	Comments Template on **Discussion Paper on the review of specific items in the Solvency II Delegated Regulation**		**Deadline** **3 March 2017** **23:59 CET**
Name of Company:	AON Benfield		
Disclosure of comments:	Please indicate if your comments should be treated as confidential:		Public
	Please follow the following instructions for filling in the template: ⇨ Do **not** change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool ⇨ Leave the last column empty. ⇨ Please fill in your comment in the relevant row. If you have no comment on a paragraph or a cell, keep the row empty. ⇨ Our IT tool does not allow processing of comments which do not refer to the specific numbers below. **Please send the completed template, in Word Format, to CP-16-008@eiopa.europa.eu** **Our IT tool does not allow processing of any other formats.** The numbering of the questions refers to the discussion paper on the review of specific items in the Solvency II Delegated Regulation.		
Reference	**Comment**		
General Comment			
Q1.1			
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Q11.6	Background : - The (undiversified) premium or reserve risk for a segment is equal to a Volume measure x Volatility parameter (sigma) x Adjustment factor for reinsurance x 3. - The current Non Proportional Reinsurance Factor (NPRF) as currently designed addresses only 3 lines of business and only affects premium risk and not reserves risk. - It is a fixed 20% reduction in the volatility parameter, sigma, and is not proportionate	

	(both directions) to the risk mitigation that a company puts in place. - The USP method to adjust the NPRF, as it stands today, is better positioned to allow for volatility reduction due to per risk/event losses. As a result, non-proportional aggregate reinsurance structures (Stop Loss, Aggregate XoL and Adverse Development Covers) are not adequately reflected in the standard formula and arguably provide better risk management for (re)insurers. Proposal 1. Change of focus in SCR calculations to 3 x volatility and treat 1 + (3 x volatility) as an aggregate loss scenario. Apply reinsurance mitigation to the part of the loss above the premium or reserves. e.g. 1 The SCR for MTPL reserves is 3 x 9% = 27% (to be held above the 100% best estimate) of net reserves. An undertaking holds 100m of MTPL reserves. The gross loss scenario is therefore 127m and the capital requirement is 27m. 2. Apply reinsurance structures directly to these 1 in 200 capital requirements e.g. 1 continued A reserve protection (adverse development cover) that covers 50% in excess of 115% MTPL reserves (or equivalently 50m xs 115m) would reduce the MTPL reserve SCR to 15% of 100m (or 15m) (over and above the 100m technical provisions) instead of 27% (27m). e.g. 2. An aggregate excess of loss contract, 20m xs of 120m which covers risks underwritten in the next year for 100m of property fire premium. The gross capital requirement is 3 x 8% = 24% of premium = 24m The reinsurance cover provides up to 20m cover in excess of 120m of losses and so the capital relief is 4m resulting in a net capital requirement of 20m (i.e. 120m being the retention of the aggregate excess of loss contract) 3. Continue with the current NPRF and USP method for appropriately reflecting non-proportional per risk and event covers.	

	4. Apply reinsurances in the order they apply. e.g. 2 continued an undertaking purchases appropriate per risk excess of loss and so the gross capital requirement is 3 * 8% *80* = 19.2%. The undertaking also purchases an aggregate excess of loss as above (20m xs 120m) that operates net of the per risk excess of loss (i.e. after). The reinsurance contract provides cover for any losses above 120m. The 1 in 200 gross loss scenario is now below 120m (119.2m) and so the aggregate contract offers no additional capital relief under this 1 in 200 scenario. 5. An aggregate excess of loss structure that provides reinsurance protection beyond the 1 in 200 is equivalent to a proportional contract. For proportional contracts it is therefore equivalent to reduce either the volume measure or the volatility parameter. This provides further scope for EIOPA to simplify the standard formula further. e.g. The gross capital requirement is 3 x 8% = 24% of premium = 24m A 50% ceded aggregate excess of loss cover of 50m xs of 90m (based on 100m of property fire premium) provides 50% of 24m capital relief. Leaving 12m net capital requirement. A 50% quota share arrangement would require 24% of 50m = 12m. • Note: We will be happy to supply further details on the attached (and further) calculation examples of premium and reserve risk upon request.	
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