



4 June 2009

Mr. Carlos Montalvo Rebuelta
Secretary General
CEIOPS
Westhafen Tower
Westhafenplatz 1
D-60327 Frankfurt Am Main

Ref.: *CEIOPS-CP-30-09*

Our Ref.: INS/HvD/LF/SR

Dear Mr. Montalvo Rebuelta,

Re: FEE Comments to CEIOPS on Consultation Paper No. 30 Draft CEIOPS' Advice for Level 2 Implementing Measures on Solvency II: Technical Provisions – Treatment of Future Premiums

- (1) FEE (the Federation of European Accountants) is pleased to provide you below with its comments on the CEIOPS Consultation Paper No. 30 Draft CEIOPS' Advice for Level 2 Implementing Measures on Solvency II: Technical Provisions - Treatment of Future Premiums ("the Paper").

General comments

- (2) We note that the accounting treatment of future premiums arising from existing insurance contracts is one of the issues still under discussion as part of the IASB project Phase II of the IFRS for Insurance Contracts. We would expect that the treatment of future premiums under Solvency II should be the same as under IFRS, once Phase II is finalised, unless different objectives justify or require a deviation (as laid down in CEIOPS Consultation Paper No. 35 Draft CEIOPS' Advice for Level 2 Implementing Measures on Solvency II: Technical Provisions – Valuation of Assets and "Other Liabilities").

- (3) However, we are concerned that the proposed treatment of future premiums as presented in the Paper may result in being more restrictive compared to the expected IFRS. We understand that the IASB is currently considering whether recurring premiums can be considered as part of the contractual cash flows, also beyond those cases where contracts are onerous. If this treatment is confirmed under IFRS, we believe that this should also be allowed for Solvency II to ensure that the requirements of Article 78 of the “Framework Directive” are met, i.e. that “any assumptions made ... shall be realistic and based on current and credible information”.
- (4) We understand that for prudential supervisory purposes, an approach might be taken not to recognise those cash flows that result from the non-execution of options by the policyholder that would be favourable to him. Non-execution of these options in such circumstances would be favourable to the insurer. The same would apply for the execution of options that would be unfavourable to the policyholder and favourable to the insurer. In both scenarios the recognition of future premiums would decrease the best estimate and therefore its inclusion would not be permitted as described in paragraph 3.30 of the Paper.
- (5) However, not including future premiums might appear to be in contradiction with the proposed requirements under paragraph 3.32, which stipulates that the option exercise rates for the valuation shall be realistic and based on current and credible information and be chosen with an assessment of actual and anticipated future experiences.
- (6) We note that the “Framework Directive” (in its latest version) no longer requires a demand deposit floor. This would mean that as a result of irrational behaviour by policyholders a decrease of best estimates would be allowed in measurement.
- (7) In addition, in the case of a regulatory value it might be appropriate to give the same importance as in accounting standards to the difference between recognition and measurement.
- (8) Finally, we note that management actions with respect to the distribution of bonuses are one of the key drivers for policyholders to decide whether to renew a specific contract. We recommend that the subject of the treatment of future premiums be considered in conjunction with the discussion on the underlying assumptions about future management actions (a topic which is covered under CEIOPS Consultation Paper No. 32 of the Draft CEIOPS’ Advice for Level 2 Implementing Measures on Solvency II: Technical Provisions).



For further information on this letter, please contact Ms. Saskia Slomp from the FEE Secretariat.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Hans van Damme', written over a horizontal line.

Hans van Damme
President