.111.		
3.112.		
3.113.		
3.114.		
3.115.		
3.116.		



Comments Template on CEIOPS-CP 48 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Non-Life underwriting risk		Deadline 11.09.2009 4 p.m. CET
A.		
B.		
B.1.		
B.2.		
B.3.		
B.4.		
B.5.		
B.6.		
B.7.		
B.8.		
B.9.		
B.10.		
B.11.		



Comments Template on CEIOPS-CP 48 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Non-Life underwriting risk		Deadline 11.09.2009 4 p.m. CET
B.12.		
B.13.		
B.14.		
B.15.	There should be no doubt that any increased costs and other expenses will be passed on to policyholders.	
B.16.		
B.17.		
B.18.		
B.19.		
B.20.		
B.21.		
B.22.		
C.		
C.1.		



Comments Template on CEIOPS-CP 48 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Non-Life underwriting risk		Deadline 11.09.2009 4 p.m. CET
C.2.		
C.3.		
C.4.		
C.5.		
C.6.		
C.7.		
C.8.		
C.9.		
C.10.	Higher capital requirements WILL result in higher premiums and maybe the policyholder will not appreciate the enhanced protection offered.	
C.11.		
C.12.		
C.13.		
C.14.		



Comments Template on CEIOPS-CP 48 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Non-Life underwriting risk		Deadline 11.09.2009 4 p.m. CET
C.15.		
C.16.		
C.17.		
C.18.		
C.19.		
C.20.		
C.21.		
C.22.		
C.23.		
C.24.		
C.25.		
C.26.		
C.27.		



Comments Template on CEIOPS-CP 48 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Non-Life underwriting risk		Deadline 11.09.2009 4 p.m. CET
C.28.		
C.29.		
C.30.		
C.31.		
C.32.		
C.33.		
D.		
D.1.		
D.2.		
D.3.		
D.4.		
D.5.		
D.6.		



Comments Template on CEIOPS-CP 48 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Non-Life underwriting risk		Deadline 11.09.2009 4 p.m. CET
D.7.		
D.8.		
D.9.		
D.10.		
D.11.		
D.12.		
D.13.		
D.14.		
D.15.		
D.16.		
D.17.		
D.18.		
D.19.		



Comments Template on CEIOPS-CP 48 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Non-Life underwriting risk		Deadline 11.09.2009 4 p.m. CET
D.20.		
D.21.		
D.22.		
D.23.		
D.24.		
D.25.		
D.26.		
D.27.		
D.28.		
D.29.		