AMICE Response to EIOPAs Consultation Paper on Contract Boundaries

INTRODUCTION

1. General comments

AMICE welcomes the opportunity to comment on the guidelines on Contract Boundaries.

The key issues are summarised below:

Proposed Amendments to be applied to new business only

Any possible amendments to the current EIOPA Guidelines on Contract Boundaries should only apply to the new business and not to the existing business. This would allow insurers to reassess their contract boundary definitions and processes if needed, in a qualitative or quantitative manner in some cases, and in the same way other changes are carried out on new products.

Furthermore, the appropriate way to ensure that the policyholder aspect is captured accurately enough and in a balanced way might require that the analysis is made at inception of the contract.

Assessment of contract boundaries from the insurer perspective

It is unclear when contract boundaries should be looked at from a policyholder (individual) perspective and when from a company perspective; The policyholder perspective may be better justified but it requires insurers to develop new models when the assessment is quantitative and build judgement at a portfolio level by looking into the different individual cases which would be extremely difficult and highly burdensome.

Unbundling

The unbundling requirements in Solvency II should be closer to IFRS 17 whenever possible.

Discernible effect

We do not support a quantitative assessment of a financial guarantee of benefits as having a discernible effect on the economics of a contract. The EIOPA´s definition of a financial guarantee as having a discernible effect on the economics of a contract may need to be revisited.

GUIDELINES

2. Guideline 0 (NEW) - Contract Boundaries

No comments.

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

The alignment between Solvency II and the IFRS17 insurance contract standard should be done wherever possible, while acknowledging that the unbundling in IFRS17 is for interrelated components whereas under Solvency II the requirement is broader. This proposal to align with IFRS17 would address the concerns regarding the inconsistency with the economic approach of

Solvency II.

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

The article 18(5) of the Delegated Regulation states that future premiums providing a financial guarantee with a discernible impact on the economics of the contract should be projected. This is a broad definition that does not lose track of the "contract" whereas the proposed EIOPA guidelines seem to refer to HRGs that could mislay the contract and its global economics narrowing excessively the definition of the impact on the economics of the contract.

Trying to provide a narrow quantitative definition of the impact of a financial guarantee in terms of amounts of Best Estimate (e.g 0.5% as mentioned under paragraph 3.18 in the Explanatory text) at one point in time may induce a lot of volatility in the best estimates as the contract boundaries would have to change as a result of the valuation at that moment. This would have to take into consideration the financial and economic environment circumstances and will embed the volatility of future premiums themselves.

Other important risk management aspects such as liquidity issues and other economically relevant elements for the insurer such as EPIFPs may also be disregarded. In absolute words, a discernible effect is not only a question of increase in the best estimates from the policyholder point of view but also a matter of global margins (i.e. EPIFPs) for the insurer.

The fee structure of the contract, that usually is fixed to the savings amount, is not brought out even though there might be a number of scenarios where the fixed fee brings a discernible effect on the economics of the contract (e.g. in an inflation scenario fees tend to increase so every fixed fee structure brings a 'guarantee' for the customer).

We would advise to refrain from too specific quantifications of the discernible effect notably at too granular HRG levels to avoid exacerbating the volatility of BEs. Therefore, it would seem wise to make use of qualitative assessments based on stable approaches and refer to ORSAs for complete going concern modelling approaches.

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

There is a number of different situations and combinations that will change the way the contract affects the insured person; age, contract term, level of cover, payments, use of contract options, etc. It is impossible to choose between different combinations to make any judgement on the discernible event. This should be better clarified in this guideline, i.e whether the identification should be carried out using averages, LoB levels, groups etc. In any case we suggest the assessment to be carried out on a qualitative basis.

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

We do not support the introduction of this new guideline as a reassessment of the discernible effect of a cover or financial guarantee could lead to frequent changes in contract boundaries therefore increasing volatility of technical provisions and own funds and the burden for undertakings and supervisory authorities. We appreciate a clarification that the assessment whether a cover or financial guarantee has a discernible effect on the economics of the contract should only change in exceptional circumstances.

EXPLANATORY TEXT

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

No comments.

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

See our comments to Guideline 5.

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

No comments.

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

See our comments to Guideline 6c.

IMPACT ASSESSMENT

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

No comments.

12. Section 4.2. Problem definition

No comments.

13. Section 4.3. Objectives pursued

We support Policy option 3.1: Static contract boundaries.

Section 4.4. Policy Options

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

We support Policy option 1.2: Keeping the status quo of the current Guidelines.

15. Section 4.4.2. Policy issue 2: Unbundling

We support Policy option 2.1: status quo

16. Section 4.4.3. Policy issue 3: Discernible effect

We support Policy option 3.1: Static contract boundaries.

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.

We do not support this option.

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

We support this option.

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.

No comments.

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

No comments.

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.

We support this option.

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.

We do not support this option.

Section 4.6. Comparison of Options

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

We do not support Option 1.1: Introduction of additional Guidelines.

We support Option 1.2: No Change.

24. Section 4.6.2. Policy issue 2: Unbundling

We do not support Option 2.2: Unbundling when the parts of the contract could be sold separately.

We support Option 2.1: Unbundling when the cash flows of the contract can be allocated to each part of the contract.

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

We do not support Option 3.2: Dynamic contract boundaries. We support Option 3.1: Static contract boundaries.

ADDITIONAL COMMENTS

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

No comments.