	Comments Template on Consultation Paper on EIOPA's first set of advice to the European Commission on specific items in the Solvency II Delegated Regulation	Deadline 31 August 2017 23:59 CET
Name of Company:	Royal Dutch Actuarial Association	
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-17-004@eiopa.europa.eu** **Our IT tool does not allow processing of any other formats.** **The numbering of the reference refers to the sections** of the consultation paper on EIOPA's first set of advice to the European Commission on specific items in the Solvency II Delegated Regulation. Please indicate to which paragraph(s) your comment refers to.	
Reference	**Comment**	
General Comment		
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3.1	We support the ambition to prevent over-reliance on external credit ratings. However, the use of external credit ratings should not be fully removed, but there should be (additional) alternative approaches or alternatives for specific exposures to mitigate the over-reliance on external credit ratings. Eliminating the option to use external ratings can lead to an increase in costs for insurers who need to establish a methodology to determine a rating. The existing Delegated regulation already provides alternatives for larger or more complex exposures (Article 4(5) : *Where an item is part of the larger or more complex exposures of the insurance or reinsurance undertaking, the undertaking shall produce its own internal credit assessment of the item and allocate it to one of the seven steps in a credit quality assessment scale. Where the own internal credit assessment generates a lower capital requirement than the one generated by the credit assessments available from nominated ECAIs, then the own internal credit assessment shall not be taken into account for the purposes of this Regulation.* ») We encourage the development of more alternatives. However, in our view, the use of external credit ratings should not be fully removed. In our view, the own credit assessment should be critically reviewed by the supervisor. From that perspective, there is no need to include a « floor » on the capital requirement as proposed by the last sentence quoted here.	
3.2		
3.3	**Internal measures and ratings** Reducing reliance on ECAI can be achieved by allowing insurers to develop internal credit risk assessment models. This is therefore a good alternative, the alternative should however be	

	optional and/or proportional. In this way larger (re)insurance undertakings can also use the internal credit assessments for improvement of their internal (credit) risk management, whereas undertakings with less resources do not have to bear the costs. We support EIOPA in further investigating this alternative in the second call for advice, not limited to unrated debt. **Market implied ratings and accountancy-based measures** We agree that the approach of using market implied ratings could result in more volatile results. Furthermore, there is potential risk of complexity and inconsistency between (re)insurance undertakings. Multiple methods might be required for different asset classes. (Re)insurance undertakings concentrated in a specific industry or country (e.g. domestic country) could be significantly impacted, apart from concentration risk, due to an increase in specific market spreads.	
3.4	We would like to highlight the importance to seek consistency with the banking regulation (CRR/CRD), also taking into account current and future developments, e.g. under Basel IV.	
3.4.1		
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3.4.3	The proposed simplified approach seems not to significantly decrease the reliance on external credit ratings, which is the aim of the call for advice. The simplification will thereby not reduce the need for undertakings to have ECAI ratings and corresponding contracts and expenses. In case implemented, the type of exposures that are in scope for simplification and requirements should be further clarified and specified, e.g. is the application limited to an exposure amount. There may be asset classes for which the use of simplifications is less appropriate than for others. With regard to the internal credit assessments, we support EIOPA in further investigating this alternative in a later stage, not limited to unrated debt.	
4.1		
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4.3	We encourage EIOPA to set up a public database, harmonized or combined with EBA, listing all the regional governments and local authorities within the Union which relevant competent authorities treat as exposures to their central governments.	
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4.4.3	We encourage EIOPA to continuously seek for consistency with the banking regulation with regard to the treatment of RGLA guarantees and the treatment of the Nationale Hypotheek Garantie (NHG).	
4.4.4	We agree with the advice to recognise the Nationale Hypotheek Garantie (NHG) as an eligible partial guarantee.	
5.1		
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5.3	For comment 251 « ADT » should be « ADC ». In our opinion, more detailed guidance is needed than « Adjustments to the data are possible ». What kind of adjustments are allowed, particularly when there is a lack of historical data experience with the ADC in place?	
5.4		
5.4.1		
5.4.2	We do agree with the ultimate advice, but the statement made in 218 is not generally true. A higher rolling frequency may reduce the renewal risk as counterparties are more flexible in adjusting their conditions and reduce their premium risk. For the statement made in 310, « Article 210(2)(a) » should be « Article 211(2)(a) ».	
5.4.3		
6.1		
6.2	We welcome the intention to provide additional guidance on the application of the look-through approach. In the existing regulation with the existing definitions, it is not always clear whether or	

	not to apply the look-through.	
6.3	Several respondents emphasize the need for a specific mandate for the application of look-through. We do not necessarily agree with this. As long as the actual risk exposure is clear, look-through can be applied. The criterion should be whether the risk is equal to the risk in a direct investment in the underlying exposure. We agree that the existence of leverage is not necessarily a problem for the application of look-through.	
6.4	We encourage the increased consistency in the application of look-through. However, there may be cases where the underlying information is not easily available, and not necessary to make a good estimate of the available risk in the investment. Therefore, we feel there should be a « proportionality » criterion included in additional guidance. When the exact information is not available, approximations should be allowed for similar to the proportionality principle described for the TP in article 56 of the Delegated Regulation. This will avoid excessive costs when applying the look-through principle in a situation where the exact information is not available, and where a high quality approximation - proportional to the risk - is available.	
6.4.1		
6.4.2	We agree that an extension of the scope of look-through is desirable. We have seen several examples where related undertakings are investment vehicles, and it would be better for the transparency if look-through is applied to these related undertaking. Although these related undertakings are often associated with investments in property, there is no need to restrict the extension to property investments as is done by the existing guideline. With respect to the investment mandate, we recognize the benefit of a specific mandate. However, whenever there is no mandate, but the investments can be clearly identified, we think that look-through can also be applied. Therefore we do not see the strict requirement for a mandate.	
6.4.3	We agree with the advice. However, it may be good to provide a backup option when the underlying information is not available. The objective should be to come to a more reliable risk	

	estimate without excessive increase of the administration costs for these undertakings. Furthermore, we understand the reference to an investment mandate. However, we think look-through should also be applied when the investments are clearly identifiable in the absence of a mandate.	
7.1	The information on the use of undertaking specific parameters by insurance and reinsurance undertakings and by groups provided by EIOPA is very helpful. We encourage EIOPA to provide more specific information of the use per country, and average number of USPs per insurance company/group (for insurance companies having one or more USPs). Moreover, an overview of main reasons why the firm's risk profile for the segments of their USP applications is different from firms represented by the calibration of the Standard Formula might be very helpful and encourage the use of USPs by other insurers / in other countries. Although, the number of USPs being approved is already quite promising, it seems that this is not evenly spread across the various countries and size of insurance companies. In our local country (the Netherlands) there are no insurance companies with an approved USP yet. The interest on USPs seems to be quite weak mainly due to unfamiliarity with USPs, lack of insight in complexity of application (also compared to application of a Partial Internal Model), envisaged problems with data quality and uncertainty to what extent data-adjustments are allowed to correct for underlying assumptions.	
7.2		
7.3	**Data quality** Article 219 of the Delegated Regulation does indeed provide further information on the data completeness criteria. Nonetheless more practical guidelines would be highly appreciated. For example, it is required that data are free from 'material errors' (paragraph 2 of Article 19 of the Delegated Regulation). However, a definition of 'material error' is not provided. **Data adjustments and proof of data appropriateness:** Furthermore, with respect to data adjustments it is clear that this is allowed for making historical data better reflect the underlying risk over the next 12 months as well as including adjustments	

with regard to reinsurance and catastrophe claims and about the allocation of expenses. However, it is still unclear to what extent data-adjustments are also allowed to correct for underlying assumptions. For example, one important underlying assumption for the premium risk method is that aggregated losses are linearly proportional to earned premiums in a particular accident year.

Although we agree that this simplification in general holds for insurance companies (with expected stable loss ratios) and therefore is a fairly good approximation for the premium risk, this assumption does not hold for specific situations and can have quite a significant impact on the premium risk being calibrated.
Particularly for Dutch health insurers this assumption does not hold by definition since the Dutch Regulator requires an explicit link between the commercial premium set by the insurance company and its capital management policy (http://www.toezicht.dnb.nl/en/2/51-235836.jsp attachment 'Capital Management Policy – Principles and expectations' dd December 2016) :

« Health insurers integrate their policy on setting premiums into their capital management policy ».

Specific expectations regarding Principle 6: ▪ Health insurers integrate their premium policy into their capital management policy. This states clearly how available capital can be used when setting future premiums. ▪ As the setting of capital buffers impacts health insurers' premiums levels, the choice for a particular internal target involves more than just a risk assessment for health insurers from a social point of view. Given the mandatory nature of basic health insurance, health insurers are able to justify their safety margin both to DNB and to their external stakeholders.

In practice this means that the difference between the commercial premium (i.e. the earned premium) and the technical premium (i.e. the expected losses + cost loadings) could vary significantly over the years, depending on the solvency capital position of the insurer(s). The commercial premiums should include a capital add on if the solvency ratio is below certain

	threshold or a capital deduction if the solvency ratio is above a certain threshold. In short, Dutch health insurers are requested to give money back to the policyholders if there is a certain surplus and vice versa. Therefore the assumption of constant loss ratio (i.e. aggregated losses being proportionate to the earned premiums) by definition does not hold. The loss ratio as defined by the aggregate loss as percentage of earned premiums varies from year to year even when the aggregate loss as percentage of the technical premiums is constant. By using the requested input data 'earned premiums' some of the volatility that is captured is due to foreseen losses/profits in the earned premiums and hence the premium risk is potentially being overestimated when using the defined input data and method. Proposed solution: This could easily be adjusted by taking part of the premium that is not affected by the capital management policy. For example by using the technical premiums (in fact being the expected aggregated losses + cost loadings primo year when the premiums were being set) or the risk premiums (in fact being the expected aggregated losses primo year when the premiums were being set) instead of the commercial premiums. For Dutch health insurers the aggregated losses primo year are fairly easily available since the (risk) premiums are set once a year containing the expected losses primo year. It would be very helpful to specify allowance of such adjustments under the USP framework in the regulation. Currently, the border between USP / (partial) internal model is not clear. We feel that insurers might tend to apply for internal models for cases that in fact could be easily captured within the USP framework, if such data adjustments are allowed. **Other proposals on USPs** For premium and reserve risk only the standard deviation parameters are subject to USP but not the volume measures. However, when data adjustments are made for calculating the standard deviation (as discussed above) such that the actual risk is better captured, then the volume measures should be corrected accordingly. This is currently not possible. Moreover, when using the current volume measure for premium risk as being defined as earned	

premiums (based on the commercial premiums), the risk is overestimated when the commercial premium is set higher than the technical premium (due to capital add on leading to a higher solvency capital requirement) and underestimated when the commercial premium is deliberately set lower than the actual technical premium (due to capital deduction leading to a lower solvency capital requirement).

- ➔ *Therefore, also for the volume measures for premium and reserve risk we request that data-adjustments should be allowed to better capture the actual underlying risk.*

The use of GSPs – data quality requirements

Missing data

As commented in the first consultation round, the criteria of using the same data length for all undertaking being aggregated at group level is limiting the data to the minimum data length available. We agree that data quality is an essential requirement for GSP and therefore it would not be justified to compute GSP based on data that are not complete, accurate and appropriate. However, what does this mean for the specific situation that the group launches a new undertaking and/or took over an undertaking from another insurance group in the past (i.e. due to M&A)? In that case, by definition there is no more historical data for that new undertaking and hence the use of GSP is no longer possible for that insurance group.

- ➔ *Could EIOPA clarify these specific (M&A) situations with respect to missing data not related to poor data quality but to non-existing data and the implications on the use of GSPs?*

Undertaking with poor data – use of external data

Furthermore, we don't fully understand the response with respect to the use of 'external data' for the computation of USP in the context of GSP (416). If the data quality for some undertaking (solo) is of poor quality, it is suggested that the group data should be seen as 'external data' and should meet the specific requirements related to external data. However the group data also contains the data for that particular undertaking. Hence, how does this improve the quality of the

data for the calibration of the GSP?

This seems more a solution for the computation of the USP for a specific undertaking than for the computation of the GSP for the group?

- ➔ *Or does this mean that the calibration for the group standard deviation can be based on the group data excluding that particular undertaking with poor data quality (assuming the risk is similar or immaterial)?*

The use of GSPs – allowing combinations of USPs as a way to calculate GSPs
(417) We agree that the solution briefly described to allow combinations of USPs as a way to calculate GSPs are not considered to reflect the risk of the group in an appropriate manner. The linear combination of volatilities does not lead to an appropriate volatility at group level.
Proposed solution : A technically better solution would be to use a panel data method as discussed in the Joint Working Group Paper on Non-Life and Health NSLT Calibration paper (EIOPA-11-163 ; as of page 53). This would lead to the use of a loss ratio per undertaking but a standard deviation that is the same for all undertakings within the group. However, we note that this would be technically more complicated.

The use of GSPs - practical implication when redistributing of capital between undertakings within group is or is not allowed.
More importantly, in our view the main question is whether insurers are allowed to redistribute capital between undertakings or not?

- ➔ *Could EIOPA clarify if there is any Solvency II regulation determining whether redistribution of capital between undertakings within a group is allowed or not?*

If so, then we believe that the current method for calibrating the group standarddeviations based on the consolidated group data (as described as the preferred consolidation method 1 by EIOPA) is the best way to capture the risk of the group. The group specific parameters then will take into account some diversification/scaling effect and hence generally lead to lower standard deviations

at group level than at (re-)insurance undertaking level.

However, if it is the case – as various insurers tend to believe – that redistribution of capital is not allowed between undertakings within a group, then we believe that this preferred method 1 would lead to underestimating the real risk of the group since the group cannot benefit from scaling/diversification effect. I.e. when capital cannot be redistributed between undertakings, what would be the rationale to have group specific parameters and use consolidation method 1? Of course it would lead to show lower SCRs and hence better SCR ratios at group level, however, is this right if in fact that diversification effect does not hold in practice? So does the consolidation method therefore not depend on the question whether capital is allowed to be redistributed between undertakings within the group or not?

- ➔ *It would be very helpful if EIOPA could clarify in the regulation whether redistributing capital between undertakings is allowed or not, and what the implications are for the consolidation method to apply for the group (method 1 or 2)?*

Inconsistency with article 149 of the delegated regulation with respect to the calculation of the standard deviation for undertakings that are partially subject to Health risk equalisation system.
Moreover, we note that for undertakings that have a portfolio that is partially subject to HRES risk equalisation, the standard deviation for that undertaking is actually defined as the weighted average of the HRES standard deviation and the non-HRES standard deviation. Therefore, allowing for the use of GSP as a weighted average of USPs would be consistent. If this is not appropriate, then the calculation of the standard deviation for an undertaking that is partially subject to HRES should be adjusted as well and it should be allowed to calibrate one standard deviation for the undertaking using the aggregated data for that undertaking (without making split between portfolio that is subject to HRES and portfolio that is not subject to HRES)

The use of USPs but no GSPs – how then to report the group standard deviations?
If an insurer applies for one or more USPs but not for GSP, how then to determine and report the

	group standard deviation? In such cases, how is the Group SCR then calculated? By using consolidation method 2 i.e. taking the sum of the SCRs of the individual undertakings? And does a group standard deviation need to be reported then? (By deriving this from the resulting group SCR?) or is reporting of the group standard deviation not required?	
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7.4.2	**Information on the use of USPs by (re)insurance undertakings and groups** See comments in 7.1 : We encourage EIOPA to provide further information on this such as : - information of the use per country; - average number of USPs per insurance company/group (for insurance companies having one or more USPs); - and the rationale for applying for USP. I.e. the main reasons why the firm's risk profile for the segments of their USP applications is different from firms represented by the calibration of the Standard Formula. This would help to further encourage the use of USPs by other insurers / in other countries. Although, the number of USPs being approved is already quite promising, it seems that this is not evenly spread across the various countries and size of insurance companies.	
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