	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:	BELTIOS GmbH	
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		
Q1.2		
Q1.3		
Q1.4		
Q1.5		

Q1.6		
Q1.7		
Q1.8		
Q1.9		
Q1.10		
Q1.11		
Q1.12		
Q1.13		
Q1.14		
Q1.15	From our observation as actuarial consultants the Delegated Regulation presented the following challenges to insurance undertakings: 1. The requirement to determine technical provisions on a per-policy basis. A per-policy basis calculation of TPs is not required according to the Solvency II Directive, nor does the Delegated Regulation require a more granular calculation than homogenous risk-groups (see Article 19, paragraph 1 b). Furthermore, Annex 1 of the Technical Specifications paragraph 13 states: homogenous risk groups have to be sufficiently large such that a meaningful statistical analysis of the risks can be done. In contradiction to the above, the standard formula gives scenarios (mortality, longevity, lapse) that require an evaluation of the TP on a per-policy basis. This • constitutes an undue burden for undertakings, • introduces material arbitrariness (and so violates Article 76 (4) of the Directive: *Technical provisions shall be calculated in a prudent, reliable and objective manner*) and • increases model error (and so violates paragraphs [15.] *The choice of the method to calculate the best estimate should be proportionate to the nature, scale and complexity of the risks supported by the insurance or reinsurance undertaking* and [25.] *The determination whether a method of calculating technical provisions is proportionate to the*	

	nature, scale and complexity of the risks should include an assessment of the model […] of the Delegated Regulation). As the BSCR (mortality, longevity, lapse) is therefore computed based on a mathematically inadequate per-policy TP discrimination rule, it cannot be considered a meaningful measure of risk. We would like to explain the material arbitrariness with the following examples: • A policy with more than one insured person gets a premium discount of 5% justified by lower administration cost. The corresponding projected cash-flow for cost is the same for all policies within the portfolio. This leads to the conclusion that health SLT policies with more than one person insured are less profitable and more risky than policies with only a single insured person, whereas the opposite is true. • An insured person with a health precondition was given a premium uplift of 150% (or more) based on a medical examination. Another person has no uplift, because the same medical condition follows from an illness caught after contract inception. The corresponding claims cash-flows are projected from the known variables age and gender, not considering the individual health status. It would be impossible to make medical examinations for all insured persons prior to the valuation date of TPs. The claims cash-flow projection model is (annually) calibrated to the total portfolio which contains healthy and less healthy persons. This situation leads to the conclusion, that the person with a medical precondition and an uplift is by far more profitable and so inclined to surrender the policy in a mass lapse event, although this persons is the most likely one in need for health cover. 2. In contrast to the lapse up and down scenarios, which are subject to observation (the scenarios can be validated against empirical observation if they capture the 99.5% VaR over a one year time horizon), the mass lapse scenario precludes its validation, because it can be ruled out the insured who withdrew from their policies knew what the technical provisions related to their policies were. A scenario issued by a regulatory body that does not allow its (future) validation against empirical evidence has to be considered arbitrary and hence is in contrast to the principle of	

	legal certainty. Given, that most Austrian and German health SLT business does not consider (medical) inflation in its premium calculation but allows for premium changes due to experienced inflation, the expense and cost scenarios as defined in the standard formula require perpetual premium changes over a projection horizon of 80 years. By this, the standard formula forces undertakings to implement models which are over-complex, by introducing management rules which model premium changes that offset perpetual inflation changes, where the outcome is more determined by the accumulated model error than any true assessment of the underlying risk (which should be no bigger than the lack between experienced inflation and transacted premium increase within one year)	
Q1.16	Article(s) 98, 99, 101, 102: The simplification(s) proposed do not account for compensatory measures (e.g. increasing premiums) and so grossly overstate the risk. A reduction of n to a “further-modified” duration until a shock is set off by premium changes, could possibly address this issue. Article 102: As the proposed simplification also rests on the delusion that a best estimate of health SLT obligations can be calculated on a per-policy basis in a meaningful way, this is no simplification.	
Q1.17	We may propose the following suggestions: 1. The standard formula shall refrain from the delusion that best estimates of health SLT obligations can be calculated on a per-policy basis in a meaningful way. 2. The requirement to choose an (as simple as possible, but not simpler) model that adequately captures the risks inherent in health SLT obligations shall not be contradicted by the requirement to model outlandish scenarios as given by the standard formula, e.g. if changes in medical expenses can be set off by premium changes due to premium amendment clauses, it should not be required to model perpetual premium changes over a projection horizon of 80 years. 3. For each BSCR the standard formula shall be based on separate scenarios, one aiming at experience variances the other aiming at the effect of parameter changes. Both these scenarios are observable in the one-year horizon and testable against an analysis of	

	movement of BOFs. 4. The scenario aiming at the effect of parameter changes should not introduce events occurring in periods after the projection horizon when these events can be dealt with by future management actions. When selected underwriting risks are not material due to premium change clauses, a simplified scenario shall be given. 5. The current mass lapse scenario should be omitted. A catastrophe scenario based on tail dependencies of “unexpected endings” (lapses, surrenders and deaths) may be included instead. 6. The term “rates” needs to be specified (as one-year probabilities) in order to avoid confusion with continuous models based on e.g. forces of mortalities or models based on monthly or quarterly rates. 7. Austrian and German health SLT portfolios typically maintain claims reserves, as there is a time lag between medical claims occurring and being settled. When reserving risk is considered material, there should be a way to report it without the requirement of using an internal model.	
Q1.18		
Q1.19		
Q1.20		
Q1.21		
Q1.22		
Q1.23		
Q1.24		
Q1.25		
Q1.26		
Q2.1		
Q2.2		
Q2.3		
Q2.4		

	Comments Template on Discussion Paper on the review of specific items in the Solvency II Delegated Regulation	Deadline 3 March 2017 23:59 CET
Q2.5		
Q2.6		
Q2.7		
Q2.8		
Q2.9		
Q2.10		
Q3.1		
Q3.2		
Q3.3		
Q3.4		
Q3.5		
Q3.6		
Q3.7		
Q3.8		
Q3.9		
Q3.10		
Q3.11		
Q3.12		
Q4.1		
Q4.2		
Q5.1		
Q5.2		
Q5.3		
Q5.4		
Q5.5		
Q5.6		

	Comments Template on Discussion Paper on the review of specific items in the Solvency II Delegated Regulation	Deadline 3 March 2017 23:59 CET
Q6.1		
Q7.1		
Q7.2		
Q7.3		
Q7.4		
Q7.5		
Q7.6		
Q7.7		
Q7.8		
Q7.9		
Q7.10		
Q7.11		
Q7.12		
Q7.13		
Q8.1		
Q8.2		
Q8.3		
Q8.4		
Q8.5		
Q8.6		
Q8.7		
Q8.8		
Q8.9		
Q8.10		
Q8.11		
Q8.12		

	Comments Template on Discussion Paper on the review of specific items in the Solvency II Delegated Regulation	Deadline 3 March 2017 23:59 CET
Q9.1		
Q9.2		
Q9.3		
Q9.4		
Q9.5		
Q10.1		
Q10.2		
Q10.3		
Q10.4		
Q10.5		
Q10.6		
Q10.7		
Q10.8		
Q10.9		
Q10.10		
Q11.1		
Q11.2		
Q11.3		
Q11.4		
Q11.5		
Q11.6		
Q11.7		
Q11.8		
Q11.9		
Q12.1		
Q12.2		

	Comments Template on Discussion Paper on the review of specific items in the Solvency II Delegated Regulation	Deadline 3 March 2017 23:59 CET
Q12.3		
Q12.4		
Q12.5		
Q12.6		
Q12.7		
Q13.1		
Q13.2		
Q13.3		
Q13.4		
Q13.5		
Q13.6		
Q14.1		
Q14.2		
Q14.3		
Q14.4		
Q14.5		
Q14.6		
Q14.7		
Q14.8		
Q14.9		
Q14.10		
Q14.11		
Q14.12		
Q15.1		
Q15.2		
Q15.3		

	Comments Template on Discussion Paper on the review of specific items in the Solvency II Delegated Regulation	Deadline 3 March 2017 23:59 CET
Q15.4		
Q16.1		
Q16.2		
Q16.3		
Q16.4		
Q16.5		
Q16.6		
Q16.7		
Q16.8		
Q16.9		
Q17.1		
Q17.2		
Q17.3		
Q17.4		
Q17.5		
Q17.6		
Q17.7		
Q17.8		
Q17.9		
Q17.10		
Q17.11		
Q17.12		
Q17.13		
Q17.14		
Q17.15		
Q17.16		

	Comments Template on Discussion Paper on the review of specific items in the Solvency II Delegated Regulation	Deadline 3 March 2017 23:59 CET
Q18.1		
Q18.2		
Q18.3		
Q18.4		
Q18.5		
Q18.6		
Q18.7		
Q18.8		
Q18.9		
Q18.10		
Q18.11		
Q18.12		
Q18.13		
Q18.14		
Q18.15		
Q18.16		
Q19.1		
Q19.2		
Q19.3		
Q19.4		
Q20.1		
Q20.2		
Q20.3		
Q20.4		
Q20.5		
Q20.6		

	Comments Template on Discussion Paper on the review of specific items in the Solvency II Delegated Regulation	Deadline 3 March 2017 23:59 CET
Q20.7		
Q20.8		
Q20.9		
Q21.1		
Q21.2		
Q21.3		
Q21.4		
Q21.5		
Q21.6		
Q21.7		