	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:	IRSG	
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	We are delighted to submit the responses of the Insurance and Reinsurance Stakeholder Group ("IRSG") to the EIOPA Discussion Paper on the review of specific items in the Solvency II Delegated Regulation. We are encouraged to note the emphasis evident through the discussion paper on simplification of the regime. We support the introduction of simplification wherever possible, particularly in support of the principle of proportionality. We would add that simplifications should be subject to appropriate documentation and analysis.	

	The discussion paper considers the SCR and not the technical provisions ("TPs"). We note the implicit assumption that the stresses in the standard formula are applicable to best estimate assumptions as contained in the calculation of the TPs. Clearly, to the extent that assumptions used are other than best estimate, this will in itself invalidate the calibrations applied. Ideally, both TPs and SCR should be considered together in evaluating the regime. Our comments are based on the views of the IRSG at this time. As a result of the relatively short period for provision of the responses, and the timing of the discussion paper at the busiest period for insurance undertakings (December to February), our responses are in the main qualitative. It will in some cases take time and resources to convert the qualitative responses to concrete and practical measures. We anticipate that the next phase of the review exercise will incorporate this work and look forward to playing our part in it.	
Q1.1		
Q1.2		
Q1.3		
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Q1.5		
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Q1.26	We have no specific issue to address in respect of evaluations of the errors introduced by simplifications. The IRSG considers that the ability to apply simplified calculations is beneficial in ensuring that a proportionate approach can be applied, thereby reducing the burden on small and medium sized undertakings. The IRSG proposes that, in addition to currently allowed simplifications, consideration be given to allowing simplifications to be used on a wider basis, and not solely following prescribed approaches. Many	

	insurance undertakings have particular aspects of their business which may not be comprehensively modelled, and for which application of simplifications in calculating the SCR would be helpful. Non-prescribed simplifications allowed should be immaterial to the calculated total SCR of the undertaking. They should be required to be fully, but not excessively, documented, including, for example, the following aspects: • reason for and nature of the simplification, • an assessment of the nature, scale and complexity of risk calculations covered, • any methods used to assess the suitability of the approach, including an evaluation of the estimated error introduced by use of the simplification (including confirmation that the impact is not material) Note however that this can be estimated and should not always require the full calculation to be done. • any assumptions of particular importance for the estimations or assessment of materiality and which will be monitored on a regular basis to ensure they still hold, • a comparison with the approach adopted in previous periods. This proposal is justified on the basis that, in the case of immaterial simplifications which do not therefore materially impact the 1 in 200 calibration requirement, it is disproportionate to require all insurance or reinsurance undertakings to apply the standardised calculation	
Q2.1	Yes, we think Article 4 could be improved to reduce the reliance on external credit assessment institution ("ECAI") ratings, though we believe that it is not practical to assume that the use of ECAIs will be removed entirely. In fact, development of credit ratings requires very specific expertise which is difficult and costly to develop within an insurance company. Therefore, reducing reliance on ECAI can be achieved by allowing insurers to develop internal credit risk assessment models, as opposed to forcing them to. The following alternatives to ECAIs should be considered: • internal credit assessment, i.e. internal rating models or accountancy-based assessment. Approval of internal credit assessments could then be provided by means of a mechanism such as the internal model approval process. A supervisory approach to the use of internal credit risk assessments needs to ensure robustness and consistency of their results and across the industry members applying them. We however consider that the development of an internal approach to	

credit ratings will be very costly and is likely to be a solution for very few insurance undertakings.

- non-commercial third party assessment, e.g. assessment by central banks/authorities.
- credit assessment by commercial third parties which have been approved by the relevant NSA through a mechanism such as the internal model validation process

The table below shows the potential pros and cons of reducing the reliance on ECAIs.

Pros	*Cons*
Expand the range of instruments which can be covered beyond those for which an ECAI rating is available	Potential for internal ratings to fall below the standard required
Improve the Risk Management Function of insurance and reinsurance undertakings given the need (for internal assessments) for diligent and appropriate credit risk assessment	Potential for inconsistency in quality in ratings applied as a consequence of the extension beyond ECAI ratings
Potentially reduce the need for undertakings to have ECAI ratings and associated contracts with multiple fees	

Alternatives to ECAI ratings should be demonstrated to be robust and lead to ratings which are consistent within and across undertakings.

Furthermore, we would note that further simplifications in the current requirements should be envisaged, for example:

- The requirement for which insurance and reinsurance undertakings to nominate one or more ECAIs to be used for the calculation of the Solvency Capital Requirement according to the standard formula should be removed (paragraph 2). EIOPA should assess whether for certain categories of exposures alternatives are able to be used. For example, as mentioned, government related exposures or exposures to supervised financial institutions
- Any available ECAI should be able to be used by a (re)insurer.
- For plain vanilla exposures only one rating of an ECAI should suffice, as the current requirements of multiple ratings are adding significantly to the fees and costs of Solvency II application.

Q2.2	The observed default frequency / loss frequency could be used as an estimator for the default probability / loss probability. This could allow rating grades within the mapping tables to be changed into probabilities.	
Q2.3	The reduction of the reliance on external credit ratings should be applied for the whole regulatory framework, including in relation to technical provisions. This would enable consistency within credit risk assessments, though it would require improvements to be introduced in every part of the framework and not only relating to SCR calculation. While the use of ECAIs within the current SCR calculations cannot be avoided, for several exposures EIOPA could provide some alternative solutions aimed at reducing the reliance on external credit ratings. For example, for government bonds and related exposures EIOPA could use an alternative source for mapping the credit quality steps by using data from supranational organisations like the IMF or the OECD. In addition, for exposures to 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 a basis for mapping. This method could be considered as an alternative to the use of an ECAI rating. Therefore, allowing for the solvency ratio to take precedence over ECAI would help diminish reliance on ECAIs.	
Q2.4	See previous answers, and note the requirement, as per Q2.1 above, for robustness and consistency.	
Q2.5	No, we do not think that market based implied ratings are an appropriate alternative for Rating of Credit Rating Agencies. Market based implied ratings are an outcome of pricing models under the assumption of risk-neutrality. So consequently they embed risk-aversion which can: (i) overstate the effective default probability or loss probability, and (ii) suffer from volatility given the fast changing level of risk-aversion of market participants.	
Q2.6	While we recognise the merits of investigating an approach based on accountancy measures, we also note that these may often not be good predictors of default. We encourage EIOPA to investigate the validity of accountancy-based measures and we note that it is important to consider and incorporate budgeted / forecasted figures and avoid focussing only on historical figures. We also note that the use of a centralised data pool (similar to the one managed by the Bundesbank) can help increase the accuracy of determining	

	default probability or loss probability over a wide range of obligors.	
Q2.7	See answer to Q2.6.	
Q2.8	Please refer to previous answers in section 2.	
Q2.9	Yes, we note the following lines of business / asset classes where the use of external ratings is not proportionate: • Mortgage loan lending to retailers • SME lending • Project finance (excluding very large projects)	
Q2.10	We do not think that references to credit quality steps should be removed, as these are a key parameter in the standard formula. We highlight that the concern relates to availability of credit related information, and not the mapping of such information to credit quality steps.	
Q3.1	Differences do not arise from similarities in the two business models. Investments with similar risk profiles should be treated the same, regardless of who the asset holder is (an insurance company or a bank). The emphasis should be on reflecting the economic reality and risks of the investment. 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 often differ, when considering government related exposures a similar treatment should be applicable to financial institutions, regardless of whether they are subject to CRD/CRR or Solvency II legislation. We therefore strongly believe that there should be an alignment between Solvency II and CRR/CRD in the way in which guarantees (partial or full) are recognized and the way in which entities/institutions are identified as having the same credit quality as a government/regional authority. Specifically: • Partial guarantees should be allowed. Not allowing partial guarantees generates a situation in which several guarantee schemes are not eligible for use which is distorting the real economy and the level playing field amongst financial institutions. • The categorization as used in the CRD/CRR with respect to lower governments, institutions, etc. should be followed within the Solvency II legislation. The current legislations provide a completely	

	different risk assessment for the same counterparty.	
Q3.2	The scope of third party guarantees should be expanded. They should include guarantees of the following types: • Direct guarantees by regional governments and local authorities ("RGLAs") • Guarantees provided by a third party where the guarantees are supported by an RGLA guarantee • Guarantees provided by agencies or branches operated by an RGLA (e.g. VIPA and VMSW in Belgium). The above will result in better recognition of risks, for example in the case of federal states where significant fiscal power may have been delegated to individual regions. For example, mortgages in The Netherlands often come with a so-called National Mortgage Guarantee (NHG) from the government. This guarantee has a significant risk-mitigating effect that is currently not acknowledged by the standard formula of Solvency II. That is, the solvency requirements for mortgages with NHG are currently identical to those without NHG, which is unreasonable from an objective risk perspective. In addition, Solvency II currently only allows for the recognition of guarantees if the exposure is fully guaranteed. In our opinion this provision (i.e. Article 215 (f)) should be amended so that partial guarantees are also appropriately recognised. Furthermore, guarantees should also be allowed to be used as risk mitigation where collateral is available to the undertaking.	
Q3.3	The risk-mitigating effect of partial guarantees should be recognised in Solvency II. At the moment a guarantee is either for the full cashflow/all payments or none at all, i.e. binary. Partial guarantees should be recognised and no minimum level for the guarantee should be set (e.g. if the guarantee is for X% of the notional, there should be no minimum for what X should be).	

	The guarantee can be reflected by adjusting the exposure value of the adjustment to reflect the guarantee.	
Q3.4	Some examples include loans to small and medium sized entities (which in many cases have an embedded guarantee), mortgage loans, infrastructure loans. The extent to which insurers are invested in guarantees differs across companies, and some life insurers have exposures to partial guarantees of up to 10% of their total investment portfolio.	
Q3.5	The guarantee can be reflected by adjusting the exposure value of the adjustment to reflect the guarantee.	
Q3.6	Yes, Type 2 exposures should be included in the RGLA guarantee treatment – there are Type 2 exposures which are guaranteed by central government, e.g. the National Mortgage Guarantee in the Netherlands.	
Q3.7	Bonds and loans issued by public institutions and (counter-)guaranteed by RGLAs are often unrated and currently are subjected to significant capital requirements because the risk mitigating effect of the guarantee is not recognised. Only through correctly recognising the lower risk provided by the RGLA (counter-) guarantees can the disincentives to investing in these bonds and loans be removed.	
Q3.8	Yes, they should. An example of why this makes sense is provided by Belgium, where local government debt (eg Brussels and Flanders) is rated higher than the central government debt. Furthermore, the majority of fiscal powers rest with the regions and not central government and the regions also guarantee nearly 60% of projects. The definitions attached to the public sector entities as used by the CRD IV should be introduced in Solvency II.	
Q3.9	Examples need to be investigated at country level. We note that definitive conclusions cannot be drawn only based on spreads as they also reflect liquidity premium, and not just credit performance.	

Q3.10		
Q3.11	We support EIOPA investigating a similar categorisation as the one in CRR.	
Q3.12		
Q4.1	We note that prudential regulation should avoid inhibiting innovation by taking an unnecessarily conservative approach on new market developments. When looking into the area of risk mitigation, we suggest that EIOPA also investigates the following: • The use of short term hedges for long term risk mitigation • The use of dynamic hedging strategies and rolling hedges • The application to certain reinsurance approaches for which credit may not be available under the current formula The prudential regime should be established in a way which facilitates the introduction and allowance for legitimate new risk mitigation techniques. *Additional technical input from a member:* One element not sufficiently considered under the standard formula, is for example, **reserve risk covers** like Adverse Development Covers (ADCs). ADCs are an alternative solution to a runoff portfolio transfer which allow companies to effectively manage the risk while maintaining liquidity and diversification. ADCs meet all qualitative requirements set out in Articles 208 to 215 of the Delegated Regulation and could be captured by the appropriate alternatives non-proportional reinsurance (see responses to 11.5 and 11.6). A further point regarding risk mitigation is that Article 211 of the Delegated Regulation should be modified to remove the provision requesting the ceding company to demonstrate that the counterparty has submitted a realistic recovery plan. Where a partial recognition of a reinsurance risk-mitigation technique continues to be required, this should only be the case where a counterparty to a reinsurance contract has ceased to comply with its SCR based on its latest published solvency and financial condition report (SFCR) or any subsequently published intra-year update to the SFCR.	
Q4.2	It is important to appropriately recognise the credit for reinsurance. For example, for surplus and aggregate xl type reinsurance there is currently hardly any credit given (see also response to 11.5 and	

	11.6) Furthermore, if a reinsurance contract includes a "finite reinsurance" component but at the same time a risk transfer component, then the risk transfer component should be appropriately recognized as a risk mitigation technique. A risk-mitigating solution should also not be characterised as "finite reinsurance" for formal rather than fundamental reasons. See also comments on finite reinsurance under Q5.1.	
Q5.1	No. The problems and their solution to premium risk measurement involve more than just the definition of FP(future,s). The proposed amendment would lead to an excessive measure of premium volume, going beyond the requirement set out in the Directive to take account of the new business expected to be written over the following 12 months. However, the current approach for measurement of premium risk does need improvements in order to address a) the current way in which expected profit priced into the premiums is ignored (see Q5.4 below) b) inclusion of premiums in excess of the new business expected to be written over the following 12 months c) gaps in premium measurement d) multi-year policies Changes should not be made in isolation without addressing all of these issues. Finite reinsurance should also be recognised in the volume measures for non-life and NSLT health-premium and reserve risk or when calculating USPs to the extent that underwriting risk is transferred (see also comments on 11.5).	
Q5.2		
Q5.3	Yes, changing the definition of FP_future could have a material impact on the volume measure for premium risk. For example, the Swedish Insurance association has estimated that the proposal made in 5.1 could cause the volume measure to increase by 30% or more.	

Q5.4	Yes, the definition of volume measure for premium risk should be reviewed because it can penalise good pricing which reduces premium risk by increasing capital charges, and reward pricing which increases premium risk with lower capital. There is currently a perverse link to pricing strategies – if an insurer increases pricing in order to reduce premium risk, the capital charge will increase and vice-versa. Therefore, the link to pricing strategies needs to be corrected rather than necessarily reduced. A methodology for estimating the profit on premiums using past combined ratios could be considered to address this.	
Q5.5	Yes, there are three other issues to address. 1) The current formula does not work where cedants have increased cessions to a re-insurer because taking the maximum of the last 12 months and future 12 months will always result in the last 12 months being used. As a result, the true and potentially significant economic impact of increasing cessions will be ignored. This can be corrected by clarifying that insurers are allowed to apply the current level of sessions to both the last year's premium (P(last,s)) as well as the following year's estimated premiums (Ps). 2) Currently, at least one supervisor is requiring insurers to include expected new business falling beyond the 12 months required by the Directive. This can be corrected by clarifying that no contracts starting after 12 months from the reporting date should be included in the premium volume measure. 3) The multiple used to calibrate from the standard deviation to the 1 in 200 level of risk was increased from 2.6 to 3.0 without, it seems any evidence justifying this change. This has a material impact on capital requirements and therefore should be reconsidered based on the evidence.	
Q5.6	Yes, the issues identified in answer to Q5.4 and Q5.5 above can have material impact on the SCR.	
Q6.1	Risk sensitivity could be improved by taking differences in national product design into account, e.g. calibration in Belgium is at the high end since indemnities are paid quickly and amounts/ volatility are low. The IRSG agrees with the process for calibration proposed by EIOPA, though we note the, in the situation where the same number (or even slightly less) of undertakings provide data compared to 2010-2011, it may still be worth performing an analysis to ensure that the existing calibration remains appropriate.	

Q7.1	Yes.
	From a risk point of view, it would be better to replace existing zones (based on political borders) by zones derived from specific characteristics of each type of NatCat event, as natural hazards do not follow the country and cresta zone political borders.
	
	Additional technical input from a member:
	• Natural Hazards do not follow the Country and cresta zone political borders. This is particularly evident for floods who follow the geomorphology and the drainage network. Only the vulnerability factor might be slightly influenced by such borders.
	• The country risk factors can be omitted (e.g. Annex VI), they add complexity in the equation, could be misleading to the public and are inserted for political reasons. In addition, annex IX may also be deleted, by displaying directly the existing cresta zones' numbering and labelling per country.
	• Subsidence
	  ○ It does not occur only in France, but also in several other European countries (e.g.in the UK ~$4.8 Bn since mid-seventies, Romania etc)
	  ○ Heave and subsidence are interrelated processes often seasonal and relate to the depth of the water table (they can be monitored with radar satellite images). Heave should be clearly mentioned and described as well so as to protect consumers.
	  ○ The peril correlation matrix $Corr_{peril,\ I,j,}$ implies that Subsidence and Earthquakes could not be interrelated. This is not true.
	• The needs and peculiarities of the Agricultural Sector are not covered by existing regulations
	• In Europe only 23% of the crops are insured (compared to the 45% in the US) (EC 2008).
	• Hail, floods, wildfires can be considered as catastrophes, but what about freeze or frost, drought, excessive rain at harvest (etc).	

Q7.2		
Q7.3		
Q7.4		
Q7.5		
Q7.6		

Q7.7		
Q7.8	Unfortunately, there is not enough information available concerning calibration of the NatCat module in the standard formula. First of all, the main exposure value for computation of the NatCat risk, the sum insured, is not specified clearly enough. For instance: ● Should the sum insured include additional costs such as removal of debris or costs of decontamination on top of costs of rebuilding a destroyed house/facility/plant structure? ● As a result of most NatCat events, the insured house/plant will not be destroyed completely. In such case the costs of repair will contribute to the total claim disproportionally. Should these costs be considered by the determination of the sum insured (per risk) or rather should the sum insured be determined only based on the assumption of total loss?	
Q7.9		
Q7.10		
Q7.11		
Q7.12	Yes, there may still be a threat that a cluster of big winter storms could hit the insurance industry. This should be a matter of calibration in the standard formula and not be addressed individually by each insurance company.	
Q7.13		
Q8.1		
Q8.2		
Q8.3		
Q8.4	The data concerning all insured buildings within a radius of 200m are usually not available. We recommend the use of a maximum-sum-approach as in the aviation or marine scenarios.	
Q8.5		

Q8.6		
Q8.7		
Q8.8		
Q8.9		
Q8.10	The first three alternatives set out in section 8.4 do not improve or simplify the calculation of the SCR. We recommend another approach as described later in 8.4.	
Q8.11		
Q8.12		
Q9.1	Yes, a change in the standard formula would be justified if it reflects more accurately terror risk scenarios.	
Q9.2	The scenario seems conservative enough to reflect the terror risk scenario.	
Q9.3	Both for Medical Expenses and Income Protection lines of business, it is complicated to make assumptions or estimates about, e.g., the hypothetical number of days in hospital, admissions in an intensive care unit, hospitalisations out of place of residence and other circumstances that could modify the value of benefits payable by the health insurance company.	
Q9.4	In many cases, the information related to the buildings with the highest concentration is not known so, for the sake of prudence and as an approximation, the largest insurance policy should be considered, with the employees all considered to work together in the same building.	
Q9.5	Both for Medical Expenses and Income Protection lines of business, it is complicated to make assumptions or estimates about, e.g., the hypothetical number of days in hospital, admissions in an intensive care unit, hospitalizations out of place of residence and other circumstances that could modify the value of benefits payable by the health insurance company.	
Q10.1	The Lee Carter model is a well-known model and one of the models currently in use by insurance undertakings due to the balance between accuracy and simplicity. It is also easy to explain to a non-	

	technical audience. When assessing these sections EIOPA should not disregard the manner in which the best estimate assumption is determined, and should consider the relationship between the construction of the mortality table and the shocks assumed for longevity and mortality. This is now disregarded in the Standard Formula. This implies that either the risk is overstated or understated. The ability to address this issue by using or developing an internal model is not always a possible course of action especially for small insurers.	
Q10.2	One possible way to deal with parameter uncertainty could be using the standard error of the parameters resulting from the calibration process. By maximizing the log-likelihood function of the model giving rise to an estimation error in parameters of each model, resultant factors could then be used as an additional source of uncertainty. Another possibility to incorporate parametric risk could be the one suggested in UNESPA-Towers Perrin´s study, consisting in the addition of a uniform percentage to the table values of the longevity shock depending on age and duration ranges. This single factor should be determined by the insurance undertaking itself. The larger the portfolio size (that is, the greater the data´s representativeness), the lower the single factor.	
Q10.3	Expert judgement should be avoided or at least treated carefully in order to guarantee transparency and objectivity. A better solution could be a frequent (e.g. every 5 years) recalibration exercise of longevity risk.	
Q10.4	The best general mortality data publicly available for a wide range of countries are the ones mentioned in the report: Human Mortality Database and EUROSTAT database. We do not know other publicly relevant and representative data that could be used. Exercises could be carried out to make data collected by Member States available.	
Q10.5	According to our understanding, there is no consistent, regularly published information available which adequately covers the European insured population. It is true that the insured mortality can be different to the general mortality, but there is no European level representative and historically relevant data of insured mortality.	

Q10.6	Yes, a more granular approach for longevity and mortality risks is appropriate. The benefits (accuracy) clearly outweigh the costs (more complexity). Longevity shock under the SCR standard formula (an instantaneous permanent decrease of 20 % in the mortality rates used for the calculation of technical provisions) is too simplistic and not granular enough and results in: ● A calculation which does not reflect the real nature of the risk or the risk profile over time. ● A simplification that requires higher longevity risk capital than the generally intended 99.5% confidence level over one year. Relevant and verifiable empirical evidence on this matter can be found in UNESPA Longevity Risk Investigation, Towers Perrin, 21 January 2009. This calibration exercise is also mentioned in page 32 of EIOPA´s report on the underlying assumptions in the standard formula for the SCR calculation (25 July 2014). The model used to carry out the longevity risk recalibration exercise should reflect the following verifiable evidence: ● All ages should not have the same shock. The younger the person the greater the possibility of mortality improvement. ● All contracts (life annuity vs temporary 5-year annuity) should not have the same shock. The longer the coverage duration, the greater the possibility of mortality improvement. The longevity shock should vary by combination of age ranges and coverage duration.	
Q10.7		
Q10.8	If the question refers to the calibration of the risk factor, it would require information about the insured mortality and, as mentioned in the answer to question 10.5, the problem is that there is no publicly available, representative and historically relevant data of insured mortality. If the question refers to the way of calculating the impact on own funds, we consider that it could be	

	possible to calculate it at contract level, so a simplification or model point approach wouldn´t be necessary.	
Q10.9	We do not consider the interest rate factor to be relevant in the calibration of the mortality and longevity risk factor. With respect to the calculation of the impact on own funds, we do not see relevant difficulties in calculating it at contract level, applying the relevant discount curve of the valuation date.	
Q10.10		
Q11.1	Yes, specific areas for which USPs should be considered are ● The lapse risk for Life (including the mass lapse), Non-life and Health NSLT. ● Longevity and mortality risk for life underwriting ● The correlations between risks in general While the directive allows for the use of USPs in all the risk modules of the standard formula except for market risk and counterparty default risk, the use of USP is in fact restricted to some specific areas of the underwriting risk by the Delegated Regulation, which we consider inappropriate. As the calibration of a mortality model requires a large population and many years of observations, most insurers are unlikely to be able to calibrate a mortality model on their own portfolio. Actually, this is also true for the majority of large insurance companies which use for their internal model HMD or equivalent data to calibrate Trend Risk and Volatility Risk. As a consequence, we believe that the stress scenario corresponding to these two components should be provided by the NSA as country based calibrations. Data requirements should be adapted to ensure that although firms may not as yet have enough historical data, the use of USPs is still possible. *Additional technical input from a member:* These stresses might be defined as proposed in Section 10, e.g. by using a stochastic mortality model to integrate the evolution of mortality in a probabilistic framework which would allow one to derive the 1Y-	

Volatility Risk as well as the Automatic Recalibration Trend Risk. Trend Risk should not only take into account the recalibration of the mortality trend after having simulated an additional piece of data using the fitted stochastic mortality model. It should also gather the Model Risk (or model error) as well as the Non Automatic Trend Risk and the Basis Risk. Non Automatic Trend Risk aims at taking into account the fact that an insurance company might; using external data provided by national or international organizations specialized in mortality issues, make adjustments to the statistically determined mortality trend. This risk is not easy to integrate in a 1Y-VaR SII's framework to the extent that disruptive information relative to mortality is unlikely to be updated every year. Basis Risk is also to include in the Trend Risk, and might be considered and analysed using relational models. A statistically robust estimation of this risk is complicated and the authorities should suggest a prudent stress. Finally, Model Risk could be estimated using the principles of the following approach. Consider several mortality models which are different such as Lee-Carter, CBD family models, P-splines models, etc. and evaluate the relevance of each model on reference data using a statistical criterion such as BIC. Then, conduct the analysis for the different mortality models. Model Risk could be determined using a measure of heterogeneity between the calibrated stresses that one can get using the 2/3/4 most appropriate mortality models –e.g. if the model one was removed, how would the calibrated stress be impacted? On these risks, the authorities should determine general and prudent parameters for USP as these parameters are not easy to evaluate correctly.

Level Risk is a different matter to the extent it depends on the size of the insured portfolio. In a USP context, insurance companies should have the possibility to make their own assessment of Level Risk which should take into account the limited size of the portfolio (and thus the associated volatility in the estimation of the current mortality rates) as well as every risk in the retreatment of the data used for the BEL calculation. At this point, we do not propose a formal description of the methodology that one should use in the USP context for assessing its own Level Risk.

Finally, Volatility Risk, Trend Risk and Level Risk could be aggregated using the following formula:

$$\text{Global Risk} = \sqrt{(\text{Volatility Risk})^2 + (\text{Trend Risk})^2 + (\text{Level Risk})^2}$$

assuming a zero-correlation between the three components of risk mentioned above.

One should note that, especially for longevity issues, Trend Risk and Volatility Risk represent a very important part of the global longevity risk. Then, at least concerning longevity issues, the degree of freedom granted to USP users would be moderate.

Regarding the methods to be used, an approach whereby a set of criteria should be set out which would help assess whether any one method is a standardised one will allow to keep up with academic advancements and

	allow companies to use methods are the most suitable to reflect their risk profile.	
Q11.2	We believe that the possibility of USPs for lapse risk should be introduced, not least because of: ● the substantial impact of lapse risk in the European life insurance market ● the highly company specific characteristics in terms of lapse level and volatility ● the results of the overall solvency assessment that in some situations suggest the parameters of the standard formula do not necessarily fit With respect to the calibration of the mass lapse, we are not aware of any data/research that would justify the current extremely conservative approach. As a general comment, we believe that when assessing mass lapse risk EIOPA should take into account the long-term nature of the business, the clear link to biometric components, consumer bonding to insurer, product substitutability, etc. As an anecdote suggesting the current unnecessarily conservative approach, in the recent failure of a German life insurer (which was handed over to a protection fund), lapse rates did not exceed 20%. A 20% calibration also appears to be supported by analysis from the Dutch Centre for Insurance Statistics, which collected a detailed cross-sectional and time-series information on lapse risk.	
Q11.3	In order to calculate the USP for lapse risk we would recommend to use the following method a) Clustering of raw data with regard to the maturity of the contracts. Carry out this step for the last 5 to 10 years. One cluster may contain more than one maturity. b) Calculate the change in lapse rate for each individual cluster. c) Assume (log-)normal distribution for the change in lapse rates and fit the parameters. d) Validate the fitted distribution. e) Calculate 99.5% quantile.	
Q11.4	In the specific case of the premium risk, the data criteria could be improved by integrating the trends for the calculation of the USP factors to avoid the impact of long term trends over the volatility of the premium risk factor.	
Q11.5	USPs are one way of improving the recognition of non-proportional reinsurance. However, given the practical difficulties of applying the USP approach, it is strongly recommended that EIOPA also consider a solution to address the issues with recognition of non-proportional reinsurance under the standard formula	

	without increasing complexity. The non-life premium and reserve risk method should be revised to include adjustment factors for premium and reserve risk for non-proportional reinsurance for all lines of business (subject to conditions). The proposed adjustment would be calculated by the undertaking using a scenario based approach, using the same method as is already applied for the scenario based calculations for Life and the Non-Life Cat module.	
Q11.6	The USP framework should be more flexible and allow for simplifications. For example, USPs should be allowed for all non-proportional reinsurance and other forms of reinsurance not well reflected in the standard formula. This would include reinsurance that combines several risks, surplus reinsurance treaties (which may refer to tables of policy limits), stop loss and reserve risk covers. This will allow USPs to be used to more adequately reflect the reality of the risk transfer.	
Q11.7		
Q11.8	An alternative method could be to calculate USPs at an entity level and then allow an aggregation of these USPs to obtain the GSP. EIOPA should give guidelines on the aggregation method.	
Q11.9	We have not identified a risk on which specific parameters could be applied only at the group level and not at the solo level.	
Q12.1	Cash in hand (as Article 189 (2) (b) refers to Article 6 item F of Council Directive 91/674/EEC (1)) is an example where it is difficult to imagine an actual exposure by an insurance company.	
Q12.2	In assessing the counterparty default risk, willingness, together with ability, should be taken into account.	
Q12.3	We have lack of clarity regarding the way in which the parameters for probability of default for each credit quality step were defined (Article 199(2) of the Delegated Regulation, for example we are not sure about how the 4.2% level for credit quality step 5 and 6 was set.	
Q12.4		
Q12.5		
Q12.6		

Q12.7		
Q13.1		
Q13.2		
Q13.3		
Q13.4		
Q13.5	SII capital charges for counterparty default risk on derivatives ignores the EMIR requirements which have been introduced, and expressly designed, to eliminate or dramatically reduce counterparty risk. This results in double counting of risks and excessive capital requirements and should be addressed.	
Q13.6		
Q14.1	We believe that any participation which is under control of the insurance undertaking (for which no look through is applied or is not listed as exemptions) should be exempted from the scope of the market concentration sub-module as, whenever the goals of both entities are aligned, there is no reason to apply a capital requirement.	
Q14.2	In our view the assessment should be made on the level of the single name exposure.	
Q14.3		
Q14.4	We do not see any differences.	
Q14.5		
Q14.6		
Q14.7		
Q14.8		
Q14.9	The exposure could equal the value of the asset as determined in accordance with Article 75 of the	

	Solvency II Directive.	
Q14.10		
Q14.11		
Q14.12		
Q15.1	Yes, FX translation risk can be a real risk. However, the current Standard Formula does not measure this risk correctly. See response to Q15.4 for further details.	
Q15.2	There should not be restrictions on the availability of own funds at the level of the group.	
Q15.3	Own funds should be considered as fungible for SII group calculation (although the company should, for example in their ORSA, confirm they have taken into account specific restrictions that apply to their group). The commentary in the discussion paper appears to confuse the concept of diversification of risks with measurement of available capital. Risk diversification is valid if there is good reasons to believe that the most extreme (1 in 200) events will not occur simultaneously across all entities in a group. This has nothing to do with fungibility of capital.	
Q15.4	No. Currency risk at group level is currently not treated appropriately under the standard formula because it inappropriately penalizes groups for holding assets backing local solvency requirements in the local currency. The only way to avoid this would be for a company to back a local solvency requirement with the group head-office currency. The current method therefore incentivises a mismatch which creates rather than reduces group level currency risk. The standard formula should therefore be altered to recognize that good risk management (and possibly local regulatory requirement) requires the holding of local solvency capital requirements in local currencies. The definition of local solvency requirements should be based not on minimum requirements but, on those needed to avoid any regulatory intervention. A group could minimise FX translation risk either by allocating all excess capital (over that needed for local requirements) to the group currency or by distributing their excess pro-rata across the group. Exposure to	

	FX translation risk would only be on those own funds which deviated from one of these two allocation approaches.	
Q16.1	We agree that a definition of an "investment related undertaking" is needed, for which look through can always be applied. A key criterion should be that the vehicle has no purpose other than the holding of assets. We believe the elements identified by EIOPA would deserve a more in-depth investigation, as these may not be always/fully relevant. For example, the level of financial leverage may not be relevant if the investment related undertaking is fully financed by the parent company. Similarly, the nature of liabilities may not be relevant if the undertaking has a pure investment activity.	
Q16.2	See Q16.1.	
Q16.3	The costs are dependent on the exact definition of those vehicles. The benefits are a better assessment of risks and good risk management, and avoidance of excessive capital charges which ultimately impact negatively consumers and where they discourage long-term investment, the economy. In general, a look-through approach generates significantly higher direct and indirect costs and therefore the look-through approach should be optional and insurers should be allowed to apply the standard method in cases where they can prove that the standard method leads to more conservative outcomes, which should raise no concern from a prudential supervision perspective.	
Q16.4	We believe that the impact may often be significant, especially in cases where such investments represent a significant proportion of insurers' total allocations. For example, in the case of not applying the look through: • The participation will be based on the adjusted equity value. In this 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.	

Q16.5	The insurer should be allowed to use the look through approach for any related undertakings which meet the (to be determined) definition of an "investment related undertaking".	
Q16.6	Yes, but consideration should be given to extending the applicability beyond unit-linked and index-linked products (and potentially beyond 20%) where it can be demonstrated that the simplification would not have a material impact on SCR.	
Q16.7	No. The simplified approach should be allowed for all unit- or index-linked products with no threshold.	
Q16.8	An even simpler approach, similar to the standard factors used for equity risk, is considered necessary. This is because the target allocation of a fund usually does not contain sufficient information for calculation of the SCR, e.g. it is not possible to construct a cash flow profile for the interest rate risk.	
Q16.9	Yes, for certain types of entities collecting all the relevant information to apply the look-through approach this would be unnecessarily burdensome, e.g. in the case of bond funds. This is particularly true for unit-linked and index linked business, given that the impact on the SCR is negligible.	
Q17.1	Yes, the Discussion Paper sets out in Section 17.1 the main issues leading to a conclusion that the risk free downward shock scenario could at times be underestimated. However, the SII measurement approach is already conservative with respect to interest rate risk assessment and any potential changes should be considered together with an assessment of the overall conservative approach as part of the 2020 Review. We also note that there is next to no scientific body of work on how interest rates behave in negative territory and too little real-life experience to draw valid conclusions from. Consensus amongst economist seems to be that negative rates are "artificial" and "temporary". Given that, it seems at least unjustified to model the same downward shock as if we were in positive rates territory. In our view, there ought to be an upward bias in the distribution of probabilities when rates are below zero. *Additional technical input from a member:* In considering any changes, it should also be recognised that from a realistic economic point of view (i.e. looking at real cashflows and mismatches), the Solvency II approach is already conservative because a) It generally ignores the expected yields from assets above the risk free rate effectively assuming all assets earn only a risk free return. Even where there is a very high chance of additional yield being received e.g.	

	from investment grade bonds, this is ignored, although the risk of assets underperforming because they are not in reality invested risk free is included through the SCR charges. b) It assumes in the base case calculation that the current yield low rates will stay fixed at least for the next 20 years (for the Euro), this is widely considered a possible, but unlikely, scenario and already a "downside" one. While it is recognised that this conservatism stems from the basis for SII calculations, the fact that in relation to interest rates, Solvency II is conservative in a real practical sense, should not be ignored in considering the need and appropriateness of any changes in calibrations to the interest rate shocks.	
Q17.2	While not perfect, a minimum downward shock could be useful to overcome some of the issues raised by relative stresses when interest rates are very low or negative, however this would have to be combined with an interest floor. Though the back-testing contained in Section 17.1 shows that a 1% minimum downward shock when applied over the period 1999 to 2015 would have resulted in breaches of the calibrated shock, the 1% would have provided a better measure of risk than the relative stress. It is notable that the breaches effectively disappeared (based on a minimum 1% shock) at the 1% level when interest rates reduced to very low levels. An interest rate floor would be necessary because if rates fell significantly below zero for extended periods of time we would see actions by market participants so as to avoid those negative rates. The cost of carry would be simply too high compared to alternative courses of action such as paying for cash storage and insurance to cover risks of theft or damage. These alternatives would determine the level of the floor. More extensive backtesting should be carried out than in the initial CEIOPS calibration exercise, including on appropriate levels for a floor. *Additional technical input from a member :* See Q17.12 for a potential alternative methodology	
Q17.3		
Q17.4		

Q17.5		
Q17.6		
Q17.7	Yes, it would be reasonable to shock the input data, i.e. "before extrapolation" as this would be consistent with the valuation of assets and liabilities. The risk free curve published by EIOPA allows for extrapolation beyond the last liquid point. It is widely agreed that this is reasonable. So it is consistent to allow for the extrapolation as well when it comes to the shock factors.	
Q17.8	No.	
Q17.9	Generally speaking, the principal component analysis is feasible. The counter-argument given in the text is not convincing.	
Q17.10	We strongly recommend to abandon the rolling window technique. It is shown in the literature that rolling windows spoil the input data, see e.g. MITTNIK, Stefan. Solvency II calibrations: Where curiosity meets spuriosity. Munich: Center for Quantitative Risk Analysis (CEQURA), Department of Statistics, University of Munich, 2011. LANDES, Markus, et al. Realistische versus regulatorische Bewertung von Beteiligungsrisiken in Solvency II. Absolut report 04/2012, p. 44-53, 2012. Instead one should use a sound statistical method, parametric or non-parametric (e.g. bootstrap method).	
Q17.11	We do not think that an additive approach is reasonable. The reason is that there is economic evidence for a lower bound on interest rates. If rates fell further, we would most likely encounter actions by market participants so as to avoid those negative rates e.g simply holding cash. The cost of carry would be simply too high compared to alternative courses of action e.g. paying for cash storage and insurance. Given that there seems to be a lower bound for rates, no minimum downward shock in absolute terms can be appropriate as any such minimum downward shock can potentially violate the lower bound.	
Q17.12	*Additional technical input from a member:* The following is a potential methodology that could be applied to the difference of rates to the lower bound, i.e. the lower bound has to be added to the data (rates) before applying the methodology. The resulting shock factors then have to be applied to the sum as well, giving rise to shocks in environments of positive as well as negative rates.	

	To be more explicit, a proposal proceeds as follows: *a) Calibration of shock factors* 1. fix lower bound, b 2. shift the data (rates) by subtracting the lower bound: s(t) = r(t) – b 3. perform methodology on shifted rates s(t) and obtain relative shock factors f(t) with respect to s(t) *b) New methodology to apply the shock factors* 4. apply the shock factor on the actual shifted rate s(t) and obtain shocked shifted rate s(t) x f(t) 5. Derive shocked rate by adding the lower bound: shocked rate = [r(t) – b] x f(t) + b	
Q17.13		
Q17.14	No.	
Q17.15	We do not support the combination of approaches for this increases the complexity and requires additional assumptions, e.g. where to change from one regime to the other.	
Q17.16	Any approach used to calculate interest rate VaR needs to target its proper Solvency II definition, i.e. the 99,5% quantile of basic own funds losses induced by interest rate changes over a one-year period. In contrast, the CEIOPS calibration methodology for the interest rate shock factors targets the 99,5% quantile of empirical annual percentage rate changes (up and down). This does not correspond to the above mentioned definition of interest rate VaR and there is no clear connection to it. A review of the currently used shock factors based on this calibration methodology may therefore give misleading results. *Additional technical input from a member:* Given a typical cashflow profile (assets and liabilities) of an insurance or reinsurance undertaking, the interest rate VaR may be properly calculated along the following steps: • Generate a sufficiently large set of interest rate scenarios based upon the current environment and a one-year horizon (this requires an appropriate interest rate model) • Compute the present value of the cashflows in the current environment and in each scenario • Derive the distribution of present value losses induced by interest rate changes • Use the 99,5% quantile of this distribution as interest rate VaR	

	The method can also be used to derive appropriate relative interest rate shock factors for insurance or reinsurance undertakings with a typical cashflow profile. The shock factors can easily be derived by comparing the current interest rate curve with the scenario curve corresponding to the 99,5% quantile of present value losses. As cashflow profiles heavily depend on the respective business model, the derivation of different sets of shock factors – e.g. one for life and one for non-life undertakings – is a straightforward improvement of the method. This leads to two different stress scenarios - just like in the standard formula - and no structural change of the standard formula is required. The shock factors may be adjusted conservatively (e.g. by the introduction of absolute minimum shocks), to ensure their appropriateness in a wider range of interest rate environments. Still, a regular review of the shock factors may be necessary.	
Q18.1	The calculation of deferred tax liabilities (DTL) and deferred tax assets (DTA) in the SII balance sheet is a straightforward application of the principles contained in IAS 12. Although the size of the adjustments between the accounting and Solvency II balance sheets can be very large, in general there is no particular difficulty in determining the temporary differences on which DTLs and DTAs will arise under IAS 12. LAC DT should be calculated in line with the principles of IAS 12 applying the relevant fiscal rules of the countries in which businesses operate. We do not see any practical difficulties in doing this, including the assessment of future profits from existing and new business. The Solvency II balance sheet is calculated on a market consistent basis. Over time, economic taxable profits will be realised, which can be used to recover notional deferred taxes. These future profits are expected from earning an investment margin on invested assets over and above the discount rate included in the Solvency II balance sheet and funding costs. We do not consider that it would be appropriate to limit the expected return to the shocked risk free rates. When taking account of new business in the calculation of the LAC DT, a fundamental consideration is the extent to which the relevant business would be able to recoup the shock loss and hence be able to write new business. This requires consideration of the basis on which the business in question can take management actions to improve its capital position (including whether it can be recapitalised). As part of the on-going management of the capital position, businesses already assess the impact of stresses and the management actions that can be taken to restore the solvency position.	

	In addition, when considering the LACDT EIOPA has to consider the fact that the underlying fiscal legislation is not harmonised. The methodology used in order to calculate the LACDT should create a level playing field. We expect that insurance businesses in Europe would take appropriate management actions (including if necessary recapitalisation) following a shock loss. We do not consider that it would be appropriate to assume that the whole of the European insurance industry would go into run-off and be unable to write any new business. There is empirical evidence available to demonstrate that following large losses, insurance capacity is reduced resulting in increasing premium rates and hence a recovery in insurance profitability. Some level of new business must therefore be assumed, based on appropriate management actions (including recapitalisation). We do not agree that the LAC DT should be limited to the net DTL, not least because this is inconsistent with the going concern basis of Solvency II. Setting the LAC DT to the amount of the net DTL effectively assumes that no future returns on assets and liabilities would be earned, and no future new business would be written by the business in question (and by extension the whole of the European/EU industry). In addition, the net DTL may reflect DTAs that will reverse in the future without negatively impacting future taxable income (e.g. risk margin and credit spreads). Hence the net DTL does not reflect the true future taxable income against which the shock loss can be offset. Finally, we consider that the time horizons used in calculating the LAC DT should be based on the time horizon appropriate to the underlying business in question. We do not consider that it would be appropriate to impose an arbitrary limit on the time horizon used.	
Q18.2	The returns on assets and liabilities are different in each insurance undertaking. Therefore, we do not see reason to harmonize this issue.	
Q18.3	The uncertainty in the asset return depends on the asset type invested in. For example: • Equity generates dividend cash flows and cash flows on sale of the equity investments. Uncertainty of dividend cash flows needs to be assessed, based on a range of factors including the past performance and current economic expectations.	

	• In the case of fixed income, the uncertainty in actual cash flows is stemming from either deferral of coupon payments or the default of counterparties, which need to be assessed separately. • In the case of rental income / mortgage loan income assets, cash flows are usually stable, however impact of non-renewal of the rental lease and default should be analysed.	
Q18.4	The projection should be done with the economic (Solvency II) profits and losses but taking into account the relevant tax regime for the utilisation test of DTA. In addition, an assessment should be made to investigate whether the losses are deemed to be temporary, direct or deferred.	
Q18.5	New business, including renewals of existing business, should be considered in the calculation of LAC DTA taking into account the undertaking specific estimation after the shock. The uncertainty of new business varies across the lines of business. For example, in the case of mandatory insurance a link to the real economy should be recognised. In the case of long-term products, components such as provision of pension services, fiscal consequences, substitutability need to be taken into account to assess likelihood of renewal.	
Q18.6	See Q18.5.	
Q18.7		
Q18.8	Any limitation of the time horizon would be arbitrary and artificial. The time horizon used in the projections of future taxable profits depends (and should only depend) on the relevant tax regime. Therefore, we do not see any reason to limit the time horizon already established by the relevant tax regime.	
Q18.9	The LAC DT should not be set to the amount of- net DTL. This is far too conservative for many companies and would not be in line with the going concern principle.	
Q18.10	See response to Q18.9.	
Q18.11	The full Solvency II balance sheet calculation immediately after the shock loss should be an option for undertakings not something compulsory. For example, if an insurer is not willing to recognise the LAC_{DT} or	

	is able to demonstrate a deferred tax liability is recognised 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	The compliance with the MCR and SCR should not play a role in the calculation of LAC DT. While insurers will have several measures in place to remedy a breach, in practice several will take time to produce effects.	
Q18.13	The criteria to be met in order to recognise ancillary own funds are suitable for an assessment of the appropriateness of the measures involving a recapitalisation i.e. 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.	
Q18.14	The tiering limits as currently included in the Solvency II legislation should be investigated for potential pro-cyclical effects.	
Q18.15		
Q18.16	No. We do not consider the LAC DT as a procyclical issue.	
Q19.1	The current specification of the risk margin is inappropriate, in particular for long-term life insurance business, where the methods and assumptions result in an excessive risk margin. The current low interest rate environment has also shown that the current Risk Margin calculation is excessively volatile with respect to interest rates.	
Q19.2	Options should be considered to introduce a level of dependency of the Cost-of-Capital rate to long term interest rates, since in a low interest rate environment we would expect market risk premiums to reduce as demand for higher yielding assets increases. This could be achieved either by making the cost-of-capital rate a function of interest rates or by regular periodic review by EIOPA. In doing so consideration should also be given to whether a different cost of capital rate should be specified by currency although this latter point potentially could be argued to conflict with the level 1 directive. Any modification that increases the uncertainty and volatility in the calculation of the Risk Margin should be avoided.	

Q19.3	The excessive level of the Risk Margin has macro-prudential implications as it encourages the transfer of long term life insurance risks to non-EU jurisdictions which fall outside the remit of Solvency II, and harms consumers firstly by discouraging the provision of certain long-term products and by increasing the cost of provision, resulting in higher premiums. Finally, the excessive volatility with respect to interest rates discourages best practice in the matching of assets and liabilities, since a well-matched balance sheet will still be exposed to interest rate fluctuations via the Risk Margin in a material manner. Under the current framework, the Cost-of-Capital rate of 6% implies a market beta for insurance risk which is above 1, which demonstrates that the current rate of 6% is excessive, since there is evidence that insurers have a beta below 1. Therefore, work should be undertaken to derive an appropriate cost of capital rate and methodology to ensure appropriate levels of risk margin and avoid artificial volatility. *Additional technical input from a member:* In order to overcome these issues, the following solutions should be considered: • Derive a more appropriate (lower) cost of capital rate that recognises that insurance risks should be expected to have a low beta. We consider a rate of around 3% would be more reasonable taking into account the beta of insurance risks. • • Take into account risk dependence over time by introducing a tapering parameter to the calculation provided in Article 37(1) of the Delegated Acts. The projected SCR capital requirements used in the risk margin calculation are not independent (e.g. a risk may be non-repeatable so if it crystallises in one time period it cannot reoccur, affecting forward SCR capital requirements). This means it is not appropriate to value the projected SCR capital requirements as independent payments, which is the assumption implicitly made in the current framework. Individual members of the ISRG can provide examples of formulas which would achieve this. These proposals will result in a more appropriate Risk Margin and will reduce the volatility of the Risk Margin to interest rates.	
Q19.4	**Diversification between business lines at group level:** The current Solvency II framework does not make sufficient allowance for diversification between risks within an insurance company when calculating the risk margin. In particular, diversification between life and non-life and group diversification between different entities of a group. We would propose that these	

	diversification effects should be taken into account in the risk margin calculation The above changes would be consistent with the reality of how insurance groups are managed in practice and the SCR treatment of diversification. They are also consistent with the assumption adopted in the most recent ICS specifications that have been tested. The excessive Solvency 2 approach creates unintended incentives for the industry to adapt their organizations **Allowance for Matching Adjustment and Volatility Adjustment in the estimation of SCR values used in the Risk Margin formula:** Under the current framework, insurers are required to estimating SCRs in the risk margin calculation by discounting liabilities at the basic risk-free rate, without taking into account the Matching Adjustment and Volatility Adjustment. This introduces additional complexity and is operationally burdensome for insurers. We therefore propose that the process of calculating the Risk Margin is simplified by removing this requirement and allowing the Risk Margin calculation to be based on a consistent valuation basis as the best estimate liabilities.	
Q20.1	Any comparison between banking and insurance regulatory provisions should carefully take into account a number of key considerations, such as: • There are fundamental differences in the prudential regimes such as economic value versus (adjusted) accounting value of the Balance Sheet and thus Own Funds • The function of own funds can be different e.g. for what do you use the own funds / what kind of buffer (bank run versus ?) • The comparison exercise should not lead to a situation in which the most stringent criteria is used of both regimes.	
Q20.2	We believe that the following differences between CRD IV/CRR and Solvency II provisions are not justified by the differences in business models. In practice, these provisions cause higher costs for insurers willing to issue the same instruments as financial institutions subject to CRD IV/CRR. Specifically: • In the area of Tier 1: The first call date and Early redemption based on tax or regulatory events should be reviewed • In the area of Tier 2: The Maturity, First call date, Early redemption based on tax or regulatory events should be reviewed	

Q20.3	We believe the elements highlighted in Q20.2 should be aligned to the CRR/CRD provisions. This would align the features for financial institutions irrespectively of the prudential regime and would create a level playing field when issuing capital instruments.	
Q20.4		
Q20.5	The current situation in which PLAMs are treated more favourably under CRR than under SII is not justified by the differences in business models between banks and insurers. Rather this is an artifice of the design of CRR and SII. The potential of PLAMs, possibly preventing a long and burdensome process of recapitalization, is still unlocked for insurers. This is expected to create problems and competitive disadvantages especially when the grandfathering period applicable under Solvency II comes to an end.	
Q20.6		
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.	
Q20.9	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.	
Q21.1	The limit introduced by Article 82(3) should be deleted, as it is contrary to the political agreement in the Solvency II Framework Directive and introduces unnecessary complexity in dealing with own fund items. We therefore also propose not to suggest alternative treatments in the case of removal of Article 82(3) as suggested in the questions 21(4) to (7). Article 82(3) of the Delegated Regulation introduces the 20% limit which is in fact introducing the idea of sub-tiers which was specifically and intentionally deleted by the Council and the EP during the negotiations of the Solvency II Framework Directive. The EC had accepted this deletion. Article 82(3) is therefore not in line with the delegated power on which it is based (Article 99 of the Solvency II Framework Directive). This matter was picked up by the EP when it was scrutinizing the Delegated Regulation. The EC refused to follow the suggestion of the EP to delete Article 82(3).	

	If the 20% limit for restricted Tier 1 instruments were removed, the restriction should not be retained on the use of lower quality transitional own funds.	
Q21.2		
Q21.3		
Q21.4	We do not see reason for adopting additional requirements to those included in Article 71 of the Delegated Regulation.	
Q21.5	The current features included in the Delegated Regulation ensure that the quality for Tier 1 is maintained.	
Q21.6	If the mandatory trigger established in Article 71(1)(e) of the Delegated Regulation were raised to the level mentioned in the question the issue of this type of capital items would be hardly feasible in practice.	
Q21.7	Similar situation than Q21.6. If the first call for repayment or redemption were set further 5 or 10 years after the date for issuance the issue of this type of capital items would be hardly feasible in practice.	