# EIOPA: Q&A (maj 2021 r.)

## Question ID: 2061

- **Question:**

I am looking for the Technical Specifications of the Solvency 2 Regulation currently in effect. I was able to find the aforementioned document on your website but I am wondering whether there's a new one. If there is an update, would you kindly let me know where to find it, though I was trying I couldn't find it. If the technical specifications have changed but there is no updated document at hand, would you please let me know where else I could find such document/information. Many thanks in advance!

- **EIOPA's Answer:**

This question has been rejected because it does not relate to the consistent and effective application of the legal framework covered by this Q&A process.

## Question ID: 2032

- **Question:**

Some clients make use of cash flow models which produce monthly cash flows. In these models the morbidity/disability/recovery rates are of monthly basis instead of yearly base.

Are the shocks defined for disability/morbidity/recovery as in article 139 are meant for yearly rates or should be also applied to monthly rates?

Example: recovery rate for coming 12 months is 25% on yearly basis. Applying the article leads to 25%*(1-0,2)=20% after stress on yearly basis.

If the recovery rate is recalculated to monthly basis, say 1-(1-25%)^(1/12)=2,37% then is my question whether one should apply the shock 0,8% to 2,37% for the coming months and find 2,37%*0,8= 1,90% or should use the calculated recovery rate on yearly basis after stress 20% and then transform this one to a monthly rate by the formula 1-(1-20%)^(1/12)=1,84% and this becomes the monthly recovery rate after stress.

For some rates the impact on the liability can be material..

- **EIOPA's Answer:**

Please refer to the Guidelines 3 and 4 of the EIOPA Guidelines on application of the life underwriting risk module (EIOPA-BoS-14/175 EN) which we feel fully answers your question.

## Question ID: 2052

- **Question:**

In Article 197(7) it is mentioned that F, F', F'' and F''' referred to in Article 192(2) to (3c) shall be 100% and in all other cases these factors shall be 50%, 18%, 16% and 90% respectively. Going through the articles (not inlcuding 192(2) to (3c)) I only find three formulas for the calculation of LGD that include the factor F, namely in Articles 194(1), 194(2) and 195. However, four values are given, 50%, 18%, 16% and 90%, for F, F', F'' and F'''. Do I understand correctly that F', F'' and F''' (having a value equal to 18%, 16% and 90% respectively) are never used in any of the articles?

- **EIOPA's Answer:**

Article 197(7) sets F, F', F'' and F''' - referred to in Article 192(2) to (3c) - to be 100% only where "the determination of the insurance or reinsurance undertaking's proportional share of the counterparty's insolvency estate in excess of the collateral does not take into account that the undertaking receives the collateral". If the determination of the proportional share of the insolvency estate does take collateral into account, then the values of F, F', F'' and F''' referred to in Article 192(2) to (3c) should be set to 50%, 18%, 16% and 90% respectively.

## Question ID: 1857

- **Question:**

Assume an insurance company has a wholly owned subsidiary, which sole activity is to own and manage property. The insurance company has provided a loan to the subsidiary.

The delegated act's (2015/35)[1] article 84 states that:

1. "1. The Solvency Capital Requirement shall be calculated on the basis of each of the underlying assets of collective investment undertakings and other investments packaged as funds (look-through approach).
2. The look-through approach referred to in paragraph 1 shall also apply to the following:
    a. indirect exposures to market risk other than collective investment undertakings and investments packaged as funds;
    b. indirect exposures to underwriting risk;
    c. indirect exposures to counterparty risk.
3. Where the look-through approach cannot be applied to collective investment undertakings or investments packaged as funds, the Solvency Capital Requirement may be calculated on the basis of the target underlying asset allocation of the collective investment undertaking or fund, provided such a target allocation is available to the undertaking at the level of granularity necessary for calculating all relevant sub-modules and scenarios of the standard formula, and the underlying assets are managed strictly according to this target allocation. For the purposes of that calculation, data groupings may be used, provided they are applied in a prudent manner, and that they do not apply to more than 20 % of the total value of the assets of the insurance or reinsurance undertaking.

4. Paragraph 2 shall not apply to investments in related undertakings within the meaning of Article 212(1)(b) and (2) of Directive 2009/138/EC."

You could argue that the loan to the subsidiary is an indirect exposure to property risks and therefore subject to the look-through approach, cf. article 84 (2)(a). I have not been able to find any support for this view in the guidelines on look-through approach.

Should the insurance company make use of the look-through approach (i.e. apply the property risk module to the underlying properties)?

- **EIOPA's Answer:**

Following recital 15 and 45 of the Solvency 2 directive and when conditions of article 84(4) of the Delegated Regulation are met, we confirm that, in the specific case described, the insurance company should make use of the look-through approach and apply the property risk module to the underlying properties. Indeed, the exposure to a subsidiary which only owns and manages property is, in substance, an "indirect exposure to market risk other than collective investment undertakings and investments packaged as funds", and should therefore be subject to the look through approach via Article 84(2)(a) DA.

Please note that EIOPA intends to develop further the look-through guideline to consider a more general case than the one specifically described in this Q&A.

## Question ID: 1848

- **Question:**

We have a question related to the calculation of the SCR for the "reference undertaking" in relation to non-life insurance, in particular, the appropriate premium volume measures to include in the premium and reserve risk sub-module of the standard formula.

Given that:

• As per Article 38 of the Delegated Regulation, the reference undertaking is assumed to:

"not have any insurance or reinsurance obligations or own funds before the transfer takes place"; and after the transfer, the reference undertaking does not assume any new insurance or reinsurance obligations; and

• As per Article 116(3), the standard formula volume measure for premium risk takes, among other items, the larger of:

- premiums to be earned in the next 12 months, Ps; and
- the premiums earned during the last 12 months, P(last,s)

Are we correct in assuming that, for the purposes of the reference undertaking SCR calculation:

- the premiums earned during the last 12 months will be zero as the reference undertaking did not have any prior earnings; and

- the premiums to be earned in the next 12 months will be equal to the unearned premiums of the original undertaking at the valuation date

- **EIOPA's Answer:**

Please confer also answer to question no. 1925. The risk margin is based on the assumption that the liabilities are transferred to another undertaking. To ensure, that the risk margin only covers the risks that are strictly related to the liabilities transferred the delegated regulation includes provisions on a hypothetical reference undertaking in Article 38. Article 38 Para 1 (i) of the Delegate Regulation explicitly asks the underwriting risks to be covered by the risk margin. This includes premium risk.

This, however, necessitates to also reflect the premiums of the business in the premium risk calculation for the purpose of the risk margin where this is calculated by the standard formula. This because the premium volume is meant to reflect the volume of the liabilities that is necessary to determine the premium risk (the premium risk in the standard formula is a formula based calculation).

Therefore, the premiums should not simply be assumed to be zero for the purpose of the risk margin. Instead, the premiums earned by the original undertaking and relating to the business transferred should be considered in the determination of the premium risk for the purpose of the risk margin.

## Question ID: 1502

- **Question:**

In the Delegated Regulation article 214 there is a reference for collateral. There should be sufficient certainty as the protection achieved because of either of the following: it is of sufficient credit quality, is of sufficient liquidity and is sufficiently stable in value. Is there a specific reference available?

- **EIOPA's Answer:**

No, there is nothing similar to the ECB guidelines for collateral available for insurers.

## Question ID: 1484

- **Question:**

What is meant by "average European insurance or reinsurance undertaking" mentioned several times in the Document?

- **EIOPA's Answer:**

No further information in this respect can be provided.

Information on the European insurance sector in general can be found here.

## Question ID: 1433

- **Question:**

When will the VA representative portfolios be updated again?

- **EIOPA's Answer:**

This question has been rejected because it does not relate to the consistent and effective application of the legal framework covered by this Q&A process.

## Question ID: 2086

- **Question:**

In terms of calculating the risk mitigation effect of derivatives, i.e. interest rate swaps, which will only impact the interest rate sub-module of the market risk module. Is it possible to apply the simplified approach stated in this document by taking the SCR differences with and without the instrument. i.e. the example sets out in the document paragraph 3.70.

- **EIOPA's Answer:**

It should be remembered that undertaking may use simplifications after fulfilling requirements of Article 88 of Commission Delegated Regulation (EU) 2015/35. If a simplification does not take into account risk in an adequate way it should not be used by the undertaking.

The case described in the question seems to correspond to the assumptions in paragraph 3.68. of cited CEIOPS Advice: financial instruments of counterparty affect only one sub-module of the market risk module. Therefore, in the described case, it is possible to apply the simplification according to which the difference SCRgross – SCRnet (where SCR = SCRmkt) (i.e. the definition of risk-mitigating effect on market risk in Art. 111 of the Commission Delegated Regulation (EU) 2015/35 written in the formula form) may be replaced by difference Mktgross – Mktnet (where Mkt = Mktsub-risk) of the sub-module affected. In the example in paragraph 3.70, the sub-module is the equity sub-module and in case described in this question the sub-module is the interest rate risk sub-module.

## Question ID: 2174

- **Question:**

Please clarify on the following three points relating to Health income protection disability stress Article 156: i) the % increases to morbidity and disability incidence, recovery and persistency rates should

apply to the annualised rates; ii) that the changes to claim recovery/persistency rates should be applied to all durations, including during any initial deferred period; iii) changes to recovery/persistency are applied so as to create a compounding effect, meaning the stressed rate in a given month is applied to the stressed number of claims exposure at the start of that month and not to the base exposure.

- **EIOPA's Answer:**

1. For the same reasons as those underpinning the Guidelines on application of the life underwriting risk module (EIOPA-BoS-14/175 EN), undertakings should apply the % increase to the rates used (irrespective of time unit of the rate)
2. Changes to rates should be applied to all durations, including any initial deferred period
3. Changes should be applied consistently, which will result in a compounding effect

## Question ID: 2016

- **Question:**

I would like to know how the Graph in the EIOPA Insurance Dashboard July 2019 - Page 7 Concentration of assets was calculated please?

Can you kindly guide me on how the HHI was computed to end up with an HHI index of 38.3%.

- **EIOPA's Answer:**

This question has been rejected because it does not relate to the scope of the Q&A process.