

**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:	Luxembourg insurance an reinsurance association (ACA)	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ 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 <u>empty</u>. ⇒ 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>. ⇒ Our IT tool does not allow processing of comments which do not refer to the specific numbers below. <p>Please send the completed template, <u>in Word Format</u>, to CP-16-008@eiopa.europa.eu</p> <p>Our IT tool does not allow processing of any other formats.</p> <p>The numbering of the questions refers to the discussion paper on the review of specific items in the Solvency II Delegated Regulation.</p>		
Reference	Comment	
General Comment		
Q1.1		
Q1.2		
Q1.3		
Q1.4		
Q1.5		

**Comments Template on
Discussion Paper on the review of specific items in the Solvency II
Delegated Regulation**

**Deadline
3 March 2017
23:59 CET**

Q1.6		
Q1.7		
Q1.8		
Q1.9		
Q1.10		
Q1.11		
Q1.12		
Q1.13		
Q1.14		
Q1.15		
Q1.16		
Q1.17		
Q1.18		
Q1.19		
Q1.20		
Q1.21		
Q1.22		
Q1.23		
Q1.24	<p>The current methodology for the computation of the operational risk does not take into account the operational risk related to the Unit-Linked portfolio (or only via the expenses). Furthermore, it could be that the operational risk is only relying on the expenses for a pure Unit-Linked company, i.e.:</p> $SCR_{operational} = 0.25 * Exp_{ul}$ <p>given that:</p> <ul style="list-style-type: none"> - $Earn_{life} = Earn_{life-ul}$ 	

**Comments Template on
Discussion Paper on the review of specific items in the Solvency II
Delegated Regulation**

**Deadline
3 March 2017
23:59 CET**

	<ul style="list-style-type: none"> - $Earn_{non-life} = 0$ - $pEarn_{life} = pEarn_{life-ul}$ - $pEarn_{non-life} = 0$ - $TP_{life} = TP_{life-ul}$ - $TP_{non-life} = 0$ - As a consequence: $Op_{provisions} = 0$, $Op_{premiums} = 0$ and $Op = 0$ <p>Furthermore, the calculation relying on premiums and level of technical provisions generates volatility over time.</p>	
Q1.25	<p>In order to reduce the volatility and to have a level playing field for all insurance and reinsurance company, the operational risk should rely only on the BSCR, so that :</p> $SCR_{operational} = \alpha \times BSCR$ <p>with α = proportionality factor (between 0 and 1) to be determined by EIOPA.</p>	
Q1.26		
Q2.1		
Q2.2		
Q2.3		
Q2.4		
Q2.5	<p>ACA members do not favour any change in the methodology. However, in case a change is made, ACA strongly advises that EIOPA itself calibrates the required ratings so to avoid issues created by internal ratings.</p>	
Q2.6		
Q2.7		
Q2.8		
Q2.9		

Comments Template on Discussion Paper on the review of specific items in the Solvency II Delegated Regulation		Deadline 3 March 2017 23:59 CET
Q2.10		
Q3.1		
Q3.2		
Q3.3		
Q3.4		
Q3.5		
Q3.6		
Q3.7		
Q3.8	<p>ACA would like to raise a specific issue impacting companies which head offices are outside of the European Union.</p> <p>Exposure to Regional Government and Local Authorities (RGLA) in states outside of the EU has a disproportionate impact for these companies. A 40% spread risk has to be applied in case of exposure to RGLA, as they are not rated.</p> <p>This unbalanced in treatment between central governments and RGLA is not justified, especially in cases where the state considered is a decentralized, federal state.</p>	
Q3.9		
Q3.10		
Q3.11		
Q3.12		
Q4.1		
Q4.2		
Q5.1		
Q5.2	<p>For each LOB, the calibration of risk factors applied on risk exposures is based on three proxies :</p> <ol style="list-style-type: none"> 1) Lognormality of combined ratios 2) Expected combined ratio value $\mu = 100 \%$ 3) Value-at-Risk at one-year time horizon at 99,5% risk level = $3 * \sigma$ <p>In luxembourg, the level of pricing is generally calibrated based on combined ratios of 80-90%. So,</p>	

**Comments Template on
Discussion Paper on the review of specific items in the Solvency II
Delegated Regulation**

**Deadline
3 March 2017
23:59 CET**

these proxies are not suitable. We suggest to replace these proxies by the following general formula :

$$\text{Var}_{99,5\%} = \mu * \frac{e^{2.58 * \sqrt{\log\left(1 + \frac{\sigma^2}{\mu^2}\right)}}}{\sqrt{1 + \frac{\sigma^2}{\mu^2}}} - 1$$

Example : For motor liability business ($\sigma = 10\%$), the risk factor is equal to 30% ($3 * \sigma$) on standard formula compared to our suggestion which shows a result of 19% (μ being supposed equal to 90%).

Q5.3		
Q5.4		
Q5.5		
Q5.6		
Q6.1		
Q7.1		
Q7.2		
Q7.3		
Q7.4		
Q7.5		
Q7.6		
Q7.7		
Q7.8		
Q7.9		
Q7.10		
Q7.11		
Q7.12		

**Comments Template on
Discussion Paper on the review of specific items in the Solvency II
Delegated Regulation**

**Deadline
3 March 2017
23:59 CET**

Q7.13		
Q8.1		
Q8.2		
Q8.3		
Q8.4		
Q8.5		
Q8.6		
Q8.7		
Q8.8		
Q8.9		
Q8.10		
Q8.11		
Q8.12	<p>1) Suggestion of simplification, <u>as an alternative</u> for underwriting/groups that have deep difficulties to geocode their risks : applying the following proxy to value the exposure gross of reinsurance in the R meters radius circle :</p> $\%MS \times \%DS \times \pi R^2 \times NF \times EUR/m^2$ <p>in which :</p> <p>%MS = % market share in premiums of the insurer in Fire business %DS = % density of buildings in the circle area (DS = 60% in Luxembourg city) R = Radius of circle NF = Average number of floors per building (NF=8 in Luxembourg city // 6 positive floors, 2 basements) EUR/m² = Average cost of reconstruction (2000 EUR/m² in Luxembourg city)</p> <p>2) Calibration of R : a 200 meters value is too high in case of residential / commercial exposures</p> <p>We suggest R = 200m in case of single industrial exposures and 100m in other cases</p>	

Comments Template on Discussion Paper on the review of specific items in the Solvency II Delegated Regulation		Deadline 3 March 2017 23:59 CET
Q9.1		
Q9.2		
Q9.3		
Q9.4		
Q9.5		
Q10.1		
Q10.2		
Q10.3		
Q10.4		
Q10.5		
Q10.6		
Q10.7		
Q10.8		
Q10.9		
Q10.10		
Q11.1		
Q11.2		
Q11.3		
Q11.4		
Q11.5		
Q11.6		
Q11.7		
Q11.8		
Q11.9		
Q12.1	Counterparty default risk does not take into consideration the specificities of "cash & equivalents" detained in unit-linked products. This is especially detrimental in case of "internal funds" which	

**Comments Template on
Discussion Paper on the review of specific items in the Solvency II
Delegated Regulation**

**Deadline
3 March 2017
23:59 CET**

	<p>are widely traded by Luxembourg companies. ACA therefore recommends clarifications regarding the methodology of market risk sub-modules (impact on assets, liability absorption) for counterparty default regarding cash detained on unit-linked products.</p> <p>Article 189 2.(b) of the delegated regulation 2015/35 specifies that "Cash at bank as defined in Article 6 item F of Council Directive 91/674/EEC (1)" has to be considered as type 1 exposure in the counterparty risk module. The Q_A_for_Preparatory_Phase_Technical_Specifications_Set_10" dated 04.12.2014 states that "Cash at bank should be understood as meaning cash on a current account or cash at hand that is immediately available to be drawn up by the undertaking under all circumstances."</p> <p>Given this definition, a savings account with a notice period should not be considered as cash. This means it should be considered in the market risk module, which does not seem appropriate, as savings accounts do not have a fixed term, which would be needed for example in the spread risk module.</p>	
Q12.2		
Q12.3		
Q12.4	<p>The counterparty default risk module is overly complex and burdensome, especially in relation to its impact on the overall SCR for the majority of (re)insurers. Furthermore, for banks compliant with Basel III regulation, the cost of capital is very high.</p>	
Q12.6	<p>ACA would like to underline that, in any case, without simplification, calculations would be simply not feasible.</p>	
Q12.7		
Q13.1		
Q13.2		
Q13.3		

**Comments Template on
Discussion Paper on the review of specific items in the Solvency II
Delegated Regulation**

**Deadline
3 March 2017
23:59 CET**

Q13.4
Q13.5
Q13.6
Q14.1
Q14.2
Q14.3
Q14.4
Q14.5
Q14.6
Q14.7
Q14.8
Q14.9
Q14.10
Q14.11
Q14.12
Q15.1
Q15.2
Q15.3
Q15.4
Q16.1
Q16.2
Q16.3
Q16.4
Q16.5
Q16.6

**Comments Template on
Discussion Paper on the review of specific items in the Solvency II
Delegated Regulation**

**Deadline
3 March 2017
23:59 CET**

Q16.7	The 20% threshold should not apply to unit- or index-linked products. ACA also believes that the threshold could be raised for guaranteed funds such as "Fonds euro".	
Q16.8		
Q16.9	ACA members consider it very difficult to apply the look-through approach to bond funds, private equity funds and alternative investment funds, mainly because the relevant information is difficult, if not impossible, to get.	
Q17.1		
Q17.2		
Q17.3		
Q17.4		
Q17.5		
Q17.6		
Q17.7		
Q17.8		
Q17.9		
Q17.10		
Q17.11		
Q17.12		
Q17.13		
Q17.14		
Q17.15		
Q17.16		
Q18.1		
Q18.2		
Q18.3		
Q18.4		

Comments Template on Discussion Paper on the review of specific items in the Solvency II Delegated Regulation		Deadline 3 March 2017 23:59 CET
Q18.5		
Q18.6		
Q18.7		
Q18.8		
Q18.9		
Q18.10		
Q18.11		
Q18.12		
Q18.13		
Q18.14		
Q18.15		
Q18.16		
Q19.1		
Q19.2		
Q19.3		
Q19.4		
Q20.1		
Q20.2		
Q20.3		
Q20.4		
Q20.5		
Q20.6		
Q20.7		
Q20.8		
Q20.9		
Q21.1		

Comments Template on Discussion Paper on the review of specific items in the Solvency II Delegated Regulation		Deadline 3 March 2017 23:59 CET
Q21.2		
Q21.3		
Q21.4		
Q21.5		
Q21.6		
Q21.7		