<table>
<tr><td colspan="3" align="center">Comments Template on
Discussion Paper on the review of specific items in the Solvency II
Delegated Regulation</td></tr>
<tr><td>Name of Company:</td><td colspan="2">Actuarial Association Austria</td></tr>
<tr><td>Disclosure of comments:</td><td></td><td>Public</td></tr>
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⇨ Do **not** change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool

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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		
Q1.3		
Q1.4		
Q1.5	For non-life business calculations are done per risk groups. Therefore it is unclear how to determine the 40% of insurance policies for which discontinuance would result in an increase of technical provision. We consider the calculation based on risk groups as sufficient. In addition to that, we would consider it to be appropriate that the shock is applied to these risk groups and not to subgroups, as bundled products might contain both profitable and unprofitable coverages. Is an insurance undertaking required to apply the 40% shock even if less than 40% of all policies	

	can be cancelled at the moment? Is an insurance undertaking required to apply the 40% shock even if less than 40% of all policies can be cancelled within a year? From our point of view the current shock of 40% is not adequate and there is no justification given how this parameter was defined. Portfolio 1: Within a year 15% of gross written premium expected for 2017 may be cancelled unilaterally from policyholders according to local law (comsumer protection law).	
Q1.6		
Q1.7	The shock for mass lapse risk is unrealistically high. The historical evidence of actual lapses (in many member states) clearly contradicts the currently assumed high discontinuance rates of 70% resp. 40%. It could be set to a multiple (f.i. 3) of base lapse rate the the factor fits much better to the respective lapse rate. Furthermore has to be taken into account that in case of a mass lapse – mainly for portfolio underlying market risk – also the market risk SCRs have to be reduced. This is currently not reflected in the mass lapse risk. In order to calculate the mortality risk, the longevity risk and the lapse risk the indentification of those policies underlying the respective risk is quite complex and leads to a lot of challenges within the Austrian Deckungsstocksystem and Austrian profit-sharing rules. The contracts cannot be identified exactly because all policies are part of a collective system (Deckungsstock). So identification is a quite demanding issue and requires a lot of methodology to do it in a proper manner and it is also quite timeconsuming in analysing the appropriateness of the results.	
Q1.8	While the AVÖ considers the simplified calculations appropriate, the main challenge relates to the documentation requirements to use the simplifications. In certain situations, when a simplified method would be appropriate, it is less time consuming to implement the full standard formula calculation rather than applying the simplification method due to the additional documentation requirement related to the use of simplifications.	
Q1.9	We suggest a simplification that allows to apply the longevity shock for the whole portfolio and also the mortality shock for the whole portfolio. By this method the correlation between mortality	

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	and longevity is taken into account automatically. Similar to the lapse risk the maximum of the shock should be taken for "biometric SCR" (that replaces mortality and longevity SCR). Furthermore the catastrophe risk could also be included in this method (similar as the mass schock in the lapse risk) Also for lapse shocks we suggest to take the whole portfolio for lapse up, lapse down and lapse masse into account, the maximum should shock should then be used.	
Q1.10		
Q1.11		
Q1.12		
Q1.13		
Q1.14		
Q1.15	The Delegated Regulation presented the following challenges: 1. The requirement to determine technical provisions on a per-policy basis. A per-policy basis calculation of TPs is not required according to the Solvency II Directive, nor does the Delegated Regulation require a more granular calculation than homogenous risk-groups (see Article 19, paragraph 1 b). Furthermore, Annex 1 of the Technical Specifications paragraph 13 states: homogenous risk groups have to be sufficiently large such that a meaningful statistical analysis of the risks can be done. In contradiction to the above, the standard formula gives scenarios (mortality, longevity, lapse) that require an evaluation of the TP on a per-policy basis. This • constitutes an undue burden for undertakings, • introduces material arbitrariness • increases model error 2. In contrast to the lapse up and down scenarios, which are subject to observation, the mass lapse calibration should be evidence based (40% is way to high). 3. Given, that most Austrian health SLT business does not consider (medical) inflation in its	

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	premium calculation but allows for premium changes due to experienced inflation, the expense and cost scenarios as defined in the standard formula require perpetual premium changes over a projection horizon of 80 years. By this, the standard formula forces undertakings to implement models which are over-complex, by introducing management rules which model premium changes that offset perpetual inflation changes, where the outcome is more determined by the accumulated model error than any true assessment of the underlying risk	
Q1.16	Article(s) 98, 99, 101, 102: The simplification(s) proposed do not account for compensatory measures (e.g. increasing premiums) and so grossly overstate the risk. A reduction of n to a "further-modified" duration until a shock is set off by premium changes, could possibly address this issue. Article 102: As the proposed simplification also rests on the delusion that a best estimate of health SLT obligations can be calculated on a per-policy basis in a meaningful way, this is no simplification.	
Q1.17	We may propose the following suggestions: 1. The standard formula shall refrain from the delusion that best estimates of health SLT obligations can be calculated on a per-policy basis in a meaningful way. 2. The requirement to choose an (as simple as possible, but not simpler) model that adequately captures the risks inherent in health SLT obligations shall not be contradicted by the requirement to model outlandish scenarios as given by the standard formula, e.g. if changes in medical expenses can be set off by premium changes due to premium amendment clauses, it should not be required to model perpetual premium changes over a projection horizon of 80 years. 3. For each BSCR the standard formula shall be based on separate scenarios, one aiming at experience variances the other aiming at the effect of parameter changes. Both these scenarios are observable in the one-year horizon and testable against an analysis of movement of BOFs. 4. The scenario aiming at the effect of parameter changes should not introduce events occurring in periods after the projection horizon when these events can be dealt with by future	

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	management actions. When selected underwriting risks are not material due to premium change clauses, a simplified scenario shall be given. 5. The current mass lapse scenario should be omitted and integrated into lapse_up/lapse_down scenarios with differentiated shocks for groupings of contracts according to time since contract inception. The term "rates" needs to be specified (as one-year probabilities) in order to avoid confusion with continuous models based on e.g. forces of mortalities or models based on monthly or quarterly rates.	
Q1.18		
Q1.19		
Q1.20		
Q1.21		
Q1.22		
Q1.23	Regarding the spread risk for European government bonds which are not issued in the country's home currency but in another currency of the European Union (in most cases the Euro) the same exemption for the spread risk should be applicable as for standard EU government bonds.	
Q1.24		
Q1.25		
Q1.26		
Q2.1	We fully support the call for more encouragement of internal credit assessment as opposed to the sole reliance of external ECAI as drafted by Insurance Europe to this question. In allowing a higher level of internal credit analysis it is very important to apply the principle of proportionality! The requirements for internal credit assessments must take into account the ressources of the insurance undertaking.	
Q2.2		
Q2.3		
Q2.4		

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Q2.5		
Q2.6	Accountancy-based measures for the calculation of the standard formula have to be used with some caution. These measures will vary widely across different branches, and will ultimately lead to some insurance wide rating approach.	
Q2.7		
Q2.8		
Q2.9		
Q2.10		
Q3.1		
Q3.2		
Q3.3		
Q3.4		
Q3.5		
Q3.6		
Q3.7		
Q3.8		
Q3.9		
Q3.10		
Q3.11		
Q3.12		
Q4.1		
Q4.2		
Q5.1	In case FP_future is still used for premium risk after the SCR review, this is reasonable because in this way all premiums related to new business beginning within the following 12 month are covered in the SCR calculation.	
Q5.2		

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Q5.3	Portfolio 2: impact of suggested method in Q5.1 FP_future: +30% Premium volume measure: +4%	
Q5.4		
Q5.5	In Austria it is usual for some LOBs to have policies of long duration. FP_future and FP_existing include premiums in excess of a one-year premium, hence the risk calculated is also not the one year risk but the risk for the whole duration of the contract (at least as far as premium is considered). Diversification effects over time and cancellation options in case of a claim are not properly considered. In case premium exceeding the following 12 months is considered in the premium risk calculation, weights could be introduced, decreasing for increasing years.	
Q5.6	Portfolio 3: Base case : FP_future and FP_exisiting are included in premium risk calculation Sensitivity 1: Premium risk without FP_future, FP_existing included -> -21% premium risk compared to base case Sensitivity 2: Premium risk without FP_future, 75% of FP_existing included -> -33% premium risk compared to base case Sensitivity 3: Premium risk without FP_future, 50% of FP_existing included -> -45% premium risk compared to base case Example: There are no own funds for business included in FP_future. In case FP_future will still be considered for premium risk after the SCR review, this issue could be remediated with this simplified method: $FP\_future * 3 * sigma - FP\_future * (1\text{-Combined ratio}) * (1\text{-Tax rate})$. This could be represented through the multiplication of FP_future with $[1 + ((\text{Combined ratio-1}) * (1\text{-Tax rate}))/(3 * sigma)]$ within the capital requirement calculation.	

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Q6.1		
Q7.1		
Q7.2	Grouping of zones does not decrease the effort significantly.	
Q7.3		
Q7.4		
Q7.5		
Q7.6		
Q7.7		
Q7.8	For some regions extremely different factors are assigned to neighbouring zones (e.g. Lindau). Factors in such areas could be smoothed.	
Q7.9	The statement does not directly relate to the question but we want to mention that it is unclear whether to apply the sum insured or the contractual limit. Further clarification is needed on how contractual limits are incorporated and it is also wanted that individual limits can be considered within the calculation.	
Q7.10	It does not seem that a third windstorm event would improve the risk-sensitivity significantly.	
Q7.11		
Q7.12		
Q7.13		
Q8.1		
Q8.2		
Q8.3		
Q8.4	It is a challenge to identify the «within a radius of 200 meter« exposure. Furthermore we would see it as logical to use PML instead of sum insured, as PML is the KPI that is also usually used in the internal risk management framework and in pricing and considerations on reinsurance are usually also based on PML.	
Q8.5		

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Q8.6		
Q8.7		
Q8.8	It is reasonable to determine the highest risk exposure based on net exposure. There should be a simplification for complex reinsurance programs, e.g. observe Top 10 gross exposures.	
Q8.9		
Q8.10		
Q8.11		
Q8.12		
Q9.1		
Q9.2		
Q9.3		
Q9.4		
Q9.5		
Q10.1		
Q10.2		
Q10.3		
Q10.4		
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Q10.6		
Q10.7		
Q10.8		
Q10.9		
Q10.10		
Q11.1		
Q11.2		
Q11.3		

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	Comments Template on Discussion Paper on the review of specific items in the Solvency II Delegated Regulation	
Q11.4		
Q11.5		
Q11.6		
Q11.7		
Q11.8		
Q11.9		
Q12.1		
Q12.2		
Q12.3		
Q12.4	We believe that the counterparty default risk module as a whole is overly complex and burdensome, especially in relation to its impact on the overall SCR for the majority of (re)insurers.	
Q12.5		
Q12.6		
Q12.7		
Q13.1		
Q13.2		
Q13.3		
Q13.4		
Q13.5		
Q13.6		
Q14.1	Article 182 (4): The rounding-up can lead to inappropriate average credit quality step, especialle in risk factors for cqs 3 (27%) and 4(73%), because if nearly the whole assets of the ultimate parent are in cqs=3 and one insignificant asset is in cqs=4, then the whole portfolio has to be treated with cqs=4! We reccomand change the "rounding-up" to "rounding".	
Q14.2		
Q14.3		

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Q14.4		
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Q14.6		
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Q14.11		
Q14.12		
Q15.1		
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Q15.3		
Q15.4		
Q16.1		
Q16.2		
Q16.3		
Q16.4		
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Q16.7		
Q16.8		
Q16.9		
Q17.1		
Q17.2		
Q17.3		
Q17.4		

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Q17.5		
Q17.6		
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Q17.13		
Q17.14		
Q17.15		
Q17.16		
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Q18.13		
Q18.14		

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Q18.15		
Q18.16		
Q19.1	6% Cost of Capital is too high The method for calculating the risk margin should be more simplified approach, f.i. a % of a respective reference basis by LoB (f.i. in % of BE for with profit-sharing and unit linked, …)	
Q19.2	The cost of capital rate should reflect a long-term average rate and stay on a stable basis in order not to add further volatility in the SII regime. The current CoC factor of 6% is too high.	
Q19.3		
Q19.4		
Q20.1		
Q20.2		
Q20.3		
Q20.4		
Q20.5		
Q20.6		
Q20.7		
Q20.8		
Q20.9		
Q21.1		
Q21.2		
Q21.3		
Q21.4		
Q21.5		
Q21.6		
Q21.7		

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