| Comments Template on Consultation Paper on EIOPA's second set of advice to the European Commission on specific items in the Solvency II Delegated Regulation | | Deadline 5 January 2018 23:59 CET |
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| Name of Company: | UNESPA (Spanish Association of Insurers and Reinsurers) | |
| Disclosure of comments: | Please indicate if your comments should be treated as confidential: | Public |
| | Please follow the following instructions for filling in the template:<br>⇨ <u>Do **not** change the numbering</u> in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool<br>⇨ Leave the last column <u>empty</u>.<br>⇨ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a paragraph or a cell, keep the row <u>empty</u>.<br>⇨ Our IT tool does not allow processing of comments which do not refer to the specific numbers below.<br>**Please send the completed template, <u>in Word Format</u>, to CP-17-006@eiopa.europa.eu**<br>**Our IT tool does not allow processing of any other formats.**<br><br>**<u>The numbering of the reference refers to the sections</u>** of the consultation paper on EIOPA's second set of advice to the European Commission on specific items in the Solvency II Delegated Regulation. Please indicate to which paragraph(s) your comment refers to. | |
| **Reference** | **Comment** | |
| General Comment | UNESPA (Spanish Association of Insurers and Reinsurers) appreciates the opportunity to analyze and comment on Consultation Paper **on EIOPA's second set of advice to the European Commission on specific items in the Solvency II Delegated Regulation**.<br><br>UNESPA is the representative body of more than 200 private insurers and reinsurers that stand for approximately the 96% of Spanish insurance market. | |

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| | Spanish Insurers and reinsurers generate premium income of more than € 64 bn, directly employ 50.000 people and invest more than € 295 bn in the economy.<br><br>UNESPA, as a member of Insurance Europe has taken part in all Insurance Europe documents linked with this project and firmly supports the Insurance Europe position on this matter. **Our comments should be considered together with the European industry position**. However in adittion to the Insurance Europe comments, we would to highlight the following issues:<br><br>• Volume measure for premium risk<br>• Recalibration of mortality and longevity risks<br>• Recalibration of Natural Catastrophe Scenarios (Windstorm risk-submodule)<br>• Strategic equity investments<br>• Loss-absorbing capacity of deferred taxes | |
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| 2.3 | <u>**Risk-sensitivity of the volume measure**</u><br><br>**Paragraphs 109 & 110**: EIOPA considers methods which proposed adjustment of volume measure with different ratios as not appropriate because expected losses and profits are not to be recognised under the standard formula and they will make the calculations **more complex**.<br><br>EIOPA considers as well that adjusting the volume measure with future estimates or replacing premiums as volume measure changes the volume measure which was used for calibration. **EIOPA considers proposed methods as methods which require the recalibration of the standard parameters used in standard formula**.<br><br>UNESPA considers the abovementioned EIOPA comments to the proposals could not be substantiated enough. In particular we refer to all the proposals put forward on the volume measure for premium and reserve risk during the **Discussion Paper on the Review of Specific Items in the Solvency II Delegated Regulation** that are disregarded for the following reasons: | |

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| | • **Complexity reasons**: In most of the proposals the complexity added is very limited compared to the risk sensitivity gained. In fact loss ratio figures is a commonly available in systems of most undertakings.<br><br>Indeed a default option (e.g. including loss ratio=100%) is also possible. In these cases complexity would only be added for those undertakings that are willing to go for a different loss ratio approach.<br><br>• **Recalibration reasons**: With regard to the need to recalibrate the parameters, the loss ratio was already the basis for the calibration of the factors so a complete calibration process is not needed.<br><br>Please see paragraph 57 of the **EIOPA report on the Calibration of the Premium and Reserve Risk Factors in the Standard Formula of Solvency II:** https://eiopa.europa.eu/Publications/Reports/EIOPA-11-163-A-Report_JWG_on_NL_and_Health_non-SLT_Calibration.pdf). | |
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| 3.4.3 | You will find in the following link a technical note developed by a group of spanish academics (see page 41) related to a proporsal for the recalbration of mortalilty and longevity shocks under the Solvency II framework: | |

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| | http://unespa-web.s3.amazonaws.com/main-files/uploads/2017/12/PROPOSAL-FOR-THE-CALIRATION-OF-MORTALITY-AND-LONGEVITY-SHOCKS-December-2017_.pdf<br><br>This analysis for mortality risk demonstrates that trend risk must not be apply for the assessment of mortality shock. **Therefore the current 15% of mortality shock is definitely enough for covering volatility and level risk.** This technical note advises that an increase of the mortality stress factor for mortality risk to 25 % is an error of interpretation of the sub-risks around the mortality risk. | |
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| 6.4.3.3 | **UNESPA strongly supports the recalibration proposal for windstorm risk in Spain.**<br>This new calibration reflects more appropriately the real situation of the Spanish market (reflected in the statistical data provided by the Spanish undertakings for the calibration review) and corrects the mistake made in the initial calibration of 2010, where the effect of the Consorcio de Compensación de Seguros was not considered o not appropriately. | |

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| 12.1 | UNESPA believes that **the minimum ownership & control threshold for an investment to qualify as a strategic participation should be reduced from 20% to 5%**. Investments can be of a strategic nature for both, the investing and the investee companies, even if the ownership & control participation in the investee company is lower than 20%. For example, in Spain tax regulations typically consider a 5% ownership & control threshold por the application of certain benefits.<br><br>Moreover, the criterion in Article 171 (a), **requiring the demonstration of lower volatility in the next 12 months after acquisition, should be removed**, as it comes into contradiction with the long-term horizon associated with the nature of strategic participations. | |
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| 17.4.2 | **UNESPA believes that there is no need for a recoverability test for notional deferred tax assets (notional DTA) which will reverse in the future without negatively impacting future taxable income** (e.g. credit spreads, contentration risk...).<br><br>Certain items are by nature only temporary losses, which are expected to reverse over time.Therefore, even though a loss is recognized on the Solvency II balance sheet, and a notional DTA tax asset is created, this notional DTA do not have to be tested for recoverability through future taxable profits as by reversal these are expected to be recovered automatically. | |
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