

To: Solvency II SG Committee
From: Economics & Finance department
Date: 13 March 2012
Reference: ECO-SLV-12-137

Subject: **EIOPA SCR preconsultation (first wave) – summary of meeting with EIOPA 20 Feb**

Action requested

Please provide comments and feedback to ecofin@insuranceeurope.eu by Tuesday 20 March Cob.

Requests for feedback are highlighted in yellow below.

Summary

Insurance Europe along with other industry representatives attended a meeting with EIOPA's SCR sub-group to discuss the EIOPA SCR Level 3 pre-consultation on 20 February 2012. This was to discuss our responses on the first three L3 pre consultations: the Adjustment for the Loss-absorbing Capacity of Technical Provisions and Deferred Taxes, USPs – Methods; USPs - Approval Process and Data Quality; and Health.

Following are the highlights of this meeting:

■ **Adjustment for the Loss-absorbing Capacity of Technical Provisions and Deferred Taxes**

EIOPA explained that they had not received many comments from the industry – only Insurance Europe and the CROF had responded.

- **LAC TP:** The industry expressed concerns with the need to calculate an SCR without allowance for the loss absorbency on Technical Provisions and the requirements to "backsolve" the management actions that would have resulted in the SCR amount. EIOPA did not wish to discuss this issue in detail as in general it results from level 2, however did agree that there was maybe too much prescription in level 3 on this and therefore they would look again at their proposals.
- **LAC DT:** Discussions were held over the proposals for a "notional DT" amount. There seemed to be misunderstanding in the comments received over what EIOPA meant by this approach, and EIOPA therefore thought a "step-by-step" approach to the calculation of the LAC of DT might be valuable. However, EIOPA expressed the desire to keep the methods flexible for the calculation of the LAC of DT in level 3. EIOPA was particularly interested in receiving more feedback and examples of where difficulties would exist in calculating the LAC of DT under their proposals. Specific points raised in the LAC of DT paper were:
 - For the recognition of tax groups, EIOPA expressed the desire for recognition only where contractual agreements are in place.
 - With regards to simplifications, EIOPA explained that they could not expand the use of simplifications beyond those set out in level 2 for the SCR.
 - With regards to their requirement to compare the valuation of DT against the loss absorbency to avoid double-counting, EIOPA would explain, via an example, why they believe double-counting could take place.

In addition, EIOPA requested further feedback from the industry on the following:

- **Tax groups (in guideline 9):** EIOPA requested industry feedback as to how they would envisage the guideline to allow for non-contractual agreements, if these should also be included.
Members feedback is requested as to how they would envisage this guideline.
- **Overall complexity:** EIOPA would welcome and analyse any suggestions from the industry of simplifications which characteristics would be in accordance with L2.

Members' feedback is requested as to providing simplifications and any other proposals to alleviate any concerns around complexity.

■ **USPs (Methods, Approval Process and Data Quality)**

EIOPA did not want discuss several of the industry concerns raised on this paper that are the result of level 2 requirements, rather than Level 3. EIOPA gave the following feedback:

- **Approval process timeframe:** EIOPA stated that they expect the solo USPs approval to take less than 6 months, but they would expect group USPs to take longer, and would like to retain flexibility in the timeline. With regards to the process if no decision is taken by the supervisor within this time, EIOPA stated that this is a level 2 issue; however, EIOPA did state that maybe more thinking needs to be done in this area.
- **Standardized methods:**
 - Premium and Reserve risk: There were a lot of discussions in this area. EIOPA did not propose the normal method for USPs, which had been used for the Standard formula calibration, because they felt that this method needed an enormous amount of data, which any specific undertaking would lack, in order to produce reliable estimates. In their view, they did not believe that there is an abundance of simple, stable and reliable methods which could be used, and they had chosen the lognormal method because of its skewed tail. Additionally, they stated that in their testing, they had not seen significant difference in the results when applying different methods. In general EIOPA wanted to propose one method per risk to ensure simplicity and a level-playing field.
 - Credibility Factor: There was a discussion on this topic related to the point above. The Industry pointed out that providing only one method on the ground that undertakings would certainly not have enough data to use other relevant methods tested by EIOPA, was undermining the concept of credibility factors, the purpose of which was indeed to differentiate between undertakings with or without sufficient amount of historical data.
 - Revision risk: EIOPA requested feedback as to whether the method was satisfactory as the industry did not provide any comments on that.
 - Non proportional reinsurance factor: EIOPA said they used useful hints from the Insurance Europe method presented in September 2011 (see ECO-SLV-11-562) to streamline the reduction factor to go from gross premium to net premium provided in Level 3. (As a reminder, the QIS5 factor unrealistically resulted in a figure greater than one.)
- **Pre-application process:** EIOPA believes they will not have the resources to carry out a pre-application process for USPs as they expect a lot of applications for USPs, but a process could be envisaged during 2013 under the soft-launch. EIOPA also stated that it could launch an early communication process with supervisors, but this is likely to be investigated in autumn 2012.

■ **Health**

- Allowance for the adaption of future premiums:
 - EIOPA didn't see any reason why premium adaption clauses wouldn't be allowed to be reflected, therefore stated that they saw no reason why clarification would be needed on this point in level 3.
- Mass accident:
 - EIOPA questioned whether it was really necessary to provide a definition of "mass accident", and requested further feedback from stakeholders as to whether this is a big issue.
 - Requirements on Demographic characteristics: EIOPA said they can accept that these are aggregated but the details would remain in the guideline.
- Accident concentration:
 - Requirements on data as to location of exposure: EIOPA is aware that this data is currently unavailable, but plans to maintain the guideline as they say they see no other way to apply

the level 2 requirements and they would see it as a good practice for risk management going-forward.

- Largest exposure: EIOPA noted that Level 2 was clear and confirmed that the term was related to “Number of people insured”.

■ Pandemic scenario

- Kind of infectious disease: EIOPA noted that the definition is already covered in sufficient detail in the L2 but if industry insists then more guidelines can be provided.

Members feedback is requested as to whether more precision is needed as to the kind of infectious disease the pandemic scenario is referring to.

- Maximum capacity of healthcare during a pandemic: EIOPA said that industry arguing that the capital charge under the pandemic scenario would likely converge towards a maximum value due to the maximum capacity of healthcare during a pandemic was a valid one but was a Level 2 related point. EIOPA explained that they expected such considerations to be reflected in the Level 2 calibrations.