Comments Template on **Discussion Paper on the review of specific items in the Solvency II Delegated Regulation**	**Deadline 3 March 2017 23:59 CET**

Name of Company:	KÖBE Közép-európai Kölcsönös Biztosító Egyesület	
Disclosure of comments:	Please indicate if your comments should be treated as confidential: Public	Public

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The numbering of the questions refers to the discussion paper on the review of specific items in the Solvency II Delegated Regulation.

Reference	Comment	
General Comment		
Q1.1		
Q1.2	1. The change of formula used in QIS5 ("function of the standard deviation"), to 3 * standard deviation, was not justified by any transparently discussed professional model and increased capital requirement of the whole sector without any robust theoretical background. 2. The formula of volume measure for premium risk prefers previous 12 month premium instead of coming 12 month in the case of decreasing, that is not a correct treatment	

	because questions cooperation, seriousness and reliability of planning of the undertakings. On behalf of the sector we have to protest against this kind of presupposition. 3. The main theory behind premium risk calculation is inadequate. Modelling loss ratio in one year time horizon as a random variable oscillating around a constant, means this model doesn't take in account management decisions. In other words assumes nonconscious management or management neglecting loss ratio occurred. Of course loss ratio strongly depends on management actions. In most of cases management consciously manage loss ratios and influence them instead of letting it oscillate around a constant. The premium risk measure in one year time horizon should be based on the deviation of the observed loss ratio to planned loss ratio instead of the deviation of the observed loss ratio to the estimated expected value.	
Q1.3		
Q1.4		
Q1.5	Lapse risk calculation is unnecessarily complicated in the case of non-life non SLT lines. 118. 1. a) definition assumes, undertaking is able to isolate policies where sudden lapse causes increase in technical provisions. This approach assumes that premium reserve for policies in force are calculated policy by policy or model point by model point as in life insurance. This approach is very costly and assumes (or necessary only if) non-life non SLT policyholders have the knowledge about profitability of their own policy which is not the case at all. The approach and wording of regulation due, leads to unnecessary complications in calculations of lapse risk capital requirement. Even more, in typical cases premium reserve decreases in the case of lapse because most of premium reserves in the non-life non SLT LoBs are backing expected claims and costs of policies already paid their premium. Consequently in the case of lapse, premium reserve will decrease instead of increasing. Of course profit embedded into policies lapsed also will run out from balance sheet in the same time. Our suggestion is to change text of regulation to carry on non-life non SLT lapse risk calculation on	

Template comments

	base of 40% lapse of the total policy portfolio in the given LoB in order to avoid requirement of burdensome and expensive policy or model point level calculations. We think calculation based on premium and expected combined ratio of LoB would be much easier and adequate in the case of mentioned nonlife non SLT LoBs.	
Q1.6	see at Q1.5	
Q1.7		
Q1.8		
Q1.9		
Q1.10		
Q1.11		
Q1.12		
Q1.13	see at Q1.5	
Q1.14	see at Q1.5	
Q1.15		
Q1.16		
Q1.17		
Q1.18		
Q1.19		
Q1.20		
Q1.21		
Q1.22		
Q1.23		
Q1.24		
Q1.25		
Q1.26		

Template comments

	Comments Template on Discussion Paper on the review of specific items in the Solvency II Delegated Regulation	Deadline 3 March 2017 23:59 CET
Q2.1		
Q2.2		
Q2.3		
Q2.4	We'd like to ask EIOPA to think on small undertakings and don't introduce requirement for in-house undertaking level credit assessment or similar or combination of several credit assessments in order reduce reliance to external credit ratings. Small entities simply doesn't have the necessary knowledge, information, experts and budget for this type of undertaking level control of the whole credit rating industry and won't have in the future. If EIOPA aims to control credit ratings reliability, EIOPA should provide solution and for example publish its ratings or measures that must be applied for all of assets in SII calculations. We'd like to ask EIOPA not to address small undertakings with practically unsolvable problems. Control of external credit ratings reliability is far out of the realistic scope of the most insurance undertakings. Small undertakings simply can't solve problem of reliability of external credit ratings issued by ECAI's even if that is required.	
Q2.5		
Q2.6		
Q2.7		
Q2.8		
Q2.9		
Q2.10		
Q3.1		
Q3.2		
Q3.3		
Q3.4		
Q3.5		

Template comments

Q3.6		
Q3.7		
Q3.8		
Q3.9		
Q3.10		
Q3.11		
Q3.12		
Q4.1		
Q4.2		
Q5.1		
Q5.2		
Q5.3		
Q5.4		
Q5.5	According to our opinion the use of past 12 month premium as a minimum limit in premium risk volume measure, can't be justified in respect of risk sensitivity. This element decreases risk sensitivity and distorts fairness of the measure. Therefore this element must be lived out in order not to distort risk sensitivity of the premium risk volume measure.	
Q5.6		
Q6.1		
Q7.1	We are small but don't see any problem with identification of zones of risks in calculating natural catastrophe risk capital requirements.	
Q7.2		
Q7.3		
Q7.4		
Q7.5	In the case of Hungary the main challenge is to buy reinsurance cover according to the obviously over calibrated zone factors: City of Györ (Cresta Zone 3) ; and county Csongrád (Creasta Zone 20).	

Template comments

**Comments Template on
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**Deadline
3 March 2017
23:59 CET**

Just for comparison:

	Cresta Zone factor
City of Győr (C3)	13,7
Csongrád (C20)	19,9
Passau	1,5
Regensburg	2,3

Taking in account major losses occurred at last big floods in German cities and the relatively small losses in Hungarian zones above, is not easy to understand major differences among Cresta Zone factors cited above. Why are Hungarian factors above nearly 10 times higher?

Analysing calculation outcomes of IF models - usually applied by reinsurers and reinsurance brokers - it is obvious that calibration of cited must not be appropriate or at least not in line with the commonly used models.

Our major driver of flood risk is our family home insurance portfolio (with market average consistent conditions and sum insured).
1/200 event flood loss was calculated to around 7 bn HUF in 2015 and 2015 according to standard model, and around 1,4 bn HUF based on the same data in according to IF model.
Csongrád (C20) zone has roughly 10% share in our portfolio and according to standard model calculation causes 90 % of expected loss due to unrealistic zone factor (the highest in EUROPE). Reinsurers simply do not understand outcomes of standard model calculation.

Even more there is no trace on internet of any calculation, background or origin of zone factors questioned. That violates requirement of transparency.
Taking in account last big European floods in 2013, with higher water height measured at Budapest than ever, there was minimal loss in Hungary and in zones pointed, despite having highest factors in Europe.
We kindly ask EIOPA to revise Cresta Zone factors measured, in order not to hit Hungarian

Template comments

	insurers requiring us to buy four-five times higher NAT CAT reinsurance capacity than needed according to commonly used best practice models.	
Q7.6		
Q7.7		
Q7.8		
Q7.9		
Q7.10		
Q7.11		
Q7.12		
Q7.13		
Q8.1		
Q8.2		
Q8.3		
Q8.4	The identification of the largest risk concentration based on a circular geographical area is not possible from data collected according to our market standards. We simply don't have geo coded data linked to place of risks covered. The idea applied may theoretically correct but because of implementation problems and even costs makes this approach infeasible. We think taking in consideration the highest sum insured or even PML, defined policy by policy and applying a market wide single or country by country concentration coefficient would make calculations doable.	
Q8.5		
Q8.6		
Q8.7		
Q8.8		
Q8.9		

Template comments

	Comments Template on Discussion Paper on the review of specific items in the Solvency II Delegated Regulation	Deadline 3 March 2017 23:59 CET
Q8.10		
Q8.11		
Q8.12		
Q9.1		
Q9.2		
Q9.3		
Q9.4		
Q9.5		
Q10.1		
Q10.2		
Q10.3		
Q10.4		
Q10.5		
Q10.6		
Q10.7		
Q10.8		
Q10.9		
Q10.10		
Q11.1		
Q11.2		
Q11.3		
Q11.4		
Q11.5		
Q11.6		
Q11.7		
Q11.8		

Template comments

	Comments Template on Discussion Paper on the review of specific items in the Solvency II Delegated Regulation	Deadline 3 March 2017 23:59 CET
Q11.9		
Q12.1		
Q12.2		
Q12.3		
Q12.4	Having reinsurers with credit rating above "A" S&P, It is clear that in our case and in similar cases counterparty default adjustment on reserves are causing just a lot of calculations without material effect. Therefore we suggest to skip it if ratings are above this criteria. Repeated calculations of SCR in order to define change in capital requirement in case of default of reinsurers one by one to get RM effect is extremely burdensome and unnecessary. The most of RM effect occurs due to default of CAT and XL reinsurers. It is easy to calculate this effect if we only assess SCR change of leaving out the given reinsurers mitigation effect from CAT risk capital requirement calculation. RM effect of QS a reinsurer on premium risk capital requirement is also easy to take in account because the change in volume measure skipping a QS reinsurer is also easy to calculate. All other RM effects are marginal but need complicated models (reserving risk, interest rate risk, lapse risk) and just cause unnecessary difficulties instead of adding value to the calculations. These are the elements should be removed from the whole RM effect calculation in order to be proportional and avoid complications in calculation. Otherwise all the sector will use a lot of valuable time and cost for nearly nothing. The mentioned parts of calculation are even more ineffective in case of having well rated ("A" S&P and above) reinsurers. Therefore according our suggestion one by one RM effect calculation should be only carried out for catastrophe and premium risk capital increases, given that are the major and easily calculable parts of the RM effect calculation.	
Q12.5		
Q12.6		
Q12.7		
Q13.1		

Template comments

	Comments Template on Discussion Paper on the review of specific items in the Solvency II Delegated Regulation	**Deadline 3 March 2017 23:59 CET**
Q13.2		
Q13.3		
Q13.4		
Q13.5		
Q13.6		
Q14.1	Our undertaking established a 100% owned real estate limited company that owned the site where our headquarter is located. We have also other buildings at the site rented by other companies. 1. Question According to our understanding, our 100% owned real estate company - described above - is without the intended scope of concentration risk module. Nevertheless according to Delegated Acts, 184 (2b) we are not sure about the accurate use of word group in the sentence "exposures to a counterparty which belongs to the same group". We haven't find any definition for the word "group" in Solvency II legislation. We just used the common understanding: if our undertaking owns another one, than we are in a group in respect of the cited sentence. 2. Question The second question is whether our 100% owned real estate company is an "ancillary services undertaking" (184 (2b, i))? We just think the right answer is: yes. 3. Question The third question is whether our 100% owned real estate company is "fully consolidated in accordance with Article 335(1)(a) "? We think the answer is: yes, but we can't interpret the reference to 335(1)" because 335(1) refers to group solvency data consolidation that is for insurance groups. Given our undertaking owns only the mentioned real estate company and a car service station in both cases in 100%, we do not consider ourselves an insurance group (we haven't found an explicit definition of insurance group in Solvency II legislation). As we understand insurance groups are groups of at least two insurance undertakings and other	

	companies. Or do we need to have group solvency calculation and report as an insurance group in frame of group reporting framework? All in all, in our case there are at least three pending questions in interpretation of 184 (2b) in Delegated Acts. Our proposal is to change text of Delegated Acts so that remove 100% owned companies from scope of concentration risk module definitely.	
Q14.2		
Q14.3		
Q14.4		
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Q14.7		
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Q14.9		
Q14.10		
Q14.11		
Q14.12		
Q15.1		
Q15.2		
Q15.3		
Q15.4		
Q16.1		
Q16.2		
Q16.3		
Q16.4		

Template comments

	Comments Template on Discussion Paper on the review of specific items in the Solvency II Delegated Regulation	Deadline 3 March 2017 23:59 CET
Q16.5		
Q16.6		
Q16.7		
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Q17.1		
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Q17.3		
Q17.4		
Q17.5		
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Q17.13		
Q17.14		
Q17.15		
Q17.16		
Q18.1		
Q18.2		
Q18.3		
Q18.4		
Q18.5		

Template comments

	Comments Template on Discussion Paper on the review of specific items in the Solvency II Delegated Regulation	Deadline 3 March 2017 23:59 CET
Q18.6		
Q18.7		
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Q19.4		
Q20.1		
Q20.2		
Q20.3		
Q20.4		
Q20.5		
Q20.6		
Q20.7		
Q20.8		
Q20.9		
Q21.1		
Q21.2		

Template comments

	Comments Template on Discussion Paper on the review of specific items in the Solvency II Delegated Regulation	Deadline 3 March 2017 23:59 CET
Q21.3		
Q21.4		
Q21.5		
Q21.6		
Q21.7		

Template comments