EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY

4 Dec 2014

Related topic	Subtopic	No. Para.	Keywords	Your question	Answer
Standard_SCR	SCR.9.2. NLpr Non-life premium & reserve risk		geographical diversification proportional reinsurance	Can you confirm that Lines of Business 13 to 24 corresponding to accepted proportional reinsurance business are eligible to geographical diversification? This seems obvious but is apparently in contradiction with the interpretation we have of some cross checks for QRT log files	The template aims to inform supervisors of the split by country of the TP but it is not linked to the calculation of geographical diversification. For the purposes of reporting the information of NL TP by country in fact only the direct insurance should be reported. Please see Q97 published on the "ANSWERS TO QUESTIONS ON SUBMISSION OF INFORMATION TO NCAS" (relevant part also copied below). "The Non-Life templates do not require the reporting of the information on accepted reinsurance by country while the Life templates require both direct business and accepted reinsurance. The option taken in Non-Life is mainly due to the different criteria that would have to be used between the direct business and the reinsurance business so the decision, after previous consultations, was to ask only for direct business."

Valuation	V.2. Technical Provisions	TP.2.17 - TP.2.26	Contract boundaries	Here we consider the case of a reinsurer covering the GMDB for a Unit Linked contract. The policyholder can make new premium investments at any time. In case of Death, the reinsurer pays the positive difference between total Invested Premium and Fund Value. The reinsurer is engaged until natural expiry. The reinsurance premium is expressed as a fixed annual premium rate applied to the Fund Value. The premium rate is fixed/guaranteed until expiry. Annex D supports their inclusion: could you please confirm that future premiums that policyholders invest in the products are included in the contract boundaries of the reinsurer 's TP? This seems supported by the following points: - The reinsurer can not unilaterally terminate the contract. - The reinsurer can not unilaterally modify its tariff. - TP.2.21 and TP.2.22 do not exclude the additional premiums as there is a discernible impact on the economics of the contract as this additional premium will incur as cost for the reinsurer through a heightened guarantee level. Is there any issue with a potential discrepancy with the treatment of future premiums for the direct insurer ?	From the above description of the reinsurance treaty, and without further information on the terms and conditions of the treaty, future premiums that the reinsurer will receive are included within the boundary of the treaty. However, please note that EIOPA’s view expressed by the mean of the Q&A is not binding for the NCA. Is there any issue with a potential discrepancy with the treatment of future premiums for the direct insurer ? No, the contract boundaries of accepted reinsurance contracts should be determined independently from the boundaries of the direct insurance contract to which they relate.

Valuation	V.2.2. Best estimate	TP 2.12	Methodology for the calculation of the best estimate	Is our understanding correct that for a regular premium unit-linked contract with a contract boundary in respect of premiums equal to the valuation date, and (by contract terms) the contract expires (the insured receives the surrender value) if no additional premiums are paid- the 'future cash-flows associated with recognised obligations within the boundary of the contract' is it the surrender value?	It is correct that the calculation of Technical Provisions should take into account all future cash-flows associated with recognized obligations within the contract boundary. For this contract, it is said in the question that no future premiums are recognized. Therefore, the cash-flows used to determine the Technical Provisions will only relate to already paid-in premiums. However, attention should be paid to the fact that the absence of future premiums recognized in the balance sheet in application of Article 18 of the Delegated Act does not mean that the policyholder won’t pay further premiums in the future. Therefore, the valuation of Technical Provisions being made on a going-concern basis, the value of TP corresponding to those obligations does not equal the surrender value at the valuation date.

Valuation	V.2.2.2. Assumptions underlying the calculation of the best estimate	TP.2.22	A financial guarantee of benefits having a discernible effect on the economics of a contract	Unit Linked product with regular premium with the following characteristics: - Life sum assured - non discernible effect on the economics of the contract - financial guarantee: after 10th policy anniversary for every next odd (11th, 13th, …) policy year - additional allocation equal to 10% of first year annual premium, up to the end of the contract described as at most the year the insured attains age 85; this guarantee is linked to the payment of the future premiums (within first 10 years as well as in following years 11th, 12th, 13th, …) and provided policyholder has not decreased the premium and has not suspended paying premiums. The undertaking does not have a unilateral right to: change future premiums, charges or benefit to fully reflect the risk of the guarantee; to terminate the contract or to reject future premium payments. Is our understanding that all future regular premiums belong to the contract - up to the end of contract as the above financial guarantee provides a discernible financial advantage to the beneficiary.	Given that the undertaking has no right to unilaterally terminate the contract, reject premiums or amend the premiums or benefits in such a way that the premiums fully reflect the risk, the determination of the contract boundary only depends on the effect of the financial on the economics of the contract. If it can be demonstrated to the satisfaction of the supervisors that the additional benefits has a commercial substance, then all future regular premiums shall be included within the boundary of the contract. Otherwise, no future premiums should be taken into account.
Standard_SCR	SCR.7. SCR Life underwriting risk module	SCR.7.19, SCR.7.29, SCR.7.42, SCR.7.57, SCR.7.67, SCR.7.83	Simplification, QRT	Should the Assets and Liabilities columns in the QRT for Life be filled out, if the simplified calculations are used? If so, how should these be estimated?	If simplifications are used only the columns for Net SCR and Gross SCR should be filled in. In the specific case of the simplification on lapse risk the row of “mass lapse risk” should be completely filled in.

Standard_SCR	SCR.8. Health underwriting risk	SCR.8.18, SCR.8.21, SCR.8.39, SCR.8.42, SCR.8.43, SCR.8.49	Simplification, QRT	Should the Assets and Liabilities columns in the QRT for Health be filled out, if the simplified calculations are used? If so, how should these be estimated?	If simplifications are used only the columns for Net SCR and Gross SCR should be filled in.
Standard_SCR	SCR.9.4. Non life CAT risk sub - module		QRT	It is not mentioned in the QRT guidelines, where NatCAT risk in non-CRESTA countries of Region 1-4 (eg Russia, Ukraine, Belarus) should be reported in S.27.01. How is this to be handled?	Countries that are not listed in Annex O, whether they are European or not, should be taken into account in the term $SCR_{(peril,other)}$ (see e.g. SCR.9.56). The countries mentioned in the question are not included in Annex O and have therefore to be included in $SCR_{(peril,other)}$.
Standard_SCR	SCR.9.4. Non life CAT risk sub - module		QRT	Risk mitigation on natural catastrophe risk in region 5-18: QRT S.27.01 states mitigation should be subtracted before diversification, where the CAT helper tab for TSPP states it should be after. Which is correct?	Template S.27.01 always asks amounts before diversification as diversification is requested separately.
Standard_SCR	SCR.9.4. Non life CAT risk sub - module		QRT	Risk mitigation on subsidence risk: QRT S.27.01 states mitigation should be subtracted before diversification, where the CAT helper tab for TSPP states it should be after. Which is correct?	Template S.27.01 always asks amounts before diversification as diversification is requested separately.
Standard_SCR	SCR.9.4. Non life CAT risk sub - module		QRT	Natural catastrophe risk on french overseas dependencies; Is it correct that premiums for St Martin, Guadaloupe, Reunion and Martinique should not be a part of 'Other Regions' in the QRT 27.01 (as they are a part of the EEA Regions)?	The regions are defined in Level 2 and for our knowledge the French overseas dependencies are excluded from the FR.

Standard_SCR	SCR.8.5. Health catastrophe risk sub-module		QRT	For pandemic risk in QRT S.27.01: The name of the label 'Expected number of uses' indicates, that the cell inputs should be the number of insured persons expected to use the healthcare, says H_h*N_c. However the instructions for the cells says it should be a ratio (only H_h). Which is correct?	The correct would be the ratio as indicated in the LOG. The name of the cell will be corrected.
Standard_SCR	SCR.5.4. Mktint interest rate risk		QRT	In 'S.26.01 Market Risk Details' the interest rate risk is divided into assets and liabilities like the rest of the QRTs. Our understanding is that when the market value of the asset is negative, it should appear as a liability, but we also consider interest rate risk arising from premiums and claims as liabilities. How should we distinguish between those liabilities?	S.26.01 does not distinguishe the liabilities, both are reported in the same column.
Standard_SCR	SCR.2. Loss absorbing capacity of technical provisions and deferred taxes		QRT	Is our understanding correct, that if a certain risk only affects our assets (for example equity risk) and we want to use the loss absorbing capacity of technical provisions to cover the risk, the, 'Liabilities (excluding the loss-absorbing capacity of technical provisions)' should be 0 and the 'Liabilities (including the loss absorbing capacity of technical provisions)' should be negative to represent the loss-absorbing capacity of technical provisions?	The LAC TP is a negative adjustment because of the formula given in the draft Delegated Act: AdjTP = - max (min(BSCR-nBSCR;FDB);0). But it is not expected that undertakings assume a negative value for their liabilities to take into account the adjustment. If the future discretionary benefits are sensitive to a stress affecting the value of the equities, then the decrease of the FDB will compensate part of the change in own funds resulting from the equity stress. However, the value of the FDB cannot be lower than zero.

Standard_SCR	SCR.14.2. Characteristics of a participation	SCR.14.10.	Wrong reference	On page 312 (SCR.14.2.4), there is a reference to criteria under SCR.14.2.4 ("Participating undertakings should identify strategic participations in accordance with SCR.14.2.4... "), which are missing in the technical specifications.	The references to the requirements under SCR.14.2.4 should be replaced by a reference to the conditions of Art. 171 of the DA, being: Equity investments of a strategic nature shall mean equity investments for which the participating insurance or reinsurance undertaking demonstrates the following: (a) that the value of the equity investment is likely to be materially less volatile for the following 12 months than the value of other equities over the same period as a result of both the nature of the investment and the influence exercised by the participating undertaking in the related undertaking; (b) that the nature of the investment is strategic, taking into account all relevant factors, including: (i) the existence of a clear decisive strategy to continue holding the participation for long period; (ii) the consistency of the strategy referred to in point (a) with the main policies guiding or limiting the actions of the undertaking; (iii) the participating undertaking's ability to continue holding the participation in the related undertaking; (iv) the existence of a durable link; (v) where the insurance or reinsurance participating company is part of a group, the consistency of such strategy with the main policies guiding or limiting the actions of the group.

Standard_SCR	SCR.6. SCR Counterparty default risk module			We have a specific question about the treatment of mortgages within investment funds under Solvency II. To provide some background, we are the asset manager of a large insurance company and also offer a plain-vanilla mortgage fund to external insurance companies. These mortgages have the same characteristics as the mortgages on the general account of our insurance company. External insurance companies ask us what the treatment of an investment in our mortgage fund will be under Solvency II. The mortgage fund allows external insurance companies to invest directly in a pool of mortgages that have been originated by our insurance company (i.e. no structuring or securitisation of the pool of mortgages has taken place: external insurance companies invest in an unstructured, plain-vanilla, pool of say 10000 mortgages in this fund). For this reason, we assume that such a fund investment should be stressed under Solvency II using the Counterparty risk module » Type 2, i.e get the same Solvency treatment of as the pool of mortgages on the balance sheet of our insurance company. N.B. For mortgages a list of (14) conditions should be met to apply CDR type 2 (with old references Article 156 SR2 and Article 174ter CDR2ter). All these conditions apply to the mortgages in the Fund. We also provide the external insurance companies who participate in the fund with all the necessary	The SCR shall be calculated on the basis of each of the underlying assets of collective investment vehicles and other investments packaged as funds. Applying the look-through approach to the mortgage fund means that the underlying mortgage loans, in case these meet the requirements of Article 191 of the Delegated Acts, should be treated as type 2 exposures for the SCR counterparty default risk module.

				information mentioned in the Articles below on a monthly basis. We therefore assume that an external insurer who invests in our mortgage fund also satisfies these conditions (assisted by us). Could you please confirm this?	
Standard_SCR	SCR.5. SCR market risk module	SCR.5.131	Assets exposed to equity, spread and property risk	As specified in SCR.5.131, six types of assets should not be shocked within concentration risk. Is it correct, that assets in this list should also not be considered in the equity, spread or property submodules? If not, how should these assets be handled in the equity, spread or property submodules?	The amount of exposures listed in SCR.5.131 (point 1-6) are excluded from the calculation base of the concentration risk sub-module, only for the purpose of calculating the excess exposure measure *XS* based on the values of *E* and *Assets*. This does not mean that they should be excluded also from the other relevant market risk sub-modules or the counterparty risk module. For the appropriate treatment of each of these assets in the other risk modules please refer to the relevant SCR section in the Tech Spec.
Valuation	V.2.2.3. Recoverables	V.2.2.3	Counterparty defalt adjustment in SCR	Should the 'best estimates of technical provisions without the amounts recoverable from reinsurance and special purpose vehicles' used in SCR.6.34, SCR.6.36, SCR.7.19, SCR.7.42, SCR.7.83, 8.60, 8.83, SCR.9.9, and MCR.12 adjust for the the 'counterparty default adjustment' described in SCR.TP.2.157-183, or only for the 'recoverables from reinsurance contracts and special purpose vehicles' described in TP.2.145-156?	The counterparty default adjustment should take into account the expected losses due to default of the counterparty in relation to reinsurance arrangements and special purpose vehicles and therefore relates only to the amounts recoverable from reinsurance contracts and special purpose vehicles.
Valuation	V.1. Assets and Other Liabilities		QRTs	Is there any restriction whether the amounts should be reported in 1000s or in units? Some amounts in S.06.02 and S.08.01, like 'Unit SII price' and 'Accrued interest' seems strange to report in 1000s.	TS will clarify that it should be units with at least two decimals.

Valuation	V.1. Assets and Other Liabilities		QRTs	Is our understanding correct that 'Quantity', 'Duration' and other numbers not refering to amounts of money should not be reported in 1000s?	TS will clarify that it should be units with at least two decimals.
Valuation	V.1. Assets and Other Liabilities		QRT S.08.01	Should the amounts in the column 'Swap outflow amount' in the QRT 'S.08.01' be a positive or negative amount?	Amounts should be reported as positive.
Valuation			QRT Errata	On August 18 - 2014 EIOPA published "EIOPA-CP-14/489" and also an Excel sheet to go with it. In the Excel sheet all cells where a change had occured were given a yellow background. My question is: are all the cell with a yellow background now supposed to be reported in the prepartory phase, if not, then which are?	Yes, they should be reported
Valuation	V.1. Assets and Other Liabilities		QRTs	In the technical annex for the QRTs the description for S.06.02 cell A23 states the the amount should be in 'currency for asset'. Does this mean that the 'Unit SII price' and 'Total SII amount' should not be reported in the same currency as all other amounts, but in the currency it is listed in? If so, is the same the case for the 'SII value' in S.08.01?	The reporting should be done in the reporting currency. The LOG does not state the currency of the asset but "in currency". The idea is to differentiate from A23A where it should be reported as a pecentage.
Standard_SCR	SCR.5.4. Mktint interest rate risk	SCR.5.18	Yield curve for provisions	In SCR.5.18 it is stated that the matching adjustment and volatility adjustment should be unchanged when calculating interest stress on provisions. Does this mean that the volatility adjustment/matching adjustment/transitional meassure should not be used when calculating the risk, or does it mean that the adjustments should be used, but not adjusted by the outcome of the calculation?	The technical provision should be recalculated under the scenarios using the RFR after the shock, which is determined by stressing the basic RFR and adding back MA, VA or transitional measure on the risk free rate under Art. 308c of the SII Directive, if applicable.

Standard_SCR	SCR.7.2. Lifemort mortality risk	SCR.7.19	Yield curve for simplified mortality risk	When calculating Mortality Risk as of SCR.7.19, should the transitional meassure and the matching adjustment on the interest rates (Part 2 1.4.4 and 1.6.4) be applied?	Yes; the volatility adjustment/matching adjustment/transitional measure should be taken into account, if applicable.
Valuation	V.2.5. Risk margin	TP.5.28	Risk marfin per LoB	In TP.5.28 SCR_RU,lob is defined as the SCR per line of business under the assumption that no other business does exist. It is our understanding that the proportion of a line of business will only make sense if premium&reserve capital requirement is considered rather that SCR, since other contributions will make the proportion useless.	We understand the point, but no further simplifications will be provided on how to allocate the total SCR across the different lob's in order to derive each SCR_RU,lob. The valuation of TP Guidelines only specify the following: 1.117. Where it is overly complex to calculate the contribution of the individual lines of business to the overall Solvency Capital Requirement during the lifetime of the whole portfolio in an accurate manner, insurance and reinsurance undertakings should be allowed to apply simplified methods to allocate the overall risk margin to the individual lines of business which are proportionate to the nature, scale and complexity of the risks involved. The methods applied should be consistent over time.

Standard_SCR	SCR.5. SCR market risk module		Term deposit	It is our understanding that other deposits with term longer than one year should be treated in market risk module and short term deposits should be treated in counterparty risk module. Is that correct? Q&A9-Q5.	The SCR for spread risk on bonds and loans shall be equal to the loss in the BOF that would result from an instantaneous relative decrease of stressi in the value of each bond or loan i other than mortgage loans that meet the requirements in Art. 191, including bank deposits (other than cash at bank as defined in Art. 6 item F of Council Directive 91/674/EEC14). However, the risk factor shall depend on the modified duration of the bond or loan i denominated in years (duri). duri shall never be lower than 1. The counterparty default risk module Type 2 exposures shall consist of all credit exposures which are not covered in the spread risk sub-module and which are not type 1 exposures. Please note that a distinction between long term deposits and short term deposits is no longer made. The distinction is between deposits other than cash at bank and cash at bank. Cash at bank should be understood as meaning cash on a current account or cash at hand that is immediately available to be drawn up by the undertaking under all circumstances. Deposits should be understood as including deposits with credit institutions, deposits with ceding undertakings or deposits received from reinsurance undertakings as specified in in Article 6 of Directive 91/674/EEC.

Valuation	V.2.2.3. Recoverables	SCR.6.34, SCR.6.36, SCR.7.19, SCR.7.42, SCR.7.83, 8.60, 8.83, SCR.9.9, MCR.12 and TP.2.157-183	Net technical provisions and SCR	Should the best estimates of technical provisions used in SCR.6.34, SCR.6.36, SCR.7.19, SCR.7.42, SCR.7.83, 8.60, 8.83, SCR.9.9, and MCR.12 adjust for the the counterparty defalt adjustment described in SCR.TP.2.157-183?	The counterparty default adjustment should take into account the expected losses due to default of the counterparty in relation to reinsurance arrangements and special purpose vehicles and therefore relates only to the amounts recoverable from reinsurance contracts and special purpose vehicles.