

Guidelines on undertaking-specific parameters

Introduction

- 1.1. According to Article 16 of Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (hereinafter "EIOPA Regulation")¹ EIOPA is drafting Guidelines on undertaking-specific parameters.
- 1.2. The Guidelines relate to Article 104(7), 110, 111, 230, 248(2) of Directive 2009/138/EU of the European Parliament and of the Council of 25 November 2009 on the taking up and pursuit of the business of Insurance and Reinsurance (hereinafter "Solvency II")² as well as to Articles 218, 219, 220, 338 and 356 of Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC (hereinafter Commission Delegated Regulation 2015/35)³.
- 1.3. These Guidelines are addressed to supervisory authorities under Solvency II.
- 1.4. When calculating the Solvency Capital Requirement, undertakings may replace a subset of parameters (standard parameters) within the standard formula by parameters specific to them, if the standard formula does not provide an appropriate representation of their underlying risks. This should help to promote sound risk management within insurance and reinsurance undertakings.
- 1.5. For the calculation of the undertaking-specific parameters, undertakings can select a method from a number of standardised methods prescribed in Annex XVII of Commission Delegated Regulation 2015/35. Any change made to the standardised methods for undertaking-specific parameters means that there can be no longer an approval as referred to in Article 110 of Solvency II. But the modified method might qualify as partial internal model subject to the supervisory approval as provided in Articles 112, 113 and Articles 120 to 126 of Solvency II.
- 1.6. These Guidelines provide further specification on the data quality criteria that should be taken into account during the process of calculating undertaking-specific parameters and group-specific parameters. Article 48(1)(i) of Solvency II sets out the role of the actuarial function and how it should contribute to the effective implementation of the risk-management system, and in particular the risk modelling that underlies the calculation of the capital requirements. The role of the actuarial function is therefore very important in the assessment of the quality of data used in the calculation of undertaking-specific parameters.
- 1.7. Undertakings may only replace a subset of standard parameters within the underwriting risk modules by specific parameters. This means that some of the inputs used to calculate these parameters will be similar (and in some cases

¹ OJ L 331, 15.12.2010, p. 48–83

² OJ L 335, 17.12.2009, p. 1-155

³ OJ L 12, 17.01.2015, p. 1-797

may constitute exactly the same information) to the inputs used to calculate technical provisions. It is expected that the actuarial function contributes to the assessment of these inputs within the risk-management system.

- 1.8. Only the approval process of undertaking-specific parameters at individual level is harmonised by implementing technical standards. To improve the consistency of the use of group-specific parameters by groups across Member States, the Guidelines aim at harmonising the supervisory approval process for the group-specific parameters.
- 1.9. The Guidelines 1 to 9 are applicable for both individual undertakings as well as for the group Solvency Capital Requirement calculation under the consolidation method or under a combination of methods on the consolidated data calculated in accordance with Article 335(1)(a)(b) and (c) of Commission Delegated Regulation 2015/35.
- 1.10. If not defined in these Guidelines, the terms have the meaning defined in the legal acts referred to in the introduction.
- 1.11. The Guidelines shall apply from 1 April 2015.

Guideline 1 – Role of expert judgement

- 1.12. For the purpose of determining the undertaking-specific parameters undertakings should be allowed to use assumptions based on expert judgement only as an adjustment to existing data and not as a substitute for missing data.
- 1.13. Undertakings should only use assumptions based on expert judgement if the resulting adjusted data meet the criteria set out in Article 219 of Commission Delegated Regulation 2015/35 to a higher degree and should demonstrate such compliance upon request of the supervisory authorities.

Guideline 2 – Materiality

- 1.14. Undertakings should ensure that the criteria on data quality set out in Article 219 of Commission Delegated Regulation 2015/35 are met regardless of the materiality of the segment for which undertaking-specific parameters are used.

Guideline 3 – Adjustments to increase the level of appropriateness in data

- 1.15. Subject to Guideline 1, when determining undertaking-specific parameters undertakings should adjust historical data as necessary to eliminate the effect of risks that are irrelevant at least over the next twelve months.

Guideline 4 – Adjustment of historical data to eliminate the effect of catastrophe events and to reflect the current reinsurance arrangements

- 1.16. Where relevant undertakings should establish internal policies and procedures
 - (a) to identify losses from catastrophe events;
 - (b) to adjust data in accordance with Annex XVII point B. (2) (e) of Commission Delegated Regulation 2015/35;

- (c) to adjust data in accordance with Annex XVII point B. (2) (d), point C. (2) (c) and point D. (2) (f) of Commission Delegated Regulation 2015/35.

1.17. Undertakings should ensure that changes in retentions on non-proportional reinsurance are appropriately considered where they have an impact on the volatility of reserve risk.

Guideline 5 – Calculation of non-proportional reinsurance adjustment in the scope of premium risk

1.18. When undertakings determine the adjustment factor for the non-proportional reinsurance effect as provided in Article 218(1)(a) (iii) and (1)(c) (iii) of Commission Delegated Regulation 2015/35 they should ensure that both gross data and data net of non-proportional reinsurance for the following twelve months comply with Guidelines 1 to 4.

Guideline 6 – Continuous compliance

1.19. Undertakings should monitor their compliance with the requirements for the use of undertaking-specific parameters as part of the own-risk and solvency assessment.

1.20. As part of the own-risk and solvency assessment supervisory report, undertakings should inform the supervisory authorities whether there have been any material changes to the information included in the application and should provide relevant details of any material changes.

1.21. Where the use of new data produces material changes to the information included in the application, undertakings should provide at the request of supervisory authorities all details about the calculation of undertaking-specific parameters performed using the new set of data and the necessary information to support that the calculation is adequate.

1.22. If undertakings become aware that another standardised method provides a more accurate result for the purpose of fulfilling the calibration requirements included in Article 101(3) of Solvency II, they should submit a new application for the use of this alternative standardised method.

Guideline 7 – Remedial of non-compliance

1.23. In case of non-compliance with the requirements for the use of undertaking-specific parameters, the supervisory authority should decide whether the undertaking can remedy the non-compliance within three months.

1.24. When taking the decision, the supervisory authority should consider the degree and the scope of the non-compliance as well as the time needed to remedy it and the actions that the undertaking intends to take to restore the requirements for the use of undertaking-specific parameters.

1.25. When the non-compliance cannot be restored within three months, the supervisory authority should withdraw the approval for the use of undertaking specific parameters in accordance with [Article 8 of the EIOPA draft

implementing technical standards with regard to the supervisory approval procedure to use undertaking-specific parameters]⁴.

- 1.26. When the approval is withdrawn, undertakings should calculate the Solvency Capital Requirement using standard parameters and submit a new application in case they intend to apply again for the use of undertaking-specific parameters.

Guideline 8 – Requirement from the supervisory authority to use undertaking-specific parameters

- 1.27. Where the supervisory authority requires the undertaking to use undertaking specific parameters in accordance with Article 110 of Solvency II, it should indicate to the undertaking which parameters as referred to in Article 218 of Commission Delegated Regulation 2015/35 have to be replaced. After liaising with the undertaking, the supervisory authority should set a reasonable timeframe for the submission of the application.
- 1.28. After receiving the request of the supervisory authority, the undertaking should analyse the available standardised methods.

Guideline 9 – Significant deviation

- 1.29. When considering if there is a significant deviation as referred to in Article 110 of Solvency II, supervisory authorities should take into account the relevant factors as follows:
- a) the findings arising out of the supervisory review process;
 - b) the nature, type and size of the deviation;
 - c) the likelihood and severity of any adverse impact on policyholders and beneficiaries;
 - d) the level of sensitivity of the assumptions to which the deviation relates;
 - e) the expected duration and volatility of the deviation over the duration of the deviation.
- 1.30. Supervisory authorities should perform this analysis at the level of each segment for which the use of undertaking-specific parameters is possible.

Guideline 10 – Application for approval of the use of group-specific parameters

- 1.31. The application for approval of the use of group-specific parameters should include as a minimum the information required in [paragraph 2, 4 and 5 of Article 1 of the EIOPA draft implementing technical standards with regard to the supervisory approval procedure to use undertaking-specific parameters], where any reference to 'undertaking-specific parameters' shall be understood as a reference to 'group-specific parameters'.

⁴ <https://eiopa.europa.eu/publications/technical-standards/draft-implementing-technical-standards-on-the-supervisory-approval-processes-for-solvency-ii/index.html>

- 1.32. At the reasoned request of the group supervisor, the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should provide additional information where necessary to assess the application.

Guideline 11 – Scope of the group using group-specific parameters

- 1.33. When the group Solvency Capital Requirement is calculated under method 1 or under the combination of method 1 and method 2, the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should use the group specific-parameters only on consolidated data calculated in accordance with Article 335 1(a),(b) and (c) of Commission Delegated Regulation 2015/35.
- 1.34. When the group Solvency Capital Requirement is calculated under method 2, the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should not use group-specific parameters.
- 1.35. If an undertaking within the scope of group solvency calculation under method 2 uses undertaking-specific parameters, then undertaking-specific parameters should be included in the group Solvency Capital Requirement calculation only for those undertakings which received approval from the supervisory authorities.

Guideline 12 – Data quality requirements at group level

- 1.36. The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should be able to demonstrate to the group supervisor that the nature of the group business and its risk profile are similar enough to those of the individual undertakings providing the data to ensure consistency between the statistical assumptions underlying the data used at the individual entity level and at group level.

Guideline 13 – Consultation within the college of supervisors

- 1.37. In the consultation set out in Article 356 (3) of Commission Delegated Regulation 2015/35 the group supervisor and the other supervisory authorities within the college of supervisors should inter alia analyse and discuss the representativeness of the data at group level and the relevance of the used standardised method.

Guideline 14 – Information for the college of supervisors

- 1.38. In the case of an application for approval of the use of undertaking-specific parameters by an individual undertaking which is included in the scope of group solvency calculation, the supervisory authority which receives the application should inform the college of supervisors of the receipt and its decision. If the application is rejected, it should inform the college of supervisors about the main reasons for its decision.

1.39. Prior to making its final decision on the application to use group-specific parameters, the group supervisor should consider the decisions by the supervisory authorities on the applications of individual undertakings included in the scope of group solvency calculation to use undertaking-specific parameters.

Compliance and Reporting Rules

1.40. This document contains Guidelines issued under Article 16 of the EIOPA Regulation. In accordance with Article 16(3) of the EIOPA Regulation, Competent Authorities and financial institutions shall make every effort to comply with guidelines and recommendations.

1.41. Competent authorities that comply or intend to comply with these Guidelines should incorporate them into their regulatory or supervisory framework in an appropriate manner.

1.42. Competent authorities shall confirm to EIOPA whether they comply or intend to comply with these Guidelines, with reasons for non-compliance, within two months after the issuance of the translated versions.

1.43. In the absence of a response by this deadline, competent authorities will be considered as non-compliant to the reporting and reported as such.

Final Provision on Reviews

1.44. The present Guidelines shall be subject to a review by EIOPA.