| | Comments Template on Consultation Paper on the proposal for Implementing Technical Standards with regard to standard deviations in relation to health risk equalisation systems | Deadline 02 March 2015 23:59 CET |
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| Name of Company: | Insurance Europe | |
| Disclosure of comments: | Please indicate if your comments should be treated as confidential: | Public |
| | Please follow the following instructions for filling in the template:<br>⇨ Do **not** change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool<br>⇨ Leave the last column empty.<br>⇨ Please fill in your comment in the relevant row. If you have no comment on a paragraph or a cell, keep the row empty.<br>⇨ Our IT tool does not allow processing of comments which do not refer to the specific numbers below.<br>**Please send the completed template, in Word Format, to CP-14-060@eiopa.europa.eu. Our IT tool does not allow processing of any other formats.**<br>The numbering refers to the Consultation Paper on the proposal for implementing technical standards with regard to the procedures to be used for granting supervisory approval for the use of ancillary own-fund items. | |
| **Reference** | **Comment** | |
| General Comments | Insurance Europe welcomes the Implementing Technical Standards (ITSs) with regards to the standard deviations in relation to health risk equalisation systems (HRES) in the Dutch health insurance market, and the opportunity to comment on them.<br>Our issues of primary concern related to this paper are the following:<br>**The lack of transparency** in the derivation of the standard deviations for premium and reserve risk: we would like to see the details of the calculation, the data used, and the eventual adjustments which have been made. | |

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| | **The consistency between the calibrations of the pan-European parameters and the parameters of business subject to HRES is disputable**, since the normal distribution is used for the former, while the log-normal is used for the latter.<br><br>In the impact assessment EIOPA states that the DNB has used data for accounting years 2006-2012 and 2007-2012. What is the impact of the year 2013 and why this was not taken into consideration.<br><br>The HRES factor is calculated on a regular basis annually, but if the factor changes from year-to-year, this can cause a significant change in capital requirements. We therefore ask EIOPA that should there be a material change in the underlying data used to derive the factor for it to be updated, time should be allowed for health insurers to adapt to this new parameter. For instance, it will take insurers one year in order to raise the necessary funds to cover the new capital requirements by raising premiums, which reflect the updated parameter. | |
| Article 1 | For the purposes of transparency, we request the disclosure of the manner in which the standard deviations have been derived. While the calibration methodology is provided in Appendix II and Recital 3 mentions that the standard deviations were determined by taking into account calculations provided by De Nederlandsche Bank, the specificities of the calculation and justifications for use remain unclear.<br><br>In addition, government budget considerations have an impact on the composition of the "calculation" premium (ie the government contribution of an insurer's premium income under HRES). An example from the Netherlands for which a comparison of the expected growth of health care losses between 2006 and 2012 to the calculation premiums in the same period shows large differences. The calculation premium of 2009 was below the calculation premium of 2008 and similarly for 2012 compared to 2011.<br><br>This difference is not a result of the volatility of the inherent risks or effects of risk equalisation but due to the government and political choices in the division of calculation premium and payments, together with the expected losses. We hope this has been taken into account in the calculations, and would appreciate to receive more | |

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| | details about it.<br><br>In the Dutch healthcare system the prices of health services are generally known and agreed upon in advance. The limits on the available capacity of healthcare providers and facilities, for example in an event of a catastrophe can cause the premium and reserve risks to be overstated. In considering the volume factor we ask EIOPA to confirm whether the potential limits of healthcare systems capacity as a result of a catastrophic1-in-200 year were taken into account.<br><br>In the event of a catastrophic 1-in-200 year event, there are limits on the available capacity of health care providers and facilities, for example, in such a situation the capacity of any hospital cannot be easily increased, and the professionals who provide healthcare services would likely be subject to the effects of the event. As a result the calculations for HRES should take into account those parts of the health insurance obligations which are sensitive to premium and reserve risk and should exclude parts which are not.<br><br>The consistency between the calibrations of the pan-European parameters and the parameters of business subject to HRES is not ensured, even though we acknowledge that the methodology is the same, the distributions chosen are different. The normal distribution is used for the former, while the log-normal is used for the latter. Since it is stated in section 4 of Annex I (Impact Assessment) that the numerical result coincided for the normal and lognormal distributions, this choice seems even more questionable. We request for the purposes of clarity the justification for why two different distributions were chosen. | |
| Appendix II (4) | The symbol *p* at the bottom of page 14 should in fact be the Greek letter rho **ρ** representing the factor for the compliant share. | |
| Appendix II (8)(b) | The definition of the standard deviation for reserve risk is not aligned to Article 149(2)(c)(ii)(B) of the Level 2 text. The definition in this ITS is:<br><br>"$y_{ti}$ *is the aggregate loss for accident <t, incurred during financial year t for insurance portfolio i, that is: incremental claim payments plus current claims provision*."<br><br>Whereas in the Level 2 text: | |

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| | *"the sum of the best estimate provision at the end of the year for claims that were outstanding at the beginning of the year and any claims and expense payments made during the year for claims that were outstanding at the beginning of the year"*<br><br>We believe the amount will be the same but for the sake of clarity and in order to avoid any confusion, it would be helpful to align the two defintions. | |