	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:	**AMICE**	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
	Please follow the following instructions for filling in the template: ⇨ Do **not** change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool ⇨ Leave the last column empty. ⇨ Please fill in your comment in the relevant row. If you have no comment on a paragraph or a cell, keep the row empty. ⇨ Our IT tool does not allow processing of comments which do not refer to the specific numbers below. **Please send the completed template, in Word Format, to CP-16-008@eiopa.europa.eu** **Our IT tool does not allow processing of any other formats.** 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	EIOPA has launched the Discussion Paper in a period in which the members of AMICE are very busy in preparing the annual financial statements and determining the Solvency positions and all related disclosure requirements. The topics presented by EIOPA are topics which need to be discussed intensely especially when issues are recognised and solutions have to be prepared. AMICE has tried to provide as much details as possible and examples where relevant. However, the limitations in time and resources of our members did provide us with some constraints. Where AMICE uses the term insurance undertaking or insurer also reinsurance is meant.	

	• **Simplified calculations** National supervisors should not ignore the existing simplifications and should make sure that the requirements are applied in a proportionate way. Insurers should not be required to quantify the degree of model error in precise quantitative terms or to recalculate the SCR using a more accurate method in order to demonstrate that the difference between the result of the chosen method and the result of a more accurate method is immaterial. AMICE provides in the detailed response, a number of simplifications to the standard formula. • **Reducing reliance on external credit ratings in the standard formula** AMICE fully supports the reduction of reliance on ECAI ratings. We propose that the Solvency II framework does not refer to credit ratings as those references trigger a sole or mechanistic reliance on credit ratings. The calculation of the capital requirements for the spread risk sub-module, the concentration risk sub-module and the counterparty default risk module should not be dependent on ratings for firms with simple, plain vanilla assets. • **Treatment of guarantees, exposures guaranteed by a third party and exposures to regional governments and local authorities (RGLA)** AMICE supports a better recognition of the risk-mitigating effect of guarantees in Solvency II and highlights that a similar treatment should be envisaged for the same related exposures regardless whether they are subject to CRD/CRR or Solvency II. Furthermore, partial guarantees should be recognised in a similar way as to full guarantees. • **Risk-mitigation techniques (RMT)** There is the need for a more appropriate recognition of the risk-mitigation techniques in Solvency II. • **Volume measure for premium risk** AMICE believes that the approach used by insurers for measuring $FP_{(future,s)}$ does not need to be reviewed. $FP_{(future,s)}$ should be completely deleted rather than revised at least for 1-year annual renewable contracts. This is because premium risk should be in line with the definition of the	

	Solvency II Directive also for pluri-annual contracts which represents a smaller share of non-life business. The fluctuations at risk in the non-life premium risk are attached to the claim events covered by the insurance obligations resulting from the premiums earned in N+1. This alternative is consistent with the current calibration of the risk factors for premium risk. • **Assessment of the appropriateness of standard parameters for non-life premium and reserve risks and for medical expense risk** AMICE does not support the recalibration of premium and reserve risk for the medical expense line of business. The diversity of data due to very different regulatory regimes, the fact that businesses are conducted with different features in different jurisdictions and the co-existence of different accounting, actuarial and product practices indicate that the calibration of the standard deviation for medical expenses should be carried out in terms of national markets. AMICE proposes to add income protection to the lines of business identified by EIOPA as subject of review. • **Natural catastrophe risks** AMICE proposes, in the detailed comments, different simplified calculations to the current approach for the calculation of the capital requirements for natural catastrophe risk (suppression of CRESTA zones for each peril in favor of a single zone at country level; to limit the calculations for each hazard to a single scenario; to define combinations of frequency scenarios between different natural perils; and for undertakings with little exposures in non EEA countries the elimination of all geographical areas for each peril where the shock applied is on premiums). We note that the calibration of earthquake for Slovakia is very onerous. • **Man-made catastrophe risk** AMICE believes that the approach for calculating the capital requirements for marine, aviation and fire risks should not be amended. A modification will add layers of complexity as firms will be requested to carry out all calculations for multiple exposures. Regarding the fire-risk sub-module, AMICE proposes a simplification which would retain the largest single exposure of the firm's portfolio	

	to which a fixed part (to be calibrated) of the whole portfolio is added in order to take into account possible cumulative losses in a scenario of conflagration. • **Health catastrophe risk** AMICE notes that there are a number of challenges in the mass accident risk sub-module which would need to be addressed. • **Life / SLT Health Underwriting Risk Module (Mortality, Longevity risk)** AMICE supports the need to review the calibration of mass lapse risk for both life and SLT health underwriting risk module as the empirical basis to calibrate this risk was scarce and the shock is well above what members consider appropriate. AMICE also proposes a review of the longevity shock which overstates the real longevity risk and has adverse consequences for the annuity business. • **USP and GSP on underwriting risks** AMICE supports the extension of undertaking specific parameters to life and SLT health underwriting risk module. We note that there are a number of challenges regarding the application of group specific parameters (GSP) which need to be addressed. • **Counterparty default risk module** AMICE provides in the detailed comments, a proposal to simplify the Loss Given Default (LGD) calculation for the risk mitigating effect of reinsurance exposures. • **Assumptions of the market concentration risk sub-module** We would like to highlight that the inconsistencies regarding the requirements related to single name exposures (i.e determining the single name when single name exposures are included at the same time insurance undertakings, credit institutions, or other financial institutions) need to be addressed.	

	• **Look-through approach** AMICE supports the extension of the application of look through to investment related undertakings that are used as investment vehicles by insurers. Furthermore, investments backing unit-linked and index linked products should be excluded from the look-through approach provided the market risk on those assets is negligible (i.e unit link and index linked assets backing liabilities without guarantee). The application of the simplified approach is limited to 20% of the value of the assets of the undertaking. This threshold should not be applied to unit linked and index linked products. • **Interest-rate risk** The review of the interest rate risk sub-module should be part of the 2020 review which will also look at the long-term guarantees package. The interest rate risk module should not be reviewed in isolation from the other elements of the framework such as the last liquid point or the UFR. • **Loss absorbing capacity of deferred taxes** EIOPA should not be capping the loss absorbing capacity of deferred taxes (LAC DT) at the level of the net deferred tax liabilities (net DTL). The recoverability testing, the recognition of the different sources of profit are elements of the Solvency II framework and should not be limited. Furthermore, AMICE supports that deferred tax liabilities on own fund items should not be computed when the own fund item is the result of a permanent difference and it never expires on a going-concern. • **Risk margin** The current environment of low interest rates is having a multiplier effect on the risk margin. The Cost-of-Capital rate, which is too high and has not been sufficiently justified, should be reviewed so that acts as an anticyclical instrument. The methodology to compute the risk margin should also be revised so that the long-term measures can be used.	

	• **Comparison of own funds in insurance and banking sectors** AMICE acknowledges that insurance and banking have different business models. However, any difference in characteristics should be avoided. Differences in required features for similar type of capital instruments generate additional costs for the financial institutions subject to the most stringent features. • **Capital instruments only eligible as tier 1 up to 20% of total tier 1** AMICE supports the removal of the limit of 20% on the restricted tier 1 capital instrument for mutual member accounts.	
Q1.1	**Undertakings should not be required to quantify the degree of model error in precise quantitative terms or to recalculate the SCR using a more accurate method** in order to demonstrate that the difference between the result of the chosen method and the result of a more accurate method is immaterial. It is often difficult to assess the exact error induced by the proposed simplification since it is often a solution used when the insurance undertaking faces difficulties to obtaining more precise information. Theoretical case studies based on realistic assumptions as close as possible to the conditions encountered by the insurance company can be a good proxy of the error induced. Additionally firms should be able to have a qualitative assessment of the possible model error. This assessment should be subject to the supervisory review process e.g. the appropriateness of using the simplifications is first subject to internal governance procedures and it will be scrutinised afterwards by the supervisory authorities in their dialogue with the insurance undertaking. The requirement to calculate model error involves the development of separate models which requires loads of resources. If an insurer would be able to develop such a model, the need to use the simplification is actually obsolete because than this model can be used. The requirement to calculate the model error is basically contradicting the need for proportionality. It is to be noted that **other simplifications should be allowed** and not ony the ones listed in the Solvency II Delegated Acts for proportionality and materiality reasons.	
Q1.2		

Q1.3		
Q1.4	For premium and reserve risk, the parameter used to approximate the 99,5% quantile is equal to 3 which reflects the 99,5% quantile of lognormal distributions. This is not consistent with the underlying distribution used to calibrate the standard deviation for premium and reserve risk. The capital requirement for the combined premium risk and reserve risk was computed as follows $$\rho(\sigma) = \frac{\exp\left(N_{0.995} \bullet \sqrt{\log(\sigma^2 + 1)}\right)}{\sqrt{\sigma^2 + 1}} -$$ $N_{0.995}$ = 99.5% quantile of the standard normal distribution σ = Combined standard deviation for non-life premium and reserve risk The formula above has been replaced by the following proxy: $$NL_{pr} = 3 \cdot \sigma \cdot V$$ where V = Volume measure σ = Combined standard deviation for non-life premium and reserve risk The table below shows that the simplification overstates the capital requirements for premium and reserve risk for low standard deviations (from 5% to 13%) whereas it understates the capital requirements for high standard deviations (from 14% to 19%).	

Line of Business	**Standard deviation premium risk**	**p(sigma)**	
		Simplification	**Standard calculation**
Medical Expenses	5,0%	15,0%	13,6%

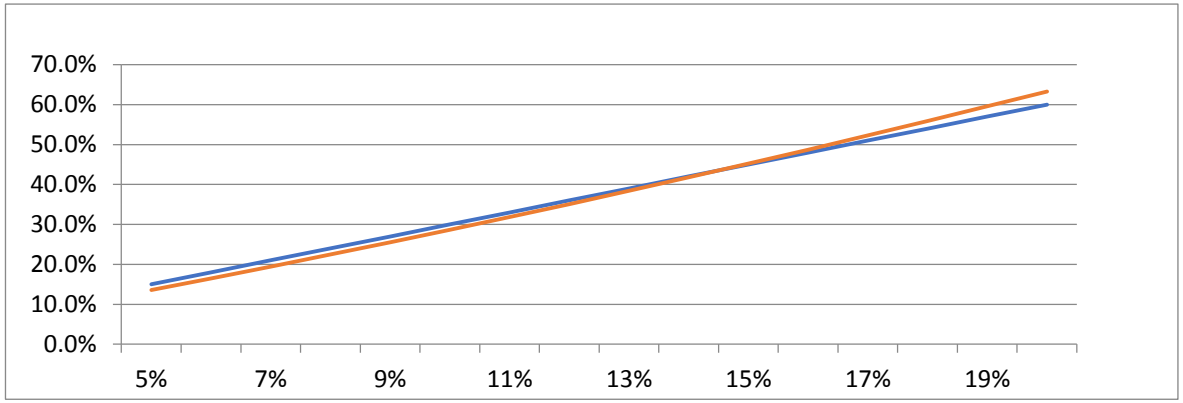
Income Protection	8,5%	25,5%	24,0%
Worker's compensation	8,0%	24,0%	22,5%
Non-proportional health reinsurance	17,0%	51,0%	52,3%
Motor vehicle liability insurance	8 %	24,0%	22,5%
Other motor insurance	8 %	24,0%	22,5%
Marine, aviation and transport insurance	15 %	45,0%	45,2%
Fire and other damage to property insurance	6,4 %	19,2%	17,7%
General liability insurance	14 %	33,6%	32,5%
Credit and suretyship insurance	12 %	36,0%	35,1%
Legal expenses insurance	7 %	21,0%	19,4%
Assistance	9 %	27,0%	25,5%
Miscellaneous financial loss insurance	13 %	39,0%	38,4%
Non-proportional casualty reinsurance	17 %	51,0%	52,3%
Non-proportional marine, aviation and transport reinsurance	17 %	51,0%	52,3%
Non-proportional property reinsurance	17 %	51,0%	52,3%

Line of Business	**Standard deviation reserve risk**	**p(sigma)**	
		Simplification	**Standard calculation**
Medical Expenses	5,0%	15,0%	13,6%
Income Protection	14,0%	42,0%	41,8%
Worker's compensation	11,0%	33,0%	31,8%

Non-proportional health reinsurance	20,0%	60,0%	63,3%
Motor vehicle liability insurance	9,0%	27,0%	25,5%
Other motor insurance	8,0%	24,0%	22,5%
Marine, aviation and transport insurance	11,0%	33,0%	31,8%
Fire and other damage to property insurance	10,0%	30,0%	28,7%
General liability insurance	11,0%	33,0%	31,8%
Credit and suretyship insurance	19,0%	57,0%	59,6%
Legal expenses insurance	12,0%	36,0%	35,1%
Assistance	20,0%	60,0%	63,3%
Miscellaneous financial loss insurance	20,0%	60,0%	63,3%
Non-proportional casualty reinsurance	20,0%	60,0%	63,3%
Non-proportional marine, aviation and transport reinsurance	20,0%	60,0%	63,3%
Non-proportional property reinsurance	20,0%	60,0%	63,3%

Standard deviation	**p(sigma)**	
	Simplification	**Standard calculation**
5%	15,0%	13,6%
6%	18,0%	16,5%
7%	21,0%	19,4%
8%	24,0%	22,5%
9%	27,0%	25,5%

	10%	30,0%	28,7%
	11%	33,0%	31,8%
	12%	36,0%	35,1%
	13%	39,0%	38,4%
	14%	**42,0%**	**41,8%**
	15%	45,0%	45,2%
	16%	48,0%	48,7%
	17%	51,0%	52,3%
	18%	54,0%	55,9%
	19%	57,0%	59,6%



We would propose by default the exact formula and the proxy as a fall-back method.

Additionally, we also support the **allowance of a scenario based approach for non-life premium & reserve risk** as it would facilitate the application of reinsurance covers and the recognition of the loss absorbing capacity of non-life discretionary benefits.

Q1.5	Insurers face strong challenges when computing the non-life lapse risk. Despite we question the unduly high level of the calibration of this risk, we have a strong operational challenge in applying the discontinuance of 40% on a policy by policy basis. Such a process is completely disproportionate as non-life risks are not monitored on a policy by policy basis but rather on a portfolio basis.	

Q1.6	There is a strong need for a simplification of this module; we would like to advocate for the application of the shock at the aggregated level of the policies included in the best estimate of premiums. We would propose the following amendment to Article 118 (1) (a): "*the discontinuance of 40% of the insurance policies included in the non-life premium provision for which discontinuance would result in an increase of technical provisions without the risk margin*"	ok
Q1.7	The main challenge relates to the documentation requirements in order to use simplifications. In certain situations when a simplified method is 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.	
Q1.8		
Q1.9		
Q1.10		
Q1.11		
Q1.12		
Q1.13	The **non-life lapse module** captures the same risk as the life lapse module (loss in profit). It is very burdensome to compute it policy-by-policy. If it is a loss-making contract the company does not need to calculate this risk. But it is difficult to identify which policy is loss making. For contracts with a remaining duration of less than one year the lapse risk could be assumed to be zero as a simplification by default. These contracts will generally not lapse as the contract already entered into force. This risk is normally not material.	
Q1.14		
Q1.15	The Article 155 and Article 156 of the Delegated Acts compute the capital requirement for **medical expense disability – morbidity risk** and **income protection disability – morbidity risk**. The *health disability – morbidity risk sub-module* is computed as the sum of the "*Capital requirement for medical expense disability – morbidity risk*" and the "*Capital requirement for income protection disability – morbidity risk*" with no diversification benefits.	

	However, this distinction is not recognised in the annex for the LoBs. The SLT business does not have different lines of business. The LoB 29 Health insurance captures the SLT business (*health insurance obligations where the underlying business is pursued on a similar technical basis to that of life insurance, other than those included in LoB 33*). Breaking down the lines of business between medical expense and income protection disability – morbidity risk should be envisaged in this context.	
Q1.16	No comment	
Q1.17	No comment	
Q1.18	No comment	
Q1.19	No comment	
Q1.20	No comment	
Q1.21	No comment	
Q1.22	No comment	
Q1.23	The allowance to use the **dynamic volatility adjustment** in internal models and not in the standard formula does not provide a level playing field in terms of Solvency II across insurers. The Level 1 text states that a total balance sheet approach should be applied. This principle is not followed in the Delegated Acts as in the spread risk module only reference to assets is made. However, this is foreseen in Article 181 of the Delegated Acts for the matching adjustment. A replication of this article for the volatility adjustment would allow standard formula players to apply the dynamic VA. The same treatment should be envisaged, otherwise internal model players would have a competitive advantage vis-à-vis the standard formula players.	
Q1.24	The **current calculation of operational risk is not risk sensitive** and it does not allow any form of risk mitigation technique, management actions and/or arrangements (e.g reinsurance against fraud). The calculation does not incentivise either any good operational risk management as it is determined by means of the maximum of two volume factor times (premiums or best estimate) variables. All LoBs are treated in a similar fashion, while not all lines of business share the same sensitivity to operational risk. The formula should capture the extent to which operational risk management is embedded in the firm and the objectives to mitigate this risk are achieved. Operational risk can be categorised in	

	several major classes of causes for which an adequate level can be described; If an insurance undertaking would reduce the possibility of one of the major causes of operational risk (appropriate for that company), the capital requirement should be reduced. For example, having a redundant IT system which would serve as a back-up of the major system compared to insurers not having an effective back-up system should be taken into account.	
Q1.25	The capital requirement for the operational risk module is overly prudent. The basic capital requirement for operational risk is determined by means of the maximum of the capital requirements based on earned premiums and technical provisions. However, there is no risk sensitiveness in this formula. All lines of business (LoBs) are treated in a similar way whereas not all lines of business share the same sensitivity to operational risk. **A factor per-line of business should be set in line with the riskiness to operational risk.** An adjustment to the volume factors (premiums and technical provisions) should be allowed when it can be demonstrated that some parts are not exposed to operational risk. In this regard, any levies included in the best estimate for which the insurer is only a "passing-through agent" should be excluded from operational risk. **The current approach to calculate the operational risk module as detailed in Article 204 of the Delegated Acts should be kept as a fall-back option or simplification.** **A factor which would be capped depending of the global duration of the firm's technical provisions** Long-term players with larger technical provisions are overly penalised by the calibration of this module. We propose to set a cap to the 30% parameter in the SCR_{op} formula.	
Q1.26		
Q2.1	The request by which insurance and reinsurance undertakings shall nominate one or more ECAIs to be used for the calculation of the solvency capital requirements according to the standard formula should be removed (Article 4(2) Delegated Acts). Any available ECAI should be allowed to be used by the insurer. Furthermore, the use of the ESMA database can therefore be used to its fullest extent. For plain vanilla exposures only one rating of an ECAI should suffice. The requirement of multiple ratings will also require the use of multiple ECAIs	

	and related fees in order to use the ECAI throughout the Solvency II calculations and disclosure requirements. The Article 4(5) of the Solvency II Delegated Acts does provide an additional reliance on ECAIs by superceding the rating of an ECAI above that of an internal assessment. For very complex products such as securitisations already a requirement exists of multiple ratings from ECAIs. The requirement as laid down in this paragraph does not incentivise insurers to develop their own internal assessment systems. The use of multiple ECAIs should be sufficient. In any case the scrutiny of ECAIs and credit assessments would be part of an effective risk management system and the Prudent Person Principle of Solvency II.	
Q2.2		
Q2.3	The use of ECAIs with the current formulas cannot be avoided. However for several exposures EIOPA could provide some alternative solutions to reduce the reliance on external credit ratings by using alternatives: 1) For government bonds and related exposures EIOPA could use an alternative source for mapping the credit quality steps (CQS) by using data from supranational organisations such as the IMF or the OECD. 2) For exposures of financial institutions subject to prudential regimes such as the CRD/CRR or Solvency II the current framework already allows the use of the Solvency ratio (or equivalent) as basis for mapping. However, this is always second option to the availability of an ECAI rating. We propose this to be the first option, i.e if a solvency ratio is available, it should be used in the first place. 3) A **simplified calculation of the modules concerned should be available for firms with plain vanilla assets / simple assets**. The assessment of the volatility of the spreads would be based on a reference portfolio to be updated on a regular basis. In the formula no reference to ECAIs would be needed. The details of this proposal need further discussion and consideration by the AMICE members. AMICE will be in a position to come up with a concrete proposal in the coming	

	months. By assessing specific categories of exposures and assessing alternatives the system becomes less reliant on ECAIs which is in line with the political goal of the European Commission of reducing the reliance on ECAIs.	
Q2.4	The ability to develop internal measures is only available for few insurers because of the resources needed to develop such a system.	
Q2.5		
Q2.6		
Q2.7	The use of the market implied ratings and accountancy-based measures do not assess the volatility of the spreads but assesses the actual risk of default of the counterparty. In our opinion this should be the focus of the spread risk. According to Article 102 of the Solvency Directive, the spread risk sub-module is to be calculated based on the going-concern principle. This implies that insurers will maintain their exposures on their economic balance sheet as long as these are aligned with the related insurance obligations. Insurers are generally more concerned about the default risk and ability to avoid forced sales. Several exposures have the characteristic of «pull to par value ». As a result, the value will always develop to their nominal value as the maturity approaches. Any volatility of spread movement will gradually diminish. The spread risk module is currently very much focused on the widening and tightening of spreads and less focussed on the actual default risk. Insurers use ALM techniques to align their investments with their characteristics of the insurance obligations. For these exposures, as mentioned earlier, the default risk and policyholder behaviour are more important. Only for those exposures which are basically aligned with the own funds or other liabilities a more short term riskiness is assumed. By dividing the exposures in these two objectives the market risk (spread risk) module should be altered. For the first objective (ALM) reference should be sought which actually reflects the business model of insurers, while the second objective (return) could be based on the current approach.	
Q2.8	The use of ratios according to the CRD/CRR legislations, Solvency II legislation or equivalent should be allowed as a first option and not only when no rating of an ECAI is available.	
Q2.9		
Q2.10		

Q3.1	EIOPA refers to Regulation 575/2015. This is a wrong reference because this is the Restrictive Measures concerning Syria. Reference should be made towards 575/2013. Insurers and banks are competing in the same capital markets when assessing exposures in the form of bonds and loans. Although their objectives and their time horizons for investments can differ. When considering government related exposures a similar treatment should be available for financial institutions regardless whether they are subject to CRD/CRR or Solvency II supervision. If a government or related exposure is exempted from capital requirements under the one regime it should also be treated similarly within the other regime. In the CRD IV (575/2013) Article 3 (8) a definition is provided for the public sector in which also government and regional governments are mentioned. "*…to authorities that exercise the same responsibilities as regional governments and local authorities, or a non-commercial undertaking that is owned by or set up and sponsored by central governments, regional governments or local authorities, and that has explicit guarantee arrangements, and may include self-administered bodies governed by law that are under public supervision."* The Solvency II legislation should use the same definition, especially the latter part of the definition in order to obtain a « level playing field. When assessing the appropriate risk weighing the CRD makes a distinction between 1) government exposures, 2) regional governments, 3) other public sector exposures. This differentiation is not done within Solvency II. A similar categorisation should be done for Solvency II in accordance with the CRD IV. These categories could subsequently reflect the actual risk characteristics of the counterparties and the extent in which these are guaranteed by the government. Similar to the CRD IV Solvency II legislation lists the same regional governments as the CRD IV (as made public by the EBA on their website). However the CRD IV allows any other regional government bond exposures to be assigned a lower risk weighing (see article 115 (5)). This is not done within the Solvency II legislation. There is no reason known why this should not be applied for Solvency II. For Solvency II the risk factors could also be reduced by multiplying with 20%. Article 116 of the CRD IV also uses a distinction in duration of exposures to public institutions. If the exposures are less than three months the risk weighing is reduced to 20%. A similar treatment should	

	be made available for Solvency II. Especially based on the 12 monthstime horizon these exposures will be more sensitive to default risk than the volatility of spreads. Therefore the spread risk module should reflect this. According to article 116 (4) of the CRD IV "*In exceptional circumstances, exposures to public-sector entities may be treated as exposures to the central government, regional government or local authority in whose jurisdiction they are established where in the opinion of the competent authorities of this jurisdiction there is no difference in risk between such exposures because of the existence of an appropriate guarantee by the central government, regional government or local authority*." If the competent authorities assumes this the case for the one regime it should also be made available for the other regime. Otherwise it would distort the level playing field in possible investment opportunities including the risks associated with the exposures. Furthermore the CRD IV legislation also provides more categories such as institutions. These are granted a more favourable treatment than normal exposures. EIOPA should apply a same categorisations and treatment when assessing the risk factors under the Standard Formula. Investments by insurers in these type of exposures as mentioned within article 112 (a)-(f) are typically made to ensure a low risk profile of the exposures. However the Solvency II legislation does not have a similar categorisation when determining the capital requirements for spread risk (and concentration risk). <u>Example of dissimilar treatment of NHG as a credit risk mitigant within CRD IV/CRR and Solvency II</u> In The Netherlands, the National Mortgage Guarantee scheme (Nationale Hypotheekgarantie, hereinafter 'NHG') is a housing market instrument designed to improve access to the owner-occupied housing market. It is an instrument deployed by the national government. The NHG scheme is administered by the Homeownership Guarantee Fund (Waarborgfonds Eigen Woningen, hereinafter 'WEW'). WEW is responsible for policy regarding the NHG scheme and its implementation. WEW's goal is to promote homeownership and improvements in housing quality and help homeowners retain their homes. To achieve this, it uses sureties (for mortgages) as an instrument. To ensure that WEW can	

	indeed fulfil its guarantor function, WEW's articles contain several key elements such as the surety fee and the backup system. The WEW in short: • Autonomous, not-for-profit, private organization. • Improves homeowners' access to Dutch housing market • Stands surety for +/- €190 billion in mortgage loans • Guarantor of +/- 1.3 million active guarantees NHG is included in the risk weighting of mortgages on the balance sheet of mortgage lenders. For banks, under the EU Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD-IV), NHG is considered to be a CRM both in the standardized approach and in banks' internal models. In broad terms the same applies to insurers that use internal models to estimate mortgage risks as to banks (Article 235, delegated regulation for Solvency II). The NHG scheme satisfies the legal requirements in practice and can be applied as a CRM, although a capital buffer still needs to be held for operational risks and that part of the mortgage that is not covered by the NHG surety. However, the NHG scheme is not considered to be a form of CRM according to the Standard Formula under Solvency II.	
Q3.2	The current Solvency II requirement only allows for the recognition of guarantees if the exposure is fully guaranteed; there is no possibility for a partial guarantee. The Article 215 (f) of the Solvency II Delegated Acts should be amended so that **also partial guarantees are possible**. In many instances a guarantee can cover either the redemption value, the coupon or other similar payments during the duration of the exposure, allows for an own retention of a small part of the exposure, etc. By not allowing the guarantees where the risk is divided amongst different stakeholders, the guarantee is not eligible. The article could therefore be amended as follows : " the guarantee ~~fully~~ could covers all types of regular payments the obligor is expected to make in respect of the claim. The cash flows for which the guarantee is used, should be mentioned in the contractual agreement surrounding the guarantee." Furthermore, guarantees should also be allowed to be used as risk mitigation where the term	

	"collateral" is mentioned. For example, in Article 176 (5) of the Delegated Acts only reference is made towards collaterals. In this paragraph, reference to Article 215 should be made enabling the use of guarantees for these exposures. By only allowing collaterals the possibilities for risk mitigations are limited unless the list of institutions is elaborated as mentioned in Article 180 (2): "*Exposures in the form of bonds and loans that are fully, unconditionally and irrevocably guaranteed by one of the counterparties mentioned in points (a) to (d), where the guarantee meets the requirements set out in Article 215, shall also be assigned a risk factor stress of 0 %.".*	
Q3.3	Yes, partial guarantees should be allowed. This requirements does prohibit significant guarantees not to be eligible for Solvency II purposes. The benefits will outweigh any other costs. Normally an insurer would already make this split for risk management purposes. The recognition of a partial guarantee will generally only have an impact on the actual outstanding exposure which will serve as in-out for the calculations of the capital requirements. **Example – NHG as a partial guarantee** NHG is an extensive surety for mortgages that covers not just the residual debt but also the costs and penalties associated with a forced sale. According to DNB, Solvency II does not allow taking into account the risk mitigating effects of NHG. In support of this decision, De Nederlandsche Bank points out two new requirements in Solvency II: Firstly, guarantees under Solvency II can only be treated as a form of (CRM) if this option is specifically stated in the Solvency II framework; This is not the case for mortgages. Secondly, CRM only applies if the guarantee covers all payments in full. The NHG scheme does not satisfy this requirement due to the annuity-based decline in the surety amount, the lender's own risk and the fact that future interest income — and consequently the difference between the market value and the book value — is not covered. This means that lenders have to maintain capital buffers in accordance with the standard formula for mortgages, and consequently do not enjoy any advantages: Under the Solvency II Delegated Acts (Regulation 2015/35/EU) guarantees may only be taken into account if they fully cover all types of regular payments the obligor is expected to make in respect of the claim (Article 215 (f) of the Solvency II Delegated Acts). NHG does not meet this requirement for	

	the following three reasons: 1. The amount paid out in case of default is at most the difference between the nominal value and the value of the collateral, which means that NHG does not cover all types of regular payments the obligor is expected to make in respect of the claim. 2. The guaranteed sum decreases on an annuity basis. *3.* Effective from 2014, NHG mortgage loan providers must take into account an excess of 10%." (Source: www.dnb.nl) If a partial guarantee would be allowed, the NHG would be able to meet the stated criteria covered by Article 215 of the Solvency II Delegated Acts.	
Q3.4	Insurers have to invest in investment guarantees which are competing with that of the banking sector. Examples are loans to SME entities. These loans to the SME are mostly additionally guaranteed by institutions (not necessarily by central governments). Several investment categories will have partial guarantees. Amongst others, (subordinated) loans, mortgage loans, infrastructure loans. The type of investments are typically having a direct impact on the real economy. The ability for insurers to compete for these type of investments provide a real incentive for the real economy. Having a diversified ability to investment will also be a positive incentive for insurers spreading their risk profile. For some life insurers the exposures having partial guarantees amount to 10% of their total investments value. **Example - Dutch mortgage market in 2016** • The outstanding mortgage debt in the Netherlands amounted to € 662 billion. The share of banks in this was 75%, the proportion of insurers was 8%. • The total of new loans amounted to € 33 billion in 2016. Of this, 62% was financed by banks and 9% by insurers. • The share of NHG-mortgages in the mortgage lending by banks was about 21% in 2016, by insurers that share was about 38%. (Source: DNB, 2016)	
Q3.5	The capital requirement for spread risk is the exposure times a risk factor which depends on the CQS and duration. The guarantee will have an impact on the exposure used as input. The guarantee will lower the total exposure.	

Q3.6	The guarantees, if meeting the requirements, should be allowed to reduce the exposure to all types of investments regardless of their category. Thus, guarantees should be recognised in the spread risk (bonds/loans, securitisations), and concentration risk sub-module and the counterparty default risk module. There should be no artificial limitation.	
Q3.7	The use of guarantees by institutions /collateral would be a factor which is used in making investment decisions. If guarantees would be allowed in a broader sense this would a positive incentive for insurers to invest in these type of exposures. The risk profile of the investment portfolio would improved.	
Q3.8	As mentioned under Q3.1 the definitions as used by the CRD IV should be introduced for Solvency II purposes including the subsequent treatment for determining the appropriate capital requirements. In order to have a level playing field between banks and insurers competing in the same market the exposures should be treated in a similar fashion. A guarantee issued by central governments or regional governments should have the same value as they are issued by the government in their broadest sense. If treated in a dissimilar way, there should be a clear decisive reason and will generally be based on local legislation within a member state i.e. a government which will not back the local or regional government. Generally, there are structures in place which ties the regional government to the central government.	
Q3.9	In principle there is no difference. However that could differ amongst member states.	
Q3.10		
Q3.11	Yes, the same categorisation should be used. The risk profile of the categories mentioned in Article 115 are different which would justify a different treatment.	
Q3.12	Insures would probably consider these investments more favourable in their investment strategy. These exposures will have a lower return profile than other (corporate) exposures. If the treatment is not aligned similar to that of banks, there is less incentive to invest in these type of exposures. The insurer would be faced with lower returns while the risk is the same as other non-LTGA exposures.	
Q4.1	Financial risk mitigating techniques in the form of longevity index-linked derivatives are increasingly being considered to transfer risk (also to non-insurance companies). As transactions are being done and models have been developed, the knowledge basis has widened and the reporting solutions have been defined.	
Q4.2	Focusing on longevity index-linked derivatives: **How do you define the RMT? Is there a legal definition?** * The RMT is an OTC instrument with a pay-off that relates to an objectively verifiable longevity	

	index. **How has the situation with respect to the RMT changed in the last years (in other words, what is "recent")** * The progressive focus of Solvency II on risk has increased, over the last few years, the incentives for a better risk management. Theoretically, there is no reason why a company that is successful in selling longevity products should also be the one keeping them on its own books (cf. mortgages). See also answer to Q 4.1. * The materiality has in some organisations never materialised because of uncertainty around the treatment by the regulatory authorities of : - own fund benefits in the risk margin (or on the asset side), e.g. related to projected SCR reductions. Yes, the nature of the hedge will change over time. To the extent that the risk margin is projected on the basis of the best estimate realised, why would projecting hedge benefits require much more detail ? Or unspecified (and therefore unmanageable) regulatory concerns regarding : - We believe that the concentration risk within the reinsurance sector should be addressed by regulators / supervisory authorities. - regulatory arbitrage / risk measurement is about tail-risks .. if firms only hedge tail-risks, isn't that exactly the purpose of regulation? If the idea behind Solvency II is (also) to support risk management across the risk spectrum, would it be useful to discuss a proxy method to combine the two angles (and revise the whole SII framework) ? * - Regarding materiality (210.2, 210.3) Basis risk to the extent that the standard formula is regarded as typically sufficient to capture risk, we query why hedging this standard formula risk would now create the need for a significant 'appropriateness assessment'. Do we want to take the same approach for all areas in the appropriateness assessment? Can't we agree on a proportionality approach where transfer of the first part of systematic longevity risk has only limited requirements for basis risk ? - Legal form (2.11 vs 2.12): we query why there is a difference between 2.11 and 2.12.There is no need for a formal definition. Do we need a legal definition ? For instance, why is there a need for a formal definition of 'special purpose vehicles' ? Relaxing the requirements for the legal nature of the	

	contract would help. In quantifying risk margin benefits, the principle of substance over form should prevail. For instance, we query why the reinsurance contracts are included in a transfer to a reference undertaking whereas financial instruments are not included. * Link to risk management (2.12): we query why issuing longevity products would need to be treated differently from hedging longevity products in risk management processes. * Valuation of financial instruments (2.12.3), Given the illiquid nature of these contracts, valuation methodologies cannot be perfect. Valuation issues are comparable to valuation of technical liabilities, and can be addressed in the same way. * What is the effect of new developments in risk-mitigating techniques not taking place at all, because they are not recognised by the regulator ? Companies incur too much risk, are too afraid to sell new products. Innovation is stifled.	
Q5.1	The underlying exposure to the non-life underwriting premium risk should be corrected and the term FP (future,s) in Article 116 of the Delegated Acts should be deleted: 1. The exposure to the non-life underwriting premium risk is not well defined for contracts with a one year term renewable. Depending on the precise date of the renewable term in the 12 months following the reference date (date of the calculation of the SCR) the application of Article 116 (3) of the Delegated Acts is creating unfair implementations of the formula inconsistent with the actual risk the undertaking is facing. The problem relies within the $FP_{(future,s)}$ definition that is overlapping and creating inconsistencies. 2. One needs to bear in mind that the Solvency II Directive is imposing a calculation of the risks associated with non-life new business written in the 12 months following the reference date (in this respect there is an unlevel playing field between life and non-life business). 3. The risk targeted is not very clearly defined and should anyway be limited to a one year time horizon in order to comply with the definition of the SCR. This means that the fluctuation in the timing, frequency and severity of insured events and in the timing and amount of claims settlement should be assessed in relation to the 12 months risk period following the reference date. With this in mind, an exposure equal to the premiums earned in the following 12 months is consistent with this definition and nothing should be added in relation to earned premiums in the 12 months following the next 12 months with regards to new business occurring in the 12	

	months following the reference date. 4. In order to address the above mentioned concerns and to fit with the SCR definition in Level 1, we ask for the deletion of the term $FP_{(future,s)}$ in the V_{PREM} formula as currently determined in Article 116 of the Delegated Acts. In addition, EIOPA's proposal increases the capital requirement for non-life activities whereas it was already the case through the launch of Solvency II comparing to Solvency I for several non-life insurance activities.	
Q5.2	Whatever the duration of the contract (annual or pluri-annual), the formula aims at capturing a 1 in 200 year volatility event. Thus, it is not relevant to consider that the volatility scenario calibrated on the basis of a 99.5% VaR would occur on several consecutive years. Concerning annual contracts, the proposed change in the $FP_{(future)}$ definition implies an increase of up to 70% of the premium perimeter and makes this discrepancy even more obvious. Concerning pluri-annual contracts, the proposed change in the $FP_{(future)}$ definition increases the premium perimeter by a 10% approximately and confirms a discrepancy that implies a grievous burden. **1. For the measurement of premiums** To determine premium volume at reporting date end 2016 the definition should be equal to: Max (CY & Future Premiums on contracts written in 2016; CY & Future Premiums expected in 2017) *where CY: current year premiums* **2. Take into account expected profit to improve risk-sensitiveness** Currently in the case of unearned premium (i.e. premiums still to be collected corresponding to the time period remaining from contracts already written), the expected profits are included in the balance sheet but no inclusion is given for future premiums on expected new contracts. **If there is evidence that this is significant** then the following approach could be considered to provide an estimate of the future profit to be added to own funds:	

	Estimated profit on future premiums (EPFP) **EPFP = 1- Average Combined Ratio for product segment s** Average combined ratio could be calculated from average of combined ratios from past [X] years for the segment, potentially weighted so latest year gets highest weighthing because it is the best indication of combined ratio for immediate future. Number of years could be 3 or 5, but longer than that is unlikely to be sensible. This leads to the following outcome for **Expected Profit allowed (EP),** which is to be added to the own funds**:** **EP = P(future,s) * EPFP** (to be added to own funds) Note that if the premiums for 2017 are used rather than 2016 then the existing profit from earned premiums should be deducted because otherwise there is double counting. Since the risk will be measured based on expected premium for 2017 along with expected profit for 2017 and some of the expected profit relating to 2016 premiums. As indicated in our response to Q5.1 above, the volume measure for the non-life premium risk should be equal to the premiums earned in the 12 months following the reference date (including the premiums of the new business written in those following 12 months). Nothing should be added in relation to premiums earned in the 12 months following the next 12 months. We strongly believe that $\boldsymbol{FP_{(future,s)}}$ should in fact **be completely deleted rather than revised at least for 1-year annual renewable contracts**. This is because premium risk should be in line with the definition of the Solvency II Directive also for pluri-annual contracts which represents a smaller share of non-life business. **The fluctuations at risk in the non-life premium risk are attached to the claim events covered by the insurance obligations resulting from the premiums earned in N+1.** This alternative is consistent with the current calibration of the risk factors for premium risk.	
Q5.3	We believe that changing the definition of $FP_{(future,s)}$ would have a material impact on the volume measure for premium risk. A French estimate refers to a substantial impact between 5% and 15% of the Solvency II Ratio.	

Q5.4	Yes, we agree. Companies with a more conservative pricing strategy should not be penalised with a higher capital requirement. Within the Solvency framework a distinction is made between Health Insurance Not Similar to Life (NSLT) and Health Insurance Similar to Life (SLT). For NSLT, the non-life system of determining the underwriting capital requirements is used while for the SLT life scenarios are used. NSLT health insurance is always deemed to resemble the characteristics of non-life insurance; The contracts are mostly short tail and the risks are not biometrical . The capital requirements for non-life insurance lines of business including NSLT health insurance (*medical expense*, *income protection* and *workers compensation*) are based on the formula in which the volume factor is multiplied by a standard deviation which is again multiplied by a projection factor. This is performed per identified lines of business. The projection factor and standard deviation for reserve risk and premium risk is pre-defined. *Projection factor* The projection factor is used to project the normal development of the premium and reserve risk towards obtaining a VaR over a twelve month time horizon with a confidence level of 99.5%. The formula for the non-life underwriting risk has not changed since the first Quantitative Impact Studies (QIS). For the QIS studies EIOPA provided technical specifications which were based on the emerging views of the Solvency II legislation including the need for options to be tested. However for non-life insurance obligations the only contentious issue was the actual calibration of the “alpha” and “beta” (standard deviations for premium and reserve risk per line of business). SCR.9.18. The function $\rho(\sigma)$ is set such that, assuming a lognormal distribution of the underlying risk, a risk capital requirement consistent with the VaR 99.5% calibration objective is produced. Roughly, $\rho(\sigma) \approx 3 \cdot \sigma$ In the Solvency II Delegated Acts (Regulation 2015/35) which were adopted in 2015, the projection factor was increase from 2,58 to 3. This change, which was not properly documented, increased the the non-life underwriting risk capital requirements by 16.3% approximately. In our opinion the 2.58 factor is still justified and should be used in order to calculate the capital requirements for premium and reserve risk in both the non-life underwriting risk and NSLT	ok

	underwriting risk sub-module. *Volume factor times Standard deviation-NSLT* The capital requirements for premium and reserve risk assume that the claims can increase endlessly . Based on premiums or best estimates, the standard deviation per LoB determines the capital requirements. This is an appropriate assumption for most lines of business. However, for NSLT Health underwriting risk medical expense this is not an appropriate assumption. Typically, the claim in medical expenses is only paid when health care has been provided to the policyholder. This implies that there is a direct relationship between the ability to provide health care and the premium and reserve risk incurred by the (health) insurer. If absence of health care, no claims can be incurred. However, the standard formula does not recognise this principle and assumes an infinite possibility to provide health care in a Member State. Health insurance can be divided into basic health care (either private, but in most jurisdictions financed by (partial) public means) and supplementary health care. The cover of supplementary health care is mostly defined in quantity and quality. For example, a policyholder is only able to visit 18 times a physiotherapist for a fixed price. This implies that the actual costs can never exceed this pre-defined number and amount. This ceiling-effect is not recognised within the current approach for medical expense. The basic health care is provided by the medical infrastructure available in a country based on the local legislation enforced in each Member State. The extent in which the medical infrastructure and medical cost financing is organised defines how much the medical costs can actual increase over a twelve month time horizon. However, the likelihood of an increase is actually very limited. Only the not-used capacity of the medical infrastructure or the unstructured part of medical expense (if no pricing mechanism or budget constraints are in place, which in general is very limited in nature) can cause an increase in the health care costs. Within a twelve month time horizon it is not possible to have a fully operational hospital in place or to have new medical care specialists able to provide the health care demand as needed. This implies that the formula used to determine the capital requirements for premium and reserve risk will overstate the actual possible risk.	

	In order to accommodate for this "natural" boundary of the medical infrastructure, a cap should be placed. This cap could be determined based on the extent in which the medical infrastructure is used or not per Member State. $SCR_{(NSLT,\ medical\ expense,\ pr)} \sim 3 * \delta_{NSLT} * V_{NSLT} * \tilde{N}_{Member\_State}$ where, $\tilde{N}$ = (1-max (0,use of medical cost infrastructure$_{t-1}$/ full employment medical cost infrastructure$_t$)) The $\tilde{N}$ should be determined by the NSAs based on the same methodology throughout Europe based on statistical data as published by the national statistical agencies (or another organisation providing objective and transparent health data).	
Q5.5	The Solvency II Directive is imposing a calculation of the risks associated with non-life new business written in the 12 months following the reference date (in this respect there is an unlevel playing field between life and non-life business). The risk targeted is not clear and should anyway be limited to a one year time horizon in order to comply with the definition of the SCR. This means that the fluctuation in the timing, frequency and severity of insured events and in the timing and amount of claims settlement should be assessed in relation to the 12 months risk period following the reference date. With this in mind, an exposure equal to the premiums earned in the following 12 months is consistent with this definition and nothing should be added in relation to earned premiums in the 12 months following the next 12 months with regards new business occurring in the 12 months following the reference date.	
Q5.6		
Q6.1	On some activity lines where the number of players may be quite small as it is a concentrated market, the EIOPA rules for not carrying out the calibration exercise should be relaxed (i.e EIOPA states that the number of players for carrying out a recalibration should be higher than 100) Because, the risks collected from these players are consistent with the characteristics of the market under	

	consideration (significant representativeness). **Medical Expenses LoB** We strongly question the re-calibration exercise regarding the LoB medical expenses. The diversity of data due to very different regulatory regimes, the fact that businesses are conducted with different features in different jurisdictions and the co-existence of different accounting, actuarial and product practices, indicate that the calibration of the standard deviation for medical expenses should be carried out in terms of national markets. Defining a pan-European calibration for medical expenses would be misleading as the data to be collected by EIOPA on medical expenses will be mixing different risk profiles; The calibration of a common risk measure for all countries should not be chosen as the data will not be homogeneous. **Assistance LoB** The different reports during EIOPA's calibration exercise noted that the data for Assistance was scarce and not representative enough to be used as a basis of a European calibration. The calculations produced a set of widely dispersed results as data collected was insufficient to perform a reliable re-calibration, needing a good coverage to provide sound results. EIOPA also acknowledged in its report that the volatility factors for premium and reserve risks are typically impacted by the size of the portfolio (an increasing portfolio size decreases its volatility). The low number of very small portfolios in the sample used for the assistance calibration led to a very poor representativeness, on top of the non-conclusive data of the low quality sample. We welcome the inclusion of the Assistance LoB in EIOPA's review of the standard formula. **Income Protection LoB** AMICE would like to propose Income Protection Reserve Risk to be subject of the review.	
Q7.1	AMICE proposes four types of simplification to be considered: 1. The **suppression of CRESTA zones for each peril in favor of a single zone at country level.** The granularity of the requested information appears to be dimensioned with respect to a so-called standard formula and increases the computations due to the numerous parameters present in the correlation matrices.	

	2. For undertakings with **little exposures in non EEA Countries** (less than 10% of total premium income) the elimination of all geographical areas for each peril where the shock applied is on premiums. **A single "non-EU" zone could be sufficient**. 3. For each hazard, **limit calculations to a single scenario**. The use of scenarios A and B until the end of the calculation is indeed a source of complexity whose contribution does not necessarily appear to be justified. 4. Define **combinations of frequency scenarios between different natural perils** (i.e multiperil scenarios).	
Q7.2	The proposed approaches are the following: 1. Define the insurer's exposure for each peril from a **single standard parameter** calculated as a **weighted average vulnerability rate** (by CRESTA areas for example) **per EU country multiplied by the aggregate amount of the insured sums in the portfolio** of the insurance undertaking. 2. We propose secondly, as a simplification with respect of Article 88 of the Delegated Acts, to eliminate the approach by peril and to deal with this risk sub-module at the same level as NatCat risk sub-module. The new formulae would be the following : $SCR_{NatCat} = \sqrt{\sum_i SCR_{EEA,i}^{\ 2} + SCR_{non\_EEA}^{\ 2}}$ *With i = windstorm, hail, flood, earthquake and subsidence* *And* $SCR_{non\_EEA} = \beta \times (0{,}5 \times DIV + 0{,}5) \times P_{NatCat}$ *Where β to be calibrated* P_{NatCat} *: premiums relative to all natural Catastrophes events in regions outside EEA.* 3. Define the insurer's exposure for each hazard from a **single standard parameter** calculated as a	

	weighted average vulnerability rate (by non-EU areas for example) on **all non-EU countries** multiplied by the **amount insurance premiums of the portfolio** of the insurance undertaking in the areas concerned. 4. In order to remove the correlation matrices between the five natural perils and to facilitate the reinsurance covers application, we can propose two different approaches: (a) Define several combinations of different exposures calculated independently for each peril in order to have true **multi-perils disaster scenarios** well defined on which it is easier to apply reinsurance coverage. (Eg 80% of storm exposure + 40% of flood exposure or 60% of storm exposure + 50% of flooding exposure + 30% of hail exposure, etc.). These combinations, numbering 5 and subject to calibration, should be tested in order to retain the maximum net SCR amount for natural events. or (b) Determine 10 annual macro-European scenarios of natural catastrophes which can mix (or not) the 5 different perils and give the impact for every EEA countries and every peril. If the challenge will be to calibrate these scenarios, the use of market well-known modelling tools could be helpful.	
Q7.3	The main challenges are related to the **allocation of the sum insured to the correct risk-zone**. Specifically, since there is not a direct 1 to 1 match between the postal code and the risk-zones. The definitions in Annex IX of the Delegated Acts complicate the matter further; For example, in Sweden the zoning should be based on the postal code (see Annex IX ‘‘Mappings of risk zones for regions” where the zonation is based on postal codes) and also on administrative units (see Annex IX “Mappings of risk zones for regions” where the zonation is based on administrative units).	
Q7.4	The calibration of earthquake for Slovakia is very onerous and would have to be reviewed. Some of the parameters of earthquake risk in Slovakia are too high or not well calibrated when comparing to other countries. Slovakia is given a higher capital than Austria, Czechcan Republic or Italy. The city	

	of Vienna is also given a lower capital requirement than the city of Bratislava. We propose to review the calibration of earthquake risk in the Solvency II standard formula, in particular the cresta zone relativities. Please refer to the paper "Union poistovna, a.s., Slovakia, August 2016" for further information on the issues related to the earthquake calibration in Slovakia.	
Q7.5		
Q7.6	For all regions set out in Annex VIII and all hail zones, the sum insured for hail risk in a particular hail zone *i* of a particular region *r* shall be equal to the following: $$SI_{(hail,r,i)} = SI_{(property,r,i)} + SI_{(onshore-property,r,i)} + 5 \cdot SI_{(motor,r,t)}$$ Clarification is needed as to why the exposure to motor is multiplied by 5. No evidence is being provided for that in EIOPA's paper on the underlying assumptions of the standard formula.	
Q7.7		
Q7.8		
Q7.9		
Q7.10	Data in most jurisdictions show no indication of clustering of windstorms that results in a significant amount of insurance claims. We see no reason to add another windstorm to the stress. The capital requirement is already higher than the effect of any storm we have seen to date.	
Q7.11	No comment	
Q7.12	No comment	
Q7.13	No comment	
Q8.1	No comment	
Q8.2	No comment	
Q8.3	No comment	
Q8.4	We would support a change in the impact radius of 200 meters and to reduce the loss from 100% of	

	the sum insured to a % percentage. We propose that the biggest exposure is selected and to apply an upward factor to this exposure (1.5 times for example).	
Q8.5		
Q8.6		
Q8.7		
Q8.8	We do not believe the approach for calculating the capital requirement for marine, aviation and fire risks should be amended. **A modification will add layers of complexity as it would be necessary to carry out all calculations for multiple exposures**. It would also be more complicated to find geograpical zones because depending on the reinsurance protection to include different number of risks could lead to different net results. It has always been in the mind of the members of EIOPA's CAT SG to compute the risks gross and then to apply the reinsurance covers. Then firms have to prove in their ORSA that they are not cherry-picking and that the firm applies the facultative cover in a consistent way and not only for the 1/200 in the standard formula. We reiterate that there is a huge work to compute all nets and working out the highest. This creates loads of complexity.	
Q8.9	The exposure for fire catastrophe risk is more conservative than the 99.5% Value at Risk. The main reason has to be found in the gross exposure which is too high and it does not reflect the 99.5 % VaR.	
Q8.10	The geolocalized data as requested in the Solvency II Delegated Acts may be complicated to identify. In order to avoid this obstacle, a simplification in conformity with the requirements of Article 88 of the Delegated Acts could be to retain the **maximum exposure of the portfolio** of the company to which is added a fixed part (to be calibrated) of the whole portfolio in order to take into account possible cumulative losses in a scenario of conflagration: We would also support using an estimated maximum loss (EML) measure instead of the sum insured in this sub-module as it is more in line with the firm's underwriting process.	
Q8.11		
Q8.12	As a simplification in conformity with the requirements of Article 88 of the Delegated Acts, it could be retained the largest single exposure of the portfolio of the company to which is added a fixed part (to be calibrated) of the whole portfolio in order to take into account possible cumulative losses in a scenario of conflagration.	

	$SCR_{Fire} = SI_{Largest\_Exposure} + \alpha_i \times Expo\_Ptf$ *With* $SI_{Largest\_Exposure}$ — *the (re)insurer largest single exposure* $Expo\_Ptf$ — *the (re)insurer total exposure in the postal code where is located the largest single exposure* α_i — *a damage rate of the (re)insurer total exposure Expo_Ptf, depending of postal code density level. This rate would be obviously lower for a lower density level (3 categories could be defined : high sized, medium sized and low sized towns) .*	
Q9.1	The materiality of terror risk is very much dependant on the firms' portfolio. A change in the standard formula would not be justified with the materiality of the terror risk. For example, the stress scenario for terror risk results in 2500 dead which is roughly the same amount as the 9/11 attacks. The terror risk should be dealt within the ORSA.	
Q9.2		
Q9.3	When calculating the capital requirements for the mass accident risk, the ratio of persons affected by the mass accident per country should be used as defined in Annex XVI. Five event types are also defined as a result of the accident in Annex XVI with the ratio of persons (out of the persons affected) who will receive benefits for each event type. For each event type the benefits payable by the insurance company should also be defined. The value of the benefits shall be based on the maximum benefits obtainable under the contract (which is/are consistent with the event). For medical expense insurance obligations, the value of the benefits shall be based on an estimate of the average amounts paid in case of event. Some simplifications are needed where this amount is difficult to compute for some very specific supplementary health insurance cover due to the nature of its insurance obligations and guarantees. One of the **main difficulties encountered in calculating the risk of mass accident concerns the**	

	concept of disability for 10 years. Indeed, for guarantees providing for the payment of capital, evaluation may be problematic. Specifically for some markets, there is a separation between the notions of incapacity (not exceeding 3 years) and disability (final status). The notion of disability for 10 years implies that the insured will regain his full capacity after 10 years. Thus, this duration being greater than that characterizing the incapacity, handicaps during 10 years are considered as permanent handicaps. This leads to an overestimation of overall exposure. An alternative would be to specify in Article 161 of the Delegated Acts that the severity of the disability is proportional to its duration. This would make it possible to determine differentiated levels of severity based on the observation of its portfolio and be closer to the level of potential risk of the insurance undertaking. The other difficulty concerns products whose guarantees are on an indemnity basis (as opposed to a flat-rate basis). Article 161 (3) of the Delegated Acts states that "*Where the benefits of an insurance contract depend on the nature or severity of the physical injury (...), the calculation of the amount of benefits is based on the maximum level benefit which may be obtained under the contract in respect of the event concerned* ". This would lead to an extreme position to retain the guarantee ceilings for each contract. This is very conservative and far from reality, given that each insured has different characteristics and cannot claim to be unattached to the guarantee ceilings. The text could thus be amended as follows: "*Where benefits under an insurance contract depend on the nature or severity of the physical injury ... the calculation of the amount of benefits is based on the maximum level of benefits likely to be obtained under Of the contract in respect of the event concerned. This maximum level must be assessed with regard to the characteristics of each insured person* ".	
Q9.4		
Q9.5	The major difficulty in assessing exposures related to pandemic risk concerns the scope of the benefits to the type "*no formal medical care requested*". Specific descriptions should be given of the nature of the care that this notion covers.	
Q10.1		
Q10.2		
Q10.3		

Q10.4		
Q10.5		
Q10.6	In some jurisdictions firms use generational tables in their best estimate calculations. However, the standard formula longevity shock is based on one dimensional shift in the mortality table. In order to ensure the consistency between the best estimate and the solvency capital requirements, firms would have to recalculate their best estimate with a one dimensional table (i.e table without projection of mortality improvements). It is important to consider the relationship between the mortality tables used in the best estimate and the shock that is applied. **When the best estimate calculations already include future mortality improvements, the shock should be lower**. Furthermore, the longevity shock under the SCR standard formula overstates the real longevity risk which will have adverse consequences for the annuity business. An alternative and more granular approach can be found in "UNESPA Longevity Risk Investigation", a study by Towers Perrin released in 2009. This calibration exercise is also mentioned on page 32 of EIOPA´s report "*The underlying assumptions in the standard formula for the Solvency Capital Requirement calculation, July 2014*". EIOPA should also assess whether the correlation parameter between longevity and mortality risk (-0,25) is appropriate.	
Q10.7		
Q10.8		
Q10.9		
Q10.10		
Q11.1		
Q11.2	Undertaking specific parameters should be extended to Life and SLT Health underwriting risk module. In particular, **the shock on mass lapse for both Life and SLT Health underwriting risk module** is well above the level our members consider appropriate; In some markets for example, the possibility to terminate a policy is restricted by law. Not enough evidence has been provided to substantiate the 40% shock for mass lapse risk. EIOPA's report "The underlying assumptions in the	

	standard formula for the Solvency Capital Requirement calculation, July 2014" indicates that the empirical basis to calibrate the mass lapse event is scarce. The KPMG Study "*Technical Practices Survey 2015 Solvency II*" shows that internal model firms use a 30% mass lapse stress on average across all product types. We would therefore welcome a **review of the calibration of mass lapse risk** for both Life and SLT Health underwriting risk module and an **extension of the applicability of USPs** in particular for mass lapse risk.	
Q11.3		
Q11.4		
Q11.5		
Q11.6		
Q11.7	An insurance group can sometimes be confronted with different lengths of data time series depending on the different solo entities that compose the group. This situation involves limiting the length of the data time series for the calculation of the GSPs according to the shortest length of the set of solos. When the contribution of the solo concerned is small in terms of size, this is too penalizing at the level of a group as this limits the consideration of its specific volatility because of a reduced credibility factor.	
Q11.8	Regarding the different length of data time series, the regulator should explicitly allow the insurance group when the "data-length weak" solos contribute to a small share (to be calibrated) to the GSP calculation, to estimate the historical data in order to apply correctly the standardized methods detailed in Annex XVII of the Solvency II Delegated Acts, to longer data time series. Likewise, the group should be able to demonstrate that the risk profile of the firm whose data time series is shorter is homogeneous with all the group's risks.	
Q11.9	Some flexibility should be allowed for in the implementation of the statistical tests (see Annex XVII of the Solvency II Delegated Acts) and in the interpretation of the results both considering the scarcity	

	of data available and also taking into account that some of the assumptions to be tested are very strong and not completely realistic. Evidence of this is provided in Massimo de Felice, Franco Moriconi University of Perugia, October 2016, "On the Estimation of the Undertaking-Specific Parameters and the Related Hypothesis Testing" .	
Q12.1		
Q12.2	In the Solvency II standard formula the loss given default (LGD) for several exposures are used as input within the counterparty default risk module. For reinsurance arrangements, derivatives and mortgages loans the exposure in the LGD formula is reduced by collaterals (Article 192, 194 and 195 of the Delegated Acts). However, exposures are not only mitigated by means of collaterals but also by guarantees. Due to the narrow definition of collateral and collateral arrangements several other arrangements reducing the exposure for the insurance undertaking are not allowed such as guarantees and third party arrangements. The formulas should be amended to not only allow collaterals but also other arrangements having a similar effect (reducing the loss at default of the counterparty).	
Q12.3		
Q12.4	Calculating the risk mitigating effect is very demanding when comparing the capital requirement for the counterparty default risk sub-module with other modules. In particular, computing the risk mitigating effect in the pools is very complex and the data collection from other parties is very demanding. As for several insurers the risk mitigating effect is immaterial, the complexity should be alleviated.	
Q12.5	We would like to suggest another simplification in the calculation of the "risk mitigating effect from reinsurance in non-life underwriting risk" within the counterparty default risk module. According to Article 196 of the Delegated Acts, the risk mitigating effect for underwriting risks has to be calculated as follows: $$RM_{re,all} = SCR_{UW\ Non-Life}^{w.o.reinsurance} - SCR_{UW\ Non-Life}^{incl.reinsurance}$$ In order to receive these values, the SCR has to be calculated twice – once taking into account	

reinsurance and once under the assumption that the respective counterparties cannot fulfill their obligations. When reinsurance plays only a minor role we would like to propose the following simplification which was used in Qis5:

(i) Should the reinsurance arrangement only affect a single line of business, the risk mitigating effect can be estimated by

$RM_{re,all}$

$$\approx \sqrt{\left(NL_{cat}^{hyp} - NL_{cat}^{without}\right)^2 + \left(3\sigma_{prem,lob}\left(P_{lob}^{hyp} - P_{lob}^{without}\right)\right)^2 + \left(3\sigma_{res,lob} recoverables\right)^2 +}$$

where

- $(NL_{cat}^{hyp} - NL_{cat}^{without})$ denotes the part from the catastrophe losses written by the counterparty,
- $(P_{lob}^{hyp} - P_{lob}^{without})$ denotes the reinsurance premium of the counterparty regarding that line of business,
- $recoverables$ denotes the best-estimate of amounts recoverable from the reinsurance arrangement or insurance securisation in that line of business,
- $\sigma_{prem,lob}$ denotes the standard deviation of non-life premium risk in that line of business as used in the submodules non-life premium and reserve risk,
- $\sigma_{claims,lob}$denotes the standard deviation of non-life reserve risk in that line of business as used in the submodules non-life premium and reserve risk.

(ii) Should more than one line of business be affected by a reinsurance agreement with one counterparty, then the risk mitigating effect can be calculated per line of business as described in (i). The sum over all lines of business can be used as an estimation of the risk mitigating effect.

(iii) Should a risk mitigating instrument transfer both underwriting risks as well as market risks, a correlation coefficient of 25% should be applied when aggregating the effects.

This is a very useful simplification which reduces the workload during the SCR calculations.

Q12.6		
Q12.7		
Q13.1	Even though the quantitative amount of the capital requirement might be immaterial, it should be guaranteed that it remains small and also simple. Despite being immaterial, EBA and ESMA are driving banks and fund management companies to use CCP's at least in the case of interest rate swaps (IRS). The use of CCP's by insurers may be the rule later. The interest markets are driving the use IRS's for hedging purposes. The requirement consistent with the banks is simply 2% with a confidence level 99,9% of the market values. However, it should be calibrated to a confidence level 99,5%.	
Q13.2	N / A	
Q13.3	N / A	
Q13.4	Derivative transactions subject to central clearing will have a different risk profile from derivatives not centrally cleared. Currently, the CDR-type 1 standard formula approach of Solvency II does not recognise the difference between the two types. The loss given default (LGD) of a derivative transaction subject to the arrangements following the central clearing should reflect the impact of the arrangements and the procedures following a possible default of the parties. The LGD should also reflect the default fund (Article 42) established by CCP, the collateral requirements by the CCP and the default procedures (as mentioned in Article 48) As the shocks incurred by the insurance undertaking are instantaneous, we question whether the default fund established by the CCP also covers the instantaneous shock relevant for the derivative transactions. The reason behind is that all shocks are simulataneous. The question here is whether risks covered by the derivative are still covered by the CCP and Clearing Member. Within the CRR there is no mentioning of the impact on risk following the risk mitigation effect.	

Q13.5		
Q13.6	N / A	
Q14.1	Yes, in Article 184(2)(b) of the Delegated Acts, the list should include any related undertakings which are under control of the insurance undertaking. These entities are under full control of the insurance entities; because there is no look through the full adjusted equity value will be subject to the threshold assessment. It is very strange that a concentration risks charge would be required for a participation where the goals are aligned with that of the insurance undertaking. The strategic objective of the participation can fully be directed by the insurance undertaking.	
Q14.2	Difficulties can arise when assessing the exemptions and determining the single name exposure. For example, consider a situation in which an insurance firm has an exposure to a banking entity and both entities are part of a mixed financial holding company. According to Article 184 (2) (b) (i) of the Solvency II Delegated Acts, one could state that the single name entity is a mixed financial holding company and thus subject to the exemption. However, one could also argue that based on Article 184 (2)(b) the exposure is not to be included within the single name exposure. However this is not consistent with Article 182 of the Delegated Acts. If the exemption does not hold for this example, it is misleading that if the exposure is restructured, e.g. the mixed financial holding company is placed in-between, the example does hold and no charge is needed. In our view the assessment should be made at the level of the single name exposure. The Delegated Acts should be more explicit as how treat concentrations in equity/stock exposures. Currently the module is highly focused on bond exposures.	
Q14.3	Because the capital requirement has been in place as of 1 January 2016 companies have reduced their exposure. This implies that funds were invested in other credit institutions outside the influence of the group.	
Q14.4		
Q14.5		
Q14.6		
Q14.7		

Q14.8		
Q14.9		
Q14.10		
Q14.11		
Q14.12		
Q15.1	N/A	
Q15.2	N/A	
Q15.3	N/A	
Q15.4	N/A	
Q16.1	The related undertaking used as investment vehicle are normally under the control of the insurance undertaking and are established with a distinct goal supporting the operations of the insurance undertaking consistent with the ancillary service entity but then related to investment activities. Some of the criteria mentioned, for example financial leverage, is not a defining characteristic because the investment related undertaking can be fully financed by the parent company. We propose to add some additional characteristics such as: - The parent (e.g. an insurance undertaking) manages the participation following a look through approach. The investments are considered on a look-through basis in the ALM studies. - The activities performed can be done by the insurance undertaking. The definition of ancillary service undertakings is very restrictive. Ancillary service undertakings should cover a broader spectrum of activities on behalf of insurance and reinsurance undertakings We propose Article 1 of the Delegated Acts to be amended as follows : '*ancillary services undertaking' means a non-regulated undertaking the principal activity of which consists of managing ~~owning and managing property~~ assets, managing data-processing services, health and care services or any other similar activity which is ancillary to the principal activity of one or more insurance or reinsurance undertakings*".	
Q16.2	The financial leverage is not a relevant characteristic (see answer to Q16.1); the nature of liabilities is also not relevant as the related undertakings are related to investment activities.The investment	

	mandate could be a feature but it should not be a requirement but a possibility. Similarly ALM-considerations of the insurance undertaking (parent) could be a possible feature.	
Q16.3	Not applying the look through approach generates a lot of issues because intragroup transactions are not eliminated generating differences which are only recognised on the solo balance sheet. The risk profile of the insurance undertaking can differ significantly from the SCR. This could cause the insurance undertaking to prepare an own economic balance sheet and related SCR for their own purpose and another one for supervisory purposes. This adds to the administrative burden of applying the Solvency II requirements.	
Q16.4	Not applying the look through will have the following consequences: • The participation will be based on the adjusted equity value. In the adjusted equity value any intragroup transactions are not eliminated. The economic value of any funding will have a constant credit spread in line with article 75 of the Directive 2009/138/EC; • The intragroup position (funding of the investment related undertaking) will be on the economic balance sheet and will be subject to the scenarios of the market risk module. Because the IGT are not eliminated, there can be a difference between the economic value of the asset on the balance sheet of the insurer and the economic value of the funding liability within the related undertaking (i.e constant spread). Depending on the size of the credit spread and the volatility of the spreads in the market, this could create or remove own funds on the level of the insurance undertaking. Not applying the look through could also have an impact on the relevant interest rate scenario. Depending on the characteristics of the intragroup asset in relation to the investments embedded within the investment related undertaking the interest sensitivity could change form upward to downward or vice versa. This would impact the risk profile depicted by the SCR and this would differ from the view of the insurance undertaking. By having a look through approach these effects will not appear. Because the entity is under direct control the information needed for determining the capital requirements is available.	

Q16.5	If the insurance undertaking applies a look through view in their management of the combination of the insurance undertaking and their participations.	
Q16.6	Investment backing unit-linked and index linked products should be excluded from the look-through approach provided the market risk on those assets is negligible (i.e unit link and index linked assets backing liabilities without guarantee). The application of the simplified approach is limited to 20% of the value of the assets of the undertaking. This threshold should not be applied to unit linked and index linked products.	
Q16.7		
Q16.8	See answer to Q16.6	
Q16.9		
Q17.1	The recent negative interest rates are largely created by interventions of central banks. By actively intervening, central banks have created artificial interest rates whose long-term relevance as representative of actual market rates can be questioned. Hence, further downward stress from these rates is not warranted, and the current approach of not stressing negative interest rates is appropriate." The interest rate risk should not be reviewed in isolation. All elements (LLP, UFR) of the Long-term guarantees package will be review as part of the comprehensive review in 2021.	
Q17.2	Setting a minimum downward shock would alleviate the problem, in the same way as a minimum upward shock. It is a way of reducing the 'small number' problem. However, the question is whether the proposed 100 bp is the correct absolute value. Considering the 100 bp as used in the upward scenario, the minimum 100 bp generates a parallel shift even over de current value of the Ultimate Forward rate. This increases the shift in the risk free interest rate. Until recently, the IMF has indicated the maximum negative interest rates to be in a range of -0,75% -2% (https://blog-imfdirect.imf.org/2016/04/10/the-broader-view-the-positive-effects-of-negative-nominal-interest-rates/). By considering negative interest rates EIOPA should also reassess whether the correlation matrix between the interest rate risk and other risks is still appropriate. EIOPA should also analyse whether the behaviour in a negative interest rate environment is still similar as to what was envisaged when	

	Solvency II was designed.	
Q17.3	The issues identified should not be assessed in isolation. A change in the scenarios for interest rate should also be assessed in conjunction with some other fundamental points with respect of the interest rate scenarios specifically and the capital requirements for market risk is general. The scenarios identified within Solvency II are defined to measure the impacts of the occurrence of a 1 in 200 loss. It is difficult to assess whether the current interest rate environment and developments are actually in the "*tail of the distribution*" or not. If a situation of low interest rate is considered for an appropriate treatment, EIOPA should also consider whether the scenarios and approaches would produce appropriate outcomes in a high interest rate scenario. The interest rate scenario should also be consistent with the ultimate approach used for the determination of the Ultimate Forward Rate and sensitivity allowed for the UFR. The Smith-Wilson extrapolation procedure assumes an extreme interest-rate sensitivity around the LLP. Cardano proposed a smoother extrapolation mechanism that overcomes this limitation (see « *Dangerous design flaws in the Ultimate Forward Rate: The impact on risk, stakeholders and hedging costs*" Theo Kocken, Bart Oldenkamp and Joeri Potters; Working paper,13 July 2012). When the interest rate scenario is reconsidered EIOPA should also assess the appropriateness of having two correlation scenarios currently in use with different diversification effects.	
Q17.4	EIOPA states "*Beside these data sources a historical data set of EIOPA risk-free-rate curves ranging from January 1999 until 2016 could be used for the calibration of the shock factors. Either only values up to the last liquid point could be taken into account, or also values in the extrapolated part could be included in the analysis*." Notwithstanding our comment to question 17.3, EIOPA should calibrate the scenario based on the data including the most recent one. This should also include the whole discount rate and not only to the Last Liquid Point as derived by the recital (as often mentioned by EIOPA). In the DLT assessment often a liquid point up to 30 years is used. However as EIOPA recently experiences any data anomalies should be removed from the data analysis.	

	We agree with the ** approach, focusing on the input side, for the following reasons : • Interest-rate risks on the input side can be managed directly. External parties are interested in exposure to the input side.	
Q17.5	See comments to Q17.4	
Q17.6	See comments to Q17.4	
Q17.7	See comments to Q17.4	
Q17.8		
Q17.9		
Q17.10		
Q17.11		
Q17.12		
Q17.13		
Q17.14		
Q17.15		
Q17.16		
Q18.1	<u>Temporary differences</u> In some countries depending on the type of insurance being sold, the tax regime is different. The fiscal legislation does only recognise tax losses when these are actually incurred. For example, the change in the mortality table will instantly create a deferred tax asset due to the recognition of a loss which is only transferred in an acute position when the actual result is recognised. When determining the loss absorbing capacity of deferred taxes (LAC_{DT}), firms assess the temporary differences and determine whether a realistic realisation of the cash flows can be established. However as life insurance obligations do have a long duration, mostly a prudent approach is taken for the very long duration and a cut-off can be recognised. In a full going concern approach, future losses could be carryforward . <u>Company versus consolidated basis</u>	

	The Solvency II legislation is presenting the solo economic balance sheet based on the firm's financial statements (i.e participations under control are not consolidated on a line-by-line basis but presented as a participation). In our view, participations under control should be subject to the look through approach in order to calculate the solvency capital requirements. For the LAC_{DT} this would imply a calculation based on a consolidated economic balance sheet. However, if the LAC_{DT} is fully determined based on the firm's financial statements , this creates an inconsistency with the look through approach. Similarly, if the LAC_{DT} is determined on a consolidated basis this creates an inconsistency with the economic balance sheet. In our opinion, the latter is the preferred option as the actual underlying risks are recognised and will be translated into the underlying causes. The consolidated balance sheet should be the preferred option. <u>Going – concern</u> The SCR can only be adequate if technical provisions and thus own funds are also adequate. Calibrating the SCR only is not sufficient. The starting point of the computation of LAC_{DT} should be that the deferred tax assets and the deferred tax liabilities are correct. Deferred taxed liabilities on own fund items which have not been taxed when being set up should not be computed unless the item expires and thus it is taxed. However, **no deferred tax liabilities should be computed if the own fund item is the result of a permanent difference and it never expires**. Whether certain adjustments in own funds due to differences in valuation between local gaap and Solvency II are permanent or temporary may depend on the continuation assumption of the business. The Article 101(2) of the Solvency II Directive indicates that the SCR should be calculated under the assumption that the business is conducted on a going concern basis. The Article 31(4) of the Delegated Acts also states that "*Expenses shall be projected on the assumption that the undertaking will write new business in the future*" indicating that own funds and the SCR are computed on going concern. If the permanence of certain own fund items follows from this assumption, its impact on the own funds should not be reduced by the deferred tax liabilities (DTL). The adjustment in the	

	LAC_{DT} should be nil.	
Q18.2	When projecting returns from assets, there are different factors to consider: <u>Returns on assets and underlying scenario</u> The assumptions on the returns are dependent on the actual underlying scenarios which are to be used by the insurer. This will depend on the risk profile of the insurer and that will differ across insurers. The actual shock to be allocated to the stressed economic balance sheet depends on the underlying scenarios which causes the shock (e.g. fictive loss). Based on the various components of the capital requirements this fictive loss is either translated via "Shapley factors" or via a "proportionate approach". The 1-200 shocks are translated back to less extreme scenarios which together will act as the scenario which is faced by the insurer. Harmonisation should be sought in the principles applied, in the processes and in the steps if needed because all scenarios and their severity will be different from insurer to insurer. **Prescribing the assumptions on the returns would be extremely difficult as the underlying scenarios are different.** <u>Returns on assets and unrealised results</u> Various investments will create various direct and indirect returns. The underlying scenarios will typically create unrealised losses for assets. Depending on the nature of the instruments and the severity of the shocks, these unrealised losses can be recycled in the short-term. Fixed income securities with a distinct maturity will see a pay-out at maturity as agreed. The actual risk faced is a default of the counterparty. If the insurer is able to defer any forced sales the unrealised losses will recycle as unrealised gains. Depending on the basecase an insurer has a need for unrealised returns to achieve a certain cash	

	flow. If that is seen in the basecase the insurer has to assess the impact of the scenarios on the unrealised results and whether these can still be achieved in the coming periods. Scenarios will be necessary to demonstrate this cash flow. If an insurer does not rely on unrealised results as basis for the coming cash flows the assessment of default risk is needed. Return on assets and direct returns Investments are held for multiple reasons; Some instruments are maintained for their cash flow returns during the periods and some are held for the redemption cash flows. The **return on assets are also dependant on the characteristics**. Typically dividend cash flows, rental income and coupon payments (mortgage payments) are seen related to investments. Not all scenarios will have a direct impact on these cash flows. Several cash flows are subject to a discretionary decision of the management of the counterparty such as dividends, however many cash flows are contractually based such as coupon payments and rental income. A scenario will only have an impact on these cash flows if it has a long duration (e.g a recession has a long duration) and will have a distinct impact on the real economy by means of defaults of the counterparty. Other aspects which play a role are the reinvestment risk which is dependant on the duration of the asset, and the scenarios tested and its severity which have an impact on the decrease of the cashflows. However, the interest rate risk scenario could lead to the recognition of a higher interest rate and the spread risk scenario underlying the fictive loss will also see an increase in the spreads. When considering the reinvestment returns this should also be assessed and could even increase the cash flows after reinvestment. Thus, for those assets where the duration is sufficient typically no impact would be recognised except for defaults. If the scenario plays out over a longer period, an assumption needs to be made regarding the economic cycle. This assumptions should be subject to a sensitivity analysis. **Prescribing returns will be difficult as the assets are different across firms and the underlying scenarios are entity-specific as well.**	
Q18.3	As mentioned before, the uncertainty on the asset returns depends on the asset type invested in, the	

	remaining duration and the underlying scenarios. Each asset class would have their distinct features possibly causing uncertainty in their returns. *Equity investment* Equity returns generate dividend cash flows and cash flows on sale of the equity investments. Depending on the scenario an assessment needs to take place on the certainty of the dividend cash flows. If the insurer has invested in entities having a stable dividend pay-out based on historic patterns, only a sharp or sustained negative scenario would cause a lower dividend cash flow. Depending on the severity of joint scenarios the dividend cash flows stemming from financial institutions could be impacted. As all financial institutions are impacted by the underlying scenarios they could also be facing a recovery situation which would spark a bail-in or deferral of coupon/dividend payments. Normally this would be the case for at least one year (depending on the required recovery period). For other equity investments one has to assess the severity of the scenarios and to assess whether unrealised losses would be recognised on sale of the investment if needed. It is assumed an insurer would avoid recognised unrealised losses. Any investment returns stemming from this type of transactions would be avoided post stress and should be removed from the taxable results. The actual uncertainty would be the assessment how long the unrealised results would be recognised (when would the value bounce back?). *Fixed income* The general uncertainty in actual cash flows is stemming from either deferral of coupon payments (financial institutions) or the default of counterparties. Only for the reinvestment of financial instruments a different cash flow pattern would be recognised. However the actual coupon is not only based on the interest rate but also on the actual spreads. The underlying scenarios of the LAC_{DT} shock would present the actual scenario to assess: the change in the risk free interest rate and the increase in the spread. How this would develop over time in the post stress period will generate the uncertainty. The uncertainty could be included in a sensitivity analysis. The increased spreads would typically return to their historic averages over time. Thus for longer periods this could be required.	

	Rental income / mortgage loan income Rental income generally provides the insurer with a stable cash flow. Only up to the default of the counterparty or the non-renewal of the rental lease a change in cash flows would be seen. This is typically seen when more severe scenarios last for a longer duration. This analysis could be subject to sensitivity analysis. The dependence on economic growth parameters for commercial property rental income is higher than for residential rental income.	
Q18.4	An assessment should exist with respect to the fact whether the losses are deemed to be temporary, direct or deferred. <u>Temporary:</u> Certain possible losses recognised due to the emergence of the underlying scenarios will recycle as fiscal gains as long as the balance sheet item can be maintained on the balance sheet. If the insurer can demonstrate that a force sale can be avoided, these elements can be separated and should not be subject to the whole recoverability analysis. <u>Direct:</u> Certain fiscal regimes have stated that all losses – regardless of their cause – to be directly recognised as a fiscal loss. In this instance the carry forward term and carry back will be direct. Any fiscal gains beyond the carry forward term will not be recognised as part of the recoverability analysis. <u>Deferred:</u> Certain fiscal regimes only recognise a fiscal loss when the loss is actually recognised e.g. the cash outflow is recognised. For example, a change in a mortality table will not automatically lead to a direct loss because the impact will be recognised over the future years in which the insurance obligations is recognised. This implies that the fiscal loss is also recognised over the whole duration of the insurance obligations and will be subject to a carry forward term for each time the fiscal loss is recognised. If a deferred tax liabilitiy is recognised which could cover the whole change in DTA due to the impact of the shock, a full calculation is not needed. However, in this assessment the fiscal treatment (as described above) should be taken into account. **Circumstances** When determining the projection the insurance undertaking has to assess the circumstances faced.	

	Following the LAC_{DT} shock and assessing the underlying scenarios, it can be seen that the whole financial market is impacted as all the scenarios are deemed to be instantaneous to generate the loss as required. However, in that circumstances the assessment of the extension of the recovery period is essential. If the recovery periods are in force as required when there is a breach or if there is a possibility of a supervisory intervention the recovery period will be extended. The Article 138(3) of the Solvency II Directive states that the supervisory authority may extend the recovery period by 3 months if appropriate. There is no direct mentioning what is meant by "if appropriate". As the LAC_{DT} shock is not isolated to the individual insurer but to the whole market simultaneously, one can question the reluctance of the extension of the recovery period according to this paragraph. The Article 138(4) of the Solvency II Directive also grants power to EIOPA in order to be able to extend, in general, the recovery period up to seven years and 9 months. **The LAC_{DT} shock does comply with the criteria stated in article 138(4) for calling for an extension of the recovery period** . The shock is instantaneous, thus the fall in the financial market is unforeseen, sharp and steep. A persistent low interest rate environment is difficult to establish, but depends on the scenarios employed by the individual insurer. The total shock is a high impact catastrophic event. As the shock is experienced by the whole market this will represent a significant market share. Based on the conditions following the LACDT shock it is very unlikely that the recovery period will not be extended. The question would be to what extent it can be subject to a scenario analysis of the individual insurer. Based on the average economic cycle an extension between 2 and 3 years would be justified. This would also counter any pro-cyclical measures needed to be taken by the insurers (for example de-risking). Furthermore, it would provide the insurers with a bigger timeframe for issuing any capital instruments which would result in a higher effectiveness of the measures and less costs.	
Q18.5	We assume new business also to consist of renewals of existing business. The uncertainty of new business depends on the lines of business which are considered. Several	

	insurance contracts are mandatory; For example, for driving a car or owning a house, certain insurance contracts are required by law. For these type of insurance contracts the insurance undertaking should make an assessment regarding the impact of the underlying scenarios towards the real economy. Because the risk profile is different of each insurance undertaking the underlying causes will be different and the earnest of the scenario (severity) will be different. The insurance undertaking should have a sensitivity analysis for the major lines of business where new business is expected continent on these assumptions. For the insurance contracts which are not required by law, an assessment should be made whether the policyholders have a long term goal attached to the insurance. Especially within life this is the case; If the insurance contract is related to pension schemes or mortgage loans the renewals will be less uncertain. In these instances often fiscal benefits are in place which will make lapses less attractive. And when the contract boundary is of a short nature, no fiscal incentives or long term goals are attached and the underlying scenarios will have a bigger impact and make the assumption less certain. If an insurance undertaking would rely on these type of contracts, a sensitivity analysis should be included underlying any results needed for a recoverability analysis. The new business assumptions will have a direct relationship with the severity of all the underlying scenarios specific to the insurance undertaking based on their unique risk profile. Typically, the combination of underlying scenarios will result in the emergence of a recession scenario. This economic downturn will continue as an economic upturn somewhere in the future periods. If the recoverability analysis is contingent on this assumption a sensitivity analysis needs to be performed assessing a shorter or longer cycle than assumed.	
Q18.6	See answer to Q18.5	
Q18.7	Whether longer time horizons are an issue depends on the elements considered. • On the emergence of fiscal losses resulting from the shock, see answer to Q18.4.; • On the recoverability analysis, the projection of future fiscal results can be split into two categories: the mid-term budget period and a projection to a longer period reflecting the carry forward periods used. With respect to the first period one would assume that the fiscal and/or commercial results are signed off/approved/endorsed by the AMSB (Administrative,	

	Management or Supervisory Body or similar body depending on the organisational form of the insurer). With respect to two the second period the projection should be closely aligned to other processes used by the insurance undertaking such as "impairment testing" (IFRS or similar accounting regimes) or valuation of the undertaking. The future growth factors would typically move towards the long term growth expectations as presented by national statistical or European agencies. The underlying causes following the risk profile of the insurance undertaking should be considered for their impact on the full projection. Where relevant sensitivity analysis should be considered.	
Q18.8	The time horizon should not be limited. The time horizon could be different subject to the fiscal legislation which sets out when tax losses are actually recognised and when the carry forward term starts. For certain insurance undertakings , projecting the hypothetical fiscal losses following the LAC_{DT} shock could be difficult and burdensome. However a simplification could be set so that an insurance undertaking could decide to use the carry forward projection only e.g. assume that all losses are direct fiscal losses. In this instance the time horizon is aligned with the carry forward term. When (very) long time horizons are used the insurer would be expected to have a sensitivity analysis. The excess return would tend to have a more downward trend to reflect the uncertainty. The excess return will probable move towards the long term growth factor in the jurisdictions where activities are employed.	
Q18.9	Setting the LAC_{DT} to the amount of net DTL would be an appropriate simplification but would not be in line with the going concern principle under which the SCR has to be calculated according to Article 101(2) of the Solvency II Directive. Limiting the LAC_{DT} to the net DTL should not be the offset to reduce subjectivity of the calculation. A transparent calculation and disclosure would reduce the subjectivity. Disclosure in which reference to other company disclosure and/or communications with approved documents of the AMBS would also reduce the subjectivity. Back testing of assumptions and proper internal challenge would further reduce the subjectivity.	

Q18.10	Limiting the LAC_{DT} to the net DTL would be in contradiction to the Solvency II Directive and would also introduce an additional pro-cyclical impact. In general a profit generates a DTL, while a loss generates a DTA. An insurance undertaking which would have loss, would have a negative impact on the own funds and would reduce its solvency position. By setting the LAC_{DT} to the net DTL this would further worsen and would accelerate the deterioration of its solvency position.	
Q18.11	In principle in all circumstances. Based on the LAC_{DT} shock and allocation of the hypothetical loss towards the economic balance sheet, the stressed own funds can be determined and thus the impact on the deferred taxes. Only if an insurer is not willing to recognise the LAC_{DT} or is able to demonstrate a deferred tax liability which will not be offset by the recognition of the LAC_{DT} shock a new shocked Economic Balance Sheet would not be necessary.	
Q18.12	As the insurers will have several measures in place to remedy a breach, a breach will take time to have an effect. If an stressed MCR (thus recalculated after shock) is breached, only those measures which remedy the breach should first be considered. A breach of an stressed SCR can be remedied within a more longer time frame (i.e. six months). However, both the MCR and the SCR have to be recalculated after the allocation of the LAC_{DT} to the stressed economic balance sheet. This will serve as an input for the determination of the stressed SCR. In the calculation of the stressed SCR, the stressed LAC_{DT} will be put to zero in order to avoid a circular exercise.	
Q18.13	The criteria to be met in order to recognise ancillary own funds as suitable for an assessment of the appropriateness of the measures involving a recapitalisation should be the following: 1) the *ability to pay* 2) the *willingness to pay* and 3) the *liquidity to pay*. However, these three elements should be considered in the scenario in which the underlying scenarios of the LAC_{DT} shock have been recognised.	

	Example: **Recapitalisation involving European banks**. The criteria "*willingness to pay*" will have to be judged according to the contractual agreement between the insurer and the bank. The criteria "*ability to pay*" should be assessed based on the outcomes of the Stress Test and a reconciliation of the stress test scenarios and the underlying scenarios of the LAC_{DT} shock. The criteria "*liquidity to pay*" should be assessed according to the liquidity coverage ratio and the net stable funding ratio. If the three assessments are positive, the recapitalisation could be included as a measure to remedy the breach. If a breach of the MCR has occurred, an assessment needs to take place whether the cash inflows are received within the short time frame needed to remedy this breach. If an insurance undertaking is part of a group, the relationship with the group should be assessed from the perspective of the insurance undertaking e.g. the scenarios faced by the insurance undertaking should be assessed on the level of the whole group if recapitalisation is (partly) based on the transferring of excess capital of one legal entity within the group towards another. Furthermore, the criteria as mentioned "*ability to pay*", "*liquidity to pay*" and "*willingness to pay"* are also to be based from the perspective of the insurance undertaking and following the emergence of the underlying scenarios faced by that insurance undertaking.	
Q18.14	See our comments to Q18.2 The tiering limits as currently detailed in the Solvency II framework have a pro-cyclical effect. A LAC_{DT} loss will typically increase the DTA. The loss will be absorbed by Tier 1 capital. Depending on the size of the DTA a "relegation of Tier 3" will apply (as nDTA should not exceed 15% of the SCR). The Tier 3 limit will increase the breach of the SCR as the eligible own funds will be lower than the available own funds. Furthermore, one of the measures for an insurer to remedy the breach is to de-risk. However de-risking will also cause the SCR to be lower, this again lowers the possible Tier 3 Own Funds and as a consequence more measures are needed to absorb this impact.	

Q18.15	AMICE would like to support the content of the CRO Forum – DTA in SCR Paper, October 2016. We support the general principles highlighted in the paper and in particular the following sections: • Determination of the recoverability test • Sources of profit (existing business and new business after shock as a source for future taxable income) The paper should be implemented in a proportionate way depending on the complexity of the firm.	
Q18.16		
Q19.1	The current environment of low interest rates is having a **multiplier effect on the risk margin**. Interest rates influence the value of the risk margin in two ways; in the calculation of the best estimates which are used as proxy for the projected SCR and when discounting the value of the projected SCR. In addition, interest rates determine the size of the SCR. The 2016 EIOPA's Insurance Stress Test showed that the long-lasting low yield scenario with low rates for all maturities could lead to an increase in the best estimate up to 10% whereas the risk margin will rise up to 43%, For firms with very long dated insurance related risks and liabilities, the risk margin can equate to a significant amount of the SCR. This requirement will ultimately lead to firms having to reprice such long dated insurance guarantees and probably lead to the removal of some such offerings from the market, which will be detrimental to consumers. Additionally, we have concerns that the 6% is too high and has not been sufficiently justified (the 6% CoC rate corresponds to the cost of providing eligible own funds for BBB-rated insurance and reinsurance undertakings - CoC was used by the Swiss regulator in its solvency test for BBB-rated reference undertakings). Some studies (see "CRO Forum Market Value of Liabilities for Insurance Firms – Implementing Elements for Solvency II (2008)") indicated already in 2008 that a Cost-of - Capital rate in the range of 2,5% - 4,5% was more appropriate. The underlying assumption in the risk margin calculation was that the assets covering the SCR provided a return that equalled the risk-free rate. However, if the volatility adjustment is triggered undertakings should be allowed to adjust the risk-free rate for "exaggerated" bond spreads in the risk margin calculation. Applying the volatility adjustment (or the matching adjustment) to discount	

	the future SCRs in the risk margin calculation and to the best estimates that are used as the approximation of future SCR should be considered as this would ensure consistency in the valuation. The impact would be very significant not only for long-term liabilities but also for the risk margin. The weight of the risk margin compared to the best estimate, if the volatility adjustment (or the matching adjustment) is excluded of the discount factor is very high and totally unrealistic.	
Q19.2	We agree that a Cost-of-Capital (CoC) rate that reflects current market conditions has a procyclical effects. As indicated in our previous comments, the risk margin is having a multiplier effect and the Cost-of-Capital rate should act as a dampener, as an anticyclical instrument. The Cost-of-Capital (CoC) rate should therefore not follow market cycles but should be based on long-term averages. However, the Cost-of-Capital (CoC) rate should not be last endlessly but it should be subject to review when there is a change of economic cycle. Some additional studies indicate that the 6% Cost-of-Capital rate is not appropriate: • In MCEV calculations a CoC of 4,5% is used (see Willis Towers Watson, July 2016 "Insights – 2015 Life Supplementary Reporting"). • A lower CoC can be justified as insurance risks are much more diversifiable than market risk (beta of 0 could be argued). Terken, J.J., 2012, "Determining the Cost of Equity for an Insurance Company". Thesis Executive Master of Business Valuation. • 3% CoC currently applies to hedging programs of major insurance risks like longevity and mass lapse. • In Solvency II, more or less all insurers have capital the amount of SCR or higher so they are in the investment grade level (VaR 99,5 criteria) long term average of both EU and US investment grade spread levels have been between 2 to 3 percent. This could be used as a benchmark to replace the 6% spread in CoC. • 6% for all the markets is not consistent with WACC (weighted average cost of capital) method, which can also be used as an benchmark	
Q19.3		

Q19.4	Article 340 of the Delegated Acts indicates that the consolidated risk margin should be calculated based on "consolidated data". According to the Regulation, intra-group transactions are eliminated from the "consolidated data". However, EIOPA has indicated that for the calculation of the group loss absorbing capacity of deferred taxes (LAC_{DT}) the formula in the EIOPA guidelines is to be interpreted gross of intra-group transactions. EIOPA has stated similarly in their response to a question on the risk margin and the MCR calculation; the consolidated risk margin should be calculated as the simple sum of the risk margin of the participating undertaking and the proportional shares of the risk margin of related undertakings, which means that the risk margin should be gross of intra-group transactions. Intra-group transactions should therefore have the same treatment as diversification effects. Not eliminating the intra-group transactions from the group calculations for the risk margin leads to a risk margin which is not related to the best estimate on the balance sheet. **We call on EIOPA to remove this arbitrary calculation of the risk margin at group level.**	
Q20.1	The relevant prudential regimes CRD IV/CRR and Solvency II as highlighted by EIOPA do have fundamental differences which should be considered when comparing the classification and treatment of capital instruments. For example, the differences in valuation will generate different perspectives and importance of capital components (reconciliation reserves, treatment of deferred taxes, etc.). However, financial institutions subject to the prudential regimes are both competing on the capital market when issuing capital instruments. In this capacity, **any difference in characteristics should be avoided. Differences in required features for similar type of capital instruments will generate additional costs for the financial institutions subject to the most stringent features. EIOPA has listed several were differences exist.** With respect to Tier 3 items within the Solvency II regime, the current restriction of 15% of the SCR is arbitrarily set and generates extensively pro-cyclical effects. Within tier 3 net DTA is one of the allowed components (regulation 2015/35, article 76 (a)(iii)). However the question arises as to why the $_{net}$DTA is to be presented as part of Tier 3. The $_{net}$DTA is built by the $_{net}$DTA recognised on the statutory balance sheet and the valuation differences between the statutory balance sheet and the valuation according to Article 75 of the Solvency II Directive 2009/138/EC. The former is also subject to a recoverability analysis and review by the auditors. The economic balance sheet also presents the	

	situation of the insurer in a going concern and subject to an additional recovery analysis. The $_{net}$DTA is one of the most important components in Tier 3 (naturally based on the fiscal legislation within a Member State). The $_{net}$DAT, in life insurers, is very sensitive to movements in the risk free interest rate. In those jurisdictions where the technical discount rate is higher than the current risk free interest rate, a higher value of DTA is recognised. The bigger the difference in discount rates, the higher the DTA. This could result in having a $_{net}$DTA higher than the 15% threshold: The excess of assets over liabilities (based on 2016 year-end data) not recognised as eligible own funds could amount up to 17,9% in one of our members. If it were required to de-risk, the SCR would have become smaller, which would also have decreased the level of allowed Tier 3. In order to reduce the pro-cyclical effect, the Tier 3 limit should not be the 15% as indicated in Article 82 (1)(b) of the Delegated Acts but the 1/3 as in Article 98 (1)(b) of the Solvency II Directive 2009/138/EC.	
Q20.2	The following differences between the CRD IV/CRR and the Solvency II legislation is not justified based on the differences in the business models. The differences will cause higher costs for insurers willing to issue the same instruments as financial institutions subject to CRD IV/CRR: **Tier 1** The first call date (Solvency II) Early redemption based on tax or regulatory events (CRD IV/CRR) **Tier 2** Maturity First call date Early redemption based on tax or regulatory events (CRD IV/CRR)	
Q20.3	The requirements as mentioned within the CRD IV/CRR with respect to the differences mentioned under Q20.2 should be used. This would align the features for financial institutions irrespectively of the prudential regime and would create a level playing field when issuing capital instruments. This change would not impede the quality of capital.	

Q20.4	No comment	
Q20.5	No comment	
Q20.6	No comment	
Q20.7		
Q20.8	The difference in treatment is not justified by the business model. Regulatory or tax events can have a significant impact on the capital resources of an insurance undertaking. The insurance undertaking should have the ability to change the instrument affected by the event, if needed. Naturally, the insurance undertaking should be able to justify the compliance with all the capital requirements going forward. A financial institution cannot predict the occurrence of a regulatory or tax event when issuing a capital instrument with long duration. By not having the flexibility to redeem earlier when such an event occurs the insurance undertaking is required to hold more capital and incur higher costs than necessary.	
Q20.9	See our comment to Q20.8. The rules regarding the possibility for earlier redemption in the event of regulatory or tax events as described in the CRD IV/CRR should be followed. The requirement within capital management to have an adequate capital planning together with the requirements as presented within the CRD IV/CRR ensure an appropriate quality of capital after an early redemption has taken place.	
Q21.1		
Q21.2	Many mutual insurers have, over the years, built up significant equity through 'mutual member accounts', i.e cash available on its balance sheet. These mutual member accounts are treated, in accordance with the current framework as 'Tier 1' capital. However, Article 82 (3) of the Delegated Acts limits its amount: only 20% of Tier 1 own funds of the type mutual members' accounts can be taken into account provided that at least 50% of the capital requirements (SCR) is covered by Tier 1 own funds. This means that for a solvent mutual, the majority of its capital disappears. This leads to erroneous situations in which a mutual suddenly cannot count the funds it has in its books as solvency capital, not even as Tier 2 or Tier 3 because of the other limits set in Article 82 (1)(c). The transitional measures foreseen in Omnibus II for subordinated debt are not applicable to mutual member account.	

	We call on EIOPA to remove the 20% sub-tier limit for subordinated mutual members accounts.	
Q21.3		
Q21.4		
Q21.5		
Q21.6		
Q21.7		