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General comment	Note: we have only commented on those questions which have some relevance to captive insurance companies.	We strongly believe that we need Solvency II with common rules / guidelines in a common market (and expect that the influence will spread all over the world). But we cannot believe that Solvency II has a huge impact on the markets in general, especially not on the Financial Markets. The insurance industry is more a victim in crisis situations and not of important influence (in respect of the amounts invested). The developments in the Financial Markets are overweighted and should be reduced for the sake of the "real economy" to which the insurance industry, with a close link via risk-transfer, is a service provider. In our reponses, we have raised some critical comments especially on the questions about "Insurance Market and Products" and "Social and Economic Impact".	
Reference	**Question No.**	**Question**	**ECIROA comment**
2A. Technical provisions - risk margin - Cost of Capital rate	**3**	Do you agree that a 6% cost-of-capital rate would closely reflect the cost of providing an amount of eligible own funds equal to the SCR?	For Captives: Cost of Capital rate is neither of public interest nor is there a need for fixing a rate. To determine a rate for the calibration: Option 2 - lower than 6 %
2B. Technical provisions - risk margin -diversification	**4**	Do you agree with the EC's current view? The chosen method should be most efficient and effective in order to achieve: - harmonising the calculation of technical provisions - introducing proportionate requirements - introducing risk-sensitive harmonised solvency standards - promote compatibilitiy of rules with IFRS	Option 1 or 2
3. Own funds - quantitative limits for SCR and MCR	**5**	Do you agree with the EC's current view? The chosen method should be most efficient and effective in order to achieve: a) introducing risk-sensitive harmonised solvency standards b)harmonising supervisory powers, methods and tools c) promoting compatibility of prudential supervision of insurance and banking d) promote compatibilitiy of rthe prudential regime for EU insurers with the work of the IAIS and IAA	Replying to Q 5 c) and d) - The basic difference in the characteristics of the Insurance business model are the time horizon of planning (long term) and the conservative attitude and behaviour (rather as a trustee of the insured); please bear in mind that the ruin probability of 0,5% gives the expectation that a rather high number of bankruptcies per annum is reality. Fortunately, the number of actual insurer insolvencies is far below this and the performance of insurers, due to conservative and diligent planning, is a lot better than expected. Compatibility of prudential supervision of insurance and banking and compatibility of the prudential regime for EU insurers with the work of the IAIS and IAA is definitely (by definition of the business models) not possible, only in some similar risk sensitive situations should an alignment be targeted.
4. Procyclicality - Pillar II dampener	**7**	Do you agree that the 'Commission Services' suggested approach would be the most efficient and effective in order to achieve the objectives of: - intoroducing risk-sensitive harmonised solvency standards; - harmonising supervisory powers; - promoting compatibility of prudential supervision of insurance and banking; and - promoting compatiblity of prudential regime for EU insurers with the work of IAIS and IAA.	Option 3 for established captives but for new captives an extended period up to option 4 could be suitable.
	8	Should the list of factors to be taken into account by supervisors when deciding whether to grant such a decision be left open?	Question 8 - yes - in critical and crisis situations usually unexpected and different from well-known or "foreseeable" events, we always learn new lessons and insist that nobody could have known or expect such "new and surprising coincidental mixtures". Captives - The Captive Industry is better capitalised than the Insurance Industry on average or as a whole (bear in mind that Solvency margins are similar to commercial insurers without an equivalent opportunity of diversification)

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5. Supervisory reporting - content, form and modalities	**9**	Do you agree with the EC's current view? The chosen method should be most efficient and effective in order to achieve: - introducing proportionate requirements - harmonising supervisory reporting - promoting compatibility of valuation and reporting rules with IFRS - ensuring efficient supervision of insurance groups and financial conglomerates	For B, according to the size of the captives and the limited claims experience, annual frequency to provide data is largely sufficient. We would rather propose the following option : all data is provided annually unless more frequent submission is required by the national regulator. Agree with EC for A2, C2, D3.
	10	Following PoP only material/or relevant informations should be required. Do you agree?	Question 10: yes - we refer to our suggestions provided in the paper "Principle of Proportionality" and request to redraft the article V.2.6. Proportionality (QIS 5 Technical specification) see or attached doc in mail.
	12	Do you have background information or evidence that groups are aproaching the reporting requirements from a centralised, top-down group perspective?	Question 12: For Captives or SMEs no problem
6. Public disclosure - content, form and modalities	**13**	13. Do you agree that the 'Commission Services' suggested approach would be the most efficient and effective in order to achieve the objectives of: - introducing proportionate requirements for small undertakings - harmonizing supervisory reporting	For captives , there is no purpose in having public disclosure requirements. - For captives (a) the policyholders are the shareholders and therefore already have all the information; (b) some information such as the underwriting program of the captive should not be delivered to competitors; and (c) it can indeed increase the insolvency risk of the captive if some beneficiaries increase their indemnity requests after having learned what are the captive's maximum limits. In addition, there are some confidentiality issues with public disclosure of some information such as loss ratios, since, as the policyholder is unique and identifiable, competitors could use the information to cause harm to the company. However, there is no problem for disclosing all information to the regulator. We propose a special rule for Captives which will be presented in a 'Captive Best Practice' paper.
	14& 15	EC wants to list a number of items which would need to be put in a public domain. - What stakeholders should be addressed? - What are the areas on which stakeholders need information? - How detailed has it to be? EC wants to disclose a number of aggregated key figures arising from solvency valuation and their material differences with the accounting valuation. Do you support that approach?	Captives will disclose all information and items to regualtors. There are no public domain stakeholders with a material interest.
8. SCR standard formula - equity risk - Pillar I dampener	**19**	Do you agree with the EC's current view? The chosen method should be most efficient and effective in order to achieve: - introducing risk-sensitive harmonised solvency standards - harmonising supervisory powers, methods and tools - promoting compatibility of prudential supervision of insurance and banking - promote compatibilitiy of rthe prudential regime for EU insurers with the work of the IAIS and IAA	Option 5

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10A. SCR standard formula - diversification effects - correlation parameters	**21**	Do you agree that the EC's suggested approach would be the most efficient and effective in order to achieve the objectives of: - introducing risk-sensitive harmonised solvency standards - introducing proportionate requirements for small undertakings - promote compatibility of the prudential regime for EU insurers with the work of the IAIS and IAA - ensuring efficient supervision of insurance groups and financial conglomerates	Continue to use only one correlation between the lines of business as this is currently the case in the simplifications for captives in QIS 5. However, current correlation of 35% seems high. Simplification for captive for Non life premium and reserve risk led to higher results for most captives.
10B. SCR standard formula - diversification effects - geographical diversification	**22**	Do you agree that the Commission Services's suggested approach would be the most efficient and effective in order to achieve the objectives of: - introducing risk-sensitive harmonised solvency standards - introducing proportionate requirements for small undertakings - promote compatibilitiy of the prudential regime for EU insurers with the work of the IAIS and IAA - ensuring efficient supervision of insurance groups and financial conglomerates	Agree with Commission services: include adjustment factors for geographical diversification, European regions less granular and adjustment factor optional. Indeed, captives often underwrite risks worldwide and then may benefit from geographical diversification. However, it makes the calculations more complex and the aim would be to have simplified calculations for captives. Therefore, the optional option is a good compromise. We noted however that the geographical diversification effect is not negligible for captives underwriting risks worldwide. For example, for some companies, the SCR would increase by around 20% by ignoring the geographical diversification.
11. SCR internal models - integration of partial internal models	**23**	Do you agree that the EC's suggested approach would be the most efficient and effective in order to achieve the objectives of: - introducing risk-sensitive harmonised solvency standards - introducing proportionate requirements for small undertakings - harmonising supervisory powers, methods and tools - ensuring efficient supervision of insurance groups and financial conglomerates	Option 3 - in accordance with local regulator - see comment above on Principle of Proportionality.
12A. SCR standard formula - non-life underwriting risk (other than CAT risk)	**24**	Do you agree that the EC's suggested approach would be the most efficient and effective in order to achieve the objectives of: - introducing risk-sensitive harmonised solvency standards - introducing proportionate requirements for small undertakings - harmonising supervisory powers, methods and tools	We propose - use of adjustment factor to take into account non proportional reinsurance: formulas for the adjustment factor require standard deviation of the cost per claim gross of reinsurance per line of business and the average cost per claim gross of reinsurance per line of business. However, captives often have limited historical claims experience and therefore the parameters are not always available.
12C. SCR standard formula - CAT risk	**26**	Do you agree that the EC's suggested approach would be the most efficient and effective in order to achieve the objectives of: - introducing risk-sensitive harmonised solvency standards - introducing proportionate requirements for small undertakings - harmonising supervisory powers, methods and tools	Do not agree with EC. Scenario based approach is not applicable for most captives due to the fact that they underwrite mostly non proportional reinsurance business and miscellaneous business. In addition, scenario based approach requires detailed information and is time consuming. Factor based approach is the most appropriate for captive business considering the risks underwritten and the proportionnality principle.

13. SCR internal models - use test	**27**	Do you agree that the EC's suggested approach would be the most efficient and effective in order to achieve the objectives of: - introducing risk-sensitive harmonised solvency standards - harmonising supervisory powers, methods and tools	Option 1
14. SCR internal models - statistical quality standards	**28**	Do you agree that the EC's suggested approach would be the most efficient and effective in order to achieve the objectives of: - introducing risk-sensitive harmonised solvency standards - harmonising supervisory powers, methods and tools	Agree with option 2, captives should define themselves the methods used for validating the data. Requirement mentioned in QIS 5 (Annex O) for using undertaking specific parameters are too strict to be applicable for both internal data and pooled data. Captives often have limited claims experience, and therefore, internal data does not usually satisfy all compliance criterias. However, due to the specificities of captives business, the use of partial internal model are important for captives and therefore, use of a own policy on data quality for captives adapted to the size of the company is relevant. In addition, it is important to allow captives to make partial internal model, since it will be usefull for ORSA.
15. Capital add-ons	**29 & 30**	29. Do you agree that the EC's suggested approach would be the most efficient and effective in order to achieve the objectives of: - introducing risk-sensitive harmonised solvency standards - harmonising supervisory powers, methods and tools - introducing proportinate requirements for small undertakings 30. Should supervisors be able to exercise judgement, accroding to pre-defined criteria, in relation to each of the following: 1) in the case of risk-profile capital add-ons, significant deviations from the SCR that are below 15% 2) for the purposes of determining when a governance capital add-on may be applied, the timeframe to be regarded as an appropriate for having allowed other remedial measures to have been exhausted, subject to a maximum period of 6 months 3) the methodology used to determine the capital add-on	The Directive contains a risk-sensitive principle based consideration (quantity and quality!); this should be acknowledged in all pillars. PoP requires flexibility and what may need to increase, may also allow reductions; there is no logic just and only to propose a capital add-on.

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16.Actuarial Function	31	Do you agree that the Commission Services' suggested approach would be the most efficient and effective in order to achieve the objectives of: a) introducing proportionate requirements for small undertakings b)harmonising supervisory powers, methods and tools c)promoting compatibility of the prudential regime for EU insurers with the work of the IAIS and IAA d)ensuring efficient supervision of insurance groups and financial conglomerates	Options A2 - B1 - C2 Question 31 c) see comment above under Question 5 c + d
IMPACT ON INSURANCE MARKET AND PRODUCTS			
1. Impacts on Products	37	Do you anticipate that the Commission Services's suggested approach for implementing measures would result in an increase or decrease in insurance prices? (Please provide details of the types of product or group of policyholders affected, the magnitude of the increase or decrease expected and whether the change results from change in the value of technical provisions or capital requirements).	Definitely "Increase of Premiums" - different magnitude, especially in commercial and industrial lines of business. In retail business: based on increasing size of portfolio - underpinned capital approaches 1 Euro.
	39	Would the Commission Services' suggested approach for level 2 implementing measures stimulate product innovation? (Please provide details of the type of product innovation that is expected and details of the lines of business that this product innovation will relate to).	No stimulation of new products - only "old wine in new pipes"
	40	Would the Commission Services' suggested approach for level 2 implementing measures result in a withdrawal of certain products from the market? (Please provide reasons and examples of products that may be withdrawn).	Yes, if data collection is not sufficient or reasoning to provide coverage is rather difficult
2. Impacts on Markets	41	Would the Commission Services' suggested approach for level 2 implementing measures promote particular types of insurance business model (e.g. specialistion vs diversification, joint-stock companies vs mutuals, branches vs subsidiaries, groups vs single legal entities)? (please provide reasons and examples).	Specialisation vs diversification - no - in both cases the Insurer will only change his business strategy and model when he may receive additional advantages Branches vs subsidiaries - yes, in the market some insurers have changed their strategy and established new branches (terminating the subsidiary structure) to avoid discussions with numerous supervisors and
	42	Would the Commission Services' suggested approach for level 2 implementing measures affect competition across undertakings in the EU and/or the functioning of the internal market? (Please provide reasons and examples).	Yes - consolidation and takeovers
	43	What would the impact be of the Commission Services' suggested approach for level 2 implementing measures on small or medium-sized enterprises as buyers of insurance? (Please provide examples)	Minor choice of specialists, niche players or specialised services. Higher premiums, reduced cross-selling triggers cost increase and reduces services.
	44	What impacts would the Commission Services' suggested approach for level 2 implementing measures have on the captive market? (Please provide examples)	Answer is difficult due to very diversified use of captives. Depends upon (a) existing strategy of Captives (b) additional cost, time, workload, (c) higher cost of fronting (collaterals) and (d) higher premium rates when reinsuring to Captive not acknowledged as ReInsurance without the same rules as in market - Captive = Customer = Industry! A different view and assessment of the relation of Direct (=Fronting) Insurer to Captive is needed.
	45	What impacts would the Commission Services' suggested approach for level 2 implementing measures have on third country insurers and reinsurers? (Please provide examples)	We fear regulatory arbitrage

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SOCIAL AND ECONOMIC IMPACTS			
1A. Social Impacts - general	**47**	Would the Commission Servies' suggested approach for level 2 implementing measures make it easier or more difficult to obtain insurance for certain risks or goups of policyholders, and will there be a transfer of risk from insurers to consumers? (Please provide examples and where relevant, details of the risks and/or goups of policyholders affected).	Yes, there will be an impact via deductibles which will be higher for corporate policyholders. This is a good reason to protect Captives.
Ecomonic Impacts	**54**	What is the impact on specific economic sectors (both financial and non-financial)	If competition becomes closer / narrower (or reduced) the cost of goods and their prices will increase (plus higher taxes, IPT, VAT)
	55	Would the Commission Services' suggested approach for level 2 implementing measures impact the investment policy of insurers? (Please provide reasons and examples)	For Life Insurers definitely yes
	56	Does it contribute to improving the conditions for investment and for the proper functioning of captial markets? (Please provide reasons and examples)	No - definitely not - why improvements? - maybe neutral - Insurers behave rather conservatively; they don't influence the volatile or critical market or those investments / asset classes which are rather
	57	Would the Commission Services' suggested approach for level 2 implementing measures contribute to financial stability? (Please provide reasons and examples)	Not really; perhaps in some countries, where no efficient rules / controls are in place for the time being (see insolvency rate per country). The impact of insurers on the financial stability is rather small or moderate. Life insurers (eg. Germany) had always a stabilising duty and function in the economy - this will be reduced by Solvency II and especially in combination with IFRS (if not changed) - Fair-Value-Basis is a short term based ignorance against a long-term-stability target and behaviour.