

**Final Report  
on Public Consultation No.  
14/009  
on the Implementing Technical  
Standard (ITS) on the  
procedures for the approval of  
undertaking-specific  
parameters**

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# 1. Executive Summary

## Reasons for publication

According to Article 15 of Regulation (EU) No 1094/2010 (EIOPA Regulation) EIOPA may develop implementing technical standards by means of implementing acts under Article 291 TFEU, in the areas specifically set out in the legislative acts referred to in Article 1(2) of the EIOPA Regulation.

Before submitting the draft implementing technical standards to the European Commission, EIOPA shall conduct open public consultations and analyse the potential costs and benefits. In addition, EIOPA shall request the opinion of the Insurance and Reinsurance Stakeholder Group (IRSG) referred to in Article 37 of the EIOPA Regulation.

According to Article 111 of Directive 2009/138/EC<sup>1</sup> (Solvency II Directive), EIOPA may develop draft implementing technical standards on the supervisory approval procedure to use undertaking specific parameters.

As a result of the above, on 2 April 2014 EIOPA launched a public consultation on the draft ITS on the supervisory approval procedure to use undertaking specific parameters. The Consultation Paper is also published on EIOPA's website<sup>2</sup>.

## Content

This Final Report includes the feedback statement to the consultation paper (EIOPA-CP-14/009) and the full package of the Public Consultation, including:

Annex I: Impact Assessment and cost and benefit analysis.

Annex II: Resolution of comments.

Annex III: Draft Implementing Technical Standard.

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<sup>1</sup> OJ L 335, 17.12.2009, p. 1–155

<sup>2</sup> <https://eiopa.europa.eu/consultations/consultation-papers/2014-closed-consultations/april-2014/public-consultation-on-the-set-1-of-the-solvency-ii-implementing-technical-standards-its/index.html>

## **Next steps**

In accordance with Article 15 of EIOPA Regulation, the draft ITS in Annex III will be submitted to the European Commission for endorsement by October 31, 2014, as requested by Article 86(3) of the Solvency II Directive.

According to Article 15 of the EIOPA Regulation, the European Commission shall forward it to the European Parliament and the Council.

Within 3 months of receipt of the draft ITS, the European Commission shall decide whether to endorse it in part or with amendments, where the Union's interests so require. The European Commission may extend that period by 1 month.

If the European Commission intends not to endorse a draft ITS or intends to endorse it in part or with amendments, it shall send it back to EIOPA explaining why it does not intend to endorse it, or, explaining the reasons for its amendments, as the case may be.

Within a period of 6 weeks, EIOPA may amend the ITS on the basis of the European Commission's proposed amendments and resubmit it in the form of a formal opinion to the European Commission. In this case EIOPA must send a copy of its formal opinion to the European Parliament and to the Council.

If on the expiry of the 6 weeks period, EIOPA has not submitted an amended draft ITS, or if it has submitted a draft ITS that is not amended in a way consistent with the European Commission's proposed amendments, the European Commission may adopt the implementing technical standard with the amendments it considers relevant or it may reject it.

Where the European Commission intends not to endorse a draft ITS or intends to endorse it in part or with amendments, it shall follow the process as set out in Article 15 of EIOPA Regulation.

## **2. Feedback Statement**

### **Introduction**

EIOPA would like to thank the Insurance and Reinsurance Stakeholder Group (IRSG) and all the participants to the Public Consultation for their comments on the draft ITS. The responses received have provided important guidance to EIOPA in preparing a final version of the ITS for submission to the European Commission. All of the comments made were given careful consideration by EIOPA. A summary of the main comments received and EIOPA's response to them can be found below, and a full list of all the comments provided and EIOPA's responses to them can be found in Annex II.

### **General comments**

Overall, stakeholders support the consultation paper. Particular comments were made on the following issues.

### **Parameters and standardised methods**

Stakeholders commented that undertakings should be allowed to use USP for more parameters in the SCR standard formula underwriting risk module. Additionally, the list of standardised methods should be opened (i.e. (re)insurance undertakings could use their own methods) or there should be more standardised methods which could be used by (re)insurance undertakings to calculate USP.

The empowerment of the ITS, which is to set the approval process, presents EIOPA from adding new parameters or methods. In addition, according to recital 149 of the Implementing Measures, the subset of USP and USP methods will be reconsidered till 31 December 2018. It is expected that stakeholders will be consulted on this.

### **Length of the approval period**

A vast majority of stakeholders commented that supervisors should reach a decision within 3 instead of 6 months.

EIOPA has considered this and believes that 6 months is appropriate as the maximum period. NCAs should be able to complete the assessments in a shorter time frame where the applications are simple and straightforward, given the proportionality principle underlying the Solvency II framework.

Supervisory authorities should adopt adequate procedures that are proportionate to the complexity of the applications to manage the approval process. Where a complex approval process is not necessary, the approval period should be less than six months. This has been clarified in the recital and the article has been adapted to reflect that the 6 month period is a maximum period.

### **Pre-application process**

According to some stakeholders, EIOPA and supervisors should introduce a pre-application process for the use of USPs. In this respect, EIOPA pointed out that each (re)insurance undertaking may approach its supervisor individually; a recital underlining the usefulness of such early dialogues among undertakings and

supervisors has been introduced, without however introducing a formal pre-application process as a requirement in the ITS.

## **Statistics**

EIOPA received comments from the Insurance and Reinsurance Stakeholder Group (IRSG) and eight responses from other stakeholders to the public consultation. All non-confidential comments received have been published on EIOPA's website.

Respondents can be classified into four main categories: European trade, insurance, or actuarial associations; national insurance or actuarial associations; (re)insurance groups or undertakings; and other parties such as consultants and lawyers. Below is a summary of the types of respondents.

## **IRSG opinion**

The IRSG opinion on the draft Implementing Technical Standard (ITS) for approval processes, as well as the particular comments on the draft ITS at hand, can be consulted under the following link:

<https://eiopa.europa.eu/about-eiopa/organisation/stakeholder-groups/sgs-opinion-feedback/index.html>

## **Comments on the Impact Assessment**

Two comments were received in particular regarding the expected costs and benefits, which focused on the time for approval. Based on the comments received and subsequent amendments to the ITS, a revised Impact Assessment has been published.

## **Annex I: Impact Assessment and cost benefit analysis**

### **Procedural issues and consultation of interested parties**

According to Article 15 of the EIOPA regulation, EIOPA conducts analysis of costs and benefits in the policy development process. The analysis of costs and benefits is undertaken according to an Impact Assessment methodology.

This Impact Assessment report presents the key policy issues and associated policy options that were considered when developing the ITS.

#### *Consultation with stakeholders*

The feedback from the consultation with stakeholders conducted in 2014 is summarised in the respective section of the final report.

### **Problem definition**

The Solvency II Directive provides for the approval by supervisory authorities to use undertaking-specific parameters by (re)insurance undertakings. Draft Implementing Measures for Solvency II provide:

- the subset of standard parameters in the life, non-life and health underwriting risk modules that may be replaced by undertaking-specific parameters;
- the standardised methods to be used by the insurance or reinsurance undertaking to calculate the undertaking-specific parameters;
- criteria with respect to the completeness, accuracy, and appropriateness of the data used to calculate the undertaking-specific parameters.

With respect to the high-level principles outlined in the Solvency II Directive, additional clarification is needed to ensure consistent implementation by Member States, in order to mitigate risks of divergent supervisory practices.

Therefore it can be expected that if approval is required, (re)insurance undertakings need to put forward application including basic information for what they apply: scope, dates, values and standardised method to be used.

However, there may be divergent views among insurance companies and supervisory authorities as to the level of detail of the information submitted and the period of analysis for granting approval.

This technical standard proposes a standardised package of data and information to be introduced with view of the harmonization of approval process among Member States, as well as procedures to be followed when conditions to use undertaking-specific parameters are no longer satisfied.

## **Proportionality**

With respect to the approval process of USP, the more simple the undertaking's risk profile is, the easier it will be in the approval process to demonstrate that data requirements are fulfilled. Also naturally, the more segments and parameters an undertaking or reinsurance undertaking is applying for the use of USP, the more documents will have to be submitted; however, the supervisor will still have to decide within six months.

## **Baseline**

When analysing the impact from proposed policies, the Impact Assessment methodology foresees that a baseline scenario is applied as the basis for comparing policy options. This helps to identify the incremental impact of each policy option considered. The aim of the baseline scenario is to explain how the current situation would evolve without additional regulatory intervention.

The baseline is based on the current situation of the market, taking into account the progress towards the implementation of the Solvency II framework achieved at this stage by insurance and reinsurance undertakings and supervisory authorities.

In particular the baseline for this implementing technical standard includes:

- The content of Directive 138/2009/EC, as amended by Directive 2014/51/EC;
- The relevant Implementing Measures.

## **Objective pursued**

To ensure consistent application of the supervisory approval process to use undertaking-specific parameters across Member States.

This objective corresponds to the following specific Solvency II objective "risk-sensitive capital requirements" and the Solvency II general objective "Enhances policy holder protection".

## **Policy options**

**Policy issue 1:** As far as article 1 par. 4 points e-f and article 2 (**application package**) are concerned, EIOPA has considered whether:

- (Re)insurance undertakings to present, together with the USP application, evidence and justification that requirements specified in Implementing Measures Solvency II are met, or
- Supervisory authorities to assume, when granting approval, that requirements specified in Implementing Measures Solvency II are met and meeting of this requirement would be verified during inspection in selected undertakings.



**Policy issue 2:** As far as article 2 (**data relevant for USP calculation**) is concerned, EIOPA has considered whether:

- (Re)insurance undertakings to always provide relevant data based on which undertaking specific parameters were calculated,
- (Re)insurance undertakings to provide relevant data, based on which undertaking specific parameters were calculated, on request of the supervisory authority, or
- (Re)insurance undertakings do not provide relevant data and supervisory authority is not allowed to require (re)insurance undertaking to provide data.

**Policy issue 3:** As far as article 4 (**supervisory authority's assessment**) is concerned, EIOPA has considered whether:

- to harmonize the scope of supervisory authority's assessment, or
- not to harmonize the scope of supervisory authority's assessment.

**Policy issue 4:** As far as article 5 par. 1 (**the time for checking whether application is complete**) is concerned, EIOPA has considered whether:

- EIOPA to not state the maximum time for informing (re)insurance undertakings whether application is complete but supervisory authority should do in on a timely basis, or
- EIOPA to provide maximum 30 days period for informing (re)insurance undertakings whether application is complete (as for internal models).

**Policy issue 5:** As far as article 5 par. 6 (**the time for approval**) is concerned, EIOPA has considered whether:

- EIOPA to not state the maximum time for taking the decision on the application,
- EIOPA to provide maximum 6 months period for taking the decision on the application (as for internal models), or
- EIOPA to provide maximum 3 months period for approval with possibility to extend time for approval.

**Policy issue 6:** As far as article 5 par. 4 (**stop-the-clock provision**) is concerned, EIOPA has considered whether:

- The time taken by the undertaking to provide the supervisory authority with further evidence or to execute the adjustments is not included within the overall time period for a decision on the application (automatic 'stop-the-clock' mechanism)
- When the supervisory authority requests further evidence or adjustments the undertaking may request a suspension of the time period for a decision on the application ('stop-the-clock' mechanism only at the request of the undertaking)

**Policy issue 7:** As far as article 7 (**use of USP in following years**) are concerned, EIOPA has considered whether:

- After receiving approval to use USP, in following years the approval process should be the same as for the first time,

- After receiving approval to use USP, in following years the approval process should be simplified compared to the first approval process, or
- After receiving approval to use USP, in following years the (re)insurance undertaking may calculate the USP with approved method and provide relevant information in ORSA report, provided that there has not been any significant change in the appropriateness of the use of the USP.

### Analysis of impacts

In particular, articles have following costs and benefits:

The main costs for (re)insurance undertaking are expected to be connected with preparation of evidence and justification that requirements specified in Implementing Measures Solvency II are met. The main costs for supervisory authorities are connected with the assessment of the undertaking’s justification for the choice of: the parameters to be replaced by USP, the segments for which USP will be used and the standardised methods used to calculate USP.

These costs are usually the working hours of employees and salaries for them to conduct above tasks.

With respect to the benefits which are expected to flow from this ITS, EIOPA considers that the ITS provide additional clarity both for undertakings and supervisory authorities thereby enhancing a consistent and harmonised application of the relevant provisions of the Solvency II Directive. In particular the ITS are expected to enhance:

- Harmonisation and convergence across Member States of the supervisory approval processes for undertaking specific parameters;
- Greater clarity on the part of undertakings regarding what the supervisory approval process involves, leading to fewer queries to supervisory authorities regarding the process;
- Increased efficiency of the application process. Undertakings and supervisory authorities will be aware what documentation undertakings should provide in support of their applications, the timeframe for consideration of applications and other considerations affecting supervisory approval.

Below is an overview of the expected costs and benefits for the undertakings and supervisors:

Article	Costs (cons)	Benefits (pros)
1, 3	Industry: preparing additional information Supervisors: no additional costs Policyholders: no additional costs	Industry: quicker approval process, limits the risk of additional questions from supervisors Supervisors: evidence and justification that use of USP meets Level 1 and Level 2 requirements, as well as support of the USP assessment (risk

Article	Costs (cons)	Benefits (pros)
		<p>profile, risk management, assessment of appropriateness of method and parameter)</p> <p>Policyholders: no additional benefits</p>
2	<p>Industry: some (re)insurers will prepare and provide relevant data to authority</p> <p>Supervisors: no additional costs</p> <p>Policyholders: no additional costs</p>	<p>Industry: no need to provide relevant data with the application for USP</p> <p>Supervisors: possibility to verify calculation of UPS during off-site supervision</p> <p>Policyholders: no additional benefits</p>
4	<p>Industry: no additional costs</p> <p>Supervisors: less freedom in assessment of application and USP</p> <p>Policyholders: no additional costs</p>	<p>Industry: for international insurance groups harmonization of supervisory authority's assessment of USP for members of group from different countries</p> <p>Supervisors: harmonization of scope of assessment</p> <p>Policyholders: no additional benefits</p>
5.6	<p>Industry: no additional costs compared to no time limit option.</p> <p>Supervisors: time limit</p> <p>Policyholders: no additional costs</p>	<p>Industry: inserting a timelimit provides the undertaking the certainty on when the USP would be approved. The length the time period for approval will be maximum 6 months, proportionate to the complexity of the application.</p> <p>Supervisors: no additional benefits</p> <p>Policyholders: no additional benefits</p>
7	<p>Industry: additional information in ORSA</p> <p>Supervisors: no additional costs</p> <p>Policyholders: no additional</p>	<p>Industry: no need to prepare and put forward the new application</p> <p>Supervisors: smaller number of</p>

Article	Costs (cons)	Benefits (pros)
	costs	applications Policyholders: no additional benefits

## Comparing the options

Based on the above analysis of costs and benefits, EIOPA proposes the following:

- With respect to **Policy issue 1: Application package** (articles 1 and 3):
  - to harmonize the scope of application package in order to accelerate the approval process and to limit the supervisory requests for additional information or documents;
  - to require (re)insurance undertakings to provide justification of the appropriateness of the USP calculation in order to allow supervisors to better assess the application (whether application and USP meets regulatory requirements, especially whether SCR standard formula with USP will better reflect risk profile of the (re)insurance undertaking);
- With respect to **Policy issue 2: data relevant for USP calculation** (article 2):
  - to choose the middle option – it allows supervisors to verify calculation of UPS during off-site supervision (and not on on-site inspections) and to limit (re)insurers’ costs connected with preparing and providing additional information or data;
- With respect to **Policy issue 3: Supervisory authority’s assessment** (article 4):
  - to harmonize the supervisory authority’s assessment (provide hints to supervisory authorities in different members states that approved USP properly represents the underlying risks associated to the business;
- With respect to **Policy issue 4: The time for checking whether application is complete** (article 5 par.1):
  - to propose to introduce 30 days period for informing (re)insurance undertakings whether application is complete as for internal models;
- With respect to **Policy issue 5: The time for approval** (article 5 par. 6)
  - to propose a maximum of six month period for approval for the use of the undertaking-specific parameters since the undertaking-specific parameters approval process can involve, from the supervisory authority side, a workload similar to an approval of a very simple partial internal model and the technicalities involved in the methodologies and data quality checking can be substantially time consuming. At the same time, less complex applications may take less than 6 months, in a proportionate manner;
- With respect to **Policy issue 6: Stop-the-clock provision** (article 5 par. 4):

- EIOPA concluded that the first option was the preferred option; the days between a request by a supervisory authority for further evidence or adjustments and receipt of such evidence or the execution of adjustments is not included within the overall time period for the application;
- EIOPA considered the first option to be a practical and workable approach, which balances the need for undertakings to have certainty, with the costs associated with the rejection of an application. It was felt that the potential costs of an undertaking having to submit a new application for approval were greater than the costs associated with the fact that the time period for a supervisory authority to decide on an application may be extended. It was also noted that it should be possible for undertakings to manage the uncertainty arising from the possible revisions to the time period. Upon receiving the request from the supervisory authority, the undertaking would know that it needs to readjust its planning based on the nature of the request from the supervisory authority. Furthermore, this approach would only add marginally to the uncertainty that the undertaking will need to manage owing to the fact that the application may not be approved. EIOPA also believed that an automated process was preferable, since it would not require additional communication between undertaking and supervisory authority as to whether the undertaking intends to suspend the time period;
- The safeguard to any unjustified delay to the assessment period would be that a request for further evidence by the supervisory authority has to be necessary for the assessment of the application, the request shall be specific on the additional evidence required and the supervisory authority shall communicate the rationale for this request. It should be clear that the supervisor would not be in a position to approve the application without the evidence;
- The suspension of the time period would allow the supervisor to have the appropriate time for analysing the evidence once it has been received; the time for receiving the evidence should not impinge on the time for approval.

EIOPA considered whether there was a sufficient incentive for undertakings to either provide the evidence or execute the adjustments immediately or, where this is not possible, to request a suspension of the time period. EIOPA felt that, whilst in general this incentive would be sufficient, there would be instances where de facto the evidence or adjusted application is not provided on a timely basis. This could mean that the supervisory authority would not have time to assess the evidence or adjusted application and would need to reject the application.

- EIOPA will monitor the application by NCAs of the possibility to suspend the time period.

- With respect to **Policy issue 7: Use of USP in following years** (article 7):

- to choose the approach with the smallest costs for (re)insurance undertakings and which is similar to internal models ((re)insurance undertakings are not required to put forward each year application to use internal model to calculate SCR).

Overall with respect to costs, EIOPA is of the opinion that the ITS do not impose considerable additional burden on undertakings or supervisors as the requirements or obligations derive from the Solvency II Directive and would apply regardless of the existence of the ITS.

### **Monitoring Indicators**

The following indicators may be relevant in assessing whether the ITS has been effective and efficient in respect of the objective specified above:

<p>To ensure consistent application of the supervisory approval process to use undertaking-specific parameters across Member States.</p>	<p>Possible indicators of progress towards meeting the objective may be:</p> <ul style="list-style-type: none"><li>• Averaged length of time taken by supervisory authorities to determine that an application is complete and number of applications considered not complete with respect to the number of applications submitted.</li><li>• Number of applications approved and rejected with respect to the number of applications submitted.</li><li>• Number of applications where additional information was requested by the supervisory authority and time for decision was suspended;</li></ul>
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## Annex II: Resolution of comments

Summary of Comments on Consultation Paper				
CP-14-009-ITS on the procedures for the approval of undertaking-specific parameters				
<p>EIOPA would like to thank Insurance and Reinsurance Stakeholder Group, Association of Mutual Insurers and Insurance Cooperatives in Europe, CFO Forum and CRO Forum, Deloitte Touche Tohmatsu, Federation of European Accountants, Financial Supervisory Authority of Romania, Insurance Europe, and The International Underwriting Association of London.</p> <p>The numbering of the paragraphs refers to Consultation Paper No. EIOPA-CP-14/009.</p>				
No.	Name	Reference	Comment	Resolution
1.	IRSG	General Comment	<p><input type="checkbox"/> The need for a broadly consistent approach by supervisors justifies the need for an implementing technical standard in relation to applications for approval of USPs.</p> <p><input type="checkbox"/> Consumers and stakeholders will be best served if the standard includes more on the rationale for making the application and allows more discretion with respect to data and method.</p> <p><input type="checkbox"/> EIOPA and supervisors should introduce a pre-application process for the use of USPs to anticipate the large number of undertakings that are likely to apply for the use of USPs and thereby avoid that many undertakings will not be able to have their USPs approved in time.</p> <p><input type="checkbox"/> The predefined list of standardised methods which are to be used to derive the undertaking specific parameters (USP) should not be restricted but rather there should be a set of criteria set out which would help assess whether anyone method is a standardised one.</p> <p>Data and methods</p> <p><input type="checkbox"/> Data should be appropriate and should be sufficiently complete and accurate to serve as the basis for calculation of a USP (may be a matter of professional actuarial judgment)</p> <p><input type="checkbox"/> Undertakings should be encouraged to test variety of methods –</p>	<p>Partially agreed.</p> <p>Solvency II Directive and Implementing Measure does not allow more discretion</p> <p>Each (re)insurers may approach its supervisor individually. Recital (7) on early dialogue has been added.</p> <p>This comment is out of the scope of this ITS</p> <p>Please refer to</p>

			<p>stability rather than accuracy may be most important criterion. Choice of method(s) should be able to be rationalised explicitly.</p> <p><input type="checkbox"/> Supervisors should find it advantageous to be able to rely on professional discipline of actuaries and risk managers.</p> <p><input type="checkbox"/> Undertakings should be allowed / encouraged to collaborate on development of USPs where these are to reflect differences between countries.</p> <p>Implications for ITS</p> <p><input type="checkbox"/> undertakings will either voluntarily or on supervisory initiative use USPs – limit burden for all parties involved (for sake of consumers).</p> <p><input type="checkbox"/> Include in ITS explicit requirement to root application in consideration of unique features of risk profile in an ORSA context.</p> <p><input type="checkbox"/> De-emphasise language which may constrain supervisors from an open-mindedly empirical consideration of data and methods for specialist firms particularly.</p> <p><input type="checkbox"/> Consider requiring actuarial function or risk management function to endorse application</p>	<p>Implementing Measure and EIOPA guidelines.</p> <p>Partially agreed.</p> <p>Partially agreed.</p> <p>According to recital 149 of Implementing Measure, subset of USP and USP methods will be reconsidered till 31.12.2018.</p> <p>Partially agreed.</p> <p>Partially agreed.</p> <p>Partially agreed.</p> <p>EIOPA does not exclude possibility that internal regulation of (re)insurance undertaking will require prior approval by actuarial function or risk management function.</p>
2.	AMICE	General Comment	<p>AMICE welcomes the opportunity to comment on this Consultation Paper on the Implementing Technical Standards with regards to the Supervisory Approval Procedure to use Undertaking Specific Parameters.</p> <p>Article 104.7 from the Level 1 text gives companies using the standard formula the option to use undertaking specific parameters subject to</p>	<p>Draft ITS does not require (re)insurance</p>



			<p>supervisory approval. The methods are standardized and supervisors should verify the completeness, accuracy and appropriateness of the data used. At no time are undertakings requested to justify the inappropriateness of the standard formula and its coefficients. Recital 20 from the Level 1 text states that the Directive should not be too burdensome for specialised insurance undertakings and should allow them to use their own data if this helps achieve this objective.</p> <p>The supervisory authorities may require the use of undertaking specific parameters (see Article 110 Level 1 text) or an internal model (see Article 119 Level 1 text) when it is inappropriate to calculate the solvency capital required following the standard formula. The decision should therefore be motivated, which means that the burden of proof lies with the supervisory authorities.</p> <p>There should not be any restrictions on the methodologies used for the calculation of USP. We are in favour of defining general principles for applying “undertaking specific parameters” in accordance with the principles applied to the standard formula.</p> <p>EIOPA and supervisors should introduce a pre-application process for the use of USPs to anticipate the large number of undertakings that are likely to apply for the use of USPs and thereby avoid that many undertakings will not be able to have their USPs approved in time.</p> <p>The application should be approved within 3 months of the receipt of the complete application. We do not see why the USP approval process should involve a similar level of workload to the approval of a partial internal model. Furthermore, we do not understand why an analysis of the technicalities involved in the methodologies requires so much time when only standardised methods are allowed.</p>	<p>undertakings to justify the inappropriateness of the standard formula and its coefficients. Justification of the method used aims at fulfilling spirit of recital 65 of Solvency II Directive – USP reflects better underwriting risk than standard parameters.</p> <p>Supervisor should justify why it requires undertaking to use USP but undertaking does not have to provide all justifications (see draft EIOPA guidelines).</p> <p>This comment is out of the scope of this ITS (see Implementing Measure).</p> <p>Each (re)insurers may approach its supervisor individually. Recital (7) on early dialogue has been added.</p> <p>EIOPA has analysed this issue again and has decided to remain with 6 months period for decision. It does not mean that in all cases 6</p>
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			<p>We do not agree that EIOPA should allow the supervisory authorities to extend the consideration period. As the approval process should be limited to data quality checking and to an assessment of the appropriateness of the methods applied to capture risks, we do not see why the approval process should last more than 6 months.</p> <p>We welcome the explicit inclusion of the principle of proportionality. We are alerted, however, by the fact that reference to proportionality is made only in the Impact Assessment section. What we miss is a clear commitment to proportionality also in in the area of procedures for supervisory authorities.</p>	<p>months period will be fully used.</p> <p>EIOPA has analysed this issue again and has decided to remain with possibility to extend period, but new recital has been added.</p> <p>Proportionality principle is an overarching principle of Solvency 2.</p>
3.			This comment was submitted as confidential by the stakeholder.	
4.	CFO Forum and CRO Forum	General Comment	<p>We support USPs as an important tool which provides incentives for insurance and reinsurance undertakings using the standard formula to properly measure and manage their risks, in particular where companies regard the effort for a full or partial internal model as unduly high given their risk profile. We understand that companies should formally demonstrate the appropriate use of USPs, however as the use of USPs is only within the standard formula, i.e. the structure and aggregation method will not change, we expect the approval procedure to be much simpler than for an (partial) internal model.</p> <p>Therefore, the following issues related to the draft ITS should be addressed:</p> <p>1) The timeframe for approval process of USP is the same as the one for internal models whereas the complexity of the latter appears to</p>	<p>Agreed.</p> <p>EIOPA has analysed this issue again and has decided to remain with 6 months period for decision. It does not</p>

		<p>be higher. Six months appears to be an excessive period for the approval of a proposal to use a USP relative to the same approval period for an entire internal model. Assuming that the approval procedure for USPs should be much leaner than for IMs, a significantly shorter period, such as 3 months, would be sufficient.</p> <p>2) The lack of approval or a clear process defining the way forward if no response from supervisor is reached within the deadline. Supervisors should not remain silent and further clarity should be provided in this respect. Should this happen and when the timeline for approval has elapsed, the undertaking should be able to consider that its undertaking-specific parameters have been approved and be allowed to use them. Indeed, there is no justification to leave an undertaking in a situation of uncertainty when the application is complete and receipt of submission has been received. The approval process should be clearly defined and certainly not be perceived as a possible never-ending process as this will discourage undertakings to take this route.</p> <p>Furthermore we would like to note that we generally support a broad use of USPs, i.e. within the underwriting risk module, it should not be limited only to certain parameters and there should be no closed list of 'standardised' methods (as described in the draft DAs). Such changes would not impact the approval procedure.</p> <p>We would also note in general that the references to the draft Delegated Acts in the ITS will need to be updated as the Delegated Acts are finalised and adopted.</p>	<p>mean that in all cases 6 months period will be fully used.</p> <p>The article 111(k) in the Directive is clear in its requirement of a prior approval. This means that the application shall not be considered as approved or reject without a prior decision by the supervisor.</p> <p>This comment is out of the scope of this ITS. According to recital 149 of Implementing Measure, subset of USP and USP methods will be reconsidered till 31.12.2018.</p> <p>Agreed.</p>
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5.	Insurance Europe	General Comment	<p>1. Insurance Europe welcomes the opportunity to comment on this consultation Paper on the Implementing Technical Standards with regard to the Supervisory Approval Procedure to use Undertaking-Specific Parameters.</p> <p>The issues related to this paper and which are of great concern for us are the following:</p> <p>The lack of approval or a clear process defining the way forward if no response from supervisor is reached within the deadline.</p> <p>Supervisors shall not remain silent and further clarity should be provided in this respect. Should this happen and when the timeline for approval has elapsed, the undertaking should be able to consider that its undertaking-specific parameters have been approved and be allowed to use them. Indeed, there is no justification to leave an undertaking in a situation of uncertainty when the application is complete and receipt of submission has been received. The approval process should be clearly defined and certainly not be perceived as a possible never ending process as this will discourage undertakings to take this route.</p> <p>We note along the same lines that the paper remains silent as to what happens when the supervisor breaches the 30 days timeline for notifying that the application is complete.</p> <p>In addition to that, it should be acknowledged that parameters can be outdated by the time the approval is to be granted and this should not cause the supervisors to reject the approval when evidence of a monitoring process can be demonstrated by the undertakings (to be included as part as the submission).</p> <p>The absence of a preapproval process for the USPs whereas it could be expected that a large number of undertakings will apply for their use.</p> <p>We strongly urge EIOPA and supervisors to introduce a pre-application process for the use of USPs. The consequence of not dealing with these issues in advance of Solvency II transposition (31 March 2015) could ultimately result in undertakings not being able to use their USPs upon the entry into force of Solvency II. Indeed, a large number of</p>	<p>The article 111(k) in the Directive is clear in its requirement of a prior approval. This means that the application shall not be considered as approved or reject without a prior decision by the supervisor.</p> <p>Each (re)insurers may approach its supervisor individually. Recital (7) on early dialogue has been added.</p>
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			<p>undertakings are planning to apply for the use of USPs and, given the complexity of the process and the limited resources of supervisors in some member states, we fear that many undertakings will not be able to have their USPs approved in time. This would be unfortunate, in particular for specialised monoliners and SMEs which are relying on being able to use USPs as the standard formula does not capture the particularities of their risk profile.</p> <p>The timeframe for approval process of USP is the same as the one for internal models whereas the complexity of the latter appears to be higher. Six months appear an excessive period for the approval of a proposal to use a USP relative to the approval period for an entire internal model which is of the same length. USPs approval should take a significantly shorter period, such as 3 months.</p> <p>The lack of consistency across all the different ITS on approval processes.</p> <p>In line with the ITS on the Internal model approval, we believe that where the supervisory authorities request further information, the decision for a suspension of the six months approval period should be left up to the insurance or reinsurance undertaking.</p>	<p>EIOPA has analysed this issue again and has decided to remain with 6 months period for decision. It does not mean that in all cases 6 months period will be fully used.</p> <p>Partially agreed. The suspension of the time frame for decision has been kept in the ITS. EIOPA considers that a suspension would be more cost-efficient for undertakings and supervisors than having to resubmit or reassess an application respectively following a rejection due to any necessary additional information not being provided in a timely manner. EIOPA has, nevertheless, considered undertakings' concerns that this would create the potential for a undue prolongation of the process without legal certainty on timely decisions. Therefore, the draft article has been reviewed in this regard: supervisors will have to apply this option under</p>
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			<p>The set of standard parameters that are allowed to be replaced under the Implementing Measures by undertaking-specific parameters is restricted and as such is in tension with the spirit of the Level 1 Directive.</p> <p>The Directive has precluded the use of USP for market risks and counterparty default risk. Therefore, at the very least, longevity and expense risk as covered in the life underwriting risk module, lapse as covered in both the life and non-life underwriting risk module and catastrophe as covered in the non-life underwriting risk module should be included. In particular for longevity risk, we would expect that USPs should be available for those insurers for whom this risk is material. In this case it will be important for them to reflect the real nature of longevity risk, which would be a change in the future mortality assumption or the trend of mortality improvements over time, affecting longer-term policies to a much greater degree. We would therefore be supportive of such an extension.</p> <p>The predefined list of standardised methods referred to in the Framework Directive and which are to be used to derive the undertaking specific parameters (USP) is comprised of only one method per parameter with the exception of reserve risk.</p> <p>Though it is beyond the scope of this paper and under the remit of the</p>	<p>the objective constraints of showing the necessity and justification for the additional information and being specific as to the additional information required.</p> <p>EIOPA will also monitor the application by NCAs of the possibility to suspend the time period.</p> <p>This comment is out of the scope of this ITS. According to recital 149 of Implementing Measure, subset of USP and USP methods will be reconsidered till 31.12.2018. Therefore stakeholders can be invited at a later stage to provide concrete proposals (like in Implementing Measure) to EC or EIOPA.</p> <p>This comment is out of the scope of this ITS.</p>
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			<p>Delegated Acts, we reiterate that the list of standardised methods which are to be used to derive the undertaking specific parameters (USP) should not be a restricted one as any restricted list will fail to fully render the true value of the USP for all undertakings. Therefore a set of criteria should be set out which would help assess whether anyone method is a standardised one. This process will ensure that academic advancements are kept up with and undertakings can produce methods (and underpinning assumptions) that are the most suitable to reflect their risk profile. We would therefore be supportive of such an approach.</p> <p>Furthermore, such a strong requirement in the use of prescribed method does not allow undertakings to exert their expert judgement through experts (e.g. actuaries) when dealing with the set-up of the USPs (in terms of data, assumptions and methods). Indeed, data can be not entirely complete for the use of a prescribed method and expert judgment may be required to deal with this issue (e.g. selection of a different range for the data, selection of appropriate assumptions and/or statistical/actuarial methods).</p>	<p>According to the Implementing Measure, standardised methods should be clearly defined and cannot be as a principle providing only criteria.</p>
6.	THE INTERNATIONAL UNDERWRITING ASSOCIATION OF LONDON	General Comment	<p>We welcome this necessary implementing technical standard. Many undertakings, particularly those trading outside Europe will be relying on the use of USPs to reflect their specific profile of risk and liability, notably with regard to major catastrophe cover in other continents. It will, consequently, be essential that such risks are covered in the non-life risk module. As the proposals are currently drafted, however, the different parameters that can be covered by a USP is limited. We believe it to be important that the list should be opened up to ensure that the specific profile of such companies is fairly catered for.</p> <p>For similar reasons, instead of maintaining a set list of standardised methods to support the parameters, it will also be essential, in order to reflect complex and evolving reality to maintain procedures for evaluating and recognizing the validity and suitability of new and old methods.</p>	<p>According to recital 149 of the Implementing Measure, subset of USP will be reconsidered till 31.12.2018.</p> <p>According to recital 149 of the Implementing Measure, methods will be reconsidered till 31.12.2018.</p>

			<p>Many companies will need to be able to use the USPs on the day when Solvency II comes into effect. Procedures will therefore need to be introduced to permit pre-approval. We are also concerned about the potential damage to a firm if a supervisor does not provide a response within the approval deadline. In our view, in those circumstances, the application should be deemed approved. We believe that the supervisory authority should implement an active internal policy of ensuring that approvals are provided within a reasonable timescale and certainly within the prescribed timescale. There should be full clarity about the timeline for approval and a regular dialogue with the firm about progress and any issues that may arise.</p>	<p>Each (re)insurers may approach its supervisor individually. Recital (7) on early dialogue has been added.</p> <p>The article 111(k) in the Directive is clear in its requirement of a prior approval. This means that the application shall not be considered as approved or reject without a prior decision by the supervisor.</p> <p>Concerning internal policy of supervisory authorities, it is reflected in recital (5) of draft ITS.</p>
7.	Deloitte Touche Tohmatsu	Recital (2)	<p>Can you please clarify the intended meaning of the line « Applications... should be prepared on a prudent and realistic basis »</p> <p>Does this imply that the calculation of the USPs in the application have to be prepared on both a realistic and prudent basis?</p>	<p>Yes, it means that undertaking should have realistic assumptions, and if 2 or more assumptions are realistic, then assumption more prudent should be used.</p>
8.	CFO Forum and CRO Forum	Recital (5)	<p>Six months appears an excessive period for the approval of a proposal to use a USP relative to the approval period for an entire internal model which is of the same length. Assuming that the approval procedure for USPs should be much leaner than for IMs, a significantly shorter period, such as 3 months, would be sufficient.</p>	<p>EIOPA has analysed this issue again and has decided to remain with 6 months period for decision. It does not mean that in all cases 6 months period will be fully used.</p>
9.	Insurance	Recital (5)	<p>Six months appear an excessive period for the approval of a proposal to</p>	<p>EIOPA has analysed this</p>



	Europe		use a USP relative to the approval period for an entire internal model which is of the same length. USPs approval should take a significantly shorter period, such as 3 months.	issue again and has decided to remain with 6 months period for decision. It does not mean that in all cases 6 months period will be fully used.
10.	THE INTERNATIONAL UNDERWRITING ASSOCIATION OF LONDON	Recital (5)	When the application is not complex and is based on standardised methods that are familiar, three months would appear a more reasonable timescale for approving USPs, against the background of internal model approval in six months,	EIOPA has analysed this issue again and has decided to remain with 6 months period for decision. It does not mean that in all cases 6 months period will be fully used.
11.	IRSG	Recital (6)	<p>o Point (6) in the introduction to the ITS (Whereas: ... (6)) states that "The decision to apply to use of undertaking-specific parameters should not be dictated only by lowering capital requirement."</p> <p>The general economic incentive for a company using the Standard Formula to apply for the use of USP is that - when data requirements regarding appropriateness and quality can be met - the resulting required capital will be lower because the risk profile of the company is better reflected. There is no other conceivable incentive to apply for USP. This intention should not be discredited as it is economically sensible and appropriate.</p> <p>The reverse case - i.e. underestimation of the required capital by the Standard Formula - is not a case for applying for USP, but for supervisory authorities to require an internal model or a capital add-on. These separate topics should not be mixed up. (6) should be deleted from the draft.</p>	According to recital 65 of Solvency II Directive, USP should reflect the true underwriting risk profile independently of the fact whether SCR calculated with USP is lower or higher than SCR calculated by standard parameters. EIOPA wants to mitigate the risk that (re)insurer will apply for USP not considering whether it better reflects the risk profile than the standardised parameters or only choose USP because SCR is lower not taking into account whether it is the true risk measurement.

12.	CFO Forum and CRO Forum	Recital (6)	We consider that companies should not be denied the use of USPs in order to obtain lower capital requirements. The general economic incentive for a company using the Standard Formula to apply for the use of USPs is that, when data requirements regarding appropriateness and quality can be met, the resulting required capital will be lower because the risk profile of the company is better reflected. This intention should not be discredited as it is economically sensible and appropriate. The reverse case, i.e. underestimation of the required capital by the Standard Formula, is not a case for applying for USPs, but for supervisory authorities to require an internal model or a capital add-on. These separate topics should not be mixed up, and we consider that Recital (6) should be deleted from the draft ITS.	Recital (6) limits to use USP only if the purpose of use USP is to lower SCR without taking into account whether requirements are met and whether SCR calculates with USP reflects true risk profile.
13.	Insurance Europe	Recital (7)	The data and the checks performed should also comply with any local requirements or professional standards (e.g. TAS-D and TAS-M for the UK actuarial profession).	Local requirements or professional standards are not a law and ITS cannot require that.
14.	IRSG	Recital (8)	<input type="checkbox"/> The set of standard parameters that are allowed to be replaced under the Implementing Measures by undertaking-specific parameters is restricted and as such is in tension with the spirit of the Framework Directive.	Disagreed.
15.	CFO Forum and CRO Forum	Recital (8)	The intention of the second sentence in Recital 8 is not clear, and should be reworded to clarify what is meant.	It is just information.
16.	Financial Supervisory Authority of Romania (ASF)	Article 1 (1)	language authorised by the supervisors to be changed to language agreed with the supervisors, as it is stated in the other ITS	Agree.
17.	Deloitte Touche Tohmatsu	Article 1 (2)	This outlines that the Cover Letter has to state that the application complies with Article 2, 3, 7 and 8 of this Regulation.  However Article 2 is a request from the supervisory authority for additional information to assess the application. This request will not have taken place at the time the Cover Letter is submitted.	Agree.

			<p>Also Articles 7 and 8 can only be complied with following the approval for the use of USPs.</p> <p>We suggest changing the wording to:</p> <p>« ..... stating that the application complies with Articles 1 and 3, will comply with Article 2 if further information is requested and will comply with Articles 6, 7 and 8 following approval for the use of USPs. »</p>	Agree. Deleted..
18.	IRSG	Article 1 (4) a	<ul style="list-style-type: none"> <li>• The wording should be aligned with the draft Delegated Acts and the Directive.</li> <li>• Data should be sufficiently complete accurate and appropriate</li> </ul>	<p>Partially agreed.</p> <p>Data should be fully, and not sufficiently, complete accurate and appropriate</p>
19.			This comment was submitted as confidential by the stakeholder.	
20.	Insurance Europe	Article 1 (4) b	<p>Though it is beyond the scope of this paper and under the remit of the Delegated Acts, we reiterate that the subset of parameters which are eligible as undertaking specific are clearly delineated without restriction in the Framework Directive as from all the modules other than Market and counterparty default risk modules. Therefore, at the very least, lapse, longevity and expense risk as covered in the life underwriting risk module should be included. In particular for longevity risk, we would expect that USPs should be available for those insurers for whom this risk is material. In this case it will be important for them to reflect the real nature of longevity risk, which would be a change in the future mortality assumption or the trend of mortality improvements over time, affecting longer-term policies to a much greater degree. We would therefore be supportive of such an extension.</p>	<p>According to recital 149 of Implementing Measure, subset of USP and USP methods will be reconsidered till 31.12.2018.</p>
21.	THE INTERNATIONAL UNDERWRITING ASSOCIATION OF LONDON	Article 1 (4) b	<p>As indicated in our general comment, under the proposals as currently drafted, the different parameters that can be covered by a USP is limited. We believe it to be important that the list should be opened up to ensure that the specific profile of different companies is fairly catered for.</p>	<p>This comment is out of the scope of this ITS. According to recital 149 of the Implementing Measure, subset of USP</p>

				and USP methods will be reconsidered till 31.12.2018.
22.	Deloitte Touche Tohmatsu	Article 1 (4) c	<p>Can you please clarify which of the two situations is referred to by the phrase « the standardised methods »:</p> <ol style="list-style-type: none"> <li>1. the situation where various methods were applied to calculate the USPs for each single segment</li> <li>2. the situation where the USP for each segment may have been calculated using a different standardised method</li> </ol> <p>If the intention is No.1 above, we suggest adding the reference « for each single segment » to the end of (4) (c)</p> <p>We suggest the application should also contain a comparison of the results from each standardised method used and a justification for the selected standardised method for each USP.</p>	<p>Text has been clarified – one method for each segment.</p> <p>Other stakeholders prefer to limit comparison of results. EIOPA does not extend the scope of application. It is already partially covered in art. 1 (4)(f) and art. 4(2)</p>
23.	Insurance Europe	Article 1 (4) c	<p>Though it is beyond the scope of this paper and under the remit of the Delegated Acts, we reiterate that the list of standardised methods which are to be used to derive the undertaking specific parameters (USP) should not be a restricted one as any restricted list will fail to fully render the true value of the USP for all undertakings. Therefore a set of criteria should be set out which would help assess whether anyone method is a standardised one. This process will ensure that academic advancements are kept up with and undertakings can produce methods that are the most suitable to reflect their risk profile.</p>	<p>According to recital 149 of Implementing Measure, subset of USP and USP methods will be reconsidered till 31.12.2018.</p>
24.	THE INTERNATIONAL UNDERWRITING ASSOCIATION OF LONDON	Article 1 (4) c	<p>As indicated in our general comment, instead of relying on a set list of standardised methods to support the parameters, it will be important to have recourse to other suitable standardized methods , where appropriate, in order to reflect the variety and complexity of the business environment.</p>	<p>This comment is out of the scope of this ITS. According to recital 149 of Implementing Measure, subset of USP</p>

				and USP methods will be reconsidered till 31.12.2018.
25.	AMICE	Article 1 (4) d	Undertakings will be requested to submit the calculated value of undertaking-specific parameters according to more than one method if possible; We do not understand why this should be a criteria for assessing the appropriateness of undertaking specific parameters. We suggest deleting this requirement.	It is enough to provide value calculated by one method (letter (c) has been clarified).
26.	Deloitte Touche Tohmatsu	Article 1 (4) d	Can you please clarify if the application should include the calculation for all of the standardised methods or just the one the undertaking is applying to use the result from?  We also suggest changing the reference « ...applies to use and information that the... » to « ....applies to use and evidence and justification that the...”	It is enough to provide value calculated by one method (letter (c) has been clarified).  Evidence might be too hard for undertakings to present to supervisor.
27.	THE INTERNATIONAL UNDERWRITING ASSOCIATION OF LONDON	Article 1 (4) d	When selecting a method for calculating the SCR, suitability in relation to the undertaking's risk profile will be the primary consideration rather than the amount of SCR. We suggest, therefore, that it would be helpful, for the sake of clarification, if the linkage to the ORSA which is contained in the explanatory text 4.1 (b) were brought into the main text.	EIOPA does not want automatic actions based on ORSA. Therefore reference to ORSA is only in explanatory text.
28.	AMICE	Article 1 (5)	We wonder why information about other applications is relevant for the assessment of the appropriateness of the application for the approval of USPs. We suggest removing this requirement from the application for approval of USPs.	Text has been reworded in order to reflect whether other applications are foreseen. For example if an undertaking is going to apply for an internal model soon for the same risk (sub) module it is an important information.
29.	Financial Supervisory	Article 1 (5)	art. 308a (2) does not list any items, it refers to the powers of the supervisors; maybe 308a (1)?	Agree

	Authority of Romania (ASF)			
30.	AMICE	Article 2 (1)	<p>The supervisory authority may require the undertaking to provide additional information which might be necessary to enable the supervisory authority to reproduce the calculation of undertaking-specific parameters. We would suggest adding the word "relevant" to the text as follows:</p> <p>"By means of a decision stating the reasons, the supervisory authority may require the insurance and reinsurance undertaking to provide relevant additional information where necessary to assess the application".</p>	Agree
31.	Insurance Europe	Article 1 (4) f	<p>Looking at the draft Delegated Acts (March 2014), except for one case (reserve risk) there is only one standardised method provided. It is therefore our understanding that this sole method provides the "most accurate" result for a segment under calculation since by definition USP are a better reflection of risk profile than the Standard Formula. In these cases, it has to be clear that the undertaking can use the method and is not forced out of the use of USP for the only Standard Formula as the alternative.</p>	(Re)insurance undertaking does not need to and cannot build their own standardised method for parameters.
32.	IRSG	Article 3 (1)	<ul style="list-style-type: none"> <li>As regards accuracy of the results it is stated here that in case the insurer is not able to demonstrate the accuracy of the results of one standardized method is better than all the other standardized methods to calculate an USP the most conservative result shall be used. This seems to be too restrictive as there can be a range of outcome being verifiably more relevant than one most conservative result.</li> </ul>	Paragraph has been deleted as it is in Implementing Measure.
33.			This comment was submitted as confidential by the stakeholder.	
34.	Federation of European Accountants (FEE)	Article 3 (1)	<p>FEE believes that the requirement to use the most conservative result in the case that an insurer is not able to demonstrate the accuracy of the results of onw standardised method might not provide relevant results. We suggest that EIOPA should allow the insurers to consider other approaches if they would represent more relevant results.</p>	Paragraph has been deleted as it is in Implementing Measure.

			In addition we understand that this article duplicates Article 198 USP3 of the latest draft delegated acts. If this text is retained in the final delegated acts it should not be duplicated in the ITS.	
35.	Insurance Europe	Article 1 (5)	<p>The literal interpretation of this requirement would lead to unnecessary burden and confusion on the part of both supervisors and undertakings. As the information submitted for an approval could need to be updated (eg. For internal models), care should be taken that one process of approval is not cluttered by information about another process of approval to avoid confusion.</p> <p>Therefore we understand this request as providing a simple note appended to the application at hand and destined to let the authorities know-via a reference number for instance- that there are other applications for approval for which a response is still pending.</p> <p>Clarification is needed as to the fact that the requested information submitted already earlier for the sake of any one application X currently being processed must not be submitted again alongside of the present application.</p>	Text has been reworded.
36.	THE INTERNATIONAL UNDERWRITING ASSOCIATION OF LONDON	Article 3 (1)	<p>It appears to us that paragraphs 3(1) and 3(2) are in the wrong order. As indicated in our general comment, we believe that alternative standardised methods should be considered to take into account the specificities of the undertaking and the business in which it is engaged. In addition, it is not clear whether "accuracy of results" means "consistency of results" or "suitability in relation to the risk profile of the company".</p>	<p>Paragraph 3(1) has been deleted as it is in Implementing Measure.</p> <p>2<sup>nd</sup> meaning is proper one.</p>
37.			This comment was submitted as confidential by the stakeholder.	
38.	CFO Forum and CRO Forum	Article 2 (1)	While we understand that additional information can be requested by the supervisory authorities during the process, it should be clarified that the timeline for approval is not reset each time a new request is expressed on the part of the supervisor so as to ensure that undertakings are not trapped in a never-ending process.	In case of request for additional information, the timeline for approval is described in art. 5(4).
39.	Deloitte Touche	Article 3 (2)	Could you clarify whether the appropriateness of the standardised	It should be justified

	Tohmatsu		<p>method chosen should be justified and compared against the other standardised methods?</p> <p>We suggest adding a specific comment stating that « A comparison of results from each method should be included. »</p> <p>Some underlying assumptions of the methodologies proposed for calculating undertaking specific parameters are never verified (e.g independence between underwriting years). As a consequence, the criteria for acceptability could be modified. We suggest the following: « ...whether data are compliant with the assumptions (and why any unadequacy observed could be considered reasonable) ».</p>	<p>against true risk profile of undertaking (recital 65 of Solvency II Directive).</p> <p>EIOPA does not agree since undertaking should provide information only on one method used (and not on rejected methods).</p> <p>Added as explanatory text after rewording.</p>
40.	Insurance Europe	Article 2 (1)	<p>While we understand that additional information can be requested by the supervisory authorities during the process, it should be clarified that the timeline for approval is not reset each time a new request is expressed on the part of the supervisor so as to ensure that undertakings are not trapped in a never-ending process.</p> <p>We are of the view that the decision for a suspension of the six months approval period should be left up to the insurance or reinsurance undertaking.</p>	<p>In case of request for additional information, the timeline for approval is described in art. 5(4).</p> <p>Partially agreed. The suspension of the time frame for decision has been kept in the ITS. EIOPA considers that a suspension would be more cost-efficient for undertakings and supervisors than having to resubmit or reassess an application respectively following a rejection due to any necessary additional information not being provided in a timely</p>



				<p>manner. EIOPA has, nevertheless, considered undertakings' concerns that this would create the potential for a undue prolongation of the process without legal certainty on timely decisions. Therefore, the draft article has been reviewed in this regard: supervisors will have to apply this option under the objective constraints of showing the necessity and justification for the additional information and being specific as to the additional information required.</p> <p>EIOPA will also monitor the application by NCAs of the possibility to suspend the time period.</p>
41.	THE INTERNATIONAL UNDERWRITING ASSOCIATION OF LONDON	Article 3 (2)	Please see our response to 3 (1).	See response to art. 3(1)
42.	CFO Forum and CRO Forum	Article 3 (1)	<p>Within the range of possible methods to determine USPs the most appropriate method must be chosen, not the most conservative. It is not appropriate to assume that an undertaking will be able to include ALL standardized methods into the comparison required by Art. 3(1). We consider that the wording should therefore be aligned with current draft Delegated Acts (Art. 198 (2) USP3 draft DA) to limit the set of comparable methods to those that are appropriate: "Where the</p>	Paragraph 3(1) has been deleted as it is in the Implementing Measure.

			undertaking is able to use more than one standardised method ...”.	
43.	Insurance Europe	Article 3 (1)	See our comment for Article 1 (4) f.  Articles in the ITS should not only duplicates the one in the Delegated Acts. A simple reference to art 198.3 of the Delegated Acts was sufficient.	See response to art. 1(4)(f).  Paragraph 3(1) has been deleted as it is in the Implementing Measure.
44.	Insurance Europe	Article 3 (2)	See our comment for Article 1 (4) c.  More specifically, it should be clarified what happens if it appears that a standardized method is not appropriate for an undertaking when setting-up a calculation for a given USP.	See response to art. 1(4)(c).  Decision to approve or reject use if USP will be taken by supervisor taking into account assessment of all information. If this is the only standardised method PIM may be a desirable option.
45.	THE INTERNATIONAL UNDERWRITING ASSOCIATION OF LONDON	Article 4 (2)	Please see our response to 3 (1).	See response to art. 3(1).
46.	CFO Forum and CRO Forum	Article 4 (1) b		
47.	Deloitte Touche Tohmatsu	Article 5 (1)	Similar to Article 5 (8). Could you please clarify that failure of the supervisory authority to inform the undertaking that the application is complete within 30 days does not imply that the application is complete and hence that the 6 month approval period has started?	6 month timeline starts from the receiving complete application and not from the date when supervisor inform that application is complete.
48.	Insurance Europe	Article 4 (1) b		

49.	IRSG	Article 5 (2)	<input type="checkbox"/> Six months is much too long for USP approval	EIOPA has analysed this issue again and has decided to remain with 6 months period for decision. It does not mean that in all cases 6 months period will be fully used.
50.	IRSG	Article 5 (3)	<input type="checkbox"/> Six months is much too long for USP approval	EIOPA has analysed this issue again and has decided to remain with 6 months period for decision (see explanatory text 4.16). It does not mean that in all cases 6 months period will be fully used.
51.			This comment was submitted as confidential by the stakeholder.	
52.	Insurance Europe	Article 5 (1)	30 days to decide on whether the application is complete is excessive considering the information to be included in the application. Nonetheless, it has to be clarified that if the supervisor has overrun the allotted one month period to notify whether the application is complete, the countdown will anyway already consider that 30 days have elapsed. The approval process should be clearly defined and certainly not be perceived as a possible never-ending process as this will discourage undertakings to take that route.	6 month timeline starts from the receiving complete application and not from the date when supervisor inform that application is complete.
53.	Insurance Europe	Article 5 (2)	Six months appear to be an excessive period for the approval of a proposal to use a USP when compared to the approval period for an entire internal model of the same length. This suggests the assumption that both workloads are similar which is hard to defend when contrasted against the disparities in the stringency of requirements behind both approaches. USP approval should take a significantly shorter period, such as 3 months.	EIOPA has analysed this issue again and has decided to remain with 6 months period for decision. It does not mean that in all cases 6 months period will be fully used.

54.			This comment was submitted as confidential by the stakeholder.	
55.	Insurance Europe	Article 5 (3)	As mentioned in our comment to 2(1) we understand that additional information can be requested by the supervisory authorities during the process and therefore for consistency with this requirement the following snippet of sentence should be added onto the last sentence: "as long as it pertains to article 2(1)".	5(3) also consists request for adjustments and not only for additional information as in art. 2(1).
56.	AMICE	Article 5 (6)	The application should be resolved within 3 months of the receipt of the complete application. We do not see why the USP approval process should involve a similar level of workload to the approval of a partial internal model. Furthermore, we do not understand why an analysis of the technicalities involved in the methodologies requires so much time when only standardised methods are allowed.	EIOPA has analysed this issue again and has decided to remain with 6 months period for decision. It does not mean that in all cases 6 months period will be fully used.
57.	CFO Forum and CRO Forum	Article 5 (4)	When only a part of parameters require further information the deferral should only be applied to that subset of parameters.	Agreed.
58.	Insurance Europe	Article 5 (4)	When only a part of parameters require further information the deferral should only be applied to that subset of parameters.  More generally, it is our view that in line with the ITS on the Internal model approval, when the supervisory authorities request further information, the decision for a suspension of the six months approval period should be left up to the insurance or reinsurance undertaking.	Agreed.  Partially agreed. The suspension of the time frame for decision has been kept in the ITS. EIOPA considers that a suspension would be more cost-efficient for undertakings and supervisors than having to resubmit or reassess an application respectively following a rejection due to any necessary additional

				<p>information not being provided in a timely manner. EIOPA has, nevertheless, considered undertakings' concerns that this would create the potential for a undue prolongation of the process without legal certainty on timely decisions. Therefore, the draft article has been reviewed in this regard: supervisors will have to apply this option under the objective constraints of showing the necessity and justification for the additional information and being specific as to the additional information required.</p> <p>EIOPA will also monitor the application by NCAs of the possibility to suspend the time period.</p>
59.	THE INTERNATIONAL UNDERWRITING ASSOCIATION OF LONDON	Article 5 (6)	Please see our response to Recital 5.	See response to recital 5.
60.	CFO Forum and CRO Forum	Article 5 (5)	We welcome this consideration.	
61.	Insurance Europe	Article 5 (5)	We welcome this consideration.	

62.	AMICE	Article 5 (8)	We do not agree with EIOPA allowing the supervisory authorities to extend the consideration period. As the approval process should be limited to data quality checking and to an assessment of the appropriateness of the methods applied to capture risks, we do not see why the approval process should last more than 6 months.	EIOPA has analysed this issue again and has decided to remain with this provision.
63.	CFO Forum and CRO Forum	Article 5 (6)	Six months appears an excessive period for the approval of a proposal to use a USP relative to the approval period for an entire internal model which is of the same length. Assuming that the approval procedure for USPs should be much leaner than for IMs, a significantly shorter period, such as 3 months, would be sufficient. The approval process should be clearly defined and certainly not be perceived as a possible never-ending process as this will discourage undertakings to take that route.	EIOPA has analysed this issue again and has decided to remain with 6 months period for decision. It does not mean that in all cases 6 months period will be fully used.
64.	Insurance Europe	Article 5 (6)	In line with our comment on Art 5 (1), when the time line for approvals has elapsed, the company should be allowed to consider the use of USPs as approved. In such a case, there is no justification to leave an undertaking in a situation of uncertainty when the application is complete and receipt has been received. The approval process should be clearly defined and certainly not be perceived as a possible never-ending process as this will discourage undertakings to take that route.	The article 111(k) in the Directive is clear in its requirement of a prior approval. This means that the application shall not be considered as approved or reject without a prior decision by the supervisor.
65.	THE INTERNATIONAL UNDERWRITING ASSOCIATION OF LONDON	Article 5 (8)	Please see our General Comment.	See response to General comment.
66.	AMICE	Article 6 (1)	EIOPA states that, upon receipt of approval, undertakings should not revert to the standard formula parameters unless it is duly justified. We do not understand why any reversion to the standard formula parameters needs to be approved. The justification of the appropriateness of the standard formula to reflect the undertaking's	EIOPA wants to mitigate the risk that a(re)insurer each year choose USP or standard parameter only due to the fact that it

			risk profile should be done within the ORSA.	gives lower SCR (cherry picking). USP of standard parameters should be used consistently.  Reference to ORSA is mentioned in explanatory text point 4.1(b).
67.	Insurance Europe	Article 5 (7)	There is some contradiction in allowing only one method (except for reserve risk for which two standardised methods are foreseen) and reserve the right on the part of the supervisor to reject the approval for some lines of business (LoBs).  This is because the different LoBs differ in characteristics notably in relation with their long or short tail attribute. Hence the methods presented will prove insufficient to capture the different risks entailed by each LoB. We therefore reiterate our comment on Article 1 (4) c.	If standardised method for given segment is not appropriate, (re)insurance undertaking may apply for use of PIM.
68.	CFO Forum and CRO Forum	Article 5 (8)	The approval process should be clearly defined and certainly not be perceived as a possible never-ending process as this will discourage undertakings to take that route. When the timeline for approvals has elapsed, or, for example, after an additional period of time (e.g. 30 days) has elapsed, the company should be allowed to consider the use of USPs as approved. In such a case, there is no justification to leave an undertaking in a situation of uncertainty, which would result in increased operational cost and capital cost eventually increasing cost of insurance products, when the application is complete and receipt has been received.	The article 111(k) in the Directive is clear in its requirement of a prior approval. This means that the application shall not be considered as approved or reject without a prior decision by the supervisor.
69.	Deloitte Touche Tohmatsu	Article 7 (1)	Could you please clarify if this implies that the supervisory authority does not require that the updated USP values are sent to them?	USP values will be provided each year within RSR.
70.	Insurance Europe	Article 5 (8)	We do not agree that the supervisor should be able to extend the timetable for granting approval to use USPs. Again here, to avoid a situation of uncertainty for the undertakings, the approval process should be clearly defined for the undertaking to be able to form an objective assessment of the outcome of the process at the very beginning of the approval process. As mentioned in 5 (6), the approval	EIOPA has analysed this issue again and has decided to remain with possibility to extend period, but new recital has been added.

			process should not be perceived as a possible never-ending process as this will discourage undertakings to take that route.	
71.	IRSG	Article 8 (1)	<ul style="list-style-type: none"> <li>The supervisory authority may revise its decision where material changes occur to the appropriateness of the use of USPs, based on evidence provided by the insurer. What does not become clear here is how the supervisory authority should notice the inappropriateness on an USP. Should that be left to the supervisory review process or should another review take place, e.g. by an auditor?</li> </ul>	All sources if information are possible. (Re)insurer does not have to have audit of it.
72.	Federation of European Accountants (FEE)	Article 8 (1)	ITS states that the supervisory authority may revise its decision where material changes occur to the appropriateness of the use of USPs, based on evidence provided by the insurer. However it is not clear how the supervisory authorities would know whether material changes have occurred to the appropriateness of the use of USPs. Therefore, we suggest that EIOPA should clarify whether this process should be undertaken by the supervisory authorities or whether a separate review should take place (i.e. by an independent auditor).	All sources if information are possible. (Re)insurer does not have to have independent audit of it.
73.	Insurance Europe	Article 6 (1)	Faced with only one method to derive their USP which could therefore no longer be appropriate if the risk profile of the company changes over the year, undertakings should always be allowed to revert back to the Standard formula as this is the default approach.	<p>EIOPA wants to mitigate the risk that a (re)insurer each year choose USP or standard parameter only due to the fact that it gives lower SCR (cherry picking). USP of standard parameters should be used consistently.</p> <p>If USP requirements are not met and cannot be restored, then (re)insurer shall revert to standard parameters after receiving supervisory approval.</p>
74.	Insurance	Article 8 (1)	We would welcome more clarification around the process followed by	Revision is possible



	Europe		the supervisors to revise their decision to grant the approval. The periodicity shall be appropriate to the business case of the undertaking and proportionate to its scale. Suggestion is made that the revision will be undertaken by the supervisors with a maximum of once per year.	whenever supervisor receives relevant information.
75.	Deloitte Touche Tohmatsu	Explanatory Text 4.1 (c)	« as well as the underlying assumptions in the standard formula parameters and behind undertaking-specific parameters are the same; »  This is not clear and not fully coherent as the assumptions required for the use of undertaking specific parameters are stronger than the one required for the use of the standard formula. This could be either removed or replaced by « as well as the underlying assumptions behind the undertaking specific parameters are at least as strong as those behind the standard formula ».	Agree, text has been revised.
76.	Deloitte Touche Tohmatsu	Explanatory Text 4.3	Could you please clarify what level of information is required for « data adjustment » and if a materiality level applies?	There is no need to provide information on each single data adjustment, it is enough to provide criteria and rules applied.
77.	Deloitte Touche Tohmatsu	Explanatory Text 4.4	Typographic error :  « otherwise, the reason why they have not been considered at all »	Agree, text has been revised.
78.	CFO Forum and CRO Forum	Explanatory Text 4.4	The explanatory text goes beyond the provisions of the Article 1 (4) which only requires justifying why the methods used are deemed the most accurate. For example (as part of the approval procedure for USPs), undertakings should not be required to check the adequacy of the loss distribution of any 'standardised method' because this assumption is based on the standard formula. A similar requirement exists under ORSA and does not need to be duplicated here. Overall, there should be an incentive for undertakings to use USPs and therefore the application procedure not overly burdensome.	It is part of checking whether assumptions are fulfilled. If it was done elsewhere, results of it could be used in justification for USP.
79.	Insurance Europe	Explanatory Text 4.4	The explanatory text goes beyond the provisions of the Article 1 (4) which only requires justifying why the methods used are deemed the most accurate. To this end, the breadth of the scope of elements/steps envisaged as a minimum here appears to be unnecessary and	It is part of checking assumptions.

			unnecessary burdensome.	
80.	CFO Forum and CRO Forum	Explanatory Text 4.7	If a decision can be supported based on the comparison of the underlying assumptions of the methods rather than the results, this should be sufficient.	Agree.
81.	Deloitte Touche Tohmatsu	Explanatory Text 4.9	We suggest to use the same wording « standardised method » in all paragraph so that it is obvious that only the methods proposed by EIOPA are acceptable. Therefore we suggest replacing « available methods » with « standardised methods » in this paragraph.	Agree, text has been revised.
82.	Insurance Europe	Explanatory Text 4.7	It should be acknowledged by the supervisors that comparing all the standardised methods for the purpose of deciding on the most appropriate one can be burdensome. Instead, undertakings should be allowed to use any suitable method that will be assessed as being a Standardised one by meeting a set of criteria set out by the legislator. This process will ensure that academic advancements are kept up with and undertakings can produce methods (and underpinning assumptions) that are the most suitable to reflect their risk profile.	According to Implementing Measure art.220 par.2 subpar.2 if undertaking is not able to demonstrate the accuracy of the results of one standardised method over the other standardised methods to calculate USP, the method providing the most conservative result shall be used.  Undertaking cannot use their own method, according to recital 149 of Implementing Measure, USP methods will be reconsidered till 31.12.2018 and then academic advancements could be used.
83.	Deloitte Touche Tohmatsu	Explanatory Text 4.10	Can you please clarify if you intend to give more precise guidance regarding the assessment of model error?  Could you please clarify if the outputs of the standardised methods are not considered appropriate as undertaking specific parameters without	EIOPA does not plan to give more precise guidance.  It will be assessed by

			a specific estimate of the model error?	NCA.s.
84.	Deloitte Touche Tohmatsu	Explanatory Text 4.13	<p>We suggest removing the reference to partial internal model.</p> <p>The proposed text seems unclear. We suggest to replace the paragraph with:</p> <p>« Where the underlying risks of a module for quite typical activity are consistent with standard formula assumptions, the use of undertaking-specific parameters should not be considered as an appropriate choice of parameters/segments. »</p>	<p>Agree, text has been revised.</p> <p>Agree, text has been revised.</p>
85.	Insurance Europe	Explanatory Text 4.11	<p>It should not be assumed that undertakings will be chasing the capital requirements. The primary reason for an undertaking to opt for USP is that it is a less flawed reflection of its risk profile. Moreover, it should be kept in mind that the supervisor himself can force the undertaking into using a USP if the supervisor finds in his opinion that the risk profile of the undertaking is significantly deviating from the one underlying the standard formula.</p>	Partially agreed.
86.	Insurance Europe	Explanatory Text 4.14	See 4.11	See response to par. 4.11
87.	CFO Forum and CRO Forum	Explanatory Text 4.16	<p>We strongly disagree.</p> <p>The requirements for the use of USPs should be set at a level that encourages their use as this would live up to the spirit of the Framework Directive (Recital 65 last sentence).</p> <p>USP requirements should be set a practical level so that the burden in terms of approval is lessened and uncertainty regarding the use of USPs in the determination of capital requirements eliminated.</p>	Disagreed.
88.	Insurance Europe	Explanatory Text 4.16	<p>We strongly disagree.</p> <p>The requirements for the use of USPs should be set at a level that encourages their use as this would live up to the spirit of the Framework Directive (Recital 65 last sentence).</p> <p>USP requirements should be set a practical level so that the burden in terms of approval is lessened and uncertainty regarding the use of USPs in the determination of capital requirements eliminated.</p>	Disagreed.

89.	CFO Forum and CRO Forum	Explanatory Text 4.18	<p>We strongly disagree as this is giving a free run to supervisor in not meeting the legal requirements in terms of timeline.</p> <p>Again here, to avoid a situation of uncertainty for the undertakings, the approval process should be clearly defined for the undertaking to be able to form an objective assessment of the outcome of the process at the very beginning of the approval process. As mentioned in 5 (6), the approval process should not be perceived as a possible never-ending process as this will discourage undertakings to take that route.</p>	The article 111(k) in the Directive is clear in its requirement of a prior approval. This means that the application shall not be considered as approved or reject without a prior decision by the supervisor.
90.	Deloitte Touche Tohmatsu	Explanatory Text 4.20	We suggest replacing « The six months can be suspended » with « The six months will be suspended » in order to be consistent Article 5 (4) and also Policy Issue 5.	Agree, text has been revised.
91.	Insurance Europe	Explanatory Text 4.18	<p>We strongly disagree as this is giving a free run to supervisor in not meeting the legal requirements in terms of timeline.</p> <p>Again here, to avoid a situation of uncertainty for the undertakings, the approval process should be clearly defined for the undertaking to be able to form an objective assessment of the outcome of the process at the very beginning of the approval process. As mentioned in 5 (6), the approval process should not be perceived as a possible never-ending process as this will discourage undertakings to take that route.</p>	The article 111(k) in the Directive is clear in its requirement of a prior approval. This means that the application shall not be considered as approved or reject without a prior decision by the supervisor.
92.	Insurance Europe	Explanatory Text 4.20	It would make more sense to leave this option to stop the countdown up to the undertaking and the following explains why. In case a supervisor has requested information that information was still not be sent by the undertaking at the end of the six months period, the supervisor will be able to justify why the approval is not granted. Therefore it behoves the company to decide whether the clock should stop ticking (and if yes to communicate that decision to the supervisor) precisely because the company is in a better position to assess how long the provision of that information will take in terms of time.	Partially agreed. The suspension of the time frame for decision has been kept in the ITS. EIOPA considers that a suspension would be more cost-efficient for undertakings and supervisors than having to resubmit or reassess an application respectively following a rejection due to any

				<p>necessary additional information not being provided in a timely manner. EIOPA has, nevertheless, considered undertakings' concerns that this would create the potential for a undue prolongation of the process without legal certainty on timely decisions. Therefore, the draft article has been reviewed in this regard: supervisors will have to apply this option under the objective constraints of showing the necessity and justification for the additional information and being specific as to the additional information required.</p> <p>EIOPA will also monitor the application by NCAs of the possibility to suspend the time period.</p>
93.	CFO Forum and CRO Forum	Annex I: Policy options - Policy issue 6	The 6 months upper limit is too high. The USP application is much simpler than internal model application which has the upper limit of 6 months. We propose 3 months upper limit.	EIOPA has analysed this issue again and has decided to remain with 6 months period for decision. It does not mean that in all cases 6 months period will be fully used.
94.	Insurance	Annex I: Policy	The 6 months upper limit is too high. The USP application is much	EIOPA has analysed this

	Europe	options - Policy issue 6	simpler than internal model application which has the upper limit of 6 months. We propose 3 months upper limit.	issue again and has decided to remain with 6 months period for decision. It does not mean that in all cases 6 months period will be fully used.
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## **Annex III: Draft Implementing Technical Standard**



EUROPEAN COMMISSION

Brussels, XXX  
[...] (2011) XXX draft

**COMMISSION IMPLEMENTING REGULATION (EU) No .../..**

**of [ ]**

**COMMISSION IMPLEMENTING REGULATION (EU) No .../. of [date] laying down implementing technical standards with regard to the supervisory approval procedure to use undertaking-specific parameters according to Directive 2009/138/EC of the European Parliament and of the Council**

**of XXX**

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Directive 2009/138/EC of 25 November 2009 of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), and in particular Article 111(1a) thereof,

Whereas:

- (1) This Regulation establishes the procedures to be followed for the supervisory approval to use undertaking-specific parameters.
- (2) Applications by insurance and reinsurance undertakings should be prepared on a prudent and realistic basis, and should include all relevant facts necessary for an assessment by the supervisory authorities. It should include an assessment of how the criteria for completeness, accuracy and appropriateness of the data used will be fulfilled.
- (3) The information to be included in an insurance or reinsurance undertaking's application should be specified to ensure a consistent basis for decision-making by supervisory authorities.
- (4) Supervisory authorities should adopt adequate procedures that are proportionate to the complexity of the applications to manage the approval process; the approval process may take less than six months where proportionate to the complexity.
- (5) The decision to apply for the use of undertaking-specific parameters should not be dictated only by lowering the capital requirement.
- (6) The procedures for approval envisage ongoing communication between the supervisory authorities and insurance and reinsurance undertakings. This includes communication before a formal application is submitted to the supervisory authorities and, after an application has been approved, through the supervisory review process. Such ongoing communication is necessary to ensure that supervisory judgements are based on relevant and up-to-date information.
- (7) As part of the approval process, supervisory authorities should, *inter alia*, assess the data used to calculate the undertaking-specific parameters and they should verify if the data used comply with the data quality criteria set out in Directive 2009/138/EC and in the Implementing Measures.
- (8) Insurance and reinsurance undertakings may only replace a subset of standard parameters within the underwriting risk modules by undertaking-specific parameters. This means that some of the inputs used to calculate these parameters will be similar or identical to the inputs used to calculate technical provisions.
- (9) This Regulation is based on the draft implementing technical standards submitted by the European Insurance and Occupational Pensions Authority to the Commission.
- (10) The European Insurance and Occupational Pensions Authority has conducted open public consultations on the draft implementing technical standards on which this Regulation is based,



analysed the potential related costs and benefits and requested the opinion of the Insurance and Reinsurance Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1094/2010.

HAS ADOPTED THIS REGULATION:

#### *Article 1*

##### **Application for approval of the use of undertaking-specific parameters**

- (1) The insurance and reinsurance undertakings shall submit the application for approval of the use of undertaking-specific parameters to replace a subset of parameters of the standard formula to the supervisory authority in writing in one of the official languages of the Member State in which the insurance or reinsurance undertaking has its head office, or in a language that has been agreed with the supervisory authority.
- (2) The application shall be accompanied by a cover letter stating that the application complies with the requirements of Articles 1 and 3 of this Regulation.
- (3) The application shall be approved by the administrative, management or supervisory body of the insurance or reinsurance undertaking and the documentary evidence of the approval shall be submitted.
- (4) The application shall contain as a minimum the followings:
  - (a) a specific start date from which the use of the undertaking-specific parameters is requested;
  - (b) the subset of standard parameters which are requested to be replaced by undertaking-specific parameters;
  - (c) for each segment the standardised method used and the insurance and reinsurance undertaking-specific parameter value obtained by using this method;
  - (d) the calculation of the undertaking-specific parameter the undertaking applies to use and information that the calculation is adequate;
  - (e) evidence that data used to calculate the undertaking-specific parameters are complete, accurate and appropriate and they fulfill the requirements set out in Article 230 of the Implementing Measures;
  - (f) a justification that each standardised method to calculate the undertaking-specific parameter for a single segment provides the most accurate result for the fulfillment of the requirements set out in Article 101 of Directive 2009/138/EC.
- (5) In addition to the material specified in paragraphs 2 and 4, the application shall also list all other applications submitted by the insurance or reinsurance undertaking, or currently foreseen within the next six months, for approval of any of the items listed in Article 308a (1) of Directive 2009/138/EC, together with the corresponding application dates.

#### *Article 2*

##### **Request for information by the supervisory authorities**

- (1) By means of a decision stating the reasons, the supervisory authorities may require the insurance and reinsurance undertakings to provide relevant additional information where necessary to assess the application.

### *Article 3*

#### **Accuracy of the results**

- (1) When demonstrating the accuracy of the results, insurance and reinsurance undertakings shall assess the appropriateness of the standardised method for the undertaking's data, whether their assumptions are fulfilled and whether data are relevant to the undertaking's risk profile.

### *Article 4*

#### **Supervisory authority's assessment of the choice of the parameters and the method to calculate the parameters**

- (1) The supervisory authorities shall assess the insurance or reinsurance undertaking's choice of:
  - a) the parameters to be replaced by considering whether the use of undertaking-specific parameters better reflects the underwriting risk profile of the undertaking;
  - b) the segments for which parameters have been calculated by considering whether the use of undertaking-specific parameters better reflects the underwriting risk profile of the undertaking.
- (2) The supervisory authorities shall assess the undertaking's justification for the choice of the standardised method to calculate undertaking-specific parameters. The supervisory authorities, when performing this assessment, shall consider whether the assumptions on standardised methods are satisfied and whether data are relevant to the undertaking's risk profile.

### *Article 5*

#### **Supervisory approval**

- (1) The supervisory authority shall confirm receipt of the application of the insurance or reinsurance undertaking. The supervisory authority shall determine whether the application is complete within 30 days from the date of the receipt of the application. The application for approval of the use of undertaking-specific parameters shall be considered as complete if it includes all information and the documentary evidence set out in Article 1 paragraph 4.
- (2) Where the supervisory authority determines that the application is not complete, it shall immediately inform the insurance or reinsurance undertaking that the six month approval period has not begun and specify the reasons why the application is not complete.
- (3) Where the supervisory authority has considered an application to be complete, this shall not prevent the supervisory authority from requesting additional information necessary for its assessment. The request shall specify the additional information and the rationale for the request.
- (4) The days between the date the supervisory authority requests further information or adjustments, in accordance with paragraph 3, and the date the supervisory authority receives such information shall not be included within the periods of time stated in paragraph 6.
- (5) If, following a request from the supervisory authority for further information or adjustments, an insurance or reinsurance undertaking makes a change to its application, this shall not be considered as a new application.
- (6) The supervisory authority shall decide on the approval within a maximum period of six months from the receipt of a complete application. A decision by the supervisory authority to reject the application shall state the reasons on which it is based. The supervisory authority shall give approval to the application only if it is satisfied with the justification to replace a subset of parameters of the standard formula. The decision shall be communicated in writing in the same

language as the application.

- (7) The supervisory authority may decide to approve the application in respect of some but not all of the segments or of the parameters included in the application.

#### *Article 6*

##### **Revert to standard formula parameters**

- (1) After the approval, insurance and reinsurance undertakings shall not revert to calculating the Solvency Capital Requirement by using the standard formula parameters, except in duly justified circumstances and subject to the approval of the supervisory authorities.

#### *Article 7*

##### **Updating the undertaking-specific parameter values**

- (1) Whenever the Solvency Capital Requirement is calculated, provided that there has not been any significant change in the appropriateness of the use of the undertaking specific parameter, insurance and reinsurance undertakings shall apply the undertaking-specific parameter values obtained by using the approved method with the most recent relevant data. Insurance and reinsurance undertakings shall ensure that the data used comply with the requirements specified in Article 230 of the Implementing Measures.

#### *Article 8*

##### **Revocation of approval by the supervisory authority**

- (1) Where material changes occur to the appropriateness of the use of the undertaking-specific parameter, the supervisory authorities may revise its decision based on evidence provided by the insurance and reinsurance undertakings.

#### *Article 9*

##### **Entry into force**

- (1) This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.
- (2) This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, [ ]

[            *For the Commission*  
*The President*

*On behalf of the President*

*[Position]*

# 1. Explanatory text

## *Article 1 - Application for approval of the use of undertaking-specific parameters*

- (1) The insurance and reinsurance undertakings shall submit the application for approval of the use of undertaking-specific parameters to replace a subset of parameters of the standard formula to the supervisory authority in writing in one of the official languages of the Member State in which an insurance or reinsurance undertaking has its head office, or in a language that has been agreed with the supervisory authority.
  - (2) The application shall be accompanied by a cover letter stating that the application complies with the requirements of Articles 1 and 3 of this Regulation. The cover letter shall endorse the application for submission to the supervisory authority.
  - (3) The application shall be approved by the administrative, management or supervisory body of the insurance or reinsurance undertaking and the documentary evidence of the approval shall be submitted.
  - (4) The application shall contain as a minimum the followings :
    - (a) a specific start date from which the use of the undertaking-specific parameters is requested;
    - (b) the subset of standard parameters which are requested to be replaced by undertaking-specific parameters;
    - (c) for each segment the standardised method used and the undertaking-specific parameter value obtained by using this method;
    - (d) the calculation of the undertaking-specific parameter the undertaking applies to use and information that the calculation is adequate;
    - (e) evidence that data used to calculate the undertaking-specific parameters are complete, accurate and appropriate and they fulfil the requirements set out in Article 230;
    - (f) a justification that each standardised method to calculate the undertaking-specific parameter for a single segment provides the most accurate result for the fulfilment of the requirements set out in Article 101 of Directive 2009/138/EC.
  - (5) In addition to the material specified in paragraphs 2 and 4, the application shall also list all other applications submitted by the insurance or reinsurance undertaking, or currently foreseen within the next six months, for approval of any of the items listed in Article 308a (1) of Directive 2009/138/EC, together with the corresponding application dates.
- 4.1 The information submitted to the supervisory authority should satisfy the supervisory authority that:
- (a) the data meet criteria included in the [Implementing Measures];
  - (b) the use of undertaking-specific parameters better reflects the underwriting risk profile of the undertaking, for this purpose undertakings should consider the Own Risk and Solvency Assessment (ORSA). The identification of where the SCR does not accurately reflect an undertaking's risks is required within the ORSA in Article 45(1c) of the Directive;
  - (c) undertaking-specific parameters have been calculated following the standardised methods laid down in the [Implementing Measures], especially the risks covered by the undertaking-specific parameters are conceptually at least the same as those covered by the standard formula parameters as well as the underlying assumptions behind the undertaking specific parameters are fulfilled;

- (d) the use of undertaking-specific parameters for some but not all of the segments reflects the underwriting risk profile of the undertaking.
- 4.2 The replacement of standard parameters by the undertaking-specific ones cannot be a mechanical action. Undertakings should always check whether the assumptions of the standardised methods are fulfilled regarding its risk profile as the different value of parameters may also have quite substantial reason, for example another loss distribution which makes it impossible to use undertaking-specific parameters – undertaking may then apply for use of partial internal model. In such cases a partial internal model is desirable.
- 4.3 Insurance and reinsurance undertakings should elaborate on the data adjustments, especially on the adjustment for catastrophic claims to data used to calculate undertaking-specific parameters.
- 4.4 According to paragraph 4 letter (f), as a minimum, the insurance and reinsurance undertakings should explain the reasons for excluding any segments and discuss the appropriateness of standard parameters in such cases. The justification for the choice of parameters/segments should integrate the rationale for why some parameters/segments have been excluded and whether they were considered to be also included. If this is the case, the reason why they were abandoned or postponed (data shortcomings, standardised methods issues, etc.), otherwise, the reason why they have not been considered at all (not significant part of business, standard formula parameters fit, with the explanation how it was assessed).
- 4.5 The supervisory authority should be satisfied by the justification that undertaking-specific parameters are not being used to “cherry-pick” the areas which gives the lowest Solvency Capital Requirement.

#### *Article 2 - Request for information by the supervisory authority*

- (1) By means of a decision stating the reasons, the supervisory authorities may require the insurance and reinsurance undertakings to provide relevant additional information where necessary to assess the application.
- 4.6 For example, at the request of the supervisory authority, insurance and reinsurance undertakings should provide relevant data to the supervisory authority in order to enable it to reproduce the calculation of undertaking-specific parameters.

#### *Article 3 - Accuracy of the results*

- (1) When demonstrating the accuracy of the results, insurance and reinsurance undertakings shall assess the appropriateness of the standardised method for the undertaking’s data, whether their assumptions are fulfilled and whether data are relevant to the undertaking’s risk profile.
- 4.7 Insurance and reinsurance undertakings shall compare all available standardised methods including the results obtained if all the other available standardised methods could be applied.
- 4.8 Insurance and reinsurance undertakings shall check whether data are compliant with the assumptions and if there is any deviations, could observed deviations be considered reasonable. If some deviations from the assumptions have been observed and their impact is material, the undertaking should provide

for a more appropriate estimate, which means that undertaking should choose other possible standardised method which meets assumptions and provides for a more appropriate estimate.

- 4.9 The undertaking should compare the standardised methods for the purpose of calculation of undertaking-specific parameters if the standardised methods could be reasonably and appropriately applied, choose the standardised methods which meet the criteria and are considered appropriate. Undertaking should also provide explanations with regard to the standardised methods which were considered in its analysis and what are the conclusions and the results of the assessment of these standardised methods.
- 4.10 Insurance and reinsurance undertakings should ensure that the standardised methods applied to relevant data enable a robust and reliable estimation of undertaking-specific parameters. Insurance and reinsurance undertakings should assess also the model error which arises from the use of the standardised methods.

*Article 4 - Supervisory authority's assessment of the choice of the parameters and the method to calculate the parameters*

- (1) Supervisory authorities shall assess the insurance or reinsurance undertaking's choice of:
- a) the parameters to be replaced by considering whether the use of undertaking-specific parameters better reflects the underwriting risk profile of the undertaking;
  - b) the segments for which parameters have been calculated by considering whether the use of undertaking-specific parameters better reflects the underwriting risk profile of the undertaking.
- (2) Supervisory authorities shall assess the undertaking's justification for the choice of the standardised method to calculate undertaking-specific parameters. Supervisory authorities, when performing this assessment, shall consider whether the assumptions on standardised methods are satisfied and whether data are relevant to the undertaking's risk profile.
- 4.11 Insurance and reinsurance undertakings should not use as a criterion for the selection of the standard parameters to be replaced by the undertaking-specific parameters the ones where a lower Solvency Capital Requirement is generated. Supervisory authorities should assess whether the choice of the parameters reflects a sound risk management.
- 4.12 The supervisory authority should check whether the undertaking has chosen to use undertaking-specific parameters for the relevant risk modules. For example the undertaking should provide a justification of its choice if it chooses to use undertaking-specific parameters for a submodule or segment whereas it does not choose to use them in another one(s), having a much higher share in the overall capital requirements. The justification should be at least qualitative and if possible it can be also quantitative.
- 4.13 Where the underlying risks of a module for quite typical activity are consistent with standard formula assumptions, the use of undertaking-specific parameters should not be considered as an appropriate choice of parameters/segments.
- 4.14 Insurance and reinsurance undertakings should not choose the standardised method because it gives the lowest Solvency Capital Requirement. The choice should rather be based on the risk profile, for example whether data fulfil the requirements specific for given method.

*Article 5 - Supervisory approval process decision*

- (1) The supervisory authority shall confirm receipt of the application of the insurance or reinsurance undertaking. The supervisory authorities shall determine whether the application is complete within 30 days from the date of the receipt of the application. The application for approval of the use of undertaking-specific parameters shall be considered as complete if it includes all information and the documentary evidence set out in Article 1 paragraph 4.
  - (2) Where the supervisory authorities determine that the application is not complete, they shall immediately inform the insurance or reinsurance undertaking which has submitted the application that the six month approval period has not begun and specify the reasons why the application is not complete.
  - (3) Where the supervisory authorities determine that the application is complete, they shall inform the insurance or reinsurance undertaking which has submitted the application that the application is complete and the date from which the six months approval period starts. The fact that the supervisory authorities have determined an application to be complete shall not prevent the supervisory authorities from requiring any further information from the insurance or reinsurance undertaking which has submitted the application that is necessary to assess the application for approval of the use of undertaking-specific parameters.
  - (4) The days between the date the supervisory authority requests further information or adjustments, in accordance with paragraph 3 of this Article and with Article 2, and the date the supervisory authority receives such information shall not be included within the periods of time stated in paragraph 6.
  - (5) If, following a request from the supervisory authority for further information or adjustments, an insurance or reinsurance undertaking makes a change to its application, this shall not be considered as a new application.
  - (6) The supervisory authorities shall decide on the approval within six months from the receipt of a complete application. A decision by the supervisory authorities to reject the application shall state the reasons on which it is based. Supervisory authorities shall give approval to the application only if they are satisfied with the justification to replace a subset of parameters of the standard formula. The decision shall be communicated in writing in the same language as the application.
  - (7) Supervisory authorities may decide to approve the application in respect of some but not all of the segments or of the parameters included in the application.
  - (8) Failure by the supervisory authority to make a decision within the period referred to in paragraphs 6 shall not result in the application being considered as approved.
- 4.15 Even if the application is considered complete, at a later stage of the approval process some doubts may arise which require additional information and therefore the undertaking should be aware that it has to provide it for the purpose of approval.
- 4.16 EIOPA is also of the opinion that the undertaking-specific parameters approval process can involve, from the supervisory authority side, a workload similar to an approval of a very simple partial internal model. The technicalities involved in the methodologies and data quality checking are substantially more time consuming than those for approval of ancillary own funds, therefore the six month time period has been established.

- 4.17 EIOPA is of the opinion that a partial approval should be possible. There is no reason to reject the whole application if some parameters are calculated properly. Additionally, such approach allows to avoid splitting the application into several ones for separate parameters/segments.
- 4.18 In absence of the explicit supervisory approval, undertakings are not allowed to use undertaking-specific parameters in the calculation of the Solvency Capital Requirement and should calculate it using the standard formula parameters. Approval would only be effective when directly and explicitly confirmed in writing to the undertaking by the supervisory authority.
- 4.19 When insurance and reinsurance undertakings put forward the application to replace standard parameters by the undertaking-specific parameters, they should put forward this application in advance to enable the supervisory authority to assess the application.
- 4.20 The six months period will be suspended for the period where the supervisory authority requests some additional information and until the supervisory authority receives the requested information from the undertaking.