

Final Report

on

Public Consultation No. 14/036 on

Guidelines on undertaking-specific

parameters

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1. Executive summary

Introduction

According to Article 16 of Regulation (EU) No 1094/2010 (EIOPA Regulation) EIOPA may issue guidelines addressed to National Competent Authorities (NCAs) or financial institutions.

According to Article 16 of the EIOPA Regulation, EIOPA shall, where appropriate, conduct open public consultations and analyse the potential costs and benefits. In addition, EIOPA shall request the opinion of the Insurance and Reinsurance Stakeholder Group (IRSG) referred to in Article 37 of the EIOPA Regulation.

According to Recital 65 and Article 111(1)(j) and (h) of Directive 2009/138/EC¹ (Solvency II Directive) and to Articles 218 to 220 and 338 of the Implementing Measures², undertakings are allowed to use undertaking specific parameters where this better reflects their underwriting risk profile and certain requirements are met. This possibility is especially important for smaller specialised insurers. Discussions with undertakings indicate that there is a high degree of uncertainty regarding the requirements. EIOPA therefore decided to address the topic in guidelines.

As a result of the above, on 2 June 2014 EIOPA launched a Public Consultation on the draft guidelines on the undertaking-specific parameters. The Consultation Paper is also published on EIOPA's website³.

These guidelines were issued to undertakings and NCAs to:

- Establish consistent, efficient and effective supervisory practices;
- Ensure the common, uniform and consistent application of Union law on the requirements for undertaking specific parameters.

Content

This Final Report includes the feedback statement to the consultation paper (EIOPA-CP-14/036) and the Guidelines. The Impact Assessment and cost and benefit analysis, and the Resolution of comments are published on EIOPA's website⁴.

¹ OJ L 335, 17.12.2009, p. 1–155

² As published by the European Commission on 10 October 2014:

http://ec.europa.eu/internal_market/insurance/docs/solvency2/delegated/141010-delegated-act-solvency-2_en.pdf

^{3 4} <https://eiopa.europa.eu/consultations/consultation-papers/2014-closed-consultations/june-2014/public-consultation-on-the-set-1-of-the-solvency-ii-guidelines/index.html>

Next steps

In accordance with Article 16 of the EIOPA Regulation, within 2 months of the issuance of these guidelines, each competent authority shall confirm if it complies or intends to comply with these guidelines. In the event that a competent authority does not comply or does not intend to comply, it shall inform EIOPA, stating the reasons for non-compliance.

EIOPA will publish the fact that a competent authority does not comply or does not intend to comply with these guidelines. The reasons for non-compliance may also be decided on a case-by-case basis to be published by EIOPA. The competent authority will receive advanced notice of such publication.

EIOPA will, in its annual report, inform the European Parliament, the Council and the European Commission of the guidelines issued, stating which competent authority has not complied with them, and outlining how EIOPA intends to ensure that concerned competent authorities follow its guidelines in the future.

2. Feedback statement

Introduction

EIOPA would like to thank the Insurance and Reinsurance Stakeholder Group (IRSG) and all the participants to the Public Consultation for their comments on the draft guidelines. The responses received have provided important guidance to EIOPA in preparing a final version of these guidelines. All of the comments made were given careful consideration by EIOPA. A summary of the main comments received and EIOPA's response to them can be found in the sections below. The full list of all the comments provided and EIOPA's responses to them is published on EIOPA's website.

General comments

1. Use of expert judgement for substituting missing data

- a) It was commented that ruling out the use of expert judgement for substituting missing data is not in line with the requirements on the application of expert judgement as set out in the Guidelines on valuation of technical provisions which allow the use of expert judgment when no appropriate data is available and when expert judgment allows risk assessment which otherwise would not be possible. It was pointed out that similar provisions can also be found in the Guidelines for internal models.
- b) EIOPA consider the different treatment of expert judgment for substituting missing data justified by the particularities of the different areas. The Guidelines for internal models refer to situations where no data is available (e.g. for a completely new business line) and using expert judgement to quantify the risks seems preferable to not covering them at all in SCR calculations. For USP there is in contrast always the possibility to use the standard formula treatment. Moreover, the possibility to use undertaking specific parameters was introduced for undertakings with a risk profile different from the standard formula which are able to produce reliable estimates for their own parameters.

The use of expert judgement for calculating technical provisions (i.e. estimating a mean) seems less problematic than for USP (i.e. estimating a quantile) as the sensitivity of the results to individual data points is much smaller. Moreover, all undertakings have to calculate technical provisions while for the risks that USP cover there is at least an alternative method provided by the standard formula.

2. Materiality

- a) Guideline 2 requires that the criteria on data quality set out in Article 219 of the Implementing Measures are met regardless of the materiality of the segment for which undertaking-specific parameters are used. It was commented that this contradicts the proportionality principle.
- b) EIOPA does not agree. The essential question here is whether the proportionality principle means that requirements from the Implementing Measures do not apply because the covered risks are not material.

The Implementing Measures suggest a narrow interpretation of the proportionality principle: There is a closed list of simplifications (i.e. not meeting the “standard rules” is only possible if explicitly defined other requirements are complied with). Allowing non-compliance where the risks are not material would also run contrary to the objectives of harmonisation and convergence as the interpretation of materiality may differ widely among National Supervisory Authorities.

Finally the possibility of using undertaking specific parameters is already a manifestation of the proportionality principle (Recital 20 Solvency II). Undertakings with a risk profile that differs from the one implied by the standard formula can use a USP which is less burdensome than a fully-fledged internal model. But when they use this simplification they should meet the corresponding requirements.

3. Overlap with the Implementing Measures

- a) It was recommended to delete a number of requirements which were perceived as merely paraphrasing DA requirements.
- b) EIOPA has performed a thorough comparison and decided to delete Guidelines 4, 5, 6 and parts of Guidelines 7 and 8.

4. Data quality requirements at group level

- a) Stakeholders argued that due to diversification, the probability distributions underlying the data at group level would probably show a higher volatility than at solo level. Therefore, it would then be difficult to demonstrate that any deviation in the volatility level is not caused by a lack of homogeneity in the group.
- b) EIOPA has amended the explanatory text of Guideline 16, and deleted the criteria on a deviation in the volatility level.

General nature of the participants to the Public Consultation

EIOPA received comments from the Insurance and Reinsurance Stakeholder Group (IRSG) and five responses from other stakeholders to the public consultation. All the comments received have been published on EIOPA’s website.

Respondents can be classified into two main categories: European trade, insurance, or actuarial associations; and national insurance or actuarial associations.

IRSG opinion

The IRSG opinion on the draft set 1 of the Solvency II Guidelines on Pillar 1 and Internal Models, as well as the particular comments on the draft Guidelines at hand, can be consulted on EIOPA's website⁵.

Comments on the Impact Assessment

A separate Consultation Paper was prepared covering the Impact Assessment for the Set 1 of EIOPA Solvency II Guidelines. Where the need for reviewing the Impact Assessment has arisen following comments on the guidelines, the Impact Assessment Report has been revised accordingly.

The revised Impact Assessment on the Set 1 of EIOPA Solvency II Guidelines can be consulted on EIOPA's website.

⁵ <https://eiopa.europa.eu/about-eiopa/organisation/stakeholder-groups/sgs-opinion-feedback/index.html>

Annex: Guidelines

1. Guidelines on undertaking-specific parameters

Introduction

- 1.1. According to Article 16 of Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (hereinafter "EIOPA Regulation")⁶ EIOPA is drafting Guidelines on undertaking-specific parameters.
- 1.2. The Guidelines relate to Article 104(7), 110, 111, 230, 248(2) of Directive 2009/138/EU of the European Parliament and of the Council of 25 November 2009 on the taking up and pursuit of the business of Insurance and Reinsurance (hereinafter "Solvency II")⁷ as well as to Articles 218, 219, 220, 338 and 356 of the Implementing Measures.
- 1.3. These Guidelines are addressed to supervisory authorities under Solvency II.
- 1.4. When calculating the Solvency Capital Requirement, undertakings may replace a subset of parameters (standard parameters) within the standard formula by parameters specific to them, if the standard formula does not provide an appropriate representation of their underlying risks. This should help to promote sound risk management within insurance and reinsurance undertakings.
- 1.5. For the calculation of the undertaking-specific parameters, undertakings can select a method from a number of standardised methods prescribed in Annex XVII of the Implementing Measures. Any change made to the standardised methods for undertaking-specific parameters means that there can be no longer an approval as referred to in Article 110 of Solvency II. But the modified method might qualify as partial internal model subject to the supervisory approval as provided in Articles 112, 113 and Articles 120 to 126 of Solvency II.
- 1.6. These Guidelines provide further specification on the data quality criteria that should be taken into account during the process of calculating undertaking-specific parameters and group-specific parameters. Article 48(1)(i) of Solvency II sets out the role of the actuarial function and how it should contribute to the effective implementation of the risk-management system, and in particular the risk modelling that underlies the calculation of the capital requirements. The role of the actuarial function is therefore very important in the assessment of the quality of data used in the calculation of undertaking-specific parameters.
- 1.7. Undertakings may only replace a subset of standard parameters within the underwriting risk modules by specific parameters. This means that some of the inputs used to calculate these parameters will be similar (and in some cases may constitute exactly the same information) to the inputs used to calculate

⁶ OJ L 331, 15.12.2010, p. 48-83

⁷ OJ L 335, 17.12.2009, p. 1-155

technical provisions. It is expected that the actuarial function contributes to the assessment of these inputs within the risk-management system.

- 1.8. Only the approval process of undertaking-specific parameters at individual level is harmonised by implementing technical standards. To improve the consistency of the use of group-specific parameters by groups across Member States, the Guidelines aim at harmonising the supervisory approval process for the group-specific parameters.
- 1.9. The Guidelines 1 to 9 are applicable for both individual undertakings as well as for the group Solvency Capital Requirement calculation under the consolidation method or under a combination of methods on the consolidated data calculated in accordance with Article 335(1)(a)(b) and (c) of the Implementing Measures.
- 1.10. If not defined in these Guidelines, the terms have the meaning defined in the legal acts referred to in the introduction.
- 1.11. The Guidelines shall apply from 1 April 2015.

Guideline 1 – Role of expert judgement

- 1.12. For the purpose of determining the undertaking-specific parameters undertakings should be allowed to use assumptions based on expert judgement only as an adjustment to existing data and not as a substitute for missing data.
- 1.13. Undertakings should only use assumptions based on expert judgement if the resulting adjusted data meet the criteria set out in Article 219 of the Implementing Measures to a higher degree and should demonstrate such compliance upon request of the supervisory authorities.

Guideline 2 – Materiality

- 1.14. Undertakings should ensure that the criteria on data quality set out in Article 219 of the Implementing Measures are met regardless of the materiality of the segment for which undertaking-specific parameters are used.

Guideline 3 – Adjustments to increase the level of appropriateness in data

- 1.15. Subject to Guideline 1, when determining undertaking-specific parameters undertakings should adjust historical data as necessary to eliminate the effect of risks that are irrelevant at least over the next twelve months.

Guideline 4 – Adjustment of historical data to eliminate the effect of catastrophe events and to reflect the current reinsurance arrangements

- 1.16. Where relevant undertakings should establish internal policies and procedures
 - (a) to identify losses from catastrophe events;
 - (b) to adjust data in accordance with Annex XVII point B. (2) (e) of the Implementing Measures;

- (c) to adjust data in accordance with Annex XVII point B. (2) (d), point C. (2) (c) and point D. (2) (f) of the Implementing Measures.

1.17. Undertakings should ensure that changes in retentions on non-proportional reinsurance are appropriately considered where they have an impact on the volatility of reserve risk.

Guideline 5 – Calculation of non-proportional reinsurance adjustment in the scope of premium risk

1.18. When undertakings determine the adjustment factor for the non-proportional reinsurance effect as provided in Article 218(1)(a) (iii) and (1)(c) (iii) of the Implementing Measures they should ensure that both gross data and data net of non-proportional reinsurance for the following twelve months comply with Guidelines 1 to 4.

Guideline 6 – Continuous compliance

1.19. Undertakings should monitor their compliance with the requirements for the use of undertaking-specific parameters as part of the own-risk and solvency assessment.

1.20. As part of the own-risk and solvency assessment supervisory report, undertakings should inform the supervisory authorities whether there have been any material changes to the information included in the application and should provide relevant details of any material changes.

1.21. Where the use of new data produces material changes to the information included in the application, undertakings should provide at the request of supervisory authorities all details about the calculation of undertaking-specific parameters performed using the new set of data and the necessary information to support that the calculation is adequate.

1.22. If undertakings become aware that another standardised method provides a more accurate result for the purpose of fulfilling the calibration requirements included in Article 101(3) of Solvency II, they should submit a new application for the use of this alternative standardised method.

Guideline 7 – Remedial of non-compliance

1.23. In case of non-compliance with the requirements for the use of undertaking-specific parameters, the supervisory authority should decide whether the undertaking can remedy the non-compliance within three months.

1.24. When taking the decision, the supervisory authority should consider the degree and the scope of the non-compliance as well as the time needed to remedy it and the actions that the undertaking intends to take to restore the requirements for the use of undertaking-specific parameters.

1.25. When the non-compliance cannot be restored within three months, the supervisory authority should withdraw the approval for the use of undertaking

specific parameters in accordance with [Article 8 of the EIOPA draft implementing technical standards with regard to the supervisory approval procedure to use undertaking-specific parameters]⁸.

- 1.26. When the approval is withdrawn, undertakings should calculate the Solvency Capital Requirement using standard parameters and submit a new application in case they intend to apply again for the use of undertaking-specific parameters.

Guideline 8 – Requirement from the supervisory authority to use undertaking-specific parameters

- 1.27. Where the supervisory authority requires the undertaking to use undertaking specific parameters in accordance with Article 110 of Solvency II, it should indicate to the undertaking which parameters as referred to in Article 218 of the Implementing Measures have to be replaced. After liaising with the undertaking, the supervisory authority should set a reasonable timeframe for the submission of the application.
- 1.28. After receiving the request of the supervisory authority, the undertaking should analyse the available standardised methods.

Guideline 9 – Significant deviation

- 1.29. When considering if there is a significant deviation as referred to in Article 110 of Solvency II, supervisory authorities should take into account the relevant factors as follows:
- a) the findings arising out of the supervisory review process;
 - b) the nature, type and size of the deviation;
 - c) the likelihood and severity of any adverse impact on policyholders and beneficiaries;
 - d) the level of sensitivity of the assumptions to which the deviation relates;
 - e) the expected duration and volatility of the deviation over the duration of the deviation.
- 1.30. Supervisory authorities should perform this analysis at the level of each segment for which the use of undertaking-specific parameters is possible.

Guideline 10 – Application for approval of the use of group-specific parameters

- 1.31. The application for approval of the use of group-specific parameters should include as a minimum the information required in [paragraph 2, 4 and 5 of Article 1 of the EIOPA draft implementing technical standards with regard to the supervisory approval procedure to use undertaking-specific parameters], where

⁸ <https://eiopa.europa.eu/publications/technical-standards/draft-implementing-technical-standards-on-the-supervisory-approval-processes-for-solvency-ii/index.html>

any reference to 'undertaking-specific parameters' shall be understood as a reference to 'group-specific parameters'.

- 1.32. At the reasoned request of the group supervisor, the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should provide additional information where necessary to assess the application.

Guideline 11 – Scope of the group using group-specific parameters

- 1.33. When the group Solvency Capital Requirement is calculated under method 1 or under the combination of method 1 and method 2, the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should use the group specific-parameters only on consolidated data calculated in accordance with Article 335 1(a),(b) and (c) of the Implementing Measures.
- 1.34. When the group Solvency Capital Requirement is calculated under method 2, the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should not use group-specific parameters.
- 1.35. If an undertaking within the scope of group solvency calculation under method 2 uses undertaking-specific parameters, then undertaking-specific parameters should be included in the group Solvency Capital Requirement calculation only for those undertakings which received approval from the supervisory authorities.

Guideline 12 – Data quality requirements at group level

- 1.36. The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should be able to demonstrate to the group supervisor that the nature of the group business and its risk profile are similar enough to those of the individual undertakings providing the data to ensure consistency between the statistical assumptions underlying the data used at the individual entity level and at group level.

Guideline 13 – Consultation within the college of supervisors

- 1.37. In the consultation set out in Article 356 (3) of the Implementing Measures the group supervisor and the other supervisory authorities within the college of supervisors should inter alia analyse and discuss the representativeness of the data at group level and the relevance of the used standardised method.

Guideline 14 – Information for the college of supervisors

- 1.38. In the case of an application for approval of the use of undertaking-specific parameters by an individual undertaking which is included in the scope of group solvency calculation, the supervisory authority which receives the application should inform the college of supervisors of the receipt and its decision. If the

application is rejected, it should inform the college of supervisors about the main reasons for its decision.

- 1.39. Prior to making its final decision on the application to use group-specific parameters, the group supervisor should consider the decisions by the supervisory authorities on the applications of individual undertakings included in the scope of group solvency calculation to use undertaking-specific parameters.

Compliance and Reporting Rules

- 1.40. This document contains Guidelines issued under Article 16 of the EIOPA Regulation. In accordance with Article 16(3) of the EIOPA Regulation, Competent Authorities and financial institutions shall make every effort to comply with guidelines and recommendations.
- 1.41. Competent authorities that comply or intend to comply with these Guidelines should incorporate them into their regulatory or supervisory framework in an appropriate manner.
- 1.42. Competent authorities shall confirm to EIOPA whether they comply or intend to comply with these Guidelines, with reasons for non-compliance, within two months after the issuance of the translated versions.
- 1.43. In the absence of a response by this deadline, competent authorities will be considered as non-compliant to the reporting and reported as such.

Final Provision on Reviews

- 1.44. The present Guidelines shall be subject to a review by EIOPA.

2. Explanatory text

General criteria

Guideline 1 – Role of expert judgment

For the purpose of determining the undertaking-specific parameters undertakings should be allowed to use assumptions based on expert judgement only as an adjustment to existing data and not as a substitute for missing data.

Undertakings should only use assumptions based on expert judgment if the resulting adjusted data meet the criteria set out in Article 219 of the Implementing Measures to a higher degree and should demonstrate such compliance upon request of the supervisory authorities.

- 2.1. This means that expert judgement is only acceptable where data is available but has some limitations which are likely to be overcome by its use (provided that the limitations are not related to completeness). Therefore expert judgement will not be regarded as a way to increase the length of a data series or its granularity in case data is not available.

Guideline 2 – Materiality

Undertakings should ensure that the criteria on data quality set out in Article 219 of the Implementing Measures are met regardless of the materiality of the segment for which undertaking-specific parameters are used.

- 2.2. This means that the data quality standards have to be met regardless what results the assessment of the nature, scale and complexity for the risks modelled by undertaking-specific parameters produces.
- 2.3. This means that undertakings have to ensure compliance with the data quality standards set out in these guidelines regardless, for instance, of the scale of the underlying risks.
- 2.4. There are at least two reasons why there is no relaxation of standards even in the extreme scenario where the underlying risks are not material to the solvency position of the undertaking: First, the risks may become material in the future. Second, there would be no solid reasons to demonstrate that the undertaking-specific parameters would better reflect the risk profile compared to the standard factors.

Guideline 3 – Adjustments to increase the level of appropriateness in data

Subject to Guideline 1, when determining undertaking-specific parameters undertakings should adjust historical data as necessary to eliminate the effect of risks that are irrelevant at least over the next twelve months.

- 2.5. There are cases when the quality of data can be demonstrably enhanced by reasonably adapting the historical data to make it more representative of the risks being measured. Consequently, their use in the standardized methods

allows a more reliable estimate of volatility. In these situations such adjustments will be made.

- 2.6. Undertakings need to review the available data for any observations which are influenced by factors that will not be present in the following year. Only where adjustments to these observations are adequate, the adjusted observations will be used as input of the standardized methods.
- 2.7. No adjustments will be made to the time series that introduce a smoothing effect which is not reflective of the reality being measured. This could bias the volatility estimate. However, adjustments will be made where the use of raw data would likely introduce artificial volatility due to limitations in data which may thus be remedied.

Guideline 4 – Adjustment of historical data to eliminate the effect of catastrophe events and to reflect the current reinsurance arrangements

Where relevant undertakings should establish internal policies and procedures

- (a) to identify losses from catastrophe events;
- (b) to adjust data in accordance with Annex XVII point B. (2) (e) of the Implementing Measures;
- (c) to adjust data in accordance with Annex XVII point B. (2) (d), point C. (2) (c) and point D. (2) (f) of the Implementing Measures.

Undertakings should ensure that changes in retentions on non-proportional reinsurance are appropriately considered where they have an impact on the volatility of reserve risk.

- 2.8. The use of consistent criteria over time to identify losses from catastrophe events is necessary to ensure compliance with the accuracy criteria. The definition of these criteria and their application are associated with a certain level of subjectivity and therefore may involve the use of expert judgement.
- 2.9. However, the identification needs to be as objective as possible taking into consideration that “outliers” will not per se be classified as catastrophe losses. The assumptions used in the definition of catastrophe losses need to be consistent with the criteria used in the calculation of the health and non-life catastrophe risk sub-modules.
- 2.10. Usually, catastrophe losses fall into one of the following two classes:
 - (a) They have a very low frequency but high severity and different types of coverage or even segments refer to the event which gives rise to the losses.
 - (b) Cumulative high frequency and low severity losses caused by one event.
- 2.11. Undertakings may consider two approaches to produce net data excluding the effect of catastrophe events in the presence of reinsurance arrangements:

- (a) Introduce the adjustments to reflect the current reinsurance arrangements and subsequently review these for the exclusion of the catastrophe effects;
- (b) Introduce the adjustments in gross data envisaging the exclusion of catastrophe claims and subsequently introduce the adjustments to reflect the current reinsurance arrangements.

- 2.12. Adjustments for proportional reinsurance and per risk excess of loss are in principle less complex and their application relatively straightforward.
- 2.13. The adjustments depend on the basis which triggers the recoveries. This may be the accident year, policy issue period, claims reporting period or any other basis of operation. For instance, if the reinsurance treaty covers losses for a given accident year the allocation is relatively simple. But if the recoveries refer to claims arising from policies starting during the reinsurance period, recoverables could relate to different accident years and then require a more complex allocation.
- 2.14. If reinsurance programmes have been stable during the period covered by historical data and no material changes are expected in the following year, net historical data is considered appropriate to be used in the calculation of undertaking-specific parameters. Nevertheless there is the possible need to include other relevant adjustments which are not related to such changes.

Guideline 5 – Calculation of non-proportional reinsurance adjustment in the scope of premium risk

When undertakings determine the adjustment factor for the non-proportional reinsurance effect as provided in Article 218(1)(a) (iii) and (1)(c) (iii) of the Implementing Measures they should ensure that both gross data and data net of non-proportional reinsurance for the following twelve months comply with Guidelines 1 to 4.

- 2.15. The following paragraphs provide some clarification on the relevant criteria in this particular area.
- 2.16. The net data reflects the reinsurance arrangements that the undertaking will have in place in the following year.
- 2.17. As a necessary condition to meet the appropriateness criteria, net data is required to include any proportional recoveries that may have occurred in the period covered by historical data and adjustments will be included to eliminate the effect of other types of non-proportional reinsurance that may have been in force in that period different from the current arrangements. In addition, any relevant adjustments have to be made which are necessary to adequately reflect such arrangements in the net data.
- 2.18. Both gross and data net of non-proportional reinsurance have the same level of granularity. This implies that the adjustments to derive the net data do not reduce the level of granularity in the gross data. In other words, there is sufficient available information to support the adjustments while preserving the level of granularity.

2.19. Furthermore, the net data can only be considered complete if it covers a sufficiently long period where the relevant reinsurance arrangements were in place and thus the volatility of premium risk implied by the data can be considered as representative for the volatility in the next twelve months. If such a long period with experience on this type of arrangements is not available, undertakings need to demonstrate that the adjustments to historical data reflect appropriately the relevant reinsurance treaties in force in the next year.

Compliance

Guideline 6 – Continuous compliance

Undertakings should monitor their compliance with the requirements for the use of undertaking-specific parameters as part of the own-risk and solvency assessment.

As part of the own-risk and solvency assessment supervisory report, undertakings should inform the supervisory authorities whether there have been any material changes to the information included in the application and should provide relevant details of any material changes.

Where the use of new data produces material changes to the information included in the application, undertakings should provide at the request of supervisory authorities all details about the calculation of undertaking-specific parameters performed using the new set of data and the necessary information to support that the calculation is adequate.

If undertakings become aware that another standardised method provides a more accurate result for the purpose of fulfilling the calibration requirements included in Article 101(3) of Solvency II, they should submit a new application for the use of this alternative standardised method.

2.20. Significant changes in the risk profile or in the assumptions made for the USP calculation should inter alia be considered as material change that can lead to non-compliance.

Guideline 7 – Remedial of non-compliance

In case of non-compliance with the requirements for the use of undertaking-specific parameters, the supervisory authority should decide whether the undertaking can remedy the non-compliance within three months.

When taking the decision, the supervisory authority should consider the degree and the scope of the non-compliance as well as the time needed to remedy it and the actions that the undertaking intends to take to restore the requirements for the use of undertaking-specific parameters.

When the non-compliance cannot be restored within three months, the supervisory authority should withdraw the approval for the use of undertaking specific parameters in accordance with [Article 8 of the EIOPA draft implementing technical standards with regard to the supervisory approval procedure to use undertaking-specific parameters].

When the approval is withdrawn, undertakings should calculate the Solvency Capital Requirement using standard parameters and submit a new application in case they intend to apply again for the use of undertaking-specific parameters.

2.21. As there can be different reasons for non-compliance it is desirable to leave the decision on the appropriate measure to be taken to the discretion of the supervisory authority. Possible situations where the supervisory authority might contemplate allowing a new application could be when compliance can be restored in a reasonable time period, the method to achieve this is known or the impact on the Solvency Capital Requirement is not significant.

2.22. The assessment of the new application by the supervisory authority may not include all elements considered in the previous decision, for example the scope of parameters to be replaced by undertaking-specific parameters.

Guideline 8 – Requirement from the supervisory authority to use undertaking-specific parameters

Where the supervisory authority requires the undertaking to use undertaking specific parameters in accordance with Article 110 of Solvency II, it should indicate to the undertaking which parameters as referred to in Article 218 of the Implementing Measures have to be replaced. After liaising with the undertaking, the supervisory authority should set a reasonable timeframe for the submission of the application.

After receiving the request of the supervisory authority, the undertaking should analyse the available standardised methods.

2.23. When assessing the choice referred to in [Article 4(1) of the EIOPA draft implementing technical standards with regard to the supervisory approval procedure to use undertaking-specific parameters] the supervisory authority should take into account that the application was submitted upon its request

Guideline 9 – Significant deviation

When considering if there is a significant deviation as referred to in Article 110 of Solvency II, supervisory authorities should take into account the relevant factors as follows:

- a) the findings arising out of the supervisory review process;
- b) the nature, type and size of the deviation;
- c) the likelihood and severity of any adverse impact on policyholders and beneficiaries;
- d) the level of sensitivity of the assumptions to which the deviation relates;
- e) the expected duration and volatility of the deviation over the duration of the deviation.

Supervisory authorities should perform this analysis at the level of each segment for which the use of undertaking-specific parameters is possible.

2.24. While the factors to be taken into account listed in the Guideline are the same as for the imposition of a capital add-on as set out in Article 276 of the

Implementing Measures the assessment might be different because it concerns only one risk in one specific segment and not the risk profile of the undertaking as a whole.

Group specific issues

Guideline 12 – Data quality requirements at group level

The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should be able to demonstrate to the group supervisor that the nature of the group business and its risk profile are similar enough to those of the individual undertakings providing the data to ensure consistency between the statistical assumptions underlying the data used at the individual entity level and at group level.

- 2.25. There should be sufficient statistical evidence that the probability distributions underlying the data of the undertaking and at group level exhibit a high degree of similarity.
- 2.26. The participating insurance or reinsurance undertaking, insurance holding company or mixed financial holding company should verify whether the risk mitigating effect of reinsurance contracts or special purpose vehicles which affects the data at the individual entity level also affects group consolidated data. If this is not the case it should be responsible for making appropriate adjustments to calculate the parameters on the basis of consistent data.
- 2.27. Similarly to the individual undertakings which may use external data which is directly relevant for the operations of these undertakings, the participating insurance or reinsurance undertaking, insurance holding company or mixed financial holding company may use external data from sources outside the scope of the group for the purpose of group solvency calculation.

Appendix – Criteria of completeness

- 2.28. To calculate undertaking-specific parameters in the life and health revision risk sub-modules, sufficient data should be available to allow for the measurement of the volatility and uncertainty of:
- (a) the behaviour of biometric factors, such as the evolution of the health state of insured persons.
 - (b) the impact of the legal environment on potential revisions to the amount of annuities.
- 2.29. To calculate undertaking-specific parameters in the Non-life and NSLT health premium and reserve risk sub-modules, sufficient historical information should be available to allow for the measurement of the volatility and uncertainty:
- (a) in the relation between the total amount of future claims and the premiums received for the risks covered. This means that sufficiently granular data should be available on the different sources of payments (within each homogeneous risk group) arising from future claims. This is to ensure that each component of the risk is effectively measured and the volatility (and uncertainty) of each component is appropriately estimated.
 - (b) in the claims development patterns. This means that sufficiently granular data should be available to ensure the possibility to analyse such behaviour per homogeneous risk groups and therefore the volatility (and uncertainty) of each component is appropriately estimated.
- 2.30. The level of granularity of the data used should be equivalent (i.e. the same) to the level of granularity of the inputs set out in the scope of the standardized methods. In any case the data should be at least as granular as required in those methods.
- 2.31. Data is considered complete if it also covers a sufficiently long period. This means that the period should be as long, or longer than the period that would be necessary for an undertaking to calculate technical provisions (whether that undertaking was using undertaking-specific parameters or not). This requirement is necessary as the volatility of losses is likely more sensitive to each individual observation than their expected value.
- 2.32. However, it is expected that an undertaking which applies undertaking-specific parameters to calculate the Solvency Capital Requirement uses as input the same data as for the calculation of technical provisions. This implies that the levels of completeness in data are equivalent (i.e. the same or more granular) in both cases. It may only be acceptable that both differ in very specific circumstances where the undertaking is able to demonstrate that the difference in the number of years that the data cover increases the level of accuracy, completeness or appropriateness of data for one or both calculations. There should be no “cherry-picking”.