27 Oct 2014

Related topic	Subtopic	No. Para.	Keywords	Your question	Answer
Standard_SCR	SCR.5.8. Mktsp spread risk	SCR .5.82	Credit Rating	It is our understanding that an intercompany loan should be treated as a financial instrument and subject to market stresses as appropriate. Assuming there is a Letter of Credit or Performance Guarantee attached to the intercompany loan, does SCR.6.63 apply to the intercompany loan that is treated in the Market Risk Module? Therefore, can the credit rating of the Letter of Credit or Performance Guarantee replace that of the counterparty in the appropriate Market Risk Modules?	Where a letter of credit or performance guarantee attached to an intercompany loan meets the requirements of Financial Risk Mitigation techniques, defined in SCR.11, the risk mitigating effect of these arrangements should be recognised in the scenario based calculations of the Basic SCR. The provision in SCR6.63 of replacing the counterparty of the credit exposure with that of the provider of the letter of credit or performance guarantee in the counterparty default risk module does not extend to the market risk module. The credit quality step of these risk mitigating arrangements should not replace that of the intercompany loan in the market risk module.
Standard_SCR	SCR.5.3. Look-through approach	SCR.5.3.	Proportionality Principle	Does the proportionality principle apply to the look through approach in general (for grouping date) and not just for the spread risk charge where a specified simplification can be justified by the proportionality principle (SCR.5.118.)?	The proportionality principle does as such not apply to the look-through approach. The grouping of data according to duration bands or credit quality steps or single name exposures should be sufficiently prudent.

Standard_SCR	SCR.5.8. Mktsp spread risk	SCR.5.118 .b.	Definition	Can you please clarify what the definition of "undue burden" in the spread risk simplification is?	The idea is that the spread risk simplification can be used if the burden of calculating the standard calculation is not proportionate to the nature, scale and complexity of the risks of the undertaking.
Standard_SCR			Gross/Net	It seems there is some confusion about the concept of “Gross” versus “Net”. In the QRT, “Gross and Net” amounts can have different meanings. It can be gross and net of the so-called “loss absorbing capacity of technical provisions”. That’s the case in the QRT S.25.01.b. But it can be gross and net of reinsurance, when you take into account the benefit of your reinsurance contract. It is the traditional sense and we can find this concept in the QRT S.27.01.b. The log file of the QRT QRT S.26.04.b imposes some checks that are not correct and which mixes both concepts (see content of the cell A21)	Please see Q&A 75 published at EIOPA website. There is in fact an inconsistency. Template S.26.04 include SCR amount gross and net of loss-absorbing capacities of TP while template S.27.01 include SCR amounts for gross and net of risk-mitigation techniques but gross of loss-absorbing capacity of TP. This means that the amounts reported in S.26.04 as ‘gross’ should be equal to the amounts reported in S.27.01 as ‘net’.
Standard_SCR	SCR.6.1. Introduction	SCR.6.6. (b)	Cash at bank	I understand from a previous Q&A that cash at bank should be understood as meaning cash in a current account or cash on hand that is immediately available to be drawn up by the undertaking under all circumstances. If in the past, an undertaking has always been able to break it's 2/3 month fixed term deposits with their bank, subject to an appropriate penalty fee - can the undertaking consider this to be cash at bank subject to counterparty default risk or should it remain subject to the spread, concentration and interest rate risk instead?	Term deposits should be treated as cash deposits other than cash at hand, and should be taking up in the SCR market risk module, irrespective of past practice of being able to withdraw such deposits.

Standard_SCR	SCR.9.4. Non life CAT risk sub - module	SCR.9.43	Sum Insured for non-life CAT risk where policy limits in place	The input for the natural CAT non-life risk module is the sum insured by the insurance or reinsurance undertaking. Can you please confirm what is the correct treatment of the sum insured input in the natural CAT module where all policies have event limits and aggregate limits for the underwriting year in place? Is either of the following treatements correct: 1) Enter the total declared value (sum insured) of the buildings as the input for the natural CAT module, even though this is above the policy limits for the undertaking. Then cap the overall gross capital charge (gross loss) in line with the aggregate limit for the underwriting year 2) Cap the sum insured input for the natural CAT module at the policy limits. Please note this will result in a very low gross capital charge (gross loss)	Treatment (1) is correct.

Annexes			Unit-linked	There seems to be some market doubt over the QRT requirement in respect of the business lines known as personal portfolio bonds/private insurance business/self-directed portfolios. Such business would be classified as unit-linked and would currently be reported as a single line in Forms 12, 14. The issue is whether or not every such individual portfolio would be defined as an separate internal fund for Solvency II QRTs such as Assets D1. Suppose a life company had 5,000 such portfolios over say 5 different distribution or custodians. For Solvency II QRTs, some companies seem to believe that all 5,000 should be individually reported; some say that perhaps they could be reported in five lines aggregated over the 5 sources and some that the 5,000 could be reported in a single line aggregated. What is the correct interpretation? Please advise	Under Solvency II the only requirement is to identify the RFF and MP funds. The reference to internal funds is to cover national specificities that should be discussed with the NSA.

Standard_SCR	SCR.5.5. Mkteq equity risk	SCR.5.44	equity transitional	We see an inconsistency between the TS which imply under SCR.5.44 that the application of the equity transitional is optional and the OMDII which implies that the application is mandatory (see Article 308b (13)). Could you confirm that the TS need to be changed accordingly?. As a result the factor of 22% would apply for all type 1 equities during the preparatory phase.	The Omnibus II Directive requires indeed the application of the equity transitional. SCR.5.44 will be corrected in the following way: For the purpose of the Quantitative Assessment preparatory phase, insurance and reinsurance undertakings should use the transitional measure for the standard equity risk for type 1 equities which are not subject to the duration-based approach as described in SCR.5.53. For the use of the transitional measure for the standard equity risk it should be assumed that undertakings are zero years into the transition, such that a 22% equity shock applies.
Standard_SCR	SCR.6.6. Treatment of risk mitigation techniques	SCR.6.60	risk-adjusted value of collateral	How should the paragraph SCR.6.60. be interpretated in relation to paragraph SCR.6.58? Both seem to describe different concepts. Which one should be applied?	SCR.6.58 should apply. SCR.6.60 will be deleted.
MCR	MCR.4. Linear formula component for life insurance or reinsurance obligations	MCR.13		Can you confirm that there is a typo in the formula in MCR.13? Between the summands there should always be a "+"?	Based on Article 251 (1) of the Delegated Acts published by the European Commission: Yes, this is indeed a typo.

Standard_SCR	SCR.9.2. NLpr Non-life premium & reserve risk	SCR.9.9	Volumne measure	In the end of SCR.9.9 it says "the volume measure shall not be a negative amount". Which volume measure is referred to here? The one in SCR.9.12 or SCR.9.17 or SCR.9.22 or all of them?	The volume measure refers to the Best estimate for claims outstanding net of the amounts of reinsurance recoverable from reinsurance or SPV per segment (as in SCR.9.22).
Standard_SCR	SCR.9.4. Non life CAT risk sub - module	CAT helper tab	NLUR 2	In Q&A 1 page 3 you refer to Annex NLUR 2. Could you please provide a link, since a search on your website does not provide any results?	This is ANNEX L - Regions for the calculation of the factor for geographical diversification. Link is here https://eiopa.europa.eu/fileadmin/tx_dam/files/publications/technical_specifications/C_-_Annexes_to_Technical_Specification_for_the_Preparatory_Phase__Part_I_.pdf
Standard_SCR	SCR.5.8. Mktsp spread risk	SCR.5.110	Securitisations and modified duration	In SCR.5.110 it is stated, that the modified duration for Type 2 securitisations should not be lower than 1 year. Does this also aply for Type 1 securitisations? What about resecuritisations?	The condition that the modified duration should not be lowr than 1 year applies to both Type 1 and Type 2 securitisation positions but not to resecuritisation positions. This is in line with DA.
Standard_SCR	SCR.5.9. Mktconc market risk concentrations	SCR.5.138	Covered bonds	Regarding Q&A 5, page 1 (SCR.5.138): Should the weighted average CQS method only be applied for covered bonds, or for any bonds from same issuer in concentration risk module?	The weighted average CQS method should be applied to any single name exposure, not only covered bonds.
Standard_SCR	SCR.5.4. Mktint interest rate risk		Alternative methods	It is our understanding that only one method for calculating the interest rate risk exists. Is it not allowed to use any simplifications or alternative methods within the standard model?	There is a simplified calculation foreseen in Art. 103 of the DA for interest rate risk, but this only applies to captive insurance or reinsurance undertakings. Captives were not within the scope of the Quantitative Assessments conducted so far, and so the simplified calculation was not included in the Tech Spec.
Own funds	OF.2.3. Tier 3 Basic	OF42(b)	eligible	Is the proportion of Tier 3 assets allowed a maximum of 15% of the SCR or 15% of the total own funds?	The proportion relates to the SCR (cf. Article 82 (1) (b) of the Delegated Acts).

	own funds				
Standard_SCR	SCR.6.7. Simplifications for risk mitigating effects and risk adjusted values of risk mitigating contracts	SCR.6.68	Simplification	In SCR.6.68 it is stated that the risk mitigating effect of a proportional reinsurance arrangement may be calculated with a given formula. May it also be calculated with the formula given in 6.67?	SCR.6.68 is a further simplified calculation which may be used for the risk mitigation effect of proportional reinsurance. SCR.6.67 is a more general simplified calculation which may also be used for proportional reinsurance.