

## Consultation on Draft Level 2 Implementing Measures for Solvency II: Summary Feedback Statement on the Outcome of the Public Consultation

### Introduction

1. In its letter of 12 June 2009, the European Commission requested CEIOPS to provide final, fully consulted advice on the vast majority of Solvency II Level 2 implementing measures for October 2009 and agreed on a third set to be finalized by January 2010 on other areas where changes had been made to the Level text in the last stages of negotiation. At the same time, the Commission recommended CEIOPS to develop future Level 3 guidance on certain areas with the aim of fostering supervisory convergence.
2. However, regarding the calibration of underwriting risks in Non-Life and Health insurance, many stakeholders commented on the limited data available supporting the calibration proposed in the Consultation Papers. Therefore, **CEIOPS has been further collecting data from its Members** in order to finalise its Advice.
3. **Discussions have been held with stakeholders** in order to improve the understanding of the comments and to find solutions to the problems raised. CEIOPS thanks the stakeholders for having actively participated to the consultation and the discussions that followed. Many valuable comments were made and have helped CEIOPS to improve its advice.
4. This note summarises the main feedback received from stakeholders during the public consultation on the three Consultation Papers with regard to the calibration of Non-Life and Health underwriting risk and of the MCR that took place between 2 November 2009 and 11 December 2009, and the major changes made to the draft advice as a result of these comments and further analysis.
5. CEIOPS would like to refer stakeholders to the exhaustive **calibration paper** that will be published for the purpose of QIS5, which will compile all the technical analysis carried out by CEIOPS in calibrating the SCR standard formula, as well as key parameters for the calculation of the Technical Provisions. CEIOPS will also be publishing a preliminary broad **impact assessment**, which compares the changes in relation to the proposals tested under QIS4, and the overall potential impact of these changes on the undertakings' balance sheets at EEA level.
6. CEIOPS underlines that the calibration changes made since QIS4 are linked to the use of a more complete set of data (e.g. increase of the number of countries providing data for non-life underwriting calibration) or

improvements to the design (e.g. treatment of catastrophe risk or further developments in the design of the health module). This has allowed for further refining the calibration in line with the targeted level of confidence set out in the Level 1 text. CEIOPS stands ready to further improve the calibration based on additional data that may be gathered, for example during QIS5.

7. The full list of comments received, together with resolutions taken by CEIOPS, is available on CEIOPS' website, except where respondents specifically requested that their comments remain confidential (see CEIOPS' [Statement of Consultation Practices](#)).
8. CEIOPS provides summary resolution templates per Consultation Paper. The resolutions range from "agreed" to "partially agreed" and "not agreed", accompanied where relevant by a short explanation. Various comments are also being addressed with "noted", to point out that CEIOPS has taken up the comment, but this does not necessarily lead to a change in its advice or would require some further consideration. Revisions were made to the papers, which after approval by CEIOPS' Members have been renamed as "CEIOPS-DOC-XX-10" to indicate that the papers contain final advice. The final advice is being submitted to the European Commission.
9. CEIOPS encourages stakeholders to read the published advice, and not to rely exclusively on the feedback statement in order to get a full view of the changes made to the paper. The feedback statement only reflects those changes that CEIOPS' considers to be of key importance; many other changes have been made, which are not reflected in this feedback statement and which could have a large impact on specific stakeholders.

## Main changes made to the draft advice following the consultation

### ***Main comments and revisions to CP 71 - SCR Standard Formula – Calibration of Non-Life Underwriting Risk***

10. Stakeholders noted that the data used for calibrating non-life underwriting risk was not representative enough of the EU market. Therefore, CEIOPS has collected further evidence from as wide a range of Member States and types of undertakings within the EEA as possible. The data used for the revised advice has been collected from fifteen Member States. This represents a significant improvement compared to previous calibration exercises undertaken by CEIOPS, where only six Member States provided data for the previous CP71 analysis, and only three for QIS3 and QIS4.
11. However this data was mainly gross of reinsurance, with a more limited coverage of net of reinsurance data. Consequently CEIOPS decided to perform the main analysis using exclusively gross of reinsurance data, and has produced separate recommendations on how to obtain appropriate net factors to use in the SCR standard formula. In line with industry comments, CEIOPS has recommended an adjustment factor for Premium Risk that will be undertaking-specific. For Reserve Risk, CEIOPS used the net data available from Member States to estimate an adjustment to the gross estimate and has thus been able to produce adjusted net factors.
12. A variety of methods was used to estimate the factors across all undertakings and Member States for each line of business. As results vary across methods due to their different underlying assumptions, the final gross technical fitted result across all methods was derived by taking an average of the methods that best fit the data. CEIOPS would like to highlight that the selection was based on the goodness of fit results and the adequacy of the method. Furthermore, by taking an average, CEIOPS is ensuring that the factors are not biased towards factors most appropriate for larger portfolios.
13. Furthermore, the advice includes the work carried out since September 2009 in cooperation with industry for the development of standardised catastrophe scenarios. These scenarios aim at providing a more risk sensitive assessment of natural and man-made catastrophe scenarios in non-life. The full range of scenarios will be tested for the first time in QIS5.

### ***Main comments and revisions to CP 72 - SCR Standard Formula – Calibration of Health Underwriting Risk***

14. Stakeholders encouraged CEIOPS to consider a more granular approach to the calibration and to incorporate further data. In the revised advice, data from 11 countries was taken into account.
15. Various stakeholders did not support the proposed segmentation between accident, sickness and worker's compensation lines of business as it would not properly reflect health activities in some specific markets. CEIOPS has engaged with the CEA and representatives of these markets to discuss alternatives to the segmentation. However, the discussions have not materialised in a concrete European-wide proposal which would allow for a har-

monised treatment across the EEA and CEIOPS understands that the industry is continuing work in this area.

16. For Health non-SLT business, a revised calibration exercise was undertaken alongside the revision of the non-life calibration– see the comments for CP71 in paragraphs 10-12 above.
17. CEIOPS has also included a proposal for the recognition of health insurance based on comprehensive pooling arrangements.
18. For Health SLT business, CEIOPS has removed the former adjustment for model risk, risk of change or random error from disability risk for medical insurance following comments from stakeholders, with the revised factor being 5%. Furthermore, CEIOPS has lowered the calibration for Lapse risk in Health SLT to 20%.
19. Standardised scenarios for Health, covering both SLT and non-SLT business, were developed alongside the non-life scenarios (see comments in paragraph 13 above). As these are not split between SLT and non-SLT components, CEIOPS has proposed some consequential changes to the way that the various sub-modules of the Health module are aggregated. This design change has also been followed through into the aggregation of the Life and Non-life modules.

***Main comments and revisions to CP 73 - MCR – Calibration***

20. Stakeholders expressed concern about the increased MCR factors, which followed from the increases in the calibration of the SCR standard formula in CEIOPS' Consultation Papers. Stakeholders requested that the final calibration of the MCR is decided only after QIS5, in order to properly reflect the final calibration of the SCR and the results of QIS5. CEIOPS agrees with this as a matter of fact.
21. In the revised advice, the MCR factors have been amended to reflect CEIOPS' final advice on the SCR standard formula. The revised factors have generally been lowered relative to the Consultation Paper.