

Commission Delegated Regulation (EU) 2015/35 of 10 October 2014
supplementing Directive 2009/138/EC of the European Parliament
and of the Council on the taking-up and pursuit of the business of
Insurance and Reinsurance (Solvency II) (Text with EEA relevance)

TITLE I

[^{X1}VALUATION AND RISK-BASED CAPITAL REQUIREMENTS
(PILLAR I), ENHANCED GOVERNANCE (PILLAR II)
AND INCREASED TRANSPARENCY (PILLAR III)]

CHAPTER V

SOLVENCY CAPITAL REQUIREMENT STANDARD FORMULA

SECTION I

General provisions

Subsection 1

Scenario based calculations

Article 83

1 Where the calculation of a module or sub-module of the Basic Solvency Capital Requirement is based on the impact of a scenario on the basic own funds of insurance and reinsurance undertakings, all of the following assumptions shall be made in that calculation:

- a the scenario does not change the amount of the risk margin included in technical provisions;
- b the scenario does not change the value of deferred tax assets and liabilities;
- c the scenario does not change the value of future discretionary benefits included in technical provisions;
- d no management actions are taken by the undertaking during the scenario.

2 The calculation of technical provisions arising as a result of determining the impact of a scenario on the basic own funds of insurance and reinsurance undertakings as referred to in paragraph 1 shall not change the value of future discretionary benefits, and shall take account of all of the following:

- a without prejudice to point (d) of paragraph 1, future management actions following the scenario, provided they comply with Article 23;
- b any material adverse impact of the scenario or the management actions referred to in point (a) on the likelihood that policy holders will exercise contractual options.

3 Insurance and reinsurance undertakings may use simplified methods to calculate the technical provisions arising as a result of determining the impact of a scenario as referred to in paragraph 1, provided that the simplified method does not lead to a misstatement of the Solvency

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Capital Requirement that could influence the decision-making or the judgement of the user of the information relating to the Solvency Capital Requirement, unless the simplified calculation leads to a Solvency Capital Requirement which exceeds the Solvency Capital Requirement that results from the calculation according to the standard formula.

4 The calculation of assets and liabilities arising as a result of determining the impact of a scenario as referred to in paragraph 1 shall take account of the impact of the scenario on the value of any relevant risk mitigation instruments held by the undertaking which comply with Articles 209 to 215.

5 Where the scenario would result in an increase in the basic own funds of insurance and reinsurance undertakings, the calculation of the module or sub-module shall be based on the assumption that the scenario has no impact on the basic own funds.

Subsection 2

Look-through approach

Article 84

1 The Solvency Capital Requirement shall be calculated on the basis of each of the underlying assets of collective investment undertakings and other investments packaged as funds (look-through approach).

2 The look-through approach referred to in paragraph 1 shall also apply to the following:

- a indirect exposures to market risk other than collective investment undertakings and investments packaged as funds;
- b indirect exposures to underwriting risk;
- c indirect exposures to counterparty risk.

[^{F13} Where Article 88 is complied with and the look-through approach cannot be applied to collective investment undertakings or investments packaged as funds, the Solvency Capital Requirement may be calculated on the basis of the target underlying asset allocation or, if the target underlying asset allocation is not available to the undertaking, on the basis of the last reported asset allocation, of the collective investment undertaking or fund, provided that, in either case, the underlying assets are managed in accordance with that target allocation or last reported asset allocation, as applicable, and that exposures and risks are not expected to vary materially over a short period of time.

For the purposes of that calculation, data groupings may be used provided they enable all relevant sub-modules and scenarios of the standard formula to be calculated in a prudent manner, and that they do not apply to more than 20 % of the total value of the insurance or reinsurance undertaking's assets.]

[^{F23a} For the purposes of determining the percentage of assets where data groupings are used as referred to in paragraph 3, insurance or reinsurance undertakings shall not take into account underlying assets of the collective investment undertaking, or the investments packaged as funds, backing unit-linked or index-linked obligations for which the market risk is borne by the policyholders.]

[^{F14} [^{F3} Paragraph 2 shall not apply to investments in related undertakings, other than investments in respect of which all of the following conditions are met:]

- a the main purpose of the related undertaking is to hold and manage assets on behalf of the participating undertaking;

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- b the related undertaking supports the operations of the participating undertaking related to investment activities, following a specific and documented investment mandate;
- c the related undertaking does not carry on any significant business other than investing for the benefit of the participating undertaking.

F4 ...]

Textual Amendments

- F1** Substituted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).
- F2** Inserted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).
- F3** Substituted by Commission Delegated Regulation (EU) 2020/442 of 17 December 2019 correcting Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).
- F4** Words in Art. 84(4) omitted (31.12.2020) by virtue of The Risk Transformation and Solvency 2 (Amendment) (EU Exit) Regulations 2019 (S.I. 2019/1233), regs. 1(4), 6(4); 2020 c. 1, Sch. 5 para. 1(1)

Subsection 3

Regional governments and local authorities

Article 85

The conditions for a categorisation of regional governments and local authorities shall be that there is no difference in risk between exposures to these and exposures to the central government, because of the specific revenue-raising power of the former, and specific institutional arrangements exist, the effect of which is to reduce the risk of default.

Subsection 4

Material basis risk

Article 86

Notwithstanding Article 210(2), where insurance or reinsurance undertakings transfer underwriting risk using reinsurance contracts or special purpose vehicles that are subject to material basis risk from a currency mismatch between underwriting risk and the risk-mitigation technique, insurance or reinsurance undertakings may take into account the risk-mitigation technique in the calculation of the Solvency Capital Requirement according to the standard formula, provided that the risk-mitigation technique complies with Article 209, Article 210(1), (3) and (4) and Article 211, and the calculation is carried out as follows:

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- (a) the basis risk stemming from a currency mismatch between underwriting risk and the risk-mitigation technique shall be taken into account in the relevant underwriting risk module, sub-module or scenario of the standard formula at the most granular level by adding 25 % of the difference between the following to the capital requirement calculated in accordance with the relevant module, sub-module or scenario:
- (i) the hypothetical capital requirement for the relevant underwriting risk module, sub-module or scenario that would result from a simultaneous occurrence of the scenario set out in Article 188;
 - (ii) the capital requirement for the relevant underwriting risk module, sub-module or scenario.
- (b) where the risk-mitigation technique covers more than one module, sub-module or scenario, the calculation referred to in point (a) shall be carried out for each of those modules, sub-modules and scenarios. The capital requirement resulting from those calculations shall not exceed 25 % of the capacity of the non-proportional reinsurance contract or special purpose vehicle.

Subsection 5

Calculation of the basic solvency capital requirement

Article 87

The Basic Solvency Capital Requirement shall include a risk module for intangible asset risk. and shall be equal to the following:

$$\text{BasicSCR} = \sqrt{\sum_{i,j} \text{Corr}_{i,j} \times \text{SCR}_i \times \text{SCR}_j} + \text{SCR}_{\text{intangibles}}$$

where:

- (a) the summation, $\text{Corr}_{i,j}$, SCR_i and SCR_j are specified as set out in point (1) of Annex IV to Directive 2009/138/EC;
- (b) $\text{SCR}_{\text{intangibles}}$ denotes the capital requirement for intangible asset risk referred to in Article 203.

Subsection 6

Proportionality and simplifications

Article 88

Proportionality

1 [F¹For the purposes of Article 109 of Directive 2009/138/EC, insurance and reinsurance undertakings shall determine whether the simplified calculation is proportionate to the nature, scale and complexity of the risks by carrying out an assessment which shall include all of the following:]

- a an assessment of the nature, scale and complexity of the risks of the undertaking falling within the relevant module or sub-module;

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- b an evaluation in qualitative or quantitative terms, as appropriate, of the error introduced in the results of the simplified calculation due to any deviation between the following:
 - (i) the assumptions underlying the simplified calculation in relation to the risk;
 - (ii) the results of the assessment referred to in point (a).

[^{F12} A simplified calculation shall not be considered to be proportionate to the nature, scale and complexity of the risks where the error referred to in point (b) of paragraph 1 leads to a misstatement of the Solvency Capital Requirement that could influence the decision-making or the judgement of the user of the information relating to the Solvency Capital Requirement, unless the simplified calculation leads to a Solvency Capital Requirement which exceeds the Solvency Capital Requirement that results from the standard calculation.]

Textual Amendments

- F1** Substituted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Text with EEA relevance\).](#)

Article 89

General provisions for simplifications for captives

Captive insurance undertakings and captive reinsurance undertakings as defined in points (2) and (5) of Article 13 of Directive 2009/138/EC may use the simplified calculations set out in Articles 90, 103, 105 and 106 of this Regulation where Article 88 of this Regulation is complied with and all of the following requirements are met:

- (a) in relation to the insurance obligations of the captive insurance undertaking or captive reinsurance undertaking, all insured persons and beneficiaries are legal entities of the group of which the captive insurance or captive reinsurance undertaking is part;
- (b) in relation to the reinsurance obligations of the captive insurance or captive reinsurance undertaking, all insured persons and beneficiaries of the insurance contracts underlying the reinsurance obligations are legal entities of the group of which the captive insurance or captive reinsurance undertaking is part;
- (c) the insurance obligations and the insurance contracts underlying the reinsurance obligations of the captive insurance or captive reinsurance undertaking do not relate to any compulsory third party liability insurance.

Article 90

Simplified calculation for captive insurance and reinsurance undertakings of the capital requirement for non-life premium and reserve risk

1 Where Articles 88 and 89 are complied with, captive insurance and captive reinsurance undertakings may calculate the capital requirement for non-life premium and reserve risk as follows:

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$$SCR_{nl\ prem\ res} = \sqrt{0,65 \times \sum_s NL_2^{(pr,s)} + 0,35 \times (\sum_s NL_{(pr,s)})^2}$$

,

where the s covers all segments set out in Annex II.

2 For the purposes of paragraph 1, the capital requirement for non-life premium and reserve risk of a particular segment s set out in Annex II shall be equal to the following:

$$NL_{pr,s} = 0,6 \times \sqrt{V_2^{(pre,s)} + V_{(pre,s)} \times V_{(res,s)} + V_2^{(res,s)}}$$

where:

- (a) $V_{(pre,s)}$ denotes the volume measure for premium risk of segment s calculated in accordance with paragraph 3 of Article 116;
- (b) $V_{(res,s)}$ denotes the volume measure for reserve risk of a segment calculated in accordance with paragraph 6 of Article 116.

F²Article 90a

Simplified calculation for discontinuance of insurance policies in the non-life lapse risk sub-module

For the purposes of point (a) of Article 118(1), where Article 88 is complied with, insurance and reinsurance undertakings may determine the insurance policies for which discontinuance would result in an increase of technical provisions without the risk margin on the basis of groups of policies, provided that the grouping complies with the requirements laid down in points (a), (b) and (c) of Article 35.

Textual Amendments

- F2** Inserted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Text with EEA relevance\)](#).

Article 90b

Simplified calculation of the sum insured for natural catastrophe risks

1 Where Article 88 is complied with, insurance and reinsurance undertakings may calculate the sum insured for windstorm risk referred to in point (b) of paragraph 6, and in paragraph 7, of Article 121 on the basis of groups of risk zones. Each of the risk zones within a group shall be situated within one and the same particular region set out in Annex V. Where the sum insured for windstorm risk referred to in point (b) of Article 121(6) is calculated on the basis of a group of risk zones, the risk weight for windstorm risk referred to in point (a) of Article 121(6) shall be the risk weight for windstorm risk in the risk zone within that group with the highest risk weight for windstorm risk set out in Annex X.

2 Where Article 88 is complied with, insurance and reinsurance undertakings may calculate the sum insured for earthquake risk referred to in point (b) of paragraph 3, and in paragraph 4, of Article 122 on the basis of groups of risk zones. Each of the risk zones within a group shall be situated within one and the same particular region set out in Annex VI. Where

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the sum insured for earthquake risk referred to in point (b) of Article 122(3) is calculated on the basis of a group of risk zones, the risk weight for earthquake risk referred to in point (a) of Article 122(3) shall be the risk weight for earthquake risk in the risk zone within that group with the highest risk weight for earthquake risk as set out in Annex X.

3 Where Article 88 is complied with, insurance and reinsurance undertakings may calculate the sum insured for flood risk referred to in point (b) of paragraph 6, and in paragraph 7, of Article 123 on the basis of groups of risk zones. Each of the risk zones within a group shall be situated within one and the same particular region set out in Annex VII. Where the sum insured for flood risk referred to in point (b) of Article 123(6) is calculated on the basis of a group of risk zones, the risk weight for flood risk referred to in point (a) of Article 123(6) shall be the risk weight for flood risk in the risk zone within that group with the highest risk weight for flood risk as set out in Annex X.

4 Where Article 88 is complied with, insurance and reinsurance undertakings may calculate the sum insured for hail risk referred to in point (b) of paragraph 6, and in paragraph 7, of Article 124 on the basis of groups of risk zones. Each of the risk zones within a group shall be situated within one and the same particular region set out in Annex VIII. Where the sum insured for hail risk referred to in point (b) of Article 124(6) is calculated on the basis of a group of risk zones, the risk weight for hail risk referred to in point (a) of Article 124(6) shall be the risk weight for hail risk in the risk zone within that group with the highest risk weight for hail risk as set out in Annex X.

5 Where Article 88 is complied with, insurance and reinsurance undertakings may calculate the weighted sum insured for subsidence risk referred to in Article 125(2) on the basis of groups of risk zones. Where the weighted sum insured referred to in Article 125(2) is calculated on the basis of a group of risk zones, the risk weight for subsidence risk referred to in point (a) of Article 125(2) shall be the risk weight for subsidence risk in the risk zone within that group with the highest risk weight for subsidence risk as set out in Annex X.

Textual Amendments

- F2** Inserted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Text with EEA relevance\)](#).

Article 90c

Simplified calculation of the capital requirement for fire risk

1 Where Article 88 is complied with, insurance and reinsurance undertakings may calculate the capital requirement for fire risk referred to in Article 132(1) as follows:

$$SCR_{fire} = \max(SCR_{firei}, SCR_{firec}, SCR_{firer})$$

where:

- SCR_{firei} denotes the largest industrial fire risk concentration;
- SCR_{firec} denotes the largest commercial fire risk concentration;
- SCR_{firer} denotes the largest residential fire risk concentration.

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2 The largest industrial fire risk concentration of an insurance or reinsurance undertaking shall be equal to the following:

$$SCR_{firei} = \max(E_{1,i}; E_{2,i}; E_{3,i}; E_{4,i}; E_{5,i})$$

where $E_{k,i}$ denotes the total exposure within the perimeter of the k -th largest industrial fire risk exposure.

3 The largest commercial fire risk concentration of an insurance or reinsurance undertaking shall be equal to the following:

$$SCR_{firec} = \max(E_{1,c}; E_{2,c}; E_{3,c}; E_{4,c}; E_{5,c})$$

where $E_{k,c}$ denotes the total exposure within the perimeter of the k -th largest commercial fire risk exposure.

4 The largest residential fire risk concentration of an insurance or reinsurance undertaking shall be equal to the following:

$$SCR_{firer} = \max(E_{1,r}; E_{2,r}; E_{3,r}; E_{4,r}; E_{5,r}; \theta)$$

where:

- (a) $E_{k,r}$ denotes the total exposure within the perimeter of the k -th largest residential fire risk exposure;
- (b) θ denotes the market share based residential fire risk exposure.

5 For the purpose of paragraphs 2, 3 and 4, the total exposure within the perimeter of the k -th largest industrial, commercial or residential fire risk exposure of an insurance or reinsurance undertaking is the sum insured by the insurance or reinsurance undertaking with respect to a set of buildings that meets all of the following conditions:

- a in relation to each building, the insurance or reinsurance undertaking has obligations in lines of business 7 and 19 set out in Annex I which cover damage due to fire or explosion, including as a result of terrorist attacks;
- b each building is partly or fully located within a radius of 200 meters around the industrial, commercial or residential building with the k -th largest sum insured after deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles.

For the purposes of determining the sum insured with respect to a building, insurance and reinsurance undertakings shall take into account all reinsurance contracts and special purpose vehicles that would pay out in case of insurance claims related to that building. Reinsurance contracts and special purpose vehicles that are subject to conditions not related to that building shall not be taken into account.

6 The market share based residential fire risk exposure shall be equal to the following:

$$\theta = SI_{av} \cdot 500 \cdot \max(0,05; \max_c(\text{marketShare}_c))$$

where:

- (a) SI_{av} is the average sum insured by the insurance or reinsurance undertaking with respect to residential property;
- (b) c denotes all countries where the insurance or reinsurance undertaking has obligations in lines of business 7 and 19 set out in Annex I covering residential property;

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- (c) $marketShare_c$ is the market share of the insurance or reinsurance undertaking in country c related to obligations in those lines of business covering residential property.]

Textual Amendments

- F2** Inserted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).

Article 91

Simplified calculation of the capital requirement for life mortality risk

Where Article 88 is complied with, insurance and reinsurance undertakings may calculate the capital requirement for life mortality risk as follows:

$$SCR_{mortality} = 0,15 \times q \times \sum_{n=1}^{k-1} CAR_k \times \frac{(1-q)^{k-1}}{(1+i_k)^{k-0,5}}$$

where, with respect to insurance and reinsurance policies with a positive capital at risk:

- (a) ${}^F CAR_k$ denotes the total capital at risk in year k , meaning the sum over all contracts of the higher of zero and the difference, in relation to each contract, between the following amounts:
- (i) the sum of:
 - the amount that the insurance or reinsurance undertaking would pay in year k in the event of the death of the persons insured under the contract after deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles;
 - the expected present value of amounts not covered in the previous indent that the insurance or reinsurance undertaking would pay after year k in the event of the immediate death of the persons insured under the contract after deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles;
 - (ii) the best estimate of the corresponding obligations in year k after deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles;]
- (b) ${}^F q$ denotes the expected average mortality rate over all the insured persons and over all future years weighted by the sum insured;]
- (c) n denotes the modified duration in years of payments payable on death included in the best estimate;
- (d) i_k denotes the annualized spot rate for maturity k of the relevant risk-free term structure as referred to in Article 43.

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Textual Amendments

- F1** Substituted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).

Article 92

Simplified calculation of the capital requirement for life longevity risk

Where Article 88 is complied with, insurance and reinsurance undertakings may calculate the capital requirement for life longevity risk calculated as follows:

$$SCR_{\text{longevity}} = 0,2 \times q \times n \times 1,1^{(n-1)/2} \times BE_{\text{long}}$$

where, with respect to the policies referred to in Article 138(2):

- q denotes the expected average mortality rate of the insured persons during the following 12 months weighted by the sum insured;
- n denotes the modified duration in years of the payments to beneficiaries included in the best estimate;
- BE_{long} denotes the best estimate of the obligations subject to longevity risk.

Article 93

Simplified calculation of the capital requirement for life disability-morbidity risk

Where 88 is complied with, insurance and reinsurance undertakings may calculate the capital requirement for life disability-morbidity risk as follows:

$SCR_{\text{disability-morbidity}} =$	$0,35 \cdot CAR_1 \cdot d_1 + 0,25 \cdot 1,1^{(n-3)/2} \cdot (n - 1) \cdot CAR_2 \cdot d_2 + 0,2 \cdot 1,1^{(n-1)/2} \cdot t \cdot n \cdot BE_{\text{dis}}$
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where with respect to insurance and reinsurance policies with a positive capital at risk:

- CAR_t denotes the total capital at risk, meaning the sum over all contracts of the higher of zero and the difference between the following amounts:
 - the sum of:
 - the amount that the insurance or reinsurance undertaking would currently pay in the event of the death or disability of the persons insured under the contract after deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles;
 - the expected present value of amounts not covered in the previous indent that the insurance or reinsurance undertaking would pay in the future in the event of the immediate death or disability of the persons insured under the contract after deduction of

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- the amounts recoverable from reinsurance contracts and special purpose vehicles;
- (ii) the best estimate of the corresponding obligations after deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles;
- (b) CAR_2 denotes the total capital at risk as defined in point (a) after 12 months;
- (c) d_1 denotes the expected average disability-morbidity rate during the following 12 months weighted by the sum insured;
- (d) d_2 denotes the expected average disability-morbidity rate in the 12 months after the following 12 months weighted by the sum insured;
- (e) n denotes the modified duration of the payments on disability-morbidity included in the best estimate;
- (f) t denotes the expected termination rates during the following 12 months;
- (g) BE_{dis} denotes the best estimate of obligations subject to disability-morbidity risk.

Article 94

Simplified calculation of the capital requirement for life-expense risk

Where Article 88 is complied with, insurance and reinsurance undertakings may calculate the capital requirement for life-expense risk as follows:

$$SCR_{expenses} = 0,1 \times EI \times n + EI \times \left(\left(\frac{1}{i+0,01} \right) \times ((1+i+0,01)^n - 1) - \frac{1}{i} ((1+i)^n - 1) \right)$$

where:

- (a) EI denotes the amount of expenses incurred in servicing life insurance or reinsurance obligations other than health insurance and reinsurance obligations during the last year;
- (b) n denotes the modified duration in years of the cash flows included in the best estimate of those obligations;
- (c) i denotes the weighted average inflation rate included in the calculation of the best estimate of those obligations, where the weights are based on the present value of expenses included in the calculation of the best estimate for servicing existing life obligations.

Article 95

Simplified calculation of the capital requirement for permanent changes in lapse rates

1 Where Article 88 is complied with, insurance and reinsurance undertakings may calculate the capital requirement for the risk of a permanent increase in lapse rates as follows:

$$Lapse_{up} = 0,5 \times l_{up} \times n_{up} \times S_{up}$$

where:

- (a) l_{up} denotes the higher of the average lapse rate of the policies with positive surrender strains and 67 %;

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(b) n_{up} denotes the average period in years over which the policies with a positive surrender strains run off;

(c) S_{up} denotes the sum of positive surrender strains.

2 Where Article 88 is complied with, insurance and reinsurance undertakings may calculate the capital requirement for the risk of a permanent decrease in lapse rates as follows:

$$Lapse_{down} = 0,5 \times l_{down} \times n_{down} \times S_{down}$$

where:

(a) l_{down} denotes the higher of the average lapse rate of the policies with negative surrender strains and 40 %;

(b) n_{down} denotes the average period in years over which the policies with a negative surrender strains runs off;

(c) S_{down} denotes the sum of negative surrender strains.

3 The surrender strain of an insurance policy referred to in paragraphs 1 and 2 is the difference between the following:

- a the amount currently payable by the insurance undertaking on discontinuance by the policy holder, net of any amounts recoverable from policy holders or intermediaries;
- b the amount of technical provisions without the risk margin.

F² Article 95a

Simplified calculation of the capital requirement for risks in the life lapse risk sub-module

Where Article 88 is complied with, insurance and reinsurance undertakings may calculate each of the following capital requirements on the basis of groups of policies, provided that the grouping complies with the requirements laid down in points (a), (b) and (c) of Article 35:

(a) the capital requirement for the risk of a permanent increase in lapse rates referred to in Article 142(2);

(b) the capital requirement for the risk of a permanent decrease in lapse rates referred to in Article 142(3);

(c) the capital requirement for mass lapse risk referred to in Article 142(6).]

Textual Amendments

- F2** Inserted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Text with EEA relevance\).](#)

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Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

Article 96

Simplified calculation of the capital requirement for life-catastrophe risk

Where Article 88 is complied with, insurance and reinsurance undertakings may calculate the capital requirement for life-catastrophe risk calculated as follows:

$$SCR_{life-catastrophe} = \sum_i 0,0015 \times CAR_i$$

where:

- (a) the sum includes all policies with a positive capital at risk;
- (b) CAR_i denotes the capital at risk of the policy i , meaning the higher of zero and the difference between the following amounts:
 - (i) the sum of:
 - the amount that the insurance or reinsurance undertaking would currently pay in the event of the death of the persons insured under the contract after deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles;
 - the expected present value of amounts not covered in the previous indent that the insurance or reinsurance undertaking would pay in the future in the event of the immediate death of the persons insured under the contract after deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles;
 - (ii) the best estimate of the corresponding obligations after deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles.

^{F2}Article 96a

Simplified calculation for discontinuance of insurance policies in the NSLT health lapse risk sub-module

For the purposes of point (a) of Article 150(1), where Article 88 is complied with, insurance and reinsurance undertakings may determine the insurance policies for which discontinuance would result in an increase of technical provisions without the risk margin on the basis of groups of policies, provided that the grouping complies with the requirements laid down in points (a), (b) and (c) of Article 35.]

Textual Amendments

- F2** Inserted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\)](#) (Text with EEA relevance).

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

Article 97

Simplified calculation of the capital requirement for health mortality risk

Where Article 88 is complied with, insurance and reinsurance undertakings may calculate the capital requirement for health mortality risk as follows:

$${}^{F1}SCR_{\text{health-mortality}} = 0,15 \times q \times \sum_{n=1}^{k-1} CAR_k \times \frac{(1-q)^{k-1}}{(1+i_k)^{k-0,5}}$$

where with respect to insurance and reinsurance policies with a positive capital at risk:

- (a) ${}^{F1}CAR_k$ denotes the total capital at risk in year k , meaning the sum over all contracts of the higher of zero and the difference, in relation to each contract, between the following amounts:
- (i) the sum of:
 - the amount that the insurance or reinsurance undertaking would pay in year k in the event of the death of the persons insured under the contract after deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles;
 - the expected present value of amounts not covered in the previous indent that the insurance or reinsurance undertaking would pay after year k in the event of the immediate death of the persons insured under the contract after deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles;
 - (ii) the best estimate of the corresponding obligations in year k after deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles;]
- (b) ${}^{F1}q$ denotes the expected average mortality rate over all insured persons and over all future years weighted by the sum insured;]
- (c) n denotes the modified duration in years of payments payable on death included in the best estimate;
- (d) i_k denotes the annualized spot rate for maturity k of the relevant risk-free term structure as referred to in Article 43.

Textual Amendments

- F1** Substituted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

Article 98

Simplified calculation of the capital requirement for health longevity risk

Where Article 88 is complied with, insurance and reinsurance undertakings may calculate the capital requirement for health longevity risk as follows:

$$SCR_{\text{health-longevity}} = 0,2 \times q \times n \times 1,1^{(n-1)/2} \times BE_{\text{long}}$$

where, with respect to the policies referred to in Article 138(2):

- (a) q denotes the expected average mortality rate of the insured persons during the following 12 months weighted by the sum insured;
- (b) n denotes the modified duration in years of the payments to beneficiaries included in the best estimate;
- (c) BE_{long} denotes the best estimate of the obligations subject to longevity risk.

Article 99

Simplified calculation of the capital requirement for medical expense disability-morbidity risk

Where Article 88 is complied with, insurance and reinsurance undertakings may calculate the capital requirement for medical expense disability-morbidity risk as follows:

$$SCR_{\text{medical expense}} = 0,05 \times MP \times n + MP \times \left(\frac{1}{i+0,01} \right) \left((1+i+0,01)^n - 1 \right) - \frac{1}{i} \left((1+i)^n - 1 \right)$$

where:

- (a) MP denotes the amount of medical payments during the last year on medical expense insurance or reinsurance obligations during the last year;
- (b) n denotes the modified duration in years of the cash flows included in the best estimate of those obligations;
- (c) i denotes the average rate of inflation on medical payments included in the calculation of the best estimate of those obligations, where the weights are based on the present value of medical payments included in the calculation of the best estimate of those obligations.

Article 100

Simplified calculation of the capital requirement for income protection disability-morbidity risk

Where Article 88 is complied with, insurance and reinsurance undertakings may calculate the capital requirement for income protection disability-morbidity risk as follows:

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

$SCR_{\text{income-protection-disability-morbidity}} =$	$0,35 \cdot CAR_1 \cdot d_1 + 0,25 \cdot 1,1^{(n-3)/2} \cdot (n - 1) \cdot CAR_2 \cdot d_2 + 0,2 \cdot 1,1^{(n-1)/2} \cdot t \cdot n \cdot BE_{dis}$
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where with respect to insurance and reinsurance policies with a positive capital at risk:

- (a) CAR_1 denotes the total capital at risk, meaning the sum over all contracts of the higher of zero and the difference between the following amounts:
- (i) the sum of:
- the amount that the insurance or reinsurance undertaking would currently pay in the event of the death or disability of the persons insured under the contract after deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles;
 - the expected present value of amounts not covered in the previous indent that the undertaking would pay in the future in the event of the immediate death or disability of the persons insured under the contract after deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles;
- (ii) the best estimate of the corresponding obligations after deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles;
- (b) CAR_2 denotes the total capital at risk as defined in point (a) after 12 months;
- (c) d_1 denotes the expected average disability-morbidity rate during the following 12 months weighted by the sum insured;
- (d) d_2 denotes the expected average disability-morbidity rate in the 12 months after the following 12 months weighted by the sum insured;
- (e) n denotes the modified duration of the payments on disability-morbidity included in the best estimate;
- (f) t denotes the expected termination rates during the following 12 months;
- (g) BE_{dis} denotes the best estimate of obligations subject to disability-morbidity risk.

Article 101

Simplified calculation of the capital requirement for health expense risk

Where Article 88 is complied with, insurance and reinsurance undertakings may calculate the capital requirement for health expense risk as follows:

$$SCR_{\text{health-expense}} = 0,1 \times EI \times n + EI \times \left(\left(\frac{1}{i+0,01} \right) \times ((1+i+0,01)^n - 1) - \frac{1}{i} ((1+i)^n - 1) \right)$$

where:

- (1) EI denotes the amount of expenses incurred in servicing health insurance and reinsurance obligations during the last year;
- (2) n denotes the modified duration in years of the cash flows included in the best estimate of those obligations;

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date.

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- (3) i denotes the weighted average inflation rate included in the calculation of the best estimate of these obligations, weighted by the present value of expenses included in the calculation of the best estimate for servicing existing health obligations.

Article 102

Simplified calculation of the capital requirement for SLT health lapse risk

1 Where Article 88 is complied with, insurance and reinsurance undertakings may calculate the capital requirement for the risk of a permanent increase in lapse rates referred to in Article 159(1)(a) as follows:

$$Lapse_{up} = 0,5 \times l_{up} \times n_{up} \times S_{up}$$

where:

- (a) l_{up} denotes the higher of the average lapse rate of the policies with positive surrender strains and 83 %;
- (b) n_{up} denotes the average period in years over which the policies with a positive surrender strains run off;
- (c) S_{up} denotes the sum of positive surrender strains.

2 Where Article 88 is complied with, insurance and reinsurance undertakings may calculate the capital requirement for the risk of a permanent decrease in lapse rates referred to in 159(1)(b) as follows:

$$Lapse_{down} = 0,5 \times l_{down} \times n_{down} \times S_{down}$$

where:

- (a) l_{down} denotes the average lapse rate of the policies with negative surrender strains;
- (b) n_{down} denotes the average period in years over which the policies with a negative surrender strains runs off;
- (c) S_{down} denotes the sum of negative surrender strains.

3 The surrender strain of an insurance policy referred to in paragraphs (1) and (2) is the difference between the following:

- a the amount currently payable by the insurance undertaking on discontinuance by the policy holder, net of any amounts recoverable from policy holders or intermediaries;
- b the amount of technical provisions without the risk margin.

[^{F2} Article 102a

Simplified calculation of the capital requirement for risks in the SLT health lapse risk sub-module

Where Article 88 is complied with, insurance and reinsurance undertakings may calculate each of the following capital requirements on the basis of groups of policies, provided that the grouping complies with the requirements laid down in points (a), (b) and (c) of Article 35:

- (a) the capital requirement for the risk of a permanent increase in SLT health lapse rates referred to in Article 159(2);

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Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date.

Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

- (b) the capital requirement for the risk of a permanent decrease in SLT health lapse rates referred to in Article 159(3);
- (c) the capital requirement for SLT health mass lapse risk referred to in Article 159(6).]

Textual Amendments

- F2** Inserted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).

Article 103

Simplified calculation of the capital requirement for interest rate risk for captive insurance or reinsurance undertakings

1 Where Articles 88 and 89 are complied with, captive insurance or captive reinsurance undertakings may calculate the capital requirement for interest rate risk referred to in Article 165 as follows:

- a the sum, for each currency, of the capital requirements for the risk of an increase in the term structure of interest rates as set out in paragraph 2 of this Article;
- b the sum, for each currency, of the capital requirements for the risk of a decrease in the term structure of interest rates as set out in paragraph 3 of this Article.

2 For the purposes of point (a) of paragraph 1 of this Article, the capital requirement for the risk of an increase in the term structure of interest rates for a given currency shall be equal to the following:

$$IR_{up} = \sum_i MVAL_i \times dur_i \times rate_i \times stress_{(i,up)} - \sum_{lob} BE_{lob} \times dur_{lob} \times rate_{lob} \times stress_{(lob,up)}$$

where:

- (a) the first sum covers all maturity intervals i set out in paragraph 4 of this Article;
- (b) $MVAL_i$ denotes the value in accordance with Article 75 of Directive 2009/138/EC of assets less liabilities other than technical provisions for maturity interval i ;
- (c) dur_i denotes the simplified duration of maturity interval i ;
- (d) $rate_i$ denotes the relevant risk-free rate for the simplified duration of maturity interval i ;
- (e) $stress_{(i,up)}$ denotes the relative upward stress of interest rate for simplified duration of maturity interval i ;
- (f) the second sum covers all lines of business set out in Annex I of this Regulation;
- (g) BE_{lob} denotes the best estimate for line of business lob ;
- (h) dur_{lob} denotes the modified duration of the best estimate in line of business lob ;
- (i) $rate_{lob}$ denotes the relevant risk-free rate for modified duration in line of business lob ;
- (j) $stress_{(lob,up)}$ denotes the relative upward stress of interest rate for the modified duration dur_{lob} .

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date.

Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

3 For the purposes of point (b) of paragraph 1 of this Article, the capital requirement for the risk of a decrease in the term structure of interest rates for a given currency shall be equal to the following:

$$IR_{down} = \sum_i MVAL_i \times dur_i \times rate_i \times stress_{(i,down)} - \sum_{lob} BE_{lob} \times dur_{lob} \times rate_{lob} \times stress_{(lob,down)}$$

where:

- (a) the first sum covers all maturity intervals i set out in paragraph 4;
- (b) $MVAL_i$ denotes the value in accordance with Article 75 of Directive 2009/138/EC of assets less liabilities other than technical provisions for maturity interval i ;
- (c) dur_i denotes the simplified duration of maturity interval i ;
- (d) $rate_i$ denotes the relevant risk-free rate for the simplified duration of maturity interval i ;
- (e) $stress_{(i,down)}$ denotes the relative downward stress of interest rate for simplified duration of maturity interval i ;
- (f) the second sum covers all lines of business set out in Annex I of this Regulation;
- (g) BE_{lob} denotes the best estimate for line of business lob ;
- (h) dur_{lob} denotes the modified duration of the best estimate in line of business lob ;
- (i) $rate_{lob}$ denotes the relevant risk-free rate for modified duration in line of business lob ;
- (j) $stress_{(lob,down)}$ denote the relative downward stress of interest rate for modified duration dur_{lob} .

4 The maturity intervals i and the simplified duration dur_i referred to in points (a) and (c) of paragraph 2 and in point (a) and (c) of paragraph 3 shall be as follows:

- a up to the maturity of one year, the simplified duration shall be 0.5 years;
- b between maturities of 1 and 3 years, the simplified duration shall be 2 years;
- c between maturities of 3 and 5 years, the simplified duration shall be 4 years;
- d between maturities of 5 and 10 years, the simplified duration shall be 7 years;
- e from the maturity of 10 years onwards, the simplified duration shall be 12 years.

Article 104

Simplified calculation for spread risk on bonds and loans

1 Where Article 88 is complied with, insurance or reinsurance undertakings may calculate the capital requirement for spread risk referred to in Article 176 of this Regulation as follows:

$$SCR_{bonds} = MV^{bonds} \times \left(\sum_i \%MV_{bonds}^i \times stress_i + \%MV_{bonds}^{nonrating} \times \min[dur_{nonrating} \times 0,03;1] \right) + \Delta Liab_{sd}$$

where:

- (a) SCR_{bonds} denotes the capital requirement for spread risk on bonds and loans;
- (b) MV^{bonds} denotes the value in accordance with [F5 rules 2.1 and 2.2 of the Valuation part of the PRA Rulebook] of the assets subject to capital requirements for spread risk on bonds and loans;

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- (c) $\%MV_i^{bonds}$ denotes the proportion of the portfolio of the assets subject to a capital requirement for spread risk on bonds and loans with credit quality step i , where a credit assessment by a nominated ECAI is available for those assets;
- (d) $\%MV_{norating}^{bonds}$ denotes the proportion of the portfolio of the assets subject to a capital requirement for spread risk on bonds and loans for which no credit assessment by a nominated ECAI is available;
- (e) dur_i and $dur_{norating}$ denote the modified duration denominated in years of the assets subject to a capital requirement for spread risk on bonds and loans where no credit assessment by a nominated ECAI is available;
- (f) $stress_i$ denotes a function of the credit quality step i and of the modified duration denominated in years of the assets subject to a capital requirement for spread risk on bonds and loans with credit quality step i , set out in paragraph 2;
- (g) $\Delta Liab_{ul}$ denotes the increase in the technical provisions less risk margin for policies where the policyholders bear the investment risk with embedded options and guarantees that would result from an instantaneous decrease in the value of the assets subject to the capital requirement for spread risk on bonds of:

$$MV^{bonds} \times \left(\sum_i \%MV_{bonds}^i \times stress_i + \%MV_{bonds}^{norating} \times \min [dur_{norating} \times 0,03;1] \right).$$

2 $stress_i$ referred to in point (f) of paragraph 1, for each credit quality step i , shall be equal to:

$$dur_i \times b_i$$

, where dur_i is the modified duration denominated in years of the assets subject to a capital requirement for spread risk on bonds and loans with credit quality step i , and b_i is determined in accordance with the following table:

Credit quality step i	0	1	2	3	4	5	6
b_i	0,9 %	1,1 %	1,4 %	2,5 %	4,5 %	7,5 %	7,5 %

3 $dur_{norating}$ referred to in point (e) of paragraph 1 and dur_i referred to in paragraph 2 shall not be lower than 1 year.

Textual Amendments

F5 Words in Art. 104(1)(b) substituted (31.12.2020) by [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), **11(14)** (as amended by [S.I. 2020/1385](#), regs. 1(2), 54(2) and with savings in [S.I. 2019/680](#), reg. 11)

Article 105

Simplified calculation for captive insurance or reinsurance undertakings of the capital requirement for spread risk on bonds and loans

Where Articles 88 and 89 are complied with, captive insurance or captive reinsurance undertakings may base the calculation of the capital requirement for spread risk to in Article 176 on the assumption that all assets are assigned to credit quality step 3.

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Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date.

Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

[^{F2}Article 105a

Simplified calculation for the risk factor in the spread risk sub-module and the market risk concentration sub-module

Where Article 88 is complied with, insurance and reinsurance undertakings may assign a bond other than those to be included in the calculations under paragraphs (2) to (16) of Article 180 a risk factor $stress_i$ equivalent to credit quality step 3 for the purposes of Articles 176(3) and assign the bond to credit quality step 3 for the purpose of calculating the weighted average credit quality step in accordance with 182(4), provided that all of the following conditions are met:

- (a) credit assessments from a nominated ECAI are available for at least 80 % of the total value of the bonds other than those to be included in the calculations under paragraphs (2) to (16) of Article 180;
- (b) a credit assessment by a nominated ECAI is not available for the bond in question;
- (c) the bond in question provides a fixed redemption payment on or before the date of maturity, in addition to regular fixed or floating rate interest payments;
- (d) the bond in question is not a structured note or collateralised security as referred to in Annex VI to Commission Implementing Regulation (EU) 2015/2450⁽¹⁾;
- (e) the bond in question does not cover liabilities that provide profit participation arrangements, nor does it cover unit-linked or index-linked liabilities, nor liabilities where a matching adjustment is applied.]

Textual Amendments

- F2** Inserted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\)](#) (Text with EEA relevance).

Article 106

Simplified calculation of the capital requirement for market risk concentration for captive insurance or reinsurance undertakings

Where Articles 88 and 89 are complied with, captive insurance or captive reinsurance undertakings may use all of the following assumptions for the calculation of the capital requirement for concentration risk:

- (1) intra-group asset pooling arrangements of captive insurance or reinsurance undertakings may be exempted from the calculation base referred to in Article 184(2) to the extent that there exist legally enforceable contractual terms which ensure that the liabilities of the captive insurance or reinsurance undertaking will be offset by the intra-group exposures it holds against other entities of the group.
- (2) the relative excess exposure threshold referred to in Article 184(1)(c) shall be equal to 15 % for the following single name exposures:

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- (a) exposures to credit institutions that do not belong to the same group and that have been assigned to the credit quality step 2;
- (b) exposures to entities of the group that manages the cash of the captive insurance or reinsurance undertaking that have been assigned to the credit quality step 2.

Article 107

Simplified calculation of the risk mitigating effect for reinsurance arrangements or securitisation

1 [F1 Where both Article 88 is complied with and the best estimate of amounts recoverable from a reinsurance arrangement or securitisation and the corresponding debtors is not negative, insurance and reinsurance undertakings may calculate the risk-mitigating effect on underwriting risk of that reinsurance arrangement or securitisation referred to in Article 196 as follows:]

$$RM_{re,all} \times \frac{Recoverables_i}{Recoverables_{all}}$$

where

- (a) $RM_{re,all}$ denotes the risk mitigating effect on underwriting risk of the reinsurance arrangements and securitisations for all counterparties calculated in accordance with paragraph 2;
- (b) $Recoverables_i$ denotes the best estimate of amounts recoverable from the reinsurance arrangement or securitisation and the corresponding debtors for counterparty i and $Recoverables_{all}$ denotes the best estimate of amounts recoverable from the reinsurance arrangements and securitisations and the corresponding debtors for all counterparties.

2 The risk mitigating effect on underwriting risk of the reinsurance arrangements and securitisations for all counterparties referred to in paragraph 1 is the difference between the following capital requirements:

- a the hypothetical capital requirement for underwriting risk of the insurance or reinsurance undertaking if none of the reinsurance arrangements and securitisations exist;
- b the capital requirements for underwriting risk of the insurance or reinsurance undertaking.

Textual Amendments

- F1** Substituted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Text with EEA relevance\).](#)

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Article 108

Simplified calculation of the risk mitigating effect for proportional reinsurance arrangements

[^{F1}Where both Article 88 is complied with and the best estimate of amounts recoverable from a proportional reinsurance arrangement and the corresponding debtors for a counterparty i is not negative, insurance and reinsurance undertakings may calculate the risk-mitigating effect on underwriting risk j of the proportional reinsurance arrangement for counterparty i referred to Article 196 as follows:]

$$\frac{\text{Recoverables}_i}{BE - \text{Recoverables}_{all}} \times SCR_j$$

where

- (a) BE denotes the best estimate of obligations gross of the amounts recoverable,
- (b) Recoverables_i denotes the best estimate of amounts recoverable from the proportional reinsurance arrangement and the corresponding debtors for counterparty i ,
- (c) $\text{Recoverables}_{all}$ denotes the best estimate of amounts recoverable from the proportional reinsurance arrangements and the corresponding debtors for all counterparties
- (d) SCR_j denotes the capital requirements for underwriting risk j of the insurance or reinsurance undertaking.

Textual Amendments

- F1** Substituted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Text with EEA relevance\)](#).

Article 109

Simplified calculations for pooling arrangements

Where Article 88 is complied with, insurance or reinsurance undertakings may use the following simplified calculations for the purposes of Articles 193, 194 and 195:

- (a) The best estimate referred to in Article 194(1)(d) may be calculated as follows:

$$BE_C = \frac{P_C}{P_U} \times BE_U$$

where BE_U denotes the best estimate of the liability ceded to the pooling arrangement by the undertaking to the pooling arrangement, net of any amounts reinsured with counterparties external to the pooling arrangement.

- (b) The best estimate referred to in Article 195(c) may be calculated as follows:

$$BE_{CE} = \frac{1}{P_U} \times BE_{CEP}$$

where BE_{CEP} denotes the best estimate of the liability ceded to the external counterparty by the pool, in relation to risk ceded to the pool by the undertaking.

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date.

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- (c) The risk mitigating effect referred to in Article 195(d) may be calculated as follows:

$$\Delta RM_{CE} = \frac{BE_{CE}}{\sum_{CE} BE_{CE}} \times \Delta RM_{CEP}$$

where:

- (i) BE_{CE} denotes the best estimate of the liability ceded to the external counterparty by the pooling arrangement as a whole;
 - (ii) ΔRM_{CEP} denotes the contribution of all external counterparties to the risk mitigating effect of the pooling arrangement on the underwriting risk of the undertaking;
- (d) The counterparty pool members and the counterparties external to the pool may be grouped according to the credit assessment by a nominated ECAI, provided there are separate groupings for pooling exposures of type A, type B and type C.

[^{F1}Article 110

Simplified calculation — grouping of single name exposures

Where Article 88 is complied with, insurance and reinsurance undertakings may calculate the loss-given-default set out in Article 192, including the risk-mitigating effect on underwriting and market risks and the risk-adjusted value of collateral, for a group of single name exposures. In that case, the group of single name exposures shall be assigned the highest probability of default assigned to single name exposures included in the group in accordance with Article 199.]

Textual Amendments

- F1** Substituted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).

Article 111

Simplified calculation of the risk mitigating effect

Where Article 88 is complied with, insurance or reinsurance undertakings may calculate the risk-mitigating effect on underwriting and market risk of a reinsurance arrangement, securitisation or derivative referred to in Article 196 as the difference between the following capital requirements:

- (a) [^{F1}the sum of the hypothetical capital requirement for the sub-modules of the underwriting and market risk modules of the insurance or reinsurance undertaking affected by the risk-mitigating technique, calculated in accordance with this Section and Sections 2 to 5 of this Chapter but as if the reinsurance arrangement, securitisation or derivative did not exist;]
- (b) the sum of the capital requirements for the sub-modules of the underwriting and market risk modules of the insurance or reinsurance undertaking affected by the risk-mitigating technique.

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date.

Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

Textual Amendments

- F1** Substituted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).

*f*² Article 111a

Simplified calculation of the risk-mitigating effect on underwriting risk

For the purposes of Article 196, where Article 88 is complied with and the reinsurance arrangement, securitisation or derivative covers obligations from only one of the segments (segment *s*) set out in Annex II or, as applicable, Annex XIV, insurance and reinsurance undertakings may calculate the risk-mitigating effect of that reinsurance arrangement, securitisation or derivative on their underwriting risk as follows:

$$\sqrt{(SCR_{hyp}^{CAT} - SCR_{without}^{CAT})^2 + (3 \times \sigma_s \times (P_{hyp}^s - P_{without}^s + Recoverables))^2 + 1,5 \times \sigma_s \times (P_{hyp}^s - P_{without}^s + Recoverables) \times (SCR_{hyp}^{CAT} - SCR_{without}^{CAT})}$$

where:

- SCR_{CAT}^{hyp} denotes the hypothetical capital requirement for the non-life catastrophe underwriting risk module referred to in Article 119(2), or, as applicable, the hypothetical capital requirement for the health catastrophe risk sub-module referred to in Article 160, that would apply if the reinsurance arrangement, securitisation or derivative did not exist;
- $SCR_{CAT}^{without}$ denotes the capital requirement for the non-life catastrophe underwriting risk module referred to in Article 119(2) or, as applicable, the capital requirement for the health catastrophe risk sub-module referred to in Article 160;
- σ_s denotes the standard deviation for non-life premium risk of segment *s* determined in accordance with Article 117(3) or, as applicable, the standard deviation for the NSLT health premium risk of segment *s* determined in accordance with Article 148(3);
- P_s^{hyp} denotes the hypothetical volume measure for premium risk of segment *s* determined in accordance with Article 116(3) or (4), or, as applicable, Article 147(3) or (4), that would apply if the reinsurance arrangement, securitisation or derivative did not exist;
- $P_s^{without}$ denotes the volume measure for premium risk of segment *s* determined in accordance with Article 116(3) or (4) or, as applicable, Article 147(3) or (4);
- Recoverables* denotes the best estimate of amounts recoverable from the reinsurance arrangement, securitisation or derivative and the corresponding debtors.]

Textual Amendments

- F2** Inserted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the

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Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).

Article 112

Simplified calculation of the risk adjusted value of collateral to take into account the economic effect of the collateral

1 Where Article 88 of this Regulation is complied with, and where the counterparty requirement and the third party requirement referred to in Article 197(1) are both met, insurance or reinsurance undertakings may, for the purposes of Article 197, calculate the risk-adjusted value of a collateral provided by way of security as referred to in Article 1(26)(b), as 85 % of the value of the assets held as collateral, valued in accordance with Article 75 of Directive 2009/138/EC.

2 Where Articles 88 and 214 of this Regulation are complied with, and where the counterparty requirement referred to in Article 197(1) is met and the third party requirement referred to in Article 197(1) is not met, insurance or reinsurance undertakings may, for the purposes of Article 197, calculate the risk-adjusted value of a collateral provided by way of security as referred to in Article 1(26)(b), as 75 % of the value of the assets held as collateral, valued in accordance with Article 75 of Directive 2009/138/EC.

^{F2} Article 112a

Simplified calculation of the loss-given-default for reinsurance

Where Article 88 is complied with, insurance or reinsurance undertakings may calculate the loss-given-default on a reinsurance arrangement or insurance securitisation referred to in the first subparagraph of Article 192(2) as follows:

$$LGD = \max[90 \% \cdot (Recoverables + 50 \% \cdot RM_{re}) - F \cdot Collateral; 0]$$

where:

- a) *Recoverables* denotes the best estimate of amounts recoverable from the reinsurance arrangement or insurance securitisation and the corresponding debtors;
- b) *RM_{re}* denotes the risk mitigating effect on underwriting risk of the reinsurance arrangement or securitisation;
- c) *Collateral* denotes the risk-adjusted value of collateral in relation to the reinsurance arrangement or securitisation;
- d) *F* denotes a factor to take into account the economic effect of the collateral arrangement in relation to the reinsurance arrangement or securitisation in case of any credit event related to the counterparty.

Textual Amendments

- F2** Inserted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).

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Article 112b

Simplified calculation of the capital requirement for counterparty default risk on type 1 exposures

Where Article 88 is complied with and the standard deviation of the loss distribution of type 1 exposures, as determined in accordance with Article 200(4), is lower than or equal to 20 % of the total losses-given default on all type 1 exposures, insurance and reinsurance undertakings may calculate the capital requirement for counterparty default risk referred to in Article 200(1) as follows:

$$SCR_{def,1} = 5 \cdot \sigma$$

where σ denotes the standard deviation of the loss distribution of type 1 exposures as determined in accordance with Article 200(4).]

Textual Amendments

- F2** Inserted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Text with EEA relevance\)](#).

Subsection 7

Scope of the underwriting risk modules

Article 113

For the calculation of the capital requirements for non-life underwriting risk, life underwriting risk and health underwriting risk, insurance and reinsurance undertakings shall apply:

- (a) the non-life underwriting risk module to non-life insurance and reinsurance obligations other than health insurance and reinsurance obligations;
- (b) the life underwriting risk module to life insurance and reinsurance obligations other than health insurance and reinsurance obligations;
- (c) the health underwriting risk module to health insurance and reinsurance obligations.

SECTION 2

Non-life underwriting risk module

Article 114

Non-life underwriting risk module

1 The non-life underwriting risk module shall consist of all of the following sub-modules:

Status: Point in time view as at 31/12/2020.

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- a the non-life premium and reserve risk sub-module referred to in point (a) of the third subparagraph of Article 105(2) of Directive 2009/138/EC;
 - b the non-life catastrophe risk sub-module referred to in point (b) of the third subparagraph of Article 105(2) of Directive 2009/138/EC;
 - c the non-life lapse risk sub-module.
- 2 The capital requirement for non-life underwriting risk shall be equal to the following:

$$SCR_{\text{non-life}} = \sqrt{\sum_{i,j} \text{CorrNL}_{(i,j)} \times SCR_i \times SCR_j}$$

where:

- (a) the sum covers all possible combinations (i,j) of the sub-modules set out in paragraph 1;
 - (b) $\text{CorrNL}_{(i,j)}$ denotes the correlation parameter for non-life underwriting risk for sub-modules i and j ;
 - (c) SCR_i and SCR_j denote the capital requirements for risk sub-module i and j respectively.
- 3 The correlation parameter $\text{CorrNL}_{(i,j)}$ referred to in paragraph 2 denotes the item set out in row i and in column j of the following correlation matrix:

ji	Non-life premium and reserve	Non-life catastrophe	Non-life lapse
Non-life premium and reserve	1	0,25	0
Non-life catastrophe	0,25	1	0
Non-life lapse	0	0	1

Modifications etc. (not altering text)

- C1 Art. 114(3): power to amend and revoke conferred (31.12.2020) by [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), 4, **Sch. 3** (as amended by [S.I. 2020/1301](#), regs. 1, 3, **Sch. para. 27(a)** and [S.I. 2020/1385](#), regs. 1(2), 54(2))

Article 115

Non-life premium and reserve risk sub-module

The capital requirement for non-life premium and reserve risk shall be equal to the following:

$$SCR_{\text{nl prem res}} = 3 \times \sigma_{\text{nl}} \times V_{\text{nl}}$$

where:

- (a) σ_{nl} denotes the standard deviation for non-life premium and reserve risk determined in accordance with Article 117;
- (b) V_{nl} denotes the volume measure for non-life premium and reserve risk determined in accordance with Article 116.

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

Article 116

Volume measure for non-life premium and reserve risk

1 The volume measure for non-life premium and reserve risk shall be equal to the sum of the volume measures for premium and reserve risk of the segments set out in Annex II.

2 For all segments set out in Annex II, the volume measure of a particular segment s shall be equal to the following:

$$V_s = (V_{(prem,s)} + V_{(res,s)}) \times (0,75 + 0,25 \times DIV_s)$$

where:

- (a) $V_{(prem,s)}$ denotes the volume measure for premium risk of segment s ;
- (b) $V_{(res,s)}$ denotes the volume measure for reserve risk of segment s ;
- (c) DIV_s denotes the factor for geographical diversification of segment s .

3 For all segments set out in Annex II, the volume measure for premium risk of a particular segment s shall be equal to the following:

$$V_{(prem,s)} = \max [P_s; P_{(last,s)}] + FP_{(existing,s)} + FP_{(future,s)}$$

where:

- (a) P_s denotes an estimate of the premiums to be earned by the insurance or reinsurance undertaking in the segment s during the following 12 months;
- (b) $P_{(last,s)}$ denotes the premiums earned by the insurance or reinsurance undertaking in the segment s during the last 12 months;
- (c) $FP_{(existing,s)}$ denotes the expected present value of premiums to be earned by the insurance or reinsurance undertaking in the segment s after the following 12 months for existing contracts;
- (d) $FP_{(future,s)}$ denotes the following amount with respect to contracts where the initial recognition date falls in the following 12 months:
 - (i) for all such contracts whose initial term is one year or less, the expected present value of premiums to be earned by the insurance or reinsurance undertaking in the segment s , but excluding the premiums to be earned during the 12 months after the initial recognition date;
 - (ii) for all such contracts whose initial term is more than one year, the amount equal to 30 % of the expected present value of premiums to be earned by the insurance or reinsurance undertaking in the segment s after the following 12 months.]

4 For all segments set out in Annex II, insurance and reinsurance undertakings may, as an alternative to the calculation set out in paragraph 3 of this Article, choose to calculate the volume measure for premium risk of a particular segment s in accordance with the following formula:

$$V_{(prem,s)} = P_s + FP_{(existing,s)} + FP_{(future,s)}$$

provided that the all of following conditions are met:

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- (a) the administrative, management or supervisory body of the insurance or reinsurance undertaking has decided that its earned premiums in the segment s during the following 12 months will not exceed P_s ;
- (b) the insurance or reinsurance undertaking has established effective control mechanisms to ensure that the limits on earned premiums referred to in point (a) will be met;
- (c) the insurance or reinsurance undertaking has informed its supervisory authority about the decision referred to in point (a) and the reasons for it.

For the purposes of this calculation, the terms P_s , $FP_{(existing,s)}$ and $FP_{(future,s)}$ shall be denoted in accordance with points (a), (c) and (d) of paragraph 3.

5 For the purposes of the calculations set out in paragraphs 3 and 4, premiums shall be net, after deduction of premiums for reinsurance contracts. The following premiums for reinsurance contracts shall not be deducted:

- a premiums in relation to non-insurance events or settled insurance claims that are not accounted for in the cash-flows referred to in Article 41(3);
- b premiums for reinsurance contracts that do not comply with Articles 209, 210, 211 and 213.

6 For all segments set out in Annex II, the volume measure for reserve risk of a particular segment shall be equal to the best estimate of the provisions for claims outstanding for the segment, after deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, provided that the reinsurance contracts or special purpose vehicles comply with Articles 209, 210, 211 and 213. The volume measure shall not be a negative amount.

7 For all segments set out in Annex II, the default factor for geographical diversification of a particular segment shall be either 1 or calculated in accordance with Annex III.

Textual Amendments

- F1** Substituted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).

Article 117

Standard deviation for non-life premium and reserve risk

1 The standard deviation for non-life premium and reserve risk shall be equal to the following:

$$\sigma_{nl} = \frac{1}{V_{nl}} \times \sqrt{\sum_{s,t} \text{Corr}S_{(s,t)} \times \sigma_s \times V_s \times \sigma_t \times V_t}$$

where:

- (a) V_{nl} denotes the volume measure for non-life premium and reserve risk;
- (b) the sum covers all possible combinations (s,t) of the segments set out in Annex II;
- (c) $\text{Corr}S_{(s,t)}$ denotes the correlation parameter for non-life premium and reserve risk for segment s and segment t set out in Annex IV;

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- (d) σ_s and σ_t denote standard deviations for non-life premium and reserve risk of segments s and t respectively;
- (e) V_s and V_t denote volume measures for premium and reserve risk of segments s and t , referred to in Article 116, respectively.

2 For all segments set out in Annex II, the standard deviation for non-life premium and reserve risk of a particular segment s shall be equal to the following:

$$\sigma_s = \frac{\sqrt{\sigma_2^{(prem,s)} \times V_2^{(prem,s)} + \sigma_{(prem,s)} \times V_{(prem,s)} \times \sigma_{(res,s)} \times V_{(res,s)} + \sigma_2^{(res,s)} \times V_2^{(res,s)}}}{V_{(prem,s)} + V_{(res,s)}}$$

where:

- (a) $\sigma_{(prem,s)}$ denotes the standard deviation for non-life premium risk of segment s determined in accordance with paragraph 3;
- (b) $\sigma_{(res,s)}$ denotes the standard deviation for non-life reserve risk of segment s as set out in Annex II;
- (c) $V_{(prem,s)}$ denotes the volume measure for premium risk of segment s referred to in Article 116;
- (d) $V_{(res,s)}$ denotes the volume measure for reserve risk of segment s referred to in Article 116.

3 For all segments set out in Annex II, the standard deviation for non-life premium risk of a particular segment shall be equal to the product of the standard deviation for non-life gross premium risk of the segment set out in Annex II and the adjustment factor for non-proportional reinsurance. For segments 1, 4 and 5 set out in Annex II the adjustment factor for non-proportional reinsurance shall be equal to 80 %. For all other segments set out in Annex the adjustment factor for non-proportional reinsurance shall be equal to 100 %.

Article 118

Non-life lapse risk sub-module

1 The capital requirement for the non-life lapse risk sub-module referred to in 114(1)(c) shall be equal to the loss in basic own funds of the insurance or reinsurance undertaking resulting from a combination of the following instantaneous events:

- a the discontinuance of 40 % of the insurance policies for which discontinuance would result in an increase of technical provisions without the risk margin;
- b where reinsurance contracts cover insurance or reinsurance contracts that will be written in the future, the decrease of 40 % of the number of those future insurance or reinsurance contracts used in the calculation of technical provisions.

2 The events referred to in paragraph 1 shall apply uniformly to all insurance and reinsurance contracts concerned. In relation to reinsurance contracts the event referred to in point (a) of paragraph 1 shall apply to the underlying insurance contracts.

3 For the purposes of determining the loss in basic own funds of the insurance or reinsurance undertaking under the event referred to in point (a) of paragraph 1, the undertaking shall base the calculation on the type of discontinuance which most negatively affects the basic own funds of the undertaking on a per policy basis.

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Article 119

Non-life catastrophe risk sub-module

1 The non-life catastrophe risk sub-module shall consist of all of the following sub-modules:

- a the natural catastrophe risk sub-module;
- b the sub-module for catastrophe risk of non-proportional property reinsurance;
- c the man-made catastrophe risk sub-module;
- d the sub-module for other non-life catastrophe risk.

2 The capital requirement for the non-life catastrophe underwriting risk module shall be equal to the following:

$$SCR_{natCAT} = \sqrt{(SCR_{natCAT} + SCR_{npproperty})^2 + SCR_2^{mmCAT} + SCR_2^{CATOther}}$$

where:

- (a) SCR_{natCAT} denotes the capital requirement for natural catastrophe risk;
- (b) $SCR_{npproperty}$ denotes the capital requirement for the catastrophe risk of non-proportional property reinsurance;
- (c) SCR_{mmCAT} denotes the capital requirement for man-made catastrophe risk;
- (d) $SCR_{CATOther}$ denotes the capital requirement for other non-life catastrophe risk.

Article 120

Natural catastrophe risk sub-module

1 The natural catastrophe risk sub-module shall consist of all of the following sub-modules:

- a the windstorm risk sub-module;
- b the earthquake risk sub-module;
- c the flood risk sub-module;
- d the hail risk sub-module;
- e the subsidence risk sub-module.

2 The capital requirement for natural catastrophe risk shall be equal to the following:

$$SCR_{natCAT} = \sqrt{\sum_i SCR_i^2}$$

where:

- (a) the sum includes all possible combinations of the sub-modules i set out in paragraph 1;
- (b) SCR_i denotes the capital requirement for sub-module i .

Article 121

Windstorm risk sub-module

1 The capital requirement for windstorm risk shall be equal to the following:

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Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

$$SCR_{windstorm} = \sqrt{\left(\sum_{(r,s)} CorrWS_{(r,s)} \times SCR_{(windstorm,r)} \times SCR_{(windstorm,s)}\right)} + SCR_2^{(windstorm,other)}$$

where:

- (a) the sum includes all possible combinations (r,s) of the regions set out in Annex V;
- (b) $CorrWS_{(r,s)}$ denotes the correlation coefficient for windstorm risk for region r and region s as set out in Annex V;
- (c) $SCR_{(windstorm,r)}$ and $SCR_{(windstorm,s)}$ denote the capital requirements for windstorm risk in region r and s respectively;
- (d) $SCR_{(windstorm,other)}$ denotes the capital requirement for windstorm risk in regions other than those set out in Annex XIII.

2 For all regions set out in Annex V the capital requirement for windstorm risk in a particular region r shall be the larger of the following two capital requirements:

- a the capital requirement for windstorm risk in region r according to scenario A as set out in paragraph 3;
- b the capital requirement for windstorm risk in region r according to scenario B as set out in paragraph 4.

3 For all regions set out in Annex V the capital requirement for windstorm risk in a particular region r according to scenario A shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from the following sequence of events:

- a an instantaneous loss of an amount that, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, is equal to 80 % of the specified windstorm loss in region r ;
- b a loss of an amount that, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, is equal to 40 % of the specified windstorm loss in region r .

4 For all regions set out in Annex V the capital requirement for windstorm risk in a particular region r according to scenario B shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from the following sequence of events:

- a an instantaneous loss of an amount that, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, is equal to 100 % of the specified windstorm loss in region r ;
- b a loss of an amount that, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, is equal to 20 % of the specified windstorm loss in region r .

5 For all regions set out in Annex V, the specified windstorm loss in a particular region r shall be equal to the following amount:

$$L_{(windstorm,r)}^{F1} = \sqrt{\sum_{(i,j)} Corr_{(windstorm,r,i,j)} \times WSI_{(windstorm,r,i)} \times WSI_{(windstorm,r,j)}}$$

where:

- (a) $[^{F6} \dots]$
- (b) the sum includes all possible combinations of risk zones (i,j) of region r set out in Annex IX;

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- (c) $Corr_{(windstorm,r,i,j)}$ denotes the correlation coefficient for windstorm risk in risk zones i and j of region r set out in Annex XXII;
- (d) $WSI_{(windstorm,r,i)}$ and $WSI_{(windstorm,r,j)}$ denote the weighted sums insured for windstorm risk in risk zones i and j of region r set out in Annex IX.

6 For all regions set out in Annex V and all risk zones of those regions set out in Annex IX the weighted sum insured for windstorm risk in a particular windstorm zone i of a particular region r shall be equal to the following:

$${}^{F1}WSI_{(windstorm,r,i)} = Q_{(windstorm,r)} \cdot W_{(windstorm,r,i)} \cdot SI_{(windstorm,r,i)}$$

where:

- a $W_{(windstorm,r,i)}$ denotes the risk weight for windstorm risk in risk zone i of region r set out in Annex X;
- b $SI_{(windstorm,r,i)}$ denotes the sum insured for windstorm risk in windstorm zone i of region r [F1];
- [F2]c $Q_{(windstorm,r)}$ denotes the windstorm risk factor for region r as set out in Annex V.]

[F2]Where the amount determined for a particular risk zone in accordance with the first subparagraph exceeds an amount (referred to in this subparagraph as ‘the lower amount’) equal to the sum of the potential losses without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, that the insurance or reinsurance undertaking could suffer for windstorm risk in that risk zone, taking into account the terms and conditions of its specific policies, including any contractual payment limits, the insurance or reinsurance undertaking may, as an alternative calculation, determine the weighted sum insured for windstorm risk in that risk zone as the lower amount.]

7 For all regions set out in Annex V and all risk zones of those regions set out in Annex IX, the sum insured for windstorm risk in a particular windstorm zone i of a particular region r shall be equal to the following:

$$SI_{(windstorm,r,i)} = SI_{(property,r,i)} + SI_{(onshore-property,r,i)}$$

where:

- (a) $SI_{(property,r,i)}$ denotes the sum insured by the insurance or reinsurance undertaking for lines of business 7 and 19 set out in Annex I in relation to contracts that cover windstorm risk and where the risk is situated in risk zone i of region r ;
- (b) $SI_{(onshore-property,r,i)}$ denotes the sum insured by the insurance or reinsurance undertaking for lines of business 6 and 18 set out in Annex I in relation to contracts that cover onshore property damage by windstorm and where the risk is situated in risk zone i of region r .

8 The capital requirement for windstorm risk in regions other than those set out in Annex XIII shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous loss in relation to each insurance and reinsurance contract that covers any of the following insurance or reinsurance obligations:

- a obligations of lines of business 7 or 19 set out in Annex I that cover windstorm risk and where the risk is not situated in one of the regions set out in Annex XIII;
- b obligations of lines of business 6 or 18 set out in Annex I in relation to onshore property damage by windstorm and where the risk is not situated in one of the regions set out in Annex XIII.

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9 The amount of the instantaneous loss, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, referred to in paragraph 8 shall be equal to the following amount:

$$L_{(windstorm,other)} = 1,75 \times (0,5 \times DIV_{windstorm} + 0,5) \times P_{windstorm}$$

where:

- (a) $DIV_{windstorm}$ is calculated in accordance with Annex III, but based on the premiums in relation to the obligations referred to in paragraph 8 and restricted to the regions 5 to 18 set out in point (8) of Annex III;
- (b) $P_{windstorm}$ is an estimate of the premiums to be earned by insurance and reinsurance undertakings for each contract that covers the obligations referred to in paragraph 8 during the following 12 months: for this purpose premiums shall be gross, without deduction of premiums for reinsurance contracts.

Textual Amendments

- F1** Substituted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).
- F2** Inserted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).
- F6** Deleted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).

Article 122

Earthquake risk sub-module

1 The capital requirement for earthquake risk shall be equal to the following:

$$SCR_{earthquake} = \sqrt{\left(\sum_{(r,s)} CorrEQ_{(r,s)} \times SCR_{(earthquake,r)} \times SCR_{(earthquake,s)}\right) + SCR_2^{(earthquake,other)}}$$

where:

- (a) the sum includes all possible combinations (r,s) of the regions set out in Annex VI;
- (b) $CorrEQ_{(r,s)}$ denotes the correlation coefficient for earthquake risk for region r and region s as set out in Annex VI;
- (c) $SCR_{(earthquake,r)}$ and $SCR_{(earthquake,s)}$ denote the capital requirements for earthquake risk in region r and s respectively;
- (d) $SCR_{(earthquake,other)}$ denotes the capital requirement for earthquake risk in regions other than those set out in Annex XIII.

2 ^[F1]For all regions set out in Annex VI, the capital requirement for earthquake risk in a particular region r shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous loss of an amount that, without deduction

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Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

of the amounts recoverable from reinsurance contracts and special purpose vehicles, is equal to the following amount:]

$$L_{(earthquake,r)}^{F1} = \sqrt{\sum_{(i,j)} Corr_{(earthquake,r,i,j)} \times WSI_{(earthquake,r,i)} \times WSI_{(earthquake,r,j)}}$$

where:

- (a) $W_{(earthquake,r,i)}$ ]
- (b) the sum includes all possible combinations of risk zones (i,j) of region r set out in Annex IX;
- (c) $Corr_{(earthquake,r,i,j)}$ denotes the correlation coefficient for earthquake risk in risk zones i and j of region r set out in Annex XXIII;
- (d) $WSI_{(earthquake,r,i)}$ and $WSI_{(earthquake,r,j)}$ denote the weighted sums insured for earthquake risk in risk zones i and j of region r set out in Annex IX.

3 For all regions set out in Annex VI and all risk zones of those regions set out in Annex IX, the weighted sum insured for earthquake risk in a particular earthquake zone i of a particular region r shall be equal to the following:

$$L_{(earthquake,r,i)}^{F1} = Q_{(earthquake,r)} \cdot W_{(earthquake,r,i)} \cdot SI_{(earthquake,r,i)}$$

where:

- a $W_{(earthquake,r,i)}$ denotes the risk weight for earthquake risk in risk zone i of region r set out in Annex X;
- b $SI_{(earthquake,r,i)}$ denotes the sum insured for earthquake risk in earthquake zone i of region r F1 ;
- F2 c $Q_{(earthquake,r)}$ denotes the earthquake risk factor for region r as set out in Annex VI.]

F2 Where the amount determined for a particular risk zone in accordance with the first subparagraph exceeds an amount (referred to in this subparagraph as ‘the lower amount’) equal to the sum of the potential losses, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, that the insurance or reinsurance undertaking could suffer for earthquake risk in that risk zone, taking into account the terms and conditions of its specific policies, including any contractual payment limits, the insurance or reinsurance undertaking may, as an alternative calculation, determine the weighted sum insured for earthquake risk in that risk zone as the lower amount.]

4 For all regions set out in Annex VI and all risk zones of those regions set out in Annex IX, the sum insured for earthquake risk in a particular earthquake zone i of a particular region r shall be equal to the following:

$$SI_{(earthquake,r,i)} = SI_{(property,r,i)} + SI_{(onshore-property,r,i)}$$

where:

- (a) $SI_{(property,r,i)}$ denotes the sum insured of the insurance or reinsurance undertaking for lines of business 7 and 19 as set out in Annex I in relation to contracts that cover earthquake risk and where the risk is situated in risk zone i of region r ;
- (b) $SI_{(onshore-property,r,i)}$ denotes the sum insured of the insurance or reinsurance undertaking for lines of business 6 and 18 as set out in Annex I in relation to contracts that cover onshore property damage by earthquake and where the risk is situated in risk zone i of region r .

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

5 The capital requirement for earthquake risk in regions other than those set out in Annex XIII shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous loss in relation to each insurance and reinsurance contract that covers one or both of the following insurance or reinsurance obligations:

- a obligations of lines of business 7 or 19 as set out in Annex I that cover earthquake risk, where the risk is not situated in one of the regions set out in Annex XIII;
- b obligations of lines of business 6 or 18 as set out in Annex I in relation to onshore property damage by earthquake, where the risk is not situated in one of the regions set out in Annex XIII.

6 The amount of the instantaneous loss, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, referred to in paragraph 5 shall be equal to the following amount:

$$L_{(earthquake,other)} = 1,2 \times (0,5 \times DIV_{earthquake} + 0,5) \times P_{earthquake}$$

where:

- (a) $DIV_{earthquake}$ is calculated in accordance with Annex III, but based on the premiums in relation to the obligations referred to in points (a) and (b) of paragraph 5 and restricted to the regions 5 to 18 set out in Annex III;
- (b) $P_{earthquake}$ is an estimate of the premiums to be earned by insurance and reinsurance undertakings for each contract that covers the obligations referred to in points (a) and (b) of paragraph 5 during the following 12 months: for this purpose premiums shall be gross, without deduction of premiums for reinsurance contracts.

Textual Amendments

- F1** Substituted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).
- F2** Inserted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).
- F6** Deleted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).

Article 123

Flood risk sub-module

1 The capital requirement for flood risk shall be equal to the following:

$$SCR_{flood} = \sqrt{\left(\sum_{(r,s)} CorrFL_{(r,s)} \times SCR_{(flood,r)} \times SCR_{(flood,s)}\right)} + SCR_2^{(flood,other)}$$

where:

- (a) the sum includes all possible combinations (r,s) of the regions set out in Annex VII;

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Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date.

Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

- (b) $CorrFL_{(r,s)}$ denotes the correlation coefficient for flood risk for region r and region s as set out in Annex VII;
- (c) $SCR_{(flood,r)}$ and $SCR_{(flood,s)}$ denote the capital requirements for flood risk in region r and s respectively;
- (d) $SCR_{(flood,other)}$ denotes the capital requirement for flood risk in regions other than those set out in Annex XIII.

2 For all regions set out in Annex VII, the capital requirement for flood risk in a particular region r shall be the larger of the following capital requirements:

- a the capital requirement for flood risk in region r according to scenario A as set out in paragraph 3;
- b the capital requirement for flood risk in region r according to scenario B as set out in paragraph 4.

3 For all regions set out in Annex VII, the capital requirement for flood risk in a particular region r according to scenario A shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from the following sequence of events:

- a an instantaneous loss of an amount that, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, is equal to 65 % of the specified flood loss in region r ;
- b a loss of an amount that, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, is equal to 45 % of the specified flood loss in region r .

4 For all regions set out in Annex VII, the capital requirement for flood risk in a particular region r according to scenario B shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from the following sequence of events:

- a an instantaneous loss of an amount that, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, is equal to 100 % of the specified flood loss in region r ;
- b a loss of an amount that, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, is equal to 10 % of the specified flood loss in region r .

5 For all regions set out in Annex VII, the specified flood loss in a particular region r shall be equal to the following amount:

$$L_{(flood,r)}^{F1} = \sqrt{\sum_{(i,j)} Corr_{(flood,r,i,j)} \times WSI_{(flood,r,i)} \times WSI_{(flood,r,j)}}$$

where:

- (a) $[^{F6} \dots]$
- (b) the sum includes all possible combinations of risk zones (i,j) of region r set out in Annex IX;
- (c) $Corr_{(flood,r,i,j)}$ denotes the correlation coefficient for flood risk in flood zones i and j of region r set out in Annex XXIV;
- (d) $WSI_{(flood,r,i)}$ and $WSI_{(flood,r,j)}$ denote the weighted sums insured for flood risk in risk zones i and j of region r set out in Annex IX.

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6 For all regions set out in Annex VII and all risk zones of those regions set out in Annex IX, the weighted sum insured for flood risk in a particular flood zone i of a particular region r shall be equal to the following:

$${}^{F1}WSI_{(flood,r,i)} = Q_{(flood,r)} \cdot W_{(flood,r,i)} \cdot SI_{(flood,r,i)}$$

where:

a $W_{(flood,r,i)}$ denotes the risk weight for flood risk in risk zone i of region r set out in Annex X;

b $SI_{(flood,r,i)}$ denotes the sum insured for flood risk in flood zone i of region r [F1];

[F2]c $Q_{(flood,r)}$ denotes the flood risk factor for region r as set out in Annex VII.]

[F2]Where the amount determined for a particular risk zone in accordance with the first subparagraph exceeds an amount (referred to in this subparagraph as ‘the lower amount’) equal to the sum of the potential losses, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, that the insurance or reinsurance undertaking could suffer for flood risk in that risk zone, taking into account the terms and conditions of its specific policies, including any contractual payment limits, the insurance or reinsurance undertaking may, as an alternative calculation, determine the weighted sum insured for flood risk in that risk zone as the lower amount.]

7 [F1]For all regions set out in Annex VII and all risk zones of those regions set out in Annex IX, the sum insured for flood risk for a particular risk zone i of a particular region r shall be equal to the following:]

$$SI_{(flood,r,i)} = SI_{(property,r,i)} + SI_{(onshore-property,r,i)} + 1,5 \times SI_{(motor,r,i)}$$

where:

(a) $SI_{(property,r,i)}$ denotes the sum insured by the insurance or reinsurance undertaking for lines of business 7 and 19 as set out in Annex I in relation to contracts that cover flood risk, where the risk is situated in risk zone i of region r ;

(b) $SI_{(onshore-property,r,i)}$ denotes the sum insured by the insurance or reinsurance undertaking for lines of business 6 and 18 as set out in Annex I in relation to contracts that cover onshore property damage by flood and where the risk is situated in risk zone i of region r ;

(c) $SI_{(motor,r,i)}$ denotes the sum insured by the insurance or reinsurance undertaking for lines of business 5 and 17 as set out in Annex I in relation to contracts that cover flood risk, where the risk is situated in risk zone i of region r .

8 The capital requirement for flood risk in regions other than those set out in Annex XIII, shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous loss in relation to each insurance and reinsurance contract that covers any of the following insurance or reinsurance obligations:

a obligations of lines of business 7 or 19 as set out in Annex I that cover flood risk, where the risk is not situated in one of the regions set out in Annex XIII;

b obligations of lines of business 6 or 18 as set out in Annex I in relation to onshore property damage by flood, where the risk is not situated in one of the regions set out in Annex XIII;

c obligations of lines of business 5 or 17 as set out in Annex I that cover flood risk, where the risk is not situated in one of the regions set out in Annex XIII.

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9 The amount of the instantaneous loss, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, referred to in paragraph 8 shall be equal to the following amount:

$$L_{(flood,other)} = 1,1 \times (0,5 \times DIV_{flood} + 0,5) \times P_{flood}$$

where:

- (a) DIV_{flood} is calculated in accordance with Annex III, but based on the premiums in relation to the obligations referred to in points (a), (b) and (c) of paragraph 8 and restricted to the regions 5 to 18 set out in point (8) of Annex III;
- (b) P_{flood} is an estimate of the premiums to be earned by the insurance or reinsurance undertaking for each contract that covers the obligations referred to in points (a), (b) and (c) of paragraph 8 during the following 12 months: for this purpose, premiums shall be gross, without deduction of premiums for reinsurance contracts.

Textual Amendments

- F1** Substituted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).
- F2** Inserted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).
- F6** Deleted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).

Article 124

Hail risk sub-module

1 The capital requirement for hail risk shall be equal to the following:

$$SCR_{hail} = \sqrt{\left(\sum_{(r,s)} CorrHL_{(r,s)} \times SCR_{(hail,r)} \times SCR_{(hail,s)}\right)} + SCR_2^{(hail,other)}$$

where:

- (a) the sum includes all possible combinations (r,s) of the regions set out in Annex VIII;
- (b) $CorrHL_{(r,s)}$ denotes the correlation coefficient for hail risk for region r and region s as set out in Annex VIII;
- (c) $SCR_{(hail,r)}$ and $SCR_{(hail,s)}$ denote the capital requirements for hail risk in regions r and s respectively;
- (d) $SCR_{(hail,other)}$ denotes the capital requirement for hail risk in regions other than those set out in Annex XIII.

2 For all regions set out in Annex VIII, the capital requirement for hail risk in a particular region r shall be the larger of the following capital requirements:

- a the capital requirement for hail risk in region r according to scenario A;

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- b the capital requirement for hail risk in region r according to scenario B.
- 3 For all regions set out in Annex VIII, the capital requirement for hail risk in a particular region r according to scenario A shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from the following sequence of events:
- an instantaneous loss of an amount that, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, is equal to 70 % of the specified hail loss in region r ;
 - a loss of an amount that, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, is equal to 50 % of the specified hail loss in region r .
- 4 For all regions set out in Annex VIII, the capital requirement for hail risk in a particular region r according to scenario B shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from the following sequence of events:
- an instantaneous loss of an amount that, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, is equal to 100 % of the specified hail loss in region r ;
 - a loss of an amount that, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, is equal to 20 % of the specified hail loss in region r .
- 5 For all regions set out in Annex VIII, the specified hail loss in a particular region r shall be equal to the following amount:

$$L_{(hail,r)}^{F1} = \sqrt{\sum_{(i,j)} Corr_{(hail,r,i,j)} \times WSI_{(hail,r,i)} \times WSI_{(hail,r,j)}}$$

where:

- [^{F6}]
- the sum includes all possible combinations of risk zones (i,j) of region r set out in Annex IX;
- $Corr_{(hail,r,i,j)}$ denotes the correlation coefficient for hail risk in risk zones i and j of region r set out in Annex XXV;
- $WSI_{(hail,r,i)}$ and $WSI_{(hail,r,j)}$ denote the weighted sums insured for hail risk in risk zones i and j of region r set out in Annex IX.

6 For all regions set out in Annex VIII and all risk zones of those regions set out in Annex IX, the weighted sum insured for hail risk in a particular hail zone i of a particular region r shall be equal to the following:

$$L_{(hail,r,i)}^{F1} = Q_{(hail,r)} \cdot W_{(hail,r,i)} \cdot SI_{(hail,r,i)}$$

where:

- $W_{(hail,r,i)}$ denotes the risk weight for hail risk in risk zone i of region r set out in Annex X;
- $SI_{(hail,r,i)}$ denotes the sum insured for hail risk in hail zone i of region r [^{F1}];
- [^{F2}c $Q_{(hail,r)}$ denotes the hail risk factor for region r as set out in Annex VIII.]

[^{F2}Where the amount determined for a particular risk zone in accordance with the first subparagraph exceeds an amount (referred to in this subparagraph as ‘the lower amount’) equal to the sum of the potential losses, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, that the insurance

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or reinsurance undertaking could suffer for hail risk in that risk zone taking into account the terms and conditions of its specific policies, including any contractual payment limits, the insurance or reinsurance undertaking may, as an alternative calculation, determine the weighted sum insured for hail risk in that risk zone as the lower amount.]

7 For all regions set out in Annex VIII and all hail zones, the sum insured for hail risk in a particular hail zone i of a particular region r shall be equal to the following:

$$SI_{(hail,r,i)} = SI_{(property,r,i)} + SI_{(onshore-property,r,i)} + 5 \times SI_{(motor,r,i)}$$

where:

- (a) $SI_{(property,r,i)}$ denotes the sum insured by the insurance or reinsurance undertaking for lines of business 7 and 19 as set out in Annex I in relation to contracts that cover hail risk, where the risk is situated in risk zone i of region r ;
- (b) $SI_{(onshore-property,r,i)}$ denotes the sum insured by the insurance or reinsurance undertaking for lines of business 6 and 18 as set out in Annex I in relation to contracts that cover onshore property damage by hail, where the risk is situated in risk zone i of region r ;
- (c) $SI_{(motor,r,i)}$ denotes the sum insured by the insurance or reinsurance undertaking for insurance or reinsurance obligations for lines of business 5 and 17 as set out in Annex I in relation to contracts that cover hail risk, where the risk is situated in risk zone i of region r .

8 The capital requirement for hail risk in regions other than those set out in Annex XIII, shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous loss in relation to each insurance and reinsurance contract that covers one or more of the following insurance or reinsurance obligations:

- a obligations of lines of business 7 or 19 as set out in Annex I that cover hail risk, where the risk is not situated in one of the regions set out in Annex XIII;
- b obligations of lines of business 6 or 18 as set out in Annex I in relation to onshore property damage by hail, where the risk is not situated in one of the regions set out in Annex XIII;
- c obligations of lines of business 5 or 17 as set out in Annex I that cover hail risk, where the risk is not situated in one of the regions set out in Annex XIII.

9 The amount of the instantaneous loss, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, referred to in paragraph 8 shall be equal to the following amount:

$$L_{(hail,other)} = 0,3 \times (0,5 \times DIV_{hail} + 0,5) \times P_{hail}$$

where:

- (a) DIV_{hail} is calculated in accordance with Annex III, but based on the premiums in relation to the obligations referred to in points (a), (b) and (c) of paragraph 8 and restricted to the regions 5 to 18 set out in Annex III;
- (b) P_{hail} is an estimate of the premiums to be earned by the insurance or reinsurance undertaking for each contract that covers the obligations referred to in points (a), (b) and (c) of paragraph 8 during the following 12 months: for this purpose premiums shall be gross, without deduction of premiums for reinsurance contracts.

Textual Amendments

- F1** Substituted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European](#)

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Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).

- F2** Inserted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).
- F6** Deleted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).

Article 125

Subsidence risk sub-module

1 The capital requirement for subsidence risk shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous loss of an amount that, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, is equal to the following:

$$L_{(subsidence)}^{F1} = \sqrt{\sum_{(i,j)} Corr_{(subsidence,i,j)} \times WSI_{(subsidence,i)} \times WSI_{(subsidence,j)}}$$

where:

- the sum includes all possible combinations of risk zones (i,j) of France set out in Annex IX;
- $Corr_{(subsidence,i,j)}$ denotes the correlation coefficient for subsidence risk in risk zones i and j set out in Annex XXVI;
- $WSI_{(subsidence,i)}$ and $WSI_{(subsidence,j)}$ denote the weighted sums insured for subsidence risk in risk zones i and j of France set out in Annex IX.

2 For all subsidence zones the weighted sum insured for subsidence risk in a particular risk zone i of France set out in the Annex IX shall be equal to the following:

$$L_{(subsidence,i)}^{F1} = 0,0005 \cdot W_{(subsidence,i)} \cdot SI_{(subsidence,i)}$$

where:

- $W_{(subsidence,i)}$ denotes the risk weight for subsidence risk in risk zone i set out in Annex X;
- $SI_{(subsidence,i)}$ denotes the sum insured of the insurance or reinsurance undertaking for lines of business 7 and 19 as set out in Annex I in relation to contracts that cover subsidence risk of residential buildings in subsidence zone i .

[^{F2}Where the amount determined for a particular risk zone in accordance with the first subparagraph exceeds an amount (referred to in this subparagraph as ‘the lower amount’) equal to the sum of the potential losses, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, that the insurance or reinsurance undertaking could suffer for subsidence risk in that risk zone, taking into account the terms and conditions of its specific policies, including any contractual payment limits, the insurance or reinsurance undertaking may, as an alternative calculation, determine the weighted sum insured for subsidence risk in that risk zone as the lower amount.]

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Textual Amendments

- F1** Substituted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).
- F2** Inserted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).

Article 126

Interpretation of catastrophe scenarios

1 For the purposes of Article 121(3) and (4), Article 123(3) and (4) and Article 124(3) and (4), insurance and reinsurance undertakings shall base the calculation of the capital requirement on the following assumptions:

- a the two consecutive events referred to in those Articles are independent;
- b insurance and reinsurance undertakings do not enter into new insurance risk mitigation techniques between the two events.

2 Notwithstanding point (d) of Article 83(1), where current reinsurance contracts allow for reinstatements, insurance and reinsurance undertakings shall take into account future management actions in relation to the reinstatements between the first and the second event. The assumptions about future management actions shall be realistic, objective and verifiable.

Article 127

Sub-module for catastrophe risk of non-proportional property reinsurance

1 The capital requirement for catastrophe risk of non-proportional property reinsurance shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous loss in relation to each reinsurance contract that covers reinsurance obligations of line of business 28 as set out in Annex I other than non-proportional reinsurance obligations relating to insurance obligations included in lines of business 9 and 21 set out in Annex I.

2 The amount of the instantaneous loss, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, referred to in paragraph 1 shall be equal to the following:

$$L_{\text{nonproperty}} = 2,5 \times (0,5 \times DIV_{\text{nonproperty}} + 0,5) \times P_{\text{nonproperty}}$$

where:

- (a) $DIV_{\text{nonproperty}}$ is calculated in accordance with Annex III, but based on the premiums earned by the insurance and reinsurance undertaking in line of business 28 as set out in Annex I, other than non-proportional reinsurance obligations relating to insurance obligations included in lines of business 9 and 21 as set out in Annex I;
- (b) P_{property} is an estimate of the premiums to be earned by the insurance or reinsurance undertaking during the following 12 months for each contract that covers the

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reinsurance obligations of line of business 28 as set out in Annex I other than non-proportional reinsurance obligations relating to insurance obligations included in lines of business 9 and 21 as set out in Annex I: for this purpose premiums shall be gross, without deduction of premiums for reinsurance contracts.

Article 128

Man-made catastrophe risk sub-module

1 The man-made catastrophe risk sub-module shall consist of all of the following sub-modules:

- a the motor vehicle liability risk sub-module;
- b the marine risk sub-module;
- c the aviation risk sub-module;
- d the fire risk sub-module;
- e the liability risk sub-module;
- f the credit and suretyship risk sub-module.

2 The capital requirement for the man-made catastrophe risk shall be equal to the following:

$$SCR_{mmCAT} = \sqrt{\sum_i SCR_i^2}$$

where:

- (a) the sum includes all sub-modules set out in paragraph 1;
- (b) SCR_i denotes the capital requirements for sub-module i .

Article 129

Motor vehicle liability risk sub-module

1 The capital requirement for motor vehicle liability risk shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous loss that, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, is equal to the following amount in euro:

$$L_{motor} = \max(6000000; 50000 \times \sqrt{N_a + 0,05 \times N_b} + 0,95 \times \min(N_b; 20000))$$

where:

- (a) N_a is the number of vehicles insured by the insurance or reinsurance undertaking in lines of business 4 and 16 as set out in Annex I with a deemed policy limit above EUR 24 000 000;
- (b) N_b is the number of vehicles insured by the insurance or reinsurance undertaking in lines of business 4 and 16 as set out in Annex I with a deemed policy limit below or equal to EUR 24 000 000.

The number of motor vehicles covered by the proportional reinsurance obligations of the insurance or reinsurance undertaking shall be weighted by the relative share of the undertaking's obligations in respect of the sum insured of the motor vehicles.

2 The deemed policy limit referred to in paragraph 1 shall be the overall limit of the motor vehicle liability insurance policy or, where no such overall limit is specified in the terms

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and conditions of the policy, the sum of the limits for damage to property and for personal injury. Where the policy limit is specified as a maximum per victim, the deemed policy limit shall be based on the assumption of ten victims.

I^F Article 130

Marine risk sub-module

1 The capital requirement for marine risk shall be equal to the following:

$$SCR_{\text{marine}} = \sqrt{SCR_{\text{vessel}}^2 + SCR_{\text{platform}}^2}$$

where:

- a) SCR_{vessel} is the capital requirement for the risk of a vessel collision;
- b) SCR_{platform} is the capital requirement for the risk of a platform explosion.

2 The capital requirement for the risk of a vessel collision shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous loss of an amount equal to the following:

$$L_{\text{vessel}} = \max_v(SI_{(\text{hull},v)} + SI_{(\text{liab},v)} + SI_{(\text{pollution},v)})$$

where:

- (a) the maximum relates to all sea, lake, river and canal vessels insured by the insurance or reinsurance undertaking in respect of vessel collision in lines of business 6, 18 and 27 set out in Annex I where the insured value of the vessel is at least EUR 250 000;
- (b) $SI_{(\text{hull},v)}$ is the sum insured by the insurance or reinsurance undertaking, after deduction of the amounts that the insurance or reinsurance undertaking can recover from reinsurance contracts and special purpose vehicles, for marine hull insurance and reinsurance in relation to vessel v ;
- (c) $SI_{(\text{liab},v)}$ is the sum insured by the insurance or reinsurance undertaking, after deduction of the amounts that the insurance or reinsurance undertaking can recover from reinsurance contracts and special purpose vehicles, for marine liability insurance and reinsurance in relation to vessel v ;
- (d) $SI_{(\text{pollution},v)}$ is the sum insured by the insurance or reinsurance undertaking, after deduction of the amounts that the insurance or reinsurance undertaking can recover from reinsurance contracts and special purpose vehicles, for oil pollution insurance and reinsurance in relation to vessel v .

For the purposes of determining $SI_{(\text{hull},v)}$, $SI_{(\text{liab},v)}$ and $SI_{(\text{pollution},v)}$, insurance and reinsurance undertakings shall only take into account reinsurance contracts and special purpose vehicles that would pay out in the event of insurance claims related to vessel v . Reinsurance contracts and special purpose vehicles where payout is dependent on insurance claims not related to vessel v shall not be taken into account.

Where the deduction of amounts recoverable would lead to a capital requirement for the risk of a vessel collision that captures insufficiently the risk of a vessel collision that the insurance or reinsurance undertaking is exposed to, the insurance or reinsurance undertaking shall calculate $SI_{(\text{hull},v)}$, $SI_{(\text{liab},v)}$ or $SI_{(\text{pollution},v)}$ without deduction of amounts recoverable.

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3 The capital requirement for the risk of a platform explosion shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous loss of an amount equal to the following:

$$L_{platform} = \max_p(SI_p)$$

where:

- (a) the maximum relates to all oil and gas offshore platforms insured by the insurance or reinsurance undertaking in respect of platform explosion in lines of business 6, 18 and 27 set out in Annex I;
- (b) SI_p is the accumulated sum insured by the insurance or reinsurance undertaking, after deduction of the amounts that the insurance or reinsurance undertaking can recover from reinsurance contracts and special purpose vehicles, for the following insurance and reinsurance obligations in relation to platform p :
 - (i) obligations to compensate for property damage;
 - (ii) obligations to compensate for the expenses for the removal of wreckage;
 - (iii) obligations to compensate for loss of production income;
 - (iv) obligations to compensate for the expenses for capping of the well or making the well secure;
 - (v) liability insurance and reinsurance obligations.

For the purposes of determining SI_p , insurance and reinsurance undertakings shall only take into account reinsurance contracts and special purpose vehicles that would pay out in the event of insurance claims related to platform p . Reinsurance contracts and special purpose vehicles where payout is dependent on insurance claims that are not related to platform p shall not be taken into account.

Where the deduction of amounts recoverable would lead to a capital requirement for the risk of a platform explosion that captures insufficiently the risk of a platform explosion that the insurance or reinsurance undertaking is exposed to, the insurance or reinsurance undertaking shall calculate SI_p without the deduction of amounts recoverable.]

Textual Amendments

- F1** Substituted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Text with EEA relevance\).](#)

Article 131

Aviation risk sub-module

[^{F1}The capital requirement for aviation risk shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous loss of an amount that is equal to the following:]

$$L_{aviation} = \max_a(SI_a)$$

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where:

- (a) the maximum relates to all aircrafts insured by the insurance or reinsurance undertaking in lines of business 6, 18 and 27 set out in Annex I;
- (b) $^{FI}SI_a$ is the sum insured by the insurance or reinsurance undertaking, after deduction of the amounts that the insurance or reinsurance undertaking can recover from reinsurance contracts and special purpose vehicles, for aviation hull insurance and reinsurance and aviation liability insurance and reinsurance in relation to aircraft *a*.

For the purposes of this Article, insurance and reinsurance undertakings shall only take into account reinsurance contracts and special purpose vehicles that would pay out in the event of insurance claims related to aircraft *a*. Reinsurance contracts and special purpose vehicles where payout is dependent on insurance claims that are not related to aircraft *a* shall not be taken into account.

Where the deduction of amounts recoverable would lead to a capital requirement for aviation risk that captures insufficiently the aviation risk that the insurance or reinsurance undertaking is exposed to, the insurance or reinsurance undertaking shall, calculate SI_a without the deduction of amounts recoverable.]

Textual Amendments

- F1** Substituted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Text with EEA relevance\).](#)

Article 132

Fire risk sub-module

^[F1] The capital requirement for fire risk shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous loss of an amount equal to the sum insured by the insurance or reinsurance undertaking with respect to the largest fire risk concentration.

2 The largest fire risk concentration of an insurance or reinsurance undertaking is the set of buildings with the largest sum insured, after deduction of the amounts that the insurance or reinsurance undertaking can recover from reinsurance contracts and special purpose vehicles, that meets all of the following conditions:

- a the insurance or reinsurance undertaking has insurance or reinsurance obligations in lines of business 7 and 19 set out in Annex I, in relation to each building which cover damage due to fire or explosion, including as a result of terrorist attacks;
- b all buildings are partly or fully located within a radius of 200 meters.

In determining the sum insured for a set of buildings, insurance and reinsurance undertakings shall only take into account reinsurance contracts and special purpose vehicles that would pay out in the event of insurance claims related to that set of buildings. Reinsurance contracts and special purpose vehicles where payout is dependent on insurance claims that are not related to that set of buildings shall not be taken into account.

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Where the deduction of amounts recoverable would lead to a capital requirement for fire risk that captures insufficiently the fire risk that the insurance or reinsurance undertaking is exposed to, the insurance or reinsurance undertaking shall calculate the sum insured for a set of buildings without the deduction of amounts recoverable.]

3 For the purposes of paragraph 2, the set of buildings may be covered by one or several insurance or reinsurance contracts.

Textual Amendments

- F1** Substituted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).

Article 133

Liability risk sub-module

1 The capital requirement for liability risk shall be equal to the following:

$$SCR_{(liability)} = \sqrt{\sum_{(i,j)} Corr_{(liability,i,j)} \times SCR_{(liability,i)} \times SCR_{(liability,j)}}$$

where:

- the sum includes all possible combinations of liability risk groups (i,j) as set out in Annex XI;
- $Corr_{(liability,i,j)}$ denotes the correlation coefficient for liability risk of liability risk groups i and j as set out in Annex XI;
- $SCR_{(liability,i)}$ denotes the capital requirement for liability risk of liability risk group i .

2 For all liability risk groups set out in Annex XI the capital requirement for liability risk of a particular liability risk group i shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous loss of an amount that, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, is equal to the following:

$$L_{(liability,i)} = f_{(liability,i)} \times P_{(liability,i)}$$

where:

- $f_{(liability,i)}$ denotes the risk factor for liability risk group i as set out in Annex XI;
- $P_{(liability,i)}$ denotes the premiums earned by the insurance or reinsurance undertaking during the following 12 months in relation to insurance and reinsurance obligations in liability risk group i ; for this purpose premiums shall be gross, without deduction of premiums for reinsurance contracts.

3 The calculation of the loss in basic own funds referred to in paragraph 2 shall be based on the following assumptions:

- the loss of liability risk group i is caused by n_i claims and the losses caused by these claims are representative for the business of the insurance or reinsurance undertaking in liability risk group i and sum up to the loss of liability risk group i ;
- the number of claims n_i is equal to the lowest integer that exceeds the following amount:

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$$\frac{f_{(liability,i)} \times P_{(liability,i)}}{1,15 \times Lim_{(i,1)}}$$

where:

- (i) $f_{(liability,i)}$ and $P_{(liability,i)}$ are defined as in paragraph 2;
 - (ii) $Lim_{(i,1)}$ denotes the largest liability limit of indemnity provided by the insurance or reinsurance undertaking in liability risk group i ;
- c where the insurance or reinsurance undertaking provides unlimited cover in liability risk group i , the number of claims n_i is equal to one.

Article 134

Credit and suretyship risk sub-module

1 The capital requirement for credit and suretyship risk shall be equal to the following:

$$SCR_{credit} = \sqrt{SCR_2^{default} + SCR_2^{recession}}$$

where:

- (a) $SCR_{default}$ is the capital requirement for the risk of a large credit default;
- (b) $SCR_{recession}$ is the capital requirement for recession risk.

2 The capital requirement for the risk of a large credit default shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous default of the two largest exposures relating to obligations included in the lines of business 9 and 21 of an insurance or reinsurance undertaking. The calculation of the capital requirement shall be based on the assumption that the loss-given-default, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, of each exposure is 10 % of the sum insured in relation to the exposure.

3 The two largest credit insurance exposures referred to in paragraph 2 shall be determined based on a comparison of the net loss-given-default of the credit insurance exposures, being the loss-given-default after deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles.

4 The capital requirement for recession risk shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous loss of an amount that, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, is equal to 100 % of the premiums earned by the insurance or reinsurance undertaking during the following 12 months in lines of business 9 and 21.

Article 135

Sub-module for other non-life catastrophe risk

The capital requirement for other non-life catastrophe risk shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous loss, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, that is equal to the following amount:

$$L_{other} = \sqrt{(c_1 \times P_1 + c_2 \times P_2)^2 + (c_3 \times P_3)^2 + (c_4 \times P_4)^2 + (c_5 \times P_5)^2}$$

where:

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- (a) P_1, P_2, P_3, P_4 and P_5 denote estimates of the gross premium, without deduction of the amounts recoverable from reinsurance contracts, expected to be earned by the insurance or reinsurance undertaking during the following 12 months in relation to the groups of insurance and reinsurance obligations 1 to 5 set out in Annex XII;
- (b) c_1, c_2, c_3, c_4 and c_5 denote the risk factors for the groups of insurance and reinsurance obligations 1 to 5 set out in Annex XII.

SECTION 3

Life underwriting risk module

Article 136

Correlation coefficients

- 1 The life underwriting risk module shall consist of all of the following sub-modules:
 - a the mortality risk sub-module referred to in point (a) of subparagraph 2 of Article 105(3) of Directive 2009/138/EC;
 - b the longevity risk sub-module referred to in point (b) of subparagraph 2 of Article 105(3) of Directive 2009/138/EC;
 - c the disability-morbidity risk sub-module referred to in point (c) of subparagraph 2 of Article 105(3) of Directive 2009/138/EC;
 - d the life-expense risk sub-module referred to in point (d) of subparagraph 2 of Article 105(3) of Directive 2009/138/EC;
 - e the revision risk sub-module referred to in point (e) of subparagraph 2 of Article 105(3) of Directive 2009/138/EC;
 - f the lapse risk sub-module referred to in point (f) of subparagraph 2 of Article 105(3) of Directive 2009/138/EC;
 - g the life-catastrophe risk sub-module referred to in point (g) of subparagraph 2 of Article 105(3) of Directive 2009/138/EC.

- 2 The capital requirement for life underwriting risk shall be equal to the following:

$$SCR_{life} = \sqrt{\sum_{i,j} CorrNL_{(i,j)} \times SCR_i \times SCR_j}$$

where:

- (a) the sum covers all possible combinations (i,j) of the sub-modules set out in paragraph 1;
- (b) $CorrNL_{(i,j)}$ denotes the correlation parameter for life underwriting risk for sub-modules i and j ;
- (c) SCR_i and SCR_j denote the capital requirements for risk sub-module i and j respectively.

- 3 The correlation coefficient $Corr_{i,j}$ referred to in point 3 of Annex IV of Directive 2009/138/EC shall be equal to the item set out in row i and in column j of the following correlation matrix:

ji	Mortality	Longevity	Disability	Life expense	Revision	Lapse	Life catastrophe
Mortality	1	-0,25	0,25	0,25	0	0	0,25

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Longevity	0,25	1	0	0,25	0,25	0,25	0
Disability	0,25	0	1	0,5	0	0	0,25
Life expense	0,25	0,25	0,5	1	0,5	0,5	0,25
Revision	0	0,25	0	0,5	1	0	0
Lapse	0	0,25	0	0,5	0	1	0,25
Life catastrophe	0,25	0	0,25	0,25	0	0,25	1

Modifications etc. (not altering text)

C2 Art. 136(3): power to amend and revoke conferred (31.12.2020) by [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), 4, **Sch. 3** (as amended by [S.I. 2020/1301](#), regs. 1, 3, **Sch. para. 27(a)** and [S.I. 2020/1385](#), regs. 1(2), 54(2))

Article 137

Mortality risk sub-module

1 The capital requirement for mortality risk referred to in Article 105(3)(a) of Directive 2009/138/EC shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous permanent increase of 15 % in the mortality rates used for the calculation of technical provisions

2 The increase in mortality rates referred to in paragraph 1 shall only apply to those insurance policies for which an increase in mortality rates leads to an increase in technical provisions without the risk margin. The identification of insurance policies for which an increase in mortality rates leads to an increase in technical provisions without the risk margin may be based on the following assumptions:

- a multiple insurance policies in respect of the same insured person may be treated as if they were one insurance policy;
- b where the calculation of technical provisions is based on groups of policies as referred to in Article 35, the identification of the policies for which technical provisions increase under an increase of mortality rates may also be based on those groups of policies instead of single policies, provided that it yields a result which is not materially different.

3 With regard to reinsurance obligations, the identification of the policies for which technical provisions increase under an increase of mortality rates shall apply to the underlying insurance policies only and shall be carried out in accordance with paragraph 2.

Article 138

Longevity risk sub-module

1 The capital requirement for longevity risk referred to in Article 105(3)(b) of Directive 2009/138/EC shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous permanent decrease of 20 % in the mortality rates used for the calculation of technical provisions.

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2 The decrease in mortality rates referred to in paragraph 1 shall only apply to those insurance policies for which a decrease in mortality rates leads to an increase in technical provisions without the risk margin. The identification of insurance policies for which a decrease in mortality rates leads to an increase in technical provisions without the risk margin may be based on the following assumptions:

- a multiple insurance policies in respect of the same insured person may be treated as if they were one insurance policy;
- b where the calculation of technical provisions is based on groups of policies as referred to in Article 35, the identification of the policies for which technical provisions increase under a decrease of mortality rates may also be based on those groups of policies instead of single policies, provided that it yields a result which is not materially different.

3 With regard to reinsurance obligations, the identification of the policies for which technical provisions increase under a decrease of mortality rates shall apply to the underlying insurance policies only and shall be carried out in accordance with paragraph 2.

Article 139

Disability-morbidity risk sub-module

The capital requirement for disability-morbidity risk referred to in Article 105(3)(c) of Directive 2009/138/EC shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from the combination of the following instantaneous permanent changes:

- (a) an increase of 35 % in the disability and morbidity rates which are used in the calculation of technical provisions to reflect the disability and morbidity experience in the following 12 months;
- (b) an increase of 25 % in the disability and morbidity rates which are used in the calculation of technical provisions to reflect the disability and morbidity experience for all months after the following 12 months;
- (c) a decrease of 20 % in the disability and morbidity recovery rates used in the calculation of technical provisions in respect of the following 12 months and for all years thereafter.

Article 140

Life-expense risk sub-module

The capital requirement for life-expense risk referred to in Article 105(3)(d) of Directive 2009/138/EC shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from the combination of the following instantaneous permanent changes:

- (a) an increase of 10 % in the amount of expenses taken into account in the calculation of technical provisions;
- (b) an increase of 1 percentage point to the expense inflation rate (expressed as a percentage) used for the calculation of technical provisions.

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With regard to reinsurance obligations, insurance and reinsurance undertakings shall apply those changes to their own expenses and, where relevant, to the expenses of the ceding undertakings.

Article 141

Revision risk sub-module

The capital requirement for revision risk referred to in Article 105(3)(e) of Directive 2009/138/EC shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous permanent increase of 3 % in the amount of annuity benefits only on annuity insurance and reinsurance obligations where the benefits payable under the underlying insurance policies could increase as a result of changes in the legal environment or in the state of health of the person insured.

Article 142

Lapse risk sub-module

1 The capital requirement for lapse risk referred to in Article 105(3)(f) of Directive 2009/138/EC shall be equal to the largest of the following capital requirements:

- a the capital requirement for the risk of a permanent increase in lapse rates;
- b the capital requirement for the risk of a permanent decrease in lapse rates;
- c the capital requirement for mass lapse risk.

2 The capital requirement for the risk of a permanent increase in lapse rates shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous permanent increase of 50 % in the option exercise rates of the relevant options set out in paragraphs 4 and 5. Nevertheless, the increased option exercise rates shall not exceed 100 % and the increase in option exercise rates shall only apply to those relevant options for which the exercise of the option would result in an increase of technical provisions without the risk margin.

3 The capital requirement for the risk of a permanent decrease in lapse rates shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous permanent decrease of 50 % in the option exercise rates of the relevant options set out in paragraph 4 and 5. Nevertheless, the decrease in option exercise rates shall not exceed 20 percentage points and the decrease in option exercise rates shall only apply to those relevant options for which the exercise of the option would result in a decrease of technical provisions without the risk margin.

4 The relevant options for the purposes of paragraphs 2 and 3 shall be the following:

- a all legal or contractual policyholder rights to fully or partly terminate, surrender, decrease, restrict or suspend insurance cover or permit the insurance policy to lapse;
- b all legal or contractual policyholder rights to fully or partially establish, renew, increase, extend or resume the insurance or reinsurance cover.

For the purposes of point (b), the change in the option exercise rate referred to in paragraphs 2 and 3 shall be applied to the rate reflecting that the relevant option is not exercised.

5 In relation to reinsurance contracts the relevant options for the purposes of paragraph 2 and 3 shall be the following:

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- a the rights referred to in paragraph 4 of the policy holders of the reinsurance contracts;
 - b the rights referred to in paragraph 4 of the policy holders of the insurance contracts underlying the reinsurance contracts;
 - c where the reinsurance contracts covers insurance or reinsurance contracts that will be written in the future, the right of the potential policy holders not to conclude those insurance or reinsurance contracts.
- 6 The capital requirement for mass lapse risk shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from a combination of the following instantaneous events:
- a the discontinuance of 70 % of the insurance policies falling within the scope of operations referred to with Article 2(3)(b)(iii) and (iv) of Directive 2009/138/EC, for which discontinuance would result in an increase of technical provisions without the risk margin and where one of the following conditions are met:
 - (i) the policyholder is not a natural person and discontinuance of the policy is not subject to approval by the beneficiaries of the pension fund;
 - (ii) the policyholder is a natural person acting for the benefit of the beneficiaries of the policy, except where there is a family relationship between that natural person and the beneficiaries, or where the policy is effected for private estate planning or inheritance purposes and the number of beneficiaries under the policy does not exceed 20;
 - b the discontinuance of 40 % of the insurance policies other than those falling within point (a) for which discontinuance would result in an increase of technical provisions without the risk margin;
 - c where reinsurance contracts cover insurance or reinsurance contracts that will be written in the future, the decrease of 40 % of the number of those future insurance or reinsurance contracts used in the calculation of technical provisions.

The events referred to in the first subparagraph shall apply uniformly to all insurance and reinsurance contracts concerned. In relation to reinsurance contracts, the event referred to in point (a) shall apply to the underlying insurance contracts.

For the purposes of determining the loss in basic own funds of the insurance or reinsurance undertaking under the events referred to in points (a) and (b) the undertaking shall base the calculation on the type of discontinuance which most negatively affects the basic own funds of the undertaking on a per policy basis.

7 Where the largest of the capital requirements referred to in points (a), (b) and (c) of paragraph 1 of this Article and the largest of the corresponding capital requirements calculated in accordance with Article 206(2) of this Regulation are not based on the same scenario, the capital requirement for lapse risk referred to in Article 105(3)(f) of Directive 2009/138/EC shall be the capital requirement referred to in points (a), (b) and (c) of paragraph 1 of this Article for which the underlying scenario results in the largest corresponding capital requirement calculated in accordance with Article 206(2) of this Regulations.

Article 143

Life-catastrophe risk sub-module

1 The capital requirement for life-catastrophe risk referred to in Article 105(3)(g) of Directive 2009/138/EC shall be equal to the loss in basic own funds of insurance and reinsurance

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undertakings that would result from an instantaneous increase of 0.15 percentage points to the mortality rates (expressed as percentages) which are used in the calculation of technical provisions to reflect the mortality experience in the following 12 months.

2 The increase in mortality rates referred to in paragraph 1 shall only apply to those insurance policies for which an increase in mortality rates which are used to reflect the mortality experience in the following 12 months leads to an increase in technical provisions. The identification of insurance policies for which an increase in mortality rates leads to an increase in technical provisions without the risk margin may be based on the following assumptions:

- a multiple insurance policies in respect of the same insured person may be treated as if they were one insurance policy;
- b where the calculation of technical provisions is based on groups of policies as referred to in Article 35, the identification of the policies for which technical provisions increase under an increase of mortality rates may also be based on those groups of policies instead of single policies, provided that it yields a result which is not materially different.

3 With regard to reinsurance policies, the identification of the policies for which technical provisions increase under an increase of mortality rates shall apply to the underlying insurance policies only and shall be carried out in accordance with paragraph 2.

SECTION 4

Health underwriting risk module

Article 144

Health underwriting risk module

1 The health underwriting risk module shall consist of all of the following sub-modules:

- a the NSLT health insurance underwriting risk sub-module;
- b the SLT health insurance underwriting risk sub-module;
- c the health catastrophe risk sub-module.

2 The capital requirement for health underwriting risk shall be equal to the following:

$$SCR_{\text{health}} = \sqrt{\sum_{i,j} \text{Corr}H_{(i,j)} \times SCR_i \times SCR_j}$$

where:

- (a) the sum covers all possible combinations (i,j) of the sub-modules set out in paragraph 1;
- (b) $\text{Corr}H_{(i,j)}$ denotes the correlation parameter for health underwriting risk for sub-modules i and j ;
- (c) SCR_i and SCR_j denote the capital requirements for risk sub-module i and j respectively.

3 The correlation coefficient $\text{Corr}H_{(i,j)}$ referred to in paragraph 2 denotes the item set out in row i and in column j of the following correlation matrix:

ji	NSLT health underwriting	SLT health underwriting	Health catastrophe
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Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

NSLT health underwriting	1	0,5	0,25
SLT health underwriting	0,5	1	0,25
Health catastrophe	0,25	0,25	1

- 4 Insurance and reinsurance undertakings shall apply:
- the NSLT health underwriting risk sub-module to health insurance and reinsurance obligations included in lines of business 1, 2, 3, 13, 14, 15 and 25 as set out in Annex I;
 - the SLT health underwriting risk sub-module to health insurance and reinsurance obligations included in lines of business 29, 33 and 35 as set out in Annex I;
 - the health catastrophe risk sub-module to health insurance and reinsurance obligations.

Modifications etc. (not altering text)

- C3** Art. 144(3): power to amend and revoke conferred (31.12.2020) by [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), 4, **Sch. 3** (as amended by [S.I. 2020/1301](#), regs. 1, 3, [Sch. para. 27\(a\)](#) and [S.I. 2020/1385](#), regs. 1(2), 54(2))

Article 145

NSLT health underwriting risk sub-module

1 The NSLT health underwriting risk sub-module shall consist of the following sub-modules:

- the NSLT health premium and reserve risk sub-module;
- the NSLT health lapse risk sub-module.

2 The capital requirement for NSLT health underwriting risk shall be equal to the following:

$$SCR_{NSLTh} = \sqrt{SCR_2^{(NSLTh,pr)} + SCR_2^{(NSLTh,lapse)}}$$

where:

- $SCR_{(NSLTh,pr)}$ denotes the capital requirement for NSLT health premium and reserve risk;
- $SCR_{(NSLTh,lapse)}$ denotes the capital requirement for NSLT health lapse risk.

Article 146

NSLT health premium and reserve risk sub-module

The capital requirement for NSLT health premium and reserve risk shall be equal to the following:

$$SCR_{(NSLT,pr)} = 3 \times \sigma_{NSLTh} \times V_{NSLTh}$$

where:

- σ_{NSLTh} denotes the standard deviation for NSLT health premium and reserve risk determined in accordance with Article 148;

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- (b) V_{NSLT_h} denotes the volume measure for NSLT health premium and reserve risk determined in accordance with Article 147.

Article 147

Volume measure for NSLT health premium and reserve risk

1 The volume measure for NSLT health premium and reserve risk shall be equal to the sum of the volume measures for premium and reserve risk of the segments set out in Annex XIV.

2 For all segments set out in Annex XIV, the volume measure of a particular segment s shall be equal to the following:

$$V_s = (V_{(prem,s)} + V_{(res,s)}) \times (0,75 + 0,25 \times DIV_s)$$

where:

- (a) $V_{(prem,s)}$ denotes the volume measure for premium risk of segment s ;
- (b) $V_{(res,s)}$ denotes the volume measure for reserve risk of segment s ;
- (c) DIV_s denotes the factor for geographical diversification of segment s .

3 For all segments set out in Annex XIV, the volume measure for premium risk of a particular segment s shall be equal to the following:

$$V_{(prem,s)} = \max(P_s; P_{(last,s)}) + FP_{(existing,s)} + FP_{(future,s)}$$

where:

- (a) P_s denotes an estimate of the premiums to be earned by the insurance or reinsurance undertaking in the segment s during the following 12 months;
- (b) $P_{(last,s)}$ denotes the premiums earned by the insurance and reinsurance undertaking in the segment s during the last 12 months;
- (c) $FP_{(existing,s)}$ denotes the expected present value of premiums to be earned by the insurance and reinsurance undertaking in the segment s after the following 12 months for existing contracts;
- (d) $FP_{(future,s)}$ denotes the following amount with respect to contracts where the initial recognition date falls in the following 12 months:
- (i) for all such contracts whose initial term is one year or less, the expected present value of premiums to be earned by the insurance or reinsurance undertaking in the segment s , but excluding the premiums to be earned during the 12 months after the initial recognition date;
- (ii) for all such contracts whose initial term is more than one year, the amount equal to 30 % of the expected present value of premiums to be earned by the insurance or reinsurance undertaking in the segment s after the following 12 months.]

4 For all segments set out in Annex XIV, insurance and reinsurance undertakings may, as an alternative to the calculation set out in paragraph 3, choose to calculate the volume measure for premium risk of a particular segment s in accordance with the following formula:

$$V_{(prem,s)} = P_s + FP_{(existing,s)} + FP_{(future,s)}$$

provided that all of the following conditions are met:

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- (a) the administrative, management or supervisory body of the insurance or reinsurance undertaking has decided that its earned premiums in the segment s during the following 12 months will not exceed P_s ;
- (b) the insurance or reinsurance undertaking has established effective control mechanisms to ensure that the limits on earned premiums referred to in point (a) will be met;
- (c) the insurance or reinsurance undertaking has informed its supervisory authority about the decision referred to in point (a) and the reasons for it.

For the purposes of this paragraph, the terms P_s , $FP_{(existing,s)}$ and $FP_{(future,s)}$ shall be denoted in accordance with points (a), (c) and (d) of paragraph 3.

5 For the purposes of the calculations set out in paragraphs 3 and 4, premiums shall be net, after deduction of premiums for reinsurance contracts. The following premiums for reinsurance contracts shall not be deducted:

- a premiums in relation to non-insurance events or settled insurance claims that are not accounted for in the cash-flows referred to in Article 41(3);
- b premiums for reinsurance contracts that do not comply with Articles 209, 210, 211 and 213.

6 For all segments set out in Annex XIV, the volume measure for reserve risk of a particular segment shall be equal to the best estimate for the provision for claims outstanding for the segment, after deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, provided that the reinsurance contracts or special purpose vehicles comply with Articles 209, 210, 211 and 213. The volume measure shall not be a negative amount.

7 For all segments set out in Annex XIV, the default factor for geographical diversification shall be either equal to 1 or calculated in accordance with Annex III.

Textual Amendments

- F1** Substituted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).

Article 148

Standard deviation for NSLT health premium and reserve risk

1 The standard deviation for NSLT health premium and reserve risk shall be equal to the following:

$$\sigma_{NSLT} = \frac{1}{V_{NSLT}} \times \sqrt{\sum_{s,t} CorrHS_{(s,t)} \times \sigma_s \times V_s \times \sigma_t \times V_t}$$

where:

- (a) V_{NSLT} denotes the volume measure for NSLT health premium and reserve risk;
- (b) the sum covers all possible combinations (s,t) of the segments set out in Annex XIV;
- (c) $CorrHS_{(s,t)}$ denotes the correlation coefficient for NSLT health premium and reserve risk for segment s and segment t set out in Annex XV;

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date.

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- (d) σ_s and σ_t denote standard deviations for NSLT health premium and reserve risk of segments s and t respectively;
- (e) V_s and V_t denote volume measures for premium and reserve risk of segments s and t , referred to in Annex XIV, respectively.

2 For all segments set out in Annex XIV, the standard deviation for NSLT health premium and reserve risk of a particular segment s shall be equal to the following:

$$\sigma_s = \frac{\sqrt{\sigma_2^{(prem,s)} \times V_2^{(prem,s)} + \sigma_{(prem,s)} \times V_{(prem,s)} \times \sigma_{(res,s)} \times V_{(res,s)} + \sigma_2^{(res,s)} \times V_2^{(res,s)}}}{V_{(prem,s)} + V_{(res,s)}}$$

where:

- (a) $\sigma_{(prem,s)}$ denotes the standard deviation for NSLT health premium risk of segment s determined in accordance with paragraph 3;
- (b) $\sigma_{(res,s)}$ denotes the standard deviation for NSLT health reserve risk of segment s as set out in Annex XIV;
- (c) $V_{(prem,s)}$ denotes the volume measure for premium risk of segment s referred to in Article 147;
- (d) $V_{(res,s)}$ denotes the volume measure for reserve risk of segment s referred to in Article 147.

3 For all segments set out in Annex XIV, the standard deviation for NSLT health premium risk of a particular segment shall be equal to the product of the standard deviation for NSLT health gross premium risk of the segment set out in Annex XIV and the adjustment factor for non-proportional reinsurance. For all segments set out in Annex XIV the adjustment factor for non-proportional reinsurance shall be equal to 100 %.

Article 149

Health risk equalisation systems

1 For the purposes of [F7 Article 3(5) of this Regulation], health insurance obligations subject to the health risk equalisation systems ('HRES') shall be identified, managed and organised separately from the other activities of the insurance undertakings, without any possibility of transfer to health insurance obligations that are not subject to HRES.

2 The standard deviations for NSLT health premium and reserve risk of segments 1, 2 and 3 in Annex XIV for business that is subject to a HRES shall meet all of the following requirements:

- a the standard deviations are determined separately for each of the segments 1, 2 and 3, as set out in Annex XIV, and separately for premium and reserve risk;
- b for each of the segments set out in Annex XIV, the standard deviation for premium risk is the lower of the following amounts:
 - (i) the standard deviation for NSLT health premium risk of that segment set out in Annex XIV;
 - (ii) the higher of the following amounts:
 - A. a third of the standard deviation for NSLT health premium risk of that segment set out in Annex XIV;

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- B. an estimate of the representative standard deviation of an insurance undertaking's combined ratio, being the ratio of the following annual amounts:
 - the sum of the payments, including the relating expenses, and technical provisions set up for claims incurred during the year for the business subject to the HRES, including any changes due to the HRES;
 - the earned premium of the year for the business subject to the HRES;
- c for each of the segments set out in Annex XIV, the standard deviation for reserve risk is the lower of the following amounts:
 - (i) the standard deviation for NSLT health reserve risk of that segment set out in Annex XIV;
 - (ii) the higher of the following amounts:
 - A. a third of the standard deviation for NSLT health reserve risk of that segment set out in Annex XIV;
 - B. an estimate of the representative standard deviation of an insurance undertaking's run-off ratio, being the ratio of the following annual amounts:
 - the sum of the best estimate provision at the end of the year for claims that were outstanding at the beginning of the year and any claims and expense payments made during the year for claims that were outstanding at the beginning of the year: both amounts include any amendments due to the HRES;
 - the best estimate provision at the beginning of the year for claims outstanding of the business subject to the HRES, including any amendments due to the HRES;
- d the determination of the standard deviation is based on adequate, applicable and relevant actuarial and statistical techniques;
- e the determination of the standard deviation is based on complete, accurate and appropriate data that is directly relevant for the business subject to the HRES and reflects the average degree of diversification at the level of insurance undertakings;
- f the determination of the standard deviation is based on current and credible information and realistic assumptions;
- g the determination of the standard deviation also takes into account any risks which are not mitigated by the HRES, in particular the risk referred to in Article 105(4)(a) of Directive 2009/138/EC and risks which are not reflected in the health catastrophe risk sub-module and that could affect a larger number of insurance undertakings subject to the HRES at the same time;
- h the methodology for the calculation of the standard deviation and the calculation of the standard deviation is publicly available.

3 Where ^{F8}technical standards adopted pursuant to Article 3(5) of this Regulation] determine a standard deviation for NSLT health insurance premium risk for business subject to a HRES that meet the requirements set out in paragraph 2 of this Article, insurance undertakings shall use this standard deviation instead of the standard deviation for NSLT health premium risk of the segment set out in Annex XIV of this Regulation for the calculation of the standard

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deviation for NSLT health premium and reserve risk referred to in Article 148(1) of this Regulation.

Where only a part of an insurance undertaking's business in a segment s is subject to the HRES, the undertaking shall use a standard deviation for NSLT health premium risk of the segment in the calculation of the standard deviation for NSLT health premium and reserve risk referred to in Article 148(1) that is equal to the following:

$$\sigma_{(prem,s)} = \frac{\sigma_{(prem,s)} \times V_{(prem,s,nHRES)} + \sigma_{(prem,s,HRES)} \times V_{(prem,s,HRES)}}{V_{(prem,s,nHRES)} + V_{(prem,s,HRES)}}$$

where:

- (a) $\sigma_{(prem,s)}$ denotes the standard deviation for NSLT health premium risk segment s set out in Annex XIV;
- (b) $V_{(prem,s,nHRES)}$ denotes the volume measure for NSLT health premium risk of the business in segment s that is not subject to the HRES;
- (c) $\sigma_{(prem,s,HRES)}$ denotes the standard deviation for NSLT health premium risk of segment s for business subject to the HRES calculated in accordance with paragraph 2;
- (d) $V_{(prem,s,HRES)}$ denotes the volume measure for NSLT health premium risk of business in segment s that is subject to the HRES.

$V_{(prem,s,HRES)}$ and $V_{(prem,s,nHRES)}$ shall be calculated in the same way as the volume measure for NSLT health premium risk of segment s referred to in Article 147, but $V_{(prem,s,HRES)}$ shall only take into account the insurance and reinsurance obligations subject to HRES and $V_{(prem,s,nHRES)}$ shall only take into account the insurance and reinsurance obligations not subject to the HRES.

4 Where [F⁹technical standards adopted pursuant to Article 3(5) of this Regulation] determine a standard deviation for NSLT health insurance reserve risk for business subject to a HRES that fulfill the requirements set out in paragraph 2 of this Article, insurance undertakings shall use this standard deviation instead of the standard deviation for NSLT health reserve risk of the segment set out in Annex XIV of this Regulation for the calculation of the standard deviation for NSLT health premium and reserve risk referred to in Article 148(1) of this Regulation.

Where only a part of an insurance undertaking's business in a segment s is subject to the HRES, the undertaking shall use a standard deviation for NSLT health premium risk of the segment in the calculation of the standard deviation for NSLT health premium and reserve risk referred to in Article 148(1) that is equal to the following:

$$\sigma_{(res,s)} = \frac{\sigma_{(res,s)} \times V_{(res,s,nHRES)} + \sigma_{(res,s,HRES)} \times V_{(res,s,HRES)}}{V_{(res,s,nHRES)} + V_{(res,s,HRES)}}$$

where:

- (a) $\sigma_{(res,s)}$ denotes the standard deviation for NSLT health reserve risk segment s as set out in Annex XIV;
- (b) $V_{(res,s,nHRES)}$ denotes the volume measure for NSLT health reserve risk of the business in segment s that is not subject to the HRES;
- (c) $\sigma_{(res,s,HRES)}$ denotes the standard deviation for NSLT health reserve risk of segment s for business subject to the HRES calculated in accordance with paragraph 2;
- (d) $V_{(res,s,HRES)}$ denotes the volume measure for NSLT health reserve risk of business in segment s that is subject to the HRES.

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Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date.

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$V_{(res,s,nHRES)}$ and $V_{(res,s,HRES)}$ shall be calculated in the same way as the volume measure for NSLT health reserve risk of segment s referred to in Article 147, but $V_{(res,s,HRES)}$ shall only take into account the insurance and reinsurance obligations subject to the HRES and $V_{(res,s,nHRES)}$ shall only take into account the insurance and reinsurance obligations not subject to the HRES.

5 Insurance and reinsurance undertakings may replace the standard deviations for NSLT health premium and reserve risk for business subject to a HRES with parameters specific to the insurance and reinsurance undertaking in accordance with Article 104(7) of Directive 2009/138/EC. Supervisory authorities may require insurance and reinsurance undertakings to replace those standard deviations with parameters specific to the undertaking ^{F10}

Textual Amendments

- F7** Words in Art. 149(1) substituted (31.12.2020) by The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(15)(a)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)
- F8** Words in Art. 149(3) substituted (31.12.2020) by The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(15)(b)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)
- F9** Words in Art. 149(4) substituted (31.12.2020) by The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(15)(b)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)
- F10** Words in Art. 149(5) omitted (31.12.2020) by virtue of The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(15)(c)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)

Article 150

NSLT health lapse risk sub-module

1 The capital requirement for NSLT health lapse risk referred to in Article 145(1)(b) shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from the combination of the following instantaneous events:

- a the discontinuance of 40 % of the insurance policies for which discontinuance would result in an increase of technical provisions without the risk margin;
- b where reinsurance contracts cover insurance or reinsurance contracts that will be written in the future, the decrease of 40 % of the number of those future insurance or reinsurance contracts used in the calculation of technical provisions.

2 The events referred to in paragraph 1 shall apply uniformly to all insurance and reinsurance contracts concerned. In relation to reinsurance contracts the event referred to in point (a) of paragraph 1 shall apply to the underlying insurance contracts.

3 For the purposes of determining the loss in basic own funds of the insurance or reinsurance undertaking under the event referred to in point (a) of paragraph 1, the undertaking shall base the calculation on the type of discontinuance which most negatively affects the basic own funds of the undertaking on a per policy basis.

*Status: Point in time view as at 31/12/2020.**Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)**Article 151***SLT health underwriting risk sub-module**

1 The SLT health underwriting risk module shall consist of all of the following sub-modules:

- a the health mortality risk sub-module;
- b the health longevity risk sub-module;
- c the health disability-morbidity risk sub-module;
- d the health expense risk sub-module;
- e the health revision risk sub-module;
- f the SLT health lapse risk sub-module.

2 The capital requirement for SLT health underwriting risk shall be equal to the following:

$$SCR_{SLTH} = \sqrt{\sum_{i,j} CorrSLTH_{(i,j)} \times SCR_i \times SCR_j}$$

where:

- (a) the sum denotes all possible combinations (i,j) of the sub-modules set out in paragraph 1;
- (b) $CorrSLTH_{(i,j)}$ denotes the correlation parameter for SLT health underwriting risk for sub-modules i and j ;
- (c) SCR_i and SCR_j denote the capital requirements for risk sub-module i and j respectively.

3 The correlation coefficient $CorrSLTH_{(i,j)}$ referred to in paragraph 2 shall be equal to the item set out in row i and in column j of the following correlation matrix:

<i>ji</i>	Health mortality	Health longevity	Health disability-morbidity	Health expense	Health revision	SLT health lapse
Health mortality	1	- 0,25	0,25	0,25	0	0
Health longevity	- 0,25	1	0	0,25	0,25	0,25
Health disability-morbidity	0,25	0	1	0,5	0	0
Health expense	0,25	0,25	0,5	1	0,5	0,5
Health revision	0	0,25	0	0,5	1	0
SLT health lapse	0	0,25	0	0,5	0	1

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Modifications etc. (not altering text)

- C4** Art. 151(3): power to amend and revoke conferred (31.12.2020) by [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), 4, **Sch. 3** (as amended by [S.I. 2020/1301](#), regs. 1, 3, [Sch. para. 27\(a\)](#) and [S.I. 2020/1385](#), regs. 1(2), 54(2))

Article 152

Health mortality risk sub-module

1 The capital requirement for health mortality risk shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous permanent increase of 15 % in the mortality rates used for the calculation of technical provisions.

2 The increase in mortality rates referred to in paragraph 1 shall only apply to those insurance policies for which an increase in mortality rates leads to an increase in technical provisions without the risk margin. The identification of insurance policies for which an increase in mortality rates leads to an increase in technical provisions without the risk margin may be based on the following:

- a multiple insurance policies in respect of the same insured person may be treated as if they were one insurance policy;
- b where the calculation of technical provisions is based on groups of policies as referred to in Article 35, the identification of the policies for which technical provisions increase under an increase of mortality rates may also be based on those groups of policies instead of single policies, provided that it yields a result which is not materially different.

3 With regard to reinsurance obligations, the identification of the policies for which technical provisions increase under an increase of mortality rates shall apply to the underlying insurance policies only and shall be carried out in accordance with paragraph 2.

Article 153

Health longevity risk sub-module

1 The capital requirement for health longevity risk shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous permanent decrease of 20 % in the mortality rates used for the calculation of technical provisions.

2 The decrease in mortality rates referred to in paragraph 1 shall only apply to those insurance policies for which a decrease in mortality rates leads to an increase in technical provisions without the risk margin. The identification of insurance policies for which a decrease in mortality rates leads to an increase in technical provisions without the risk margin may be based on the following assumptions:

- a multiple insurance policies in respect of the same insured person may be treated as if they were one insurance policy;
- b where the calculation of technical provisions is based on groups of policies as referred to in Article 35, the identification of the policies for which technical provisions increase under an decrease of mortality rates may also be based on those groups of policies

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instead of single policies, provided that it yields a result which is not materially different.

3 With regard to reinsurance obligations, the identification of the policies for which technical provisions increase under an decrease of mortality rates shall apply only to the underlying insurance policies and shall be carried out in accordance with paragraph 2.

Article 154

Health disability-morbidity risk sub-module

1 The capital requirement for health disability-morbidity risk shall be equal to the sum of the following:

- a the capital requirement for medical expense disability-morbidity risk;
- b the capital requirement for income protection disability-morbidity risk.

2 Insurance and reinsurance undertakings shall apply:

- a the scenarios underlying the calculation of the capital requirement for medical expense disability-morbidity risk only to medical expense insurance and reinsurance obligations where the underlying business is pursued on a similar technical basis to that of life insurance;
- b the scenarios underlying the calculation of the capital requirement for income protection disability-morbidity risk only to income protection insurance and reinsurance obligations where the underlying business is pursued on a similar technical basis to that of life insurance.

Article 155

Capital requirement for medical expense disability-morbidity risk

1 The capital requirement for medical expense disability-morbidity risk shall be equal to the larger of the following capital requirements:

- a the capital requirement for the increase of medical payments;
- b the capital requirement for the decrease of medical payments.

2 The capital requirement for the increase of medical payments shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from the following combination of instantaneous permanent changes:

- a an increase of 5 % in the amount of medical payments taken into account in the calculation of technical provisions;
- b an increase by 1 percentage point to the inflation rate of medical payments (expressed as a percentage) used for the calculation of technical provisions.

3 The capital requirement for the decrease of medical payments shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from the following combination of instantaneous permanent changes:

- a a decrease of 5 % in the amount of medical payments taken into account in the calculation of technical provisions;
- b a decrease by 1 percentage point from the inflation rate of medical payments (expressed as a percentage) used for the calculation of technical provisions.

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Article 156

Capital requirement for income protection disability-morbidity risk

The capital requirement for income protection disability-morbidity risk shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from the following combination of instantaneous permanent changes:

- (a) an increase of 35 % in the disability and morbidity rates which are used in the calculation of technical provisions to reflect the disability and morbidity in the following 12 months;
- (b) an increase of 25 % in the disability and morbidity rates which are used in the calculation of technical provisions to reflect the disability and morbidity in the years after the following 12 months;
- (c) where the disability and morbidity recovery rates used in the calculation of technical provisions are lower than 50 %, a decrease of 20 % in those rates;
- (d) where the disability and morbidity persistency rates used in the calculation of technical provisions are equal or lower than 50 %, an increase of 20 % in those rates.

Article 157

Health expense risk sub-module

The capital requirement for health expense risk shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from the following combination of instantaneous permanent changes:

- (a) an increase of 10 % in the amount of expenses taken into account in the calculation of technical provisions;
- (b) an increase by 1 percentage point to the expense inflation rate (expressed as a percentage) used for the calculation of technical provisions.

With regard to reinsurance obligations, insurance and reinsurance undertakings shall apply those changes to their own expenses and, where relevant, to the expenses of the ceding undertakings.

Article 158

Health revision risk sub-module

The capital requirement for health revision risk shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous permanent increase of 4 % in the amount of annuity benefits, only on annuity insurance and reinsurance obligations where the benefits payable under the underlying insurance policies could increase as a result of changes in inflation, the legal environment or the state of health of the person insured.

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

Article 159

SLT health lapse risk sub-module

1 The capital requirement for SLT health lapse risk referred to in Article 151(1)(f) shall be equal to the largest of the following capital requirements:

- a capital requirement for the risk of a permanent increase in SLT health lapse rates;
- b capital requirement for the risk of a permanent decrease in SLT health lapse rates;
- c capital requirement for SLT health mass lapse risk.

2 The capital requirement for the risk of a permanent increase in SLT health lapse rates shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous permanent increase of 50 % in the exercise rates of the relevant options set out in paragraph 4 and 5. Nevertheless, the increased option exercise rates shall not exceed 100 % and the increase in option exercise rates shall only apply to those relevant options for which the exercise would result in an increase of technical provisions without the risk margin.

3 The capital requirement for the risk of a permanent decrease in SLT health lapse rates shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous permanent decrease of 50 % in the option exercise rates of the relevant options set out in paragraph 4 and 5. Nevertheless, the decrease in option exercise rates shall not exceed 20 percentage points and the decrease in option exercise rates shall only apply to those relevant options for which the exercise would result in a decrease of technical provisions without the risk margin.

4 The relevant options for the purposes of paragraphs 2 and 3 shall be the following:

- a all legal or contractual policyholder rights to fully or partly terminate, surrender, decrease, restrict or suspend the insurance or reinsurance cover or permit the insurance policy to lapse;
- b all legal or contractual policyholder rights to fully or partially establish, renew, increase, extend or resume the insurance or reinsurance cover.

For the purposes of point (b), the change in the option exercise rate referred to in paragraphs 2 and 3 should be applied to the rate reflecting that the relevant option is not exercised.

5 In relation to reinsurance contracts, the relevant options for the purposes of paragraphs 2 and 3 shall be the following:

- a the rights referred to in paragraph 4 of the policy holders of the reinsurance contracts;
- b the rights set out in paragraph 4 of the policy holders of the insurance contracts underlying the reinsurance contracts;
- c where reinsurance contracts cover insurance or reinsurance contracts that will be written in the future, the right of the potential policy holders not to conclude those insurance or reinsurance contracts.

6 The capital requirement for SLT health mass lapse risk shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from a combination of the following instantaneous events:

- a the discontinuance of 40 % of the insurance policies for which discontinuance would result in an increase of technical provisions without the risk margin;

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

- b where reinsurance contract covers insurance or reinsurance contracts that will be written in the future, the decrease of 40 % of the number of those future insurance or reinsurance contracts used in the calculation of the technical provisions.

The events referred to in the first subparagraph shall apply uniformly to all insurance and reinsurance contracts concerned. In relation to reinsurance contracts the event referred to in point (a) shall apply to the underlying insurance contracts.

For the purposes of determining the loss in basic own funds of the insurance or reinsurance undertaking under the event referred to in point (a), the undertaking shall base the calculation on the type of discontinuance which most negatively affects the basic own funds of the undertaking on a per policy basis.

7 Where the largest of the capital requirements referred to in points (a) (b), and (c) of paragraph 1 of this Article and the largest of the corresponding capital requirements calculated in accordance with Article 206(2) of this Regulation are not based on the same scenario, the capital requirement for lapse risk referred to in Article 105(3)(f) of Directive 2009/138/EC shall be the capital requirement referred to in points (a), (b) or (c) of paragraph 1 of this Article for which the underlying scenario results in the largest corresponding capital requirement calculated in accordance with Article 206(2) of this Regulation.

Article 160

Health catastrophe risk sub-module

1 The capital requirement for the health catastrophe risk sub-module shall be equal to the following:

$$SCR_{\text{healthCAT}} = \sqrt{SCR_{ma}^{ma} + SCR_{ac}^{ac} + SCR_p^p}$$

where:

- (a) SCR_{ma} denotes the capital requirement of the mass accident risk sub-module;
- (b) SCR_{ac} denotes the capital requirement of the accident concentration risk sub-module;
- (c) SCR_p denotes the capital requirement of the pandemic risk sub-module.

2 Insurance and reinsurance undertakings shall apply:

- a the mass accident risk sub-module to health insurance and reinsurance obligations other than workers' compensation insurance and reinsurance obligations;
- b the accident concentration risk sub-module to workers' compensation insurance and reinsurance obligations and to group income protection insurance and reinsurance obligations;
- c the pandemic risk sub-module to health insurance and reinsurance obligations other than workers' compensation insurance and reinsurance obligations.

Article 161

Mass accident risk sub-module

1 The capital requirement for the mass accident risk sub-module shall be equal to the following:

$$SCR_{ma} = \sqrt{\sum_s SCR_2^{(ma,s)}}$$

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date.

Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

where:

- (a) the sum includes all countries set out in Annex XVI;
- (b) $SCR_{(ma,s)}$ denotes the capital requirement for mass accident risk of country s .

2 For all countries set out in Annex XVI, the capital requirement for mass accident risk of a particular country s shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous loss of an amount that, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles is calculated as follows:

$$L_{(ma,s)} = r_s \times \sum_e x_e \times E_{(e,s)}$$

where:

- (a) r_s denotes the ratio of persons affected by the mass accident in country s as set out in Annex XVI;
- (b) the sum includes the event types e set out in Annex XVI;
- (c) x_e denotes the ratio of persons who will receive benefits of event type e as a result of the accident as set out in Annex XVI;
- (d) $E_{(e,s)}$ denotes the total value of benefits payable by insurance and reinsurance undertakings for event type e in country s .

3 For all event types set out in Annex XVI and all countries set out in Annex XVI, the sum insured of an insurance or reinsurance undertaking for a particular event type e in a particular country s shall be equal to the following:

$$E_{(e,s)} = \sum_i SI_{(e,i)}$$

where:

- (a) the sum includes all insured persons i of the insurance or reinsurance undertaking who are insured against event type e and are inhabitants of country s ;
- (b) $SI_{(e,i)}$ denotes the value of the benefits payable by the insurance or reinsurance undertaking for the insured person i in case of event type e .

The value of the benefits shall be the sum insured or where the insurance contract provides for recurring benefit payments the best estimate of the benefit payments in case of event type e . Where the benefits of an insurance contract depend on the nature or extent of any injury resulting from event e , the calculation of the value of the benefits shall be based on the maximum benefits obtainable under the contract which are consistent with the event. For medical expense insurance and reinsurance obligations the value of the benefits shall be based on an estimate of the average amounts paid in case of event e , assuming the insured person is disabled for the duration specified and taking into account the specific guarantees the obligations include.

4 Where Article 88 is complied with, insurance or reinsurance undertakings may calculate the value of benefits payable to insured person referred to in paragraph 3 based on homogenous risk groups, provided that the grouping of policies complies with Article 35.

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

Article 162

Accident concentration risk sub-module

1 The capital requirement for the accident concentration risk sub-module shall be equal to the following:

$$SCR_{ac} = \sqrt{\sum_c SCR_2^{(ac,c)}}$$

where:

- (a) the sum includes all countries c ;
- (b) $SCR_{(ac,c)}$ denotes the capital requirement for accident concentration risk of country c .

2 For all countries the capital requirement for accident concentration risk of country c shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous loss of an amount that, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, is calculated as follows:

$$L_{(ac,c)} = C_c \times \sum_e x_e \times CE_{(e,c)}$$

where:

- (a) C_c denotes the largest accident risk concentration of insurance and reinsurance undertakings in country c ;
- (b) the sum includes the event types e set out in Annex XVI;
- (c) x_e denotes the ratio of persons which will receive benefits of event type e as a result of the accident as set out in Annex XVI;
- (d) $CE_{(e,c)}$ denotes the average value of benefits payable by insurance and reinsurance undertakings for event type e for the largest accident risk concentration in country c .

3 For all countries, the largest accident risk concentration of an insurance or reinsurance undertaking in a country c shall be equal to the largest number of persons for which all of the following conditions are met:

- a the insurance or reinsurance undertaking has a workers' compensation insurance or reinsurance obligation or an group income protection insurance or reinsurance obligation in relation to each of the persons;
- b the obligations in relation to each of the persons cover at least one of the events set out in Annex XVI;
- c the persons are working in the same building which is situated in country c .

4 For all event types and countries, the average sum insured of an insurance or reinsurance undertaking for event type e for the largest accident risk concentration in country c shall be equal to the following:

$$CE_{(e,c)} = \frac{1}{N_e} \sum_{i=1}^{N_e} SI_{(e,i)}$$

where:

- (a) N_e denotes the number of insured persons of the insurance or reinsurance undertaking which are insured against event type e and which belong to the largest accident risk concentration of the insurance or reinsurance undertaking in country c ;
- (b) the sum includes all the insured persons referred to in point (a);

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- (c) $SI_{(e,i)}$ denotes the value of the benefits payable by the insurance or reinsurance undertaking for the insured person i in case of event type e .

The value of the benefits referred to in point (c) shall be the sum insured or where the contract provides for recurring benefit payments the best estimate of the benefit payments in case of event type e . Where the benefits of an insurance policy depend on the nature or extent of the injury resulting from event e , the calculation of the value of the benefits shall be based on the maximum benefits obtainable under the policy, which are consistent with the event. For medical expense insurance and reinsurance obligations the value of the benefits shall be based on an estimate of the average amounts paid in case of event e , assuming the insured person is disabled for the duration specified and taking into account the specific guarantees the obligations include.

5 Where Article 88 is complied with, insurance or reinsurance undertakings may calculate the value of the benefits payable by the insurance or reinsurance undertaking for the insured person referred to in paragraph 4 based on homogenous risk groups, provided that the grouping of policies complies with the requirements set out in Article 35.

Article 163

Pandemic risk sub-module

1 The capital requirement for the pandemic risk sub-module shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous loss of an amount that, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, is calculated as follows:

$$L_p = 0,000075 \times E + 0,4 \times \sum_c N_c \times M_c$$

where:

- (a) E denotes the income protection pandemic exposure of insurance and reinsurance undertakings;
- (b) the sum includes all countries c ;
- (c) N_c denotes the number of insured persons of insurance and reinsurance undertakings which meet all of the following conditions:
- (i) the insured persons are inhabitants of country c ,
 - (ii) the insured persons are covered by medical expense insurance or reinsurance obligations, other than workers' compensation insurance or reinsurance obligations, that cover medical expenses resulting from an infectious disease;
- (d) M_c denotes the expected average amount payable by insurance or reinsurance undertakings per insured person of country c in case of a pandemic.

2 The income protection pandemic exposure of an insurance or reinsurance undertaking shall be equal to the following:

$$E = \sum_i E_i$$

where:

- (a) the sum includes all insured persons i covered by the income protection insurance or reinsurance obligations other than workers' compensation insurance or reinsurance obligations;

Status: Point in time view as at 31/12/2020.

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- (b) E_i denotes the value of the benefits payable by the insurance or reinsurance undertaking, for the insured person i in case of a permanent work disability caused by an infectious disease. The value of the benefits shall be the sum insured or where the contract provides for recurring benefit payments the best estimate of the benefit payments assuming that the insured person is permanently disabled and will not recover.

3 For all countries, the expected average amount payable by insurance or reinsurance undertakings per insured person of a particular country c in case of a pandemic shall be equal to the following:

$$M_c = \sum_h H_h \times CH_{(h,c)}$$

where:

- (a) the sum includes the types of healthcare utilisation h set out in Annex XVI;
- (b) H_h denotes the ratio of insured persons with clinical symptoms utilising healthcare h as set out in Annex XVI;
- (c) $CH_{(h,c)}$ denotes the best estimate of the amounts payable by insurance and reinsurance undertakings for an insured person in country c in relation to medical expense insurance or reinsurance obligations, other than workers' compensation insurance or reinsurance obligations, for healthcare utilisation h in the event of a pandemic.

SECTION 5

Market risk module

Subsection 1

Correlation coefficients

Article 164

- 1 The market risk module shall consist of all of the following sub-modules:
- the interest rate risk sub-module referred to in point (a) of subparagraph 2 of Article 105(5) of Directive 2009/138/EC;
 - the equity risk sub-module referred to in point (b) of subparagraph 2 of Article 105(5) of Directive 2009/138/EC;
 - the property risk sub-module referred to in point (c) of subparagraph 2 of Article 105(5) of Directive 2009/138/EC;
 - the spread risk sub-module referred to in point (d) of subparagraph 2 of Article 105(5) of Directive 2009/138/EC;
 - the currency risk sub-module referred to in point (e) of subparagraph 2 of Article 105(5) of Directive 2009/138/EC;
 - the market risk concentrations sub-module referred to in point (f) of subparagraph 2 of Article 105(5) of Directive 2009/138/EC.

2 The capital requirement for market risk referred to in Article 105(5) of Directive 2009/138/EC shall be equal to the following:

$$SCR_{\text{market}} = \sqrt{\sum_{i,j} \text{Corr}_{(i,j)} \times SCR_i \times SCR_j}$$

where:

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- (a) the sum covers all possible combinations i,j of sub-modules of the market risk module;
- (b) $\text{Corr}(i,j)$ denotes the correlation parameter for market risk for sub-modules i and j ;
- (c) SCR_i and SCR_j denote the capital requirements for sub-modules i and j respectively.

3 The correlation parameter $\text{Corr}_{(i,j)}$ referred to in paragraph 2 shall be equal to the item set out in row i and in column j of the following correlation matrix:

ji	Interest rate	Equity	Property	Spread	Concentration	Currency
Interest rate	1	A	A	A	0	0,25
Equity	A	1	0,75	0,75	0	0,25
Property	A	0,75	1	0,5	0	0,25
Spread	A	0,75	0,5	1	0	0,25
Concentration	0	0	0	0	1	0
Currency	0,25	0,25	0,25	0,25	0	1

The parameter A shall be equal to 0 where the capital requirement for interest rate risk set out in Article 165 is the capital requirement referred to in point (a) of that Article. In all other cases, the parameter A shall be equal to 0,5.

Modifications etc. (not altering text)

- C5 Art. 164(3): power to amend and revoke conferred (31.12.2020) by [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), 4, [Sch. 3](#) (as amended by [S.I. 2020/1301](#), regs. 1, 3, [Sch. para. 27\(a\)](#) and [S.I. 2020/1385](#), regs. 1(2), 54(2))

^{F11}Subsection 1a

Qualifying infrastructure investments

Article 164a

Qualifying infrastructure investments

^{F12}1 For the purposes of this Regulation, qualifying infrastructure investment shall include investment in an infrastructure entity that meets the following criteria:

- a the cash flows generated by the infrastructure assets allow for all financial obligations to be met under sustained stresses that are relevant for the risks of the project;
- b the cash flows that the infrastructure entity generates for debt providers and equity investors are predictable;
- c the infrastructure assets and infrastructure entity are governed by a regulatory or contractual framework that provides debt providers and equity investors with a high degree of protection including the following:

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- (a) the contractual framework shall include provisions that effectively protect debt providers and equity investors against losses resulting from the termination of the project by the party which agrees to purchase the goods or services provided by the infrastructure project, unless one of the following conditions is met:
 - (i) the revenues of the infrastructure entity are funded by payments from a large number of users; or
 - (ii) the revenues are subject to a rate-of-return regulation;
- (b) the infrastructure entity has sufficient reserve funds or other financial arrangements to cover the contingency funding and working capital requirements of the project;

Where investments are in bonds or loans, this contractual framework shall also include the following:

- (i) debt providers have security or the benefit of security to the extent permitted by applicable law in all assets and contracts that are critical to the operation of the project;
- (ii) the use of net operating cash flows after mandatory payments from the project for purposes other than servicing debt obligations is restricted;
- (iii) restrictions on activities that may be detrimental to debt providers, including that new debt cannot be issued without the consent of existing debt providers in the form agreed with them, unless such new debt issuance is permitted under the documentation for the existing debt;

Notwithstanding point (i) of the second subparagraph, for investments in bonds or loans, where undertakings can demonstrate that security in all assets and contracts is not essential for debt providers to effectively protect or recover the vast majority of their investment, other security mechanisms may be used. In that case, the other security mechanisms shall comprise at least one of the following:

- (i) pledge of shares;
 - (ii) step-in rights;
 - (iii) lien over bank accounts;
 - (iv) control over cash flows;
 - (v) provisions for assignment of contracts;
- d where investments are in bonds or loans, the insurance or reinsurance undertaking can demonstrate to the supervisor that it is able to hold the investment to maturity;
 - e where investments are in bonds or loans for which a credit assessment by a nominated ECAI is not available, the investment instrument and other pari passu instruments are senior to all other claims other than statutory claims and claims from liquidity facility providers, trustees and derivatives counterparties;
 - f where investments are in equities, or bonds or loans for which a credit assessment by a nominated ECAI is not available, the following criteria are met:
 - (i) the infrastructure assets and infrastructure entity are located ^{F13}... in the OECD;

Status: Point in time view as at 31/12/2020.

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- (ii) where the infrastructure project is in the construction phase the following criteria shall be fulfilled by the equity investor, or where there is more than one equity investor, the following criteria shall be fulfilled by a group of equity investors as a whole:
 - the equity investors have a history of successfully overseeing infrastructure projects and the relevant expertise,
 - the equity investors have a low risk of default, or there is a low risk of material losses for the infrastructure entity as a result of the their default,
 - the equity investors are incentivised to protect the interests of investors;
- (iii) where there are construction risks, safeguards to ensure completion of the project according to the agreed specification, budget or completion date;
- (iv) where operating risks are material, they are properly managed;
- (v) the infrastructure entity uses tested technology and design;
- (vi) the capital structure of the infrastructure entity allows it to service its debt;
- (vii) the refinancing risk for the infrastructure entity is low;
- (viii) the infrastructure entity uses derivatives only for risk-mitigation purposes.]

2 For the purposes of paragraph 1(b), the cash flows generated for debt providers and equity investors shall not be considered predictable unless all except an immaterial part of the revenues satisfies the following conditions:

- a one of the following criteria is met:
 - (i) the revenues are availability-based;
 - (ii) the revenues are subject to a rate-of-return regulation;
 - (iii) the revenues are subject to a take-or-pay contract;
 - (iv) the level of output or the usage and the price shall independently meet one of the following criteria:
 - it is regulated,
 - it is contractually fixed,
 - it is sufficiently predictable as a result of low demand risk;
- b where the revenues of the infrastructure project entity are not funded by payments from a large number of users, the party which agrees to purchase the goods or services provided by the infrastructure project entity shall be one of the following:
 - (i) an entity listed in Article 180(2) of this Regulation;
 - (ii) a regional government or local authority listed in the Regulation adopted pursuant to Article 109a(2)(a) of Directive 2009/138/EC;
 - (iii) an entity with an ECAI rating with a credit quality step of at least 3;
 - (iv) an entity that is replaceable without a significant change in the level and timing of revenues.

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Textual Amendments

- F12** Substituted by Commission Delegated Regulation (EU) 2017/1542 of 8 June 2017 amending Delegated Regulation (EU) 2015/35 concerning the calculation of regulatory capital requirements for certain categories of assets held by insurance and reinsurance undertakings (infrastructure corporates) (Text with EEA relevance).
- F13** Words in Art. 164a(1)(f)(i) omitted (31.12.2020) by virtue of The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(16)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)

^{F14} Article 164b

Qualifying infrastructure corporate investments

For the purpose of this Regulation, qualifying infrastructure corporate investment shall include investment in an infrastructure entity that meets the following criteria:

- (1) The substantial majority of the infrastructure entity's revenues is derived from owning, financing, developing or operating infrastructure assets located in ^{F15}... the OECD;
- (2) The revenues generated by the infrastructure assets satisfy one of the criteria set out in Article 164a(2)(a);
- (3) Where the revenues of the infrastructure entity are not funded by payments from a large number of users, the party which agrees to purchase the goods or services provided by the infrastructure entity shall be one of the entities listed in Article 164a(2)(b);
- (4) The revenues shall be diversified in terms of activities, location, or payers, unless the revenues are subject to a rate-of-return regulation in accordance with Article 164a(1)(c)(a)(ii) or a take-or-pay contract or the revenues are availability based;
- (5) Where investments are in bonds or loans, the insurance or reinsurance undertaking can demonstrate to the supervisor that it is able to hold the investment to maturity;
- (6) Where no credit assessment from a nominated ECAI is available for the infrastructure entity:
 - (a) the capital structure of the infrastructure corporate shall allow it to service all its debt under conservative assumptions based on an analysis of the relevant financial ratios;
 - (b) the infrastructure entity shall have been active for at least three years or, in the case of an acquired business, it shall have been in operation for at least three years;
- (7) Where a credit assessment from a nominated ECAI is available for the infrastructure entity, such credit assessment has a credit quality step between 0 and 3.]]

Textual Amendments

- F14** Inserted by Commission Delegated Regulation (EU) 2017/1542 of 8 June 2017 amending Delegated Regulation (EU) 2015/35 concerning the calculation of regulatory capital requirements for certain

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

categories of assets held by insurance and reinsurance undertakings (infrastructure corporates) (Text with EEA relevance).

F15 Words in Art. 164b(1) omitted (31.12.2020) by virtue of The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), 11(17) (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)

Subsection 2

Interest rate risk sub-module

Article 165

General provisions

1 The capital requirement for interest rate risk referred to in point (a) of the second subparagraph Article 105(5) of Directive 2009/138/EC shall be equal to the larger of the following:

- a the sum, over all currencies, of the capital requirements for the risk of an increase in the term structure of interest rates as set out in Article 166 of this Regulation;
- b the sum, over all currencies, of the capital requirements for the risk of a decrease in the term structure of interest rates as set out in Article 167 of this Regulation.

2 Where the larger of the capital requirements referred to in points (a) and (b) of paragraph 1 and the larger of the corresponding capital requirements calculated in accordance with Article 206(2) are not based on the same scenario, the capital requirement for interest rate risk shall be the capital requirement referred to in points (a) or (b) of paragraph 1 for which the underlying scenario results in the largest corresponding capital requirement calculated in accordance with Article 206(2).

Article 166

Increase in the term structure of interest rates

1 The capital requirement for the risk of an increase in the term structure of interest rates for a given currency shall be equal to the loss in the basic own funds that would result from an instantaneous increase in basic risk-free interest rates for that currency at different maturities in accordance with the following table:

For maturities not specified in the table above, the value of the increase shall be linearly interpolated. For maturities shorter than 1 year, the increase shall be 70 %. For maturities longer than 90 years, the increase shall be 20 %.

2 In any case, the increase of basic-risk-free interest rates at any maturity shall be at least one percentage point.

3 The impact of the increase in the term structure of basic risk-free interest rates on the value of participations as referred to in [F16 Article 68(6) of this Regulation] in financial and credit institutions shall be considered only on the value of the participations that are not deducted from own funds pursuant to Article 68 of this Regulation. The part deducted from own funds shall be considered only to the extent that such impact increases the basic own funds.

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Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date.

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Textual Amendments

F16 Words in Art. 166(3) substituted (31.12.2020) by [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), **11(18)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)

Article 167

Decrease in the term structure of interest rates

1 The capital requirement for the risk of a decrease in the term structure of interest rates for a given currency shall be equal to the loss in the basic own funds that would result from an instantaneous decrease in basic risk-free interest rates for that currency at different maturities in accordance with the following table:

For maturities not specified in the table above, the value of the decrease shall be linearly interpolated. For maturities shorter than 1 year, the decrease shall be 75 %. For maturities longer than 90 years, the decrease shall be 20 %.

2 Notwithstanding paragraph 1, for negative basic risk-free interest rates the decrease shall be nil.

3 The impact on the value of participations as referred to in [F17 Article 68(6) of this Regulation] in financial and credit institutions of the decrease in the term structure of basic risk-free interest rates shall be considered only on the value of the participations that are not deducted from own funds pursuant to Article 68 of this Regulation. The part deducted from own funds shall be considered only to the extent that such impact increases the basic own funds.

Textual Amendments

F17 Words in Art. 167(3) substituted (31.12.2020) by [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), **11(19)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)

Subsection 3

Equity risk sub-module

Article 168

General provisions

[F18][F12] The equity risk sub-module referred to in point (b) of the second subparagraph of Article 105(5) of Directive 2009/138/EC shall include a risk sub-module for type 1 equities, a risk sub-module for type 2 equities, a risk sub-module for qualifying infrastructure equities and a risk sub-module for qualifying infrastructure corporate equities.]

2 Type 1 equities shall comprise equities listed in regulated markets in countries which are members of F19... the Organisation for Economic Cooperation and Development (OECD), or

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traded on multilateral trading facilities, as referred to in Article 4(1)(22) of Directive 2014/65/EU, whose registered office or head office is in EU Member States.

3 Type 2 equities shall comprise equities other than those referred to in paragraph 2, commodities and other alternative investments. They shall also comprise all assets other than those covered in the interest rate risk sub-module, the property risk sub-module or the spread risk sub-module, including the assets and indirect exposures referred to in Article 84(1) and (2) where a look-through approach is not possible and the insurance or reinsurance undertaking does not make use of the provisions in Article 84(3).]

[^{F11}3a Qualifying infrastructure equities shall comprise equity investments in infrastructure project entities that meet the criteria set out in Article 164a.]

[^{F14}3b Qualifying infrastructure corporate equities shall comprise equity investments in infrastructure entities that meet the criteria set out in Article 164b.]

[^{F12}4 The capital requirement for equity risk shall be equal to the following:

[^{x2}

$$SCR_{equity} = SCR_{equ1} + 2 \times 0.75 \times SCR_{equ1} \times SCR_{equ2} + SCR_{quinf} + SCR_{quinc} + SCR_{equ2} + SCR_{quim} + SCR_{quinc2}$$

]

where:

- (a) SCR_{equ1} denotes the capital requirement for type 1 equities;
- (b) SCR_{equ2} denotes the capital requirement for type 2 equities;
- (c) SCR_{quinf} denotes the capital requirement for qualifying infrastructure equities;
- (d) SCR_{quinc} denotes the capital requirement for qualifying infrastructure corporate equities.]

5 The impact of the instantaneous decreases set out in Articles 169 and 170 on the value of participations as referred to in [^{F20}Article 68(6) of this Regulation] in financial and credit institutions shall be considered only on the value of the participations that are not deducted from own funds pursuant to Article 68 of this Regulation.

6 The following equities shall in any case be considered as type 1:

- [^{F12}a equities, other than qualifying infrastructure equities or qualifying infrastructure corporate equities, held within collective investment undertakings which are qualifying social entrepreneurship funds as referred to in Article 3(b) of Regulation (EU) No 346/2013 of the European Parliament and of the Council ⁽²⁾ where the look-through approach set out in Article 84 of this Regulation is possible for all exposures within the collective investment undertaking, or units or shares of those funds where the look through approach is not possible for all exposures within the collective investment undertaking;
- b equities, other than qualifying infrastructure equities or qualifying infrastructure corporate equities, held within collective investment undertakings which are qualifying venture capital funds as referred to in Article 3(b) of Regulation (EU) No 345/2013 of the European Parliament and of the Council ⁽³⁾ where the look-through approach set out in Article 84 of this Regulation is possible for all exposures within the collective investment undertaking, or units or shares of those funds where the look through approach is not possible for all exposures within the collective investment undertaking;]

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Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date.

Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

- c ^{F1}as regards closed-ended alternative investment funds which are established in the ^{F21}United Kingdom] or, if they are not established in the ^{F21}United Kingdom], which are marketed in the ^{F21}United Kingdom] in accordance with Article 35 or 40 of Directive 2011/61/EU and which, in either case, have no leverage in accordance with the commitment method set out in Article 8 of Commission Delegated Regulation (EU) No 231/2013⁽⁴⁾;
- (i) ^{F12}equities, other than qualifying infrastructure equities or qualifying infrastructure corporate equities, held within such funds where the look-through approach set out in Article 84 of this Regulation is possible for all exposures within the alternative investment fund;]
- (ii) units or shares of such funds where the look-through approach is not possible for all exposures within the alternative investment fund^{F18};
- ^{F12}d equities, other than qualifying infrastructure equities or qualifying infrastructure corporate equities, held within collective investment undertakings which are authorised as ^{F22}United Kingdom long-term investment funds] pursuant to Regulation (EU) 2015/760 where the look through approach set out in Article 84 of this Regulation is possible for all exposures within the collective investment undertaking, or units or shares of those funds where the look through approach is not possible for all exposures within the collective investment undertaking ^{F1};]
- ^{F2}e qualifying unlisted equity portfolios as defined in Article 168a.]

Editorial Information

- X2** Substituted by Corrigendum to Commission Delegated Regulation (EU) 2017/1542 of 8 June 2017 amending Delegated Regulation (EU) 2015/35 concerning the calculation of regulatory capital requirements for certain categories of assets held by insurance and reinsurance undertakings (infrastructure corporates) (Official Journal of the European Union L 236 of 14 September 2017).

Textual Amendments

- F1** Substituted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).
- F2** Inserted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).
- F11** Inserted by Commission Delegated Regulation (EU) 2016/467 of 30 September 2015 amending Commission Delegated Regulation (EU) 2015/35 concerning the calculation of regulatory capital requirements for several categories of assets held by insurance and reinsurance undertakings (Text with EEA relevance).
- F12** Substituted by Commission Delegated Regulation (EU) 2017/1542 of 8 June 2017 amending Delegated Regulation (EU) 2015/35 concerning the calculation of regulatory capital requirements for certain categories of assets held by insurance and reinsurance undertakings (infrastructure corporates) (Text with EEA relevance).
- F14** Inserted by Commission Delegated Regulation (EU) 2017/1542 of 8 June 2017 amending Delegated Regulation (EU) 2015/35 concerning the calculation of regulatory capital requirements for certain categories of assets held by insurance and reinsurance undertakings (infrastructure corporates) (Text with EEA relevance).
- F18** Substituted by Commission Delegated Regulation (EU) 2016/467 of 30 September 2015 amending Commission Delegated Regulation (EU) 2015/35 concerning the calculation of regulatory capital

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Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

requirements for several categories of assets held by insurance and reinsurance undertakings (Text with EEA relevance).

- F19** Words in Art. 168(2) omitted (31.12.2020) by virtue of The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(20)(a)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)
- F20** Words in Art. 168(5) substituted (31.12.2020) by The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(20)(b)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)
- F21** Words in Art. 168(6)(c) substituted (31.12.2020) by The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(20)(c)(i)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)
- F22** Words in Art. 168(6)(d) substituted (31.12.2020) by The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(20)(c)(ii)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)

^{F2} Article 168a

Qualifying unlisted equity portfolios

1 For the purposes of point (e) of Article 168(6), a qualifying unlisted equity portfolio is a set of equity investments that meets all of the following requirements:

- a the set of investments consists solely of investments in the ordinary shares of companies;
- b the ordinary shares of each of the companies concerned are not listed in any regulated market;
- c each company has its head office in [^{F23}the United Kingdom];
- d more than 50 % of the annual revenue of each company is denominated in currencies of countries which are members of ^{F24}... the OECD;
- e more than 50 % of the staff employed by each company have their principal place of work in [^{F25}the United Kingdom];
- f each company fulfils at least one of the following conditions for each of the last three financial years ending prior to the date on which the Solvency Capital Requirement is being calculated:
 - (i) the annual turnover of the company exceeds EUR 10 000 000 ;
 - (ii) the balance sheet total of the company exceeds EUR 10 000 000 ;
 - (iii) the number of staff employed by the company exceeds 50;
- g the value of the investment in each company represents no more than 10 % of the total value of the set of investments;
- h none of the companies is an insurance or reinsurance undertaking, a credit institution, an investment firm, a financial institution, an alternative investment fund manager, a UCITS management company, an institution for occupational retirement provision or a non-regulated undertaking carrying out financial activities;
- i the beta of the set of investments does not exceed 0,796.

2 For the purposes of paragraph 1(i), the beta of a set of investments is the average of the betas for each of the investments in that set of investments, weighted by the book values of those investments. The beta of an investment in a company shall be determined as follows:

$$\beta = 0,9478 - 0,0034 \times GM + 0,0139 \times DebtCFO - 0,0015 \times ROCE$$

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date.

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where:

- (a) β is the beta of the equity investment in the company;
- (b) GM is the average gross margin for the company over the last five financial years ending prior to the date on which the Solvency Capital Requirement is being calculated;
- (c) $Debt$ is the total debt of the company at the end of the most recent financial year for which figures are available;
- (d) CFO is the average net cash-flow for the company from operations over the last five financial years ending prior to the date on which the Solvency Capital Requirement is being calculated;
- (e) $ROCE$ is the average return on common equity for the company over the last five financial years ending prior to the date on which the Solvency Capital Requirement is being calculated. Common equity shall be understood as capital and reserves as referred to in ^[F26]the United Kingdom law which implemented Annex III to Directive 2013/34/EU of the European Parliament and of the Council ⁽⁵⁾ excluding preference shares and the related share premium account.]

Textual Amendments

- F2** Inserted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).
- F23** Words in Art. 168a(1)(c) substituted (31.12.2020) by The Risk Transformation and Solvency 2 (Amendment) (EU Exit) Regulations 2019 (S.I. 2019/1233), regs. 1(4), **6(5)(a)(i)**; 2020 c. 1, Sch. 5 para. 1(1)
- F24** Words in Art. 168a(1)(d) omitted (31.12.2020) by virtue of The Risk Transformation and Solvency 2 (Amendment) (EU Exit) Regulations 2019 (S.I. 2019/1233), regs. 1(4), **6(5)(a)(ii)**; 2020 c. 1, Sch. 5 para. 1(1)
- F25** Words in Art. 168a(1)(e) substituted (31.12.2020) by The Risk Transformation and Solvency 2 (Amendment) (EU Exit) Regulations 2019 (S.I. 2019/1233), regs. 1(4), **6(5)(a)(iii)**; 2020 c. 1, Sch. 5 para. 1(1)
- F26** Words in Art. 168a(2)(e) inserted (31.12.2020) by The Risk Transformation and Solvency 2 (Amendment) (EU Exit) Regulations 2019 (S.I. 2019/1233), regs. 1(4), **6(5)(b)**; 2020 c. 1, Sch. 5 para. 1(1)

^[F1]Article 169

Standard equity risk sub-module

1 The capital requirement for type 1 equities referred to in Article 168 of this Regulation shall be equal to the loss in the basic own funds that would result from the following instantaneous decreases:

- a an instantaneous decrease equal to 22 % in the value of type 1 equity investments in related undertakings within the meaning of Article 212(1)(b) and 212(2) of Directive 2009/138/EC where these investments are of a strategic nature;
- b an instantaneous decrease equal to 22 % in the value of type 1 equity investments that are treated as long-term equity investments in accordance with Article 171a;

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

- c an instantaneous decrease equal to the sum of 39 % and the symmetric adjustment as referred to in Article 172 of this Regulation, in the value of type 1 equities other than those referred to in points (a) and (b).
- 2 The capital requirement for type 2 equities referred to in Article 168 of this Regulation shall be equal to the loss in the basic own funds that would result from the following instantaneous decreases:
- a an instantaneous decrease equal to 22 % in the value of type 2 equity investments in related undertakings within the meaning of Article 212(1)(b) and 212(2) of Directive 2009/138/EC where these investments are of a strategic nature;
 - b an instantaneous decrease equal to 22 % in the value of type 2 equity investments that are treated as long-term equity investments in accordance with Article 171a;
 - c an instantaneous decrease equal to the sum of 49 % and the symmetric adjustment as referred to in Article 172 of this Regulation, in the value of type 2 equities other than those referred to in points (a) and (b).
- 3 The capital requirement for qualifying infrastructure equities referred to in Article 168 of this Regulation shall be equal to the loss in the basic own funds that would result from the following instantaneous decreases:
- a an instantaneous decrease equal to 22 % in the value of qualifying infrastructure equity investments in related undertakings within the meaning of point (b) of Article 212(1) and Article 212(2) of Directive 2009/138/EC, where those investments are of a strategic nature;
 - b an instantaneous decrease equal to 22 % in the value of qualifying infrastructure equity investments that are treated as long-term equity investments in accordance with Article 171a;
 - c an instantaneous decrease equal to the sum of 30 % and 77 % of the symmetric adjustment as referred to in Article 172 of this Regulation, in the value of qualifying infrastructure equity investments other than those referred to in points (a) and (b).
- 4 The capital requirement for qualifying infrastructure corporate equities referred to in Article 168 of this Regulation shall be equal to the loss in the basic own funds that would result from the following instantaneous decreases:
- a an instantaneous decrease equal to 22 % in the value of qualifying infrastructure corporate equity investments in related undertakings within the meaning of point (b) of Article 212(1) and Article 212(2) of Directive 2009/138/EC where those investments are of a strategic nature;
 - b an instantaneous decrease equal to 22 % in the value of qualifying infrastructure corporate equity investments that are treated as long-term equity investments in accordance with Article 171a;
 - c an instantaneous decrease equal to the sum of 36 % and 92 % of the symmetric adjustment as referred to in Article 172 of this Regulation, in the value of qualifying infrastructure corporate equities other than those referred to in points (a) and (b).]

Textual Amendments

- F1** Substituted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Text with EEA relevance\).](#)

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

Article 170

Duration-based equity risk sub-module

1 Where an insurance or reinsurance undertaking has received supervisory approval to apply [^{F27}a duration-based equity risk sub-module], the capital requirement for type 1 equities shall be equal to the loss in the basic own funds that would result from the following instantaneous decreases:

- [^{F18}a an instantaneous decrease equal to 22 % in the value of the type 1 equities corresponding to the business referred to in point (i) of Article 304(1) of Directive 2009/138/EC;]
- b an instantaneous decrease equal to 22 % in the value of type 1 equity investments in related undertakings within the meaning of Article 212(1)(b) and 212(2) of Directive 2009/138/EC where these investments are of a strategic nature;
- c an instantaneous decrease equal to the sum of 39 % and the symmetric adjustment as referred to in Article 172 of this Regulation, in the value of type 1 equities, other than those referred to in points (a) or (b).

2 Where an insurance or reinsurance undertaking has received supervisory approval to apply [^{F28}a duration-based equity risk sub-module], the capital requirement for type 2 equities shall be equal to the loss in the basic own funds that would result from an instantaneous decrease:

- [^{F18}a equal to 22 % in the value of the type 2 equities corresponding to the business referred to in point (i) of Article 304(1) of Directive 2009/138/EC;]
- b equal to 22 % in the value of type 2 equity investments in related undertakings within the meaning of Article 212(1)(b) and (2) of Directive 2009/138/EC, where these investments are of a strategic nature;
- c equal to the sum of 49 % and the symmetric adjustment as referred to in Article 172 of this Regulation, in the value of type 2 equities, other than those referred to in points (a) or (b).

[^{F113} Where an insurance or reinsurance undertaking has received supervisory approval to apply the provisions set out in Article 304 of Directive 2009/138/EC, the capital requirement for qualifying infrastructure equities shall be equal to the loss in the basic own funds that would result from an instantaneous decrease:

- a equal to 22 % in the value of the qualifying infrastructure equity corresponding to the business referred to in point (i) of Article 304(1) of Directive 2009/138/EC;
- b equal to 22 % in the value of qualifying infrastructure equity investments in related undertakings within the meaning of Article 212(1)(b) and (2) of Directive 2009/138/EC, where these investments are of a strategic nature;
- c equal to the sum of 30 % and 77 % of the symmetric adjustment as referred to in Article 172 of this Regulation in the value of qualifying infrastructure equities other than those referred to in points (a) or (b).]

[^{F144} Where an insurance or reinsurance undertaking has received supervisory approval to apply the provisions set out in Article 304 of Directive 2009/138/EC, the capital requirement for qualifying infrastructure corporate equities shall be equal to the loss in the basic own funds that would result from an instantaneous decrease:

- a equal to 22 % in the value of the qualifying infrastructure corporate equity corresponding to the business referred to in point (i) of Article 304(1)(b) of Directive 2009/138/EC;

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Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

- b equal to 22 % in the value of qualifying infrastructure corporate equity investments in related undertakings within the meaning of Article 212(1)(b) and (2) of Directive 2009/138/EC, where these investments are of a strategic nature;
- c equal to the sum of 36 % and 92 % of the symmetric adjustment as referred to in Article 172 of this Regulation in the value of qualifying infrastructure corporate equities other than those referred to in points (a) or (b).]

Textual Amendments

- F11** Inserted by Commission Delegated Regulation (EU) 2016/467 of 30 September 2015 amending Commission Delegated Regulation (EU) 2015/35 concerning the calculation of regulatory capital requirements for several categories of assets held by insurance and reinsurance undertakings (Text with EEA relevance).
- F14** Inserted by Commission Delegated Regulation (EU) 2017/1542 of 8 June 2017 amending Delegated Regulation (EU) 2015/35 concerning the calculation of regulatory capital requirements for certain categories of assets held by insurance and reinsurance undertakings (infrastructure corporates) (Text with EEA relevance).
- F18** Substituted by Commission Delegated Regulation (EU) 2016/467 of 30 September 2015 amending Commission Delegated Regulation (EU) 2015/35 concerning the calculation of regulatory capital requirements for several categories of assets held by insurance and reinsurance undertakings (Text with EEA relevance).
- F27** Words in Art. 170(1) substituted (31.12.2020) by The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(21)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)
- F28** Words in Art. 170(2) substituted (31.12.2020) by The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(21)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)

Article 171

Strategic equity investments

[^{F12}For the purposes of Article 169(1)(a), (2)(a), (3)(a) and (4)(a) and of Article 170(1)(b), (2)(b), (3)(b) and (4)(b), equity investments of a strategic nature shall mean equity investments for which the participating insurance or reinsurance undertaking demonstrates the following:]

- (a) that the value of the equity investment is likely to be materially less volatile for the following 12 months than the value of other equities over the same period as a result of both the nature of the investment and the influence exercised by the participating undertaking in the related undertaking;
- (b) that the nature of the investment is strategic, taking into account all relevant factors, including:
 - (i) the existence of a clear decisive strategy to continue holding the participation for long period;
 - (ii) the consistency of the strategy referred to in point (a) with the main policies guiding or limiting the actions of the undertaking;
 - (iii) the participating undertaking's ability to continue holding the participation in the related undertaking;

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Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date.

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- (iv) the existence of a durable link;
- (v) where the insurance or reinsurance participating company is part of a group, the consistency of such strategy with the main policies guiding or limiting the actions of the group.

Textual Amendments

F12 Substituted by [Commission Delegated Regulation \(EU\) 2017/1542 of 8 June 2017 amending Delegated Regulation \(EU\) 2015/35 concerning the calculation of regulatory capital requirements for certain categories of assets held by insurance and reinsurance undertakings \(infrastructure corporates\)](#) (Text with EEA relevance).

^{F2} Article 171a

Long-term equity investments

- 1 For the purpose of this Regulation, a sub-set of equity investments may be treated as long-term equity investments if the insurance or reinsurance undertaking demonstrates, to the satisfaction of the supervisory authority, that all of the following conditions are met:
- a the sub-set of equity investments as well as the holding period of each equity investment within the sub-set are clearly identified;
 - b the sub-set of equity investment is included within a portfolio of assets which is assigned to cover the best estimate of a portfolio of insurance or reinsurance obligations corresponding to one or several clearly identified businesses, and the undertaking maintains that assignment over the lifetime of the obligations;
 - c the portfolio of insurance or reinsurance obligations, and the assigned portfolio of assets referred to in point (b) are identified, managed and organised separately from the other activities of the undertaking, and the assigned portfolio of assets cannot be used to cover losses arising from other activities of the undertaking;
 - d the technical provisions within the portfolio of insurance or reinsurance obligations referred to in point (b) only represent a part of the total technical provisions of the insurance or reinsurance undertaking;
 - e the average holding period of equity investments in the sub-set exceeds 5 years, or where the average holding period of the sub-set is lower than 5 years, the insurance or reinsurance undertaking does not sell any equity investments within the sub-set until the average holding period exceeds 5 years;
 - f the sub-set of equity investments consists only of equities that are listed in the [^{F29}United Kingdom] or of unlisted equities of companies that have their head offices in [^{F30}the United Kingdom];
 - g the solvency and liquidity position of the insurance or reinsurance undertaking, as well as its strategies, processes and reporting procedures with respect to asset-liability management, are such as to ensure, on an ongoing basis and under stressed conditions, that it is able to avoid forced sales of each equity investments within the sub-set for at least 10 years;
 - h the risk management, asset-liability management and investment policies of the insurance or reinsurance undertaking reflects the undertaking's intention to hold the sub-set of equity investments for a period that is compatible with the requirement of point (e) and its ability to meet the requirement of point (g).

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date.

Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

2 Where equities are held within collective investment undertakings or within alternative investment funds referred to in points (a) to (d) of Article 168(6), the conditions set out in paragraph 1 of this Article may be assessed at the level of the funds and not of the underlying assets held within those funds.

3 Insurance or reinsurance undertakings that treat a sub-set of equity investments as long-term equity investments in accordance with paragraph 1 shall not revert back to an approach that does not include long-term equity investments. Where an insurance or reinsurance undertaking that treats a sub-set of equity investments as long-term equity investments is no longer able to comply with the conditions set out in paragraph 1, it shall immediately inform the supervisory authority and shall cease to apply Article 169(1)(b), (2)(b), (3)(b) and (4)(b) to any of its equity investments for a period of 36 months.]

Textual Amendments

- F2** Inserted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).
- F29** Words in Art. 171a(1)(f) substituted (31.12.2020) by The Risk Transformation and Solvency 2 (Amendment) (EU Exit) Regulations 2019 (S.I. 2019/1233), regs. 1(4), 6(6)(a); 2020 c. 1, Sch. 5 para. 1(1)
- F30** Words in Art. 171a(1)(f) substituted (31.12.2020) by The Risk Transformation and Solvency 2 (Amendment) (EU Exit) Regulations 2019 (S.I. 2019/1233), regs. 1(4), 6(6)(b); 2020 c. 1, Sch. 5 para. 1(1)

Article 172

Symmetric adjustment of the equity capital charge

1 The equity index ^{F31}upon which the symmetric adjustment to the standard equity capital charge is to be based] shall comply with all of the following requirements:

- a the equity index measures the market price of a diversified portfolio of equities which is representative of the nature of equities typically held by insurance and reinsurance undertakings;
- b the level of the equity index is publicly available;
- c the frequency of published levels of the equity index is sufficient to enable the current level of the index and its average value over the last 36 months to be determined.

2 Subject to paragraph 4, the symmetric adjustment shall be equal to the following:

$$SA = \frac{1}{2} \times \left(\frac{CI-AI}{AI} - 8\% \right)$$

where:

- (a) CI denotes the current level of the equity index;
- (b) AI denotes the weighted average of the daily levels of the equity index over the last 36 months.

3 For the purposes of calculating the weighted average of the daily levels of the equity index, the weights for all daily levels shall be equal. The days during the last 36 months in respect of which the index was not determined shall not be included in the average.

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date.

Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

4 The symmetric adjustment shall not be lower than – 10 % or higher than 10 %.

Textual Amendments

F31 Words in Art. 172(1) substituted (31.12.2020) by [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), **11(22)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)

^{F18} Article 173

Criteria for the use of transitional measure for standard equity risk

1 The transitional measure for standard equity risk set out in Article 308b(13) of Directive 2009/138/EC shall only apply to equities that were purchased on or before 1 January 2016 and which are not subject to the duration-based equity risk [^{F32}sub-module].

2 Where equities are held within an collective investment undertaking or other investments packaged as funds, and where the look-through approach is not possible, the transitional measure set out in Article 308b(13) of Directive 2009/138/EC shall be applied to the proportion of equities held within the collective investment undertaking or investment packaged as funds in accordance with the target underlying asset allocation on 1 January 2016, provided the target allocation is available to the undertaking. The proportion of equities to which the transitional is applied shall be reduced annually in proportion to the asset turnover ratio of the collective investment undertaking or investment packaged as funds. Where the target allocation for equity investments of the collective investment undertaking or investment packaged as funds increases, the proportion of equities the transitional is applied to shall not increase.]

Textual Amendments

F18 Substituted by [Commission Delegated Regulation \(EU\) 2016/467 of 30 September 2015 amending Commission Delegated Regulation \(EU\) 2015/35 concerning the calculation of regulatory capital requirements for several categories of assets held by insurance and reinsurance undertakings \(Text with EEA relevance\)](#).

F32 Word in Art. 173(1) substituted (31.12.2020) by [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), **11(23)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)

Subsection 4

Property risk sub-module

Article 174

The capital requirement for property risk referred to in point (c) of the second subparagraph of Article 105(5) of Directive 2009/138/EC shall be equal to the loss in the basic own funds that would result from an instantaneous decrease of 25 % in the value of immovable property.

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

Subsection 5

Spread risk sub-module

Article 175

Scope of the spread risk sub-module

The capital requirement for spread risk referred to in point (d) of the second subparagraph of Article 105(5) of Directive 2009/138/EC shall be equal to the following:

$$SCR_{spread} = SCR_{bonds} + SCR_{securitisation} + SCR_{cd}$$

where

- (a) SCR_{bonds} denotes the capital requirement for spread risk on bonds and loans;
- (b) $SCR_{securitisation}$ denotes the capital requirement for spread risk on securitisation positions;
- (c) SCR_{cd} denotes the capital requirement for spread risk on credit derivatives.

Article 176

Spread risk on bonds and loans

1 The capital requirement for spread risk on bonds and loans SCR_{bonds} shall be equal to the loss in the basic own funds that would result from an instantaneous relative decrease of $stress_i$ in the value of each bond or loan i other than mortgage loans that meet the requirements in Article 191, including bank deposits other than cash at bank referred to in Article 189(2)(b).

2 The risk factor $stress_i$ shall depend on the modified duration of the bond or loan i denominated in years (dur_i). dur_i shall never be lower than 1. For variable interest rate bonds or loans, dur_i shall be equivalent to the modified duration of a fixed interest rate bond or loan of the same maturity and with coupon payments equal to the forward interest rate.

^[F183] Bonds or loans for which a credit assessment by a nominated ECAI is available shall be assigned a risk factor $stress_i$ depending on the credit quality step and the modified duration dur_i of the bond or loan i according to the following table.

Credit quality step	Duration (dur_i)	0		1		2		3		4		5 and 6	
		a_i	b_i	a_i	b_i	a_i	b_i	a_i	b_i	a_i	b_i	a_i	b_i
up to 5	$b_i \cdot dur_i$	—	0,9 %	—	1,1 %	—	1,4 %	—	2,5 %	—	4,5 %	—	7,5 %
More than 5 and	$a_i + b_i \cdot (dur_i - 5)$	4,5 %	0,5 %	5,5 %	0,6 %	7,0 %	0,7 %	12,5 %	1,5 %	22,5 %	2,5 %	37,5 %	4,2 %

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date.

Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

up to 10	$dur_i - 5$												
More than 10 and up to 15	$a_i + b_i \cdot (dur_i - 10)$	7,0 %	0,5 %	8,5 %	0,5 %	10,5 %	0,5 %	20,0 %	1,0 %	35,0 %	1,8 %	58,5 %	0,5 %
More than 15 and up to 20	$a_i + b_i \cdot (dur_i - 15)$	9,5 %	0,5 %	11 %	0,5 %	13,0 %	0,5 %	25,0 %	1,0 %	44,0 %	0,5 %	61,0 %	0,5 %
More than 20	$\min[a_i + b_i \cdot (dur_i - 20); 1]$	12,0 %	0,5 %	13,5 %	0,5 %	15,5 %	0,5 %	30,0 %	0,5 %	46,6 %	0,5 %	63,5 %	0,5 %

^[F184] Bonds and loans for which a credit assessment by a nominated ECAI is not available and for which debtors have not posted collateral that meets the criteria set out in Article 214 shall be assigned a risk factor $stress_i$ depending on the duration dur_i of the bond or loan i according to the following table:

Duration (dur_i)	$stress_i$
up to 5	$3 \% \cdot dur_i$
More than 5 and up to 10	$15 \% + 1,7 \% \cdot (dur_i - 5)$
More than 10 and up to 20	$23,5 \% + 1,2 \% \cdot (dur_i - 10)$
More than 20	$\min(35,5 \% + 0,5 \% \cdot (dur_i - 20); 1]$

^[F24a] Notwithstanding paragraph 4, bonds and loans that are assigned to a credit quality step in accordance with paragraph 1 or 2 of Article 176a or paragraph 1 of Article 176c shall be assigned a risk factor $stress_i$ depending on the credit quality step and the modified duration dur_i of the bond or loan i assigned in accordance with the table set out in paragraph 3 of this Article.]

5 Bonds and loans for which a credit assessment by a nominated ECAI is not available and for which debtors have posted collateral, where the collateral of those bonds and loans meet the criteria set out in Article 214, shall be assigned a risk factor $stress_i$ according to the following:

- a where the risk-adjusted value of collateral is higher than or equal to the value of the bond or loan i , $stress_i$ shall be equal to half of the risk factor that would be determined in accordance with paragraph 4;
- b where the risk-adjusted value of collateral is lower than the value of the bond or loan i , and where the risk factor determined in accordance with paragraph 4 would result in

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Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date.

Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

a value of the bond or loan i that is lower than the risk-adjusted value of the collateral, $stress_i$ shall be equal to the average of the following:

- (i) the risk factor determined in accordance with paragraph 4;
 - (ii) the difference between the value of the bond or loan i and the risk-adjusted value of the collateral, divided by the value of the bond or loan i ;
- c where the risk-adjusted value of collateral is lower than the value of the bond or loan i , and where the risk factor determined in accordance with paragraph 4 would result in a value of the bond or loan i that is higher than or equal to the risk-adjusted value of the collateral, $stress_i$ shall be determined in accordance with paragraph 4.

The risk-adjusted value of the collateral shall be calculated in accordance with Articles 112, 197, 198.

6 The impact of the instantaneous decrease in the value of participations, as referred to in ^{F33}Article 68(6) of this Regulation], in financial and credit institutions shall be considered only on the value of the participations that are not deducted from own funds pursuant to Article 68 of this Regulation.

Textual Amendments

- F2** Inserted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\)](#) (Text with EEA relevance).
- F18** Substituted by [Commission Delegated Regulation \(EU\) 2016/467 of 30 September 2015 amending Commission Delegated Regulation \(EU\) 2015/35 concerning the calculation of regulatory capital requirements for several categories of assets held by insurance and reinsurance undertakings](#) (Text with EEA relevance).
- F33** Words in Art. 176(6) substituted (31.12.2020) by [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), **11(24)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)

^{F2} Article 176a

Internal assessment of credit quality steps of bonds and loans

1 A bond or loan for which a credit assessment by a nominated ECAI is not available and for which debtors have not posted collateral that meets the criteria set out in Article 214 may be assigned to credit quality step 2 if all of the criteria set out in paragraphs 3 and 4 are met with respect to the bond or loan.

2 A bond or loan for which a credit assessment by a nominated ECAI is not available and for which debtors have not posted collateral that meets the criteria set out in Article 214, other than a bond or loan assigned to credit quality step 2 under paragraph 1, may be assigned to credit quality step 3 if all of the criteria set out in paragraphs 3 and 5 are met with respect to the bond or loan.

3 The criteria in this paragraph are as follows:

- a the insurance or reinsurance undertaking's own internal credit assessment of the bond or loan meets the requirements listed in Article 176b;

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

- b the bond or loan is issued by a company which does not belong to the same corporate group as the insurance or reinsurance undertaking;
- c the bond or loan is not issued by a company which is an insurance or reinsurance undertaking, an infrastructure entity, a credit institution, an investment firm, a financial institution, an AIFM, a UCITS investment management company, an institution for occupational retirement provision or a non-regulated undertaking carrying out financial activities;
- d no claims on the issuing company of the bond or loan rank senior to the bond or loan, except for the following claims:
 - (i) statutory claims and claims from liquidity facility providers provided that those statutory claims and claims from liquidity facility providers are in aggregate not material relative to the overall senior debt of the issuing company;
 - (ii) claims from trustees;
 - (iii) claims from derivatives counterparties;
- e the bond or loan provides a fixed redemption payment on or before the date of maturity, in addition to regular fixed or floating rate interest payments;
- f the contractual terms and conditions of the bond or loan provide for the following:
 - (i) the borrower is obliged to provide audited financial data to the lender at least annually;
 - (ii) the borrower is obliged to notify the lender of any events that could materially affect the credit risk of the bond or loan;
 - (iii) the borrower is not entitled to change the terms and conditions of the bond or loan unilaterally, nor to make other changes to its business that would materially affect the credit risk of the bond or loan;
 - (iv) the issuer is prohibited from issuing new debt without the prior agreement of the insurance or reinsurance undertaking;
 - (v) what constitutes a default event is defined in a way that is specific to the issue and the issuer;
 - (vi) what is to happen on a change of control;
- g the bond or loan is issued by a company that meets all of the following criteria:
 - (i) the company is a limited liability company;
 - (ii) the company has its head office in [^{F34}the United Kingdom];
 - (iii) more than 50 % of the annual revenue of the company is denominated in currencies of countries which are members of ^{F35}... the OECD;
 - (iv) the company has operated without any credit event over at least the last 10 years;
 - (v) at least one of the following conditions is fulfilled with respect to each of the last three financial years ending prior to the date on which the Solvency Capital Requirement is being calculated:
 - the annual turnover of the company exceeds EUR 10 000 000 ;
 - the balance sheet total of the company exceeds EUR 10 000 000 ;

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

- the number of staff employed by the company exceeds 50;
 - (vi) the sum of the company's annual earnings before interest, tax, depreciation and amortisation (' EBITDA ') over the last five financial years is larger than 0;
 - (vii) the total debt of the company at the end of the most recent financial year for which figures are available is no higher than 6,5 times the average of the company's annual free cash flows over the last five financial years;
 - (viii) the average of the company's EBITDA over the last five financial years is no lower than 6,5 times the company's interest expense for the most recent financial year for which figures are available;
 - (ix) the net debt of the company at the end of the most recent financial year for which figures are available is no higher than 1,5 times the company's total equity at the end of that financial year.
- 4 The yield on the bond or loan, and the yield on any bonds and loans with similar contractual terms and conditions issued by the same company in the previous three financial years, is no higher than the higher of the following values:
- a the average of the yields on the two indices determined in accordance with paragraph 6;
 - b the sum of 0,5 % and the yield on the index that meets the requirement in point (d) of that paragraph.
- 5 The yield on the bond or loan, and the yield on bonds and loans with similar contractual terms and conditions issued by the same company in the previous three financial years, is no higher than the higher of the following values:
- a the average of the yields on the two indices determined in accordance with paragraph 7;
 - b the sum of 0,5 % and the yield on the index that meets the requirement in point (b) of that paragraph.
- 6 For the purposes of paragraph 4, the insurance or reinsurance undertaking shall determine, for the bond or loan referred to in paragraph 1, the yield, as at the time of issuance of that bond or loan, on two indices that meet all of the following requirements:
- a both indices are broad indexes of traded bonds for which an external credit assessment is available;
 - b the constituent traded bonds in the two indices are denominated in the same currency as the bond or loan;
 - c the constituent traded bonds in the two indices have a similar maturity date as the bond or loan;
 - d one of the two indices consists of traded bonds of credit quality step 2;
 - e one of the two indices consists of traded bonds of credit quality step 4.
- 7 For the purposes of paragraph 5, the insurance or reinsurance undertaking shall determine, for the bond or loan referred to in paragraph 2, the yield, as at the time of issuance of that bond or loan, on two indices that meet all of the following requirements:
- a both indices meet the requirements set out in points (a), (b) and (c) of paragraph 6;
 - b one of the two indices consists of traded bonds of credit quality step 3;
 - c one of the two indices consists of traded bonds of credit quality step 4.
- 8 For the purposes of paragraph 4, where the bond or loan referred to in paragraph 1 has features, other than those related to credit risk or illiquidity, which materially differ from the features of the constituent traded bonds in the two indices determined in accordance with

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date.

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paragraph 6, the insurance or reinsurance undertaking shall adjust the yield on the bond or loan to reflect those differences.

9 For the purposes of paragraph 5, where the bond or loan referred to in paragraph 2 has features, other than those related to credit risk or illiquidity, which materially differ from the features of the constituent traded bonds in the two indices determined in accordance with paragraph 7, the insurance or reinsurance undertaking shall adjust the yield on the bond or loan to reflect those differences.

Textual Amendments

- F2** Inserted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).
- F34** Words in Art. 176a(3)(g)(ii) substituted (31.12.2020) by The Risk Transformation and Solvency 2 (Amendment) (EU Exit) Regulations 2019 (S.I. 2019/1233), regs. 1(4), 6(7)(a); 2020 c. 1, Sch. 5 para. 1(1)
- F35** Words in Art. 176a(3)(g)(iii) omitted (31.12.2020) by virtue of The Risk Transformation and Solvency 2 (Amendment) (EU Exit) Regulations 2019 (S.I. 2019/1233), regs. 1(4), 6(7)(b); 2020 c. 1, Sch. 5 para. 1(1)

Article 176b

Requirements for an undertaking's own internal credit assessment of bonds and loans

The requirements to be met for the purposes of point (a) of Article 176a(3) by an insurance or reinsurance undertaking's own internal credit assessment of a bond or loan shall be as follows:

- (b) the bond or loan is allocated a credit quality step on the basis of the own internal credit assessment;
- (c) the insurance or reinsurance undertaking is able to demonstrate to the supervisory authority's satisfaction that the own internal credit assessment, and the allocation of a credit quality step to the bond or loan on the basis of that assessment, are reliable and properly reflect the spread risk of the bond or loan contained in the sub-module specified in point (d) of the second subparagraph of Article 105(5) of Directive 2009/138/EC;
- (d) the own internal credit assessment takes into account all factors which could have a material effect on the credit risk associated with the bond or loan, including the following factors:
 - (i) the competitive position of the issuer;
 - (ii) the quality of the issuer's management;
 - (iii) the financial policies of the issuer;
 - (iv) country risk;
 - (v) the effect of any covenants that are in place;

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

- (vi) the issuer's financial performance history, including the number of years that it has been operating;
- (vii) the issuer's size and the level of diversity in its activities;
- (viii) the quantitative impact on the issuer's risk profile and financial ratios of its having issued the bond or loan;
- (ix) the issuer's ownership structure;
- (x) the complexity of the issuer's business model;
- (e) the own internal credit assessment uses all relevant quantitative and qualitative information;
- (f) the own internal credit assessment, the allocation of a credit quality step on the basis of that assessment and the information used to support the own internal credit assessment is documented;
- (g) the own internal credit assessment takes into account the characteristics of comparable assets for which a credit assessment by a nominated ECAI is available;
- (h) the own internal credit assessment takes into account trends in the issuer's financial performance;
- (i) the own internal credit assessment is procedurally independent from the decision to underwrite;
- (j) the insurance or reinsurance undertaking regularly reviews the own internal credit assessment.

Textual Amendments

- F2** Inserted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Text with EEA relevance\)](#).

Article 176c

Assessment of credit quality steps of bonds and loans based on an approved internal model

- 1 This Article shall apply in the following circumstances:
 - a an insurance or reinsurance undertaking has concluded an agreement (‘ co-investment agreement ’) to invest in bonds and loans jointly with another entity;
 - b that other entity (‘ the co-investor ’) is one or other of the following:
 - (i) an institution as defined in point (3) of Article 4(1) of Regulation (EU) No 575/2013 which uses the Internal Ratings Based Approach referred to in Article 143(1) of that Regulation;
 - (ii) an insurance or reinsurance undertaking which uses an internal model [^{F36}to calculate its Solvency Capital Requirement];

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

- c pursuant to the co-investment agreement, the insurance or reinsurance undertaking and the co-investor invest jointly in bonds and loans for which a credit assessment by a nominated ECAI is not available and for which debtors have not posted collateral that meets the criteria set out in Article 214;
 - d the co-investment agreement provides that the co-investor shares with the insurance or reinsurance undertaking the probabilities of default produced by its Internal Ratings Based Approach or, as applicable, the credit quality steps produced by its internal model for the bonds or loans referred to in point (c) for the purpose of using that information for the calculation of the Solvency Capital Requirement of the insurance or reinsurance undertaking.
- 2 If all of the criteria set out in paragraphs 3 to 6 are met, the bonds and loans referred to in point (c) of paragraph 1 shall be assigned to credit quality steps determined as follows:
 - a in a case where the co-investor falls within point (i) of paragraph 1(b), credit quality steps shall be determined on the basis of the most recent probabilities of default that the Internal Ratings Based Approach has produced;
 - b in a case where the co-investor falls within point (ii) of paragraph 1(b), credit quality steps shall be the credit quality steps produced by the internal model.
- 3 The criteria in this paragraph are as follows:
 - a the issuer of each bond or loan does not belong to the same corporate group as the insurance or reinsurance undertaking;
 - b the issuer is not an insurance or reinsurance undertaking, an infrastructure entity, a credit institution, an investment firm, a financial institution, an AIFM, a UCITS investment management company, an institution for occupational retirement provision or a non-regulated undertaking carrying out financial activities;
 - c the issuer has its head office in [^{F37}the United Kingdom];
 - d more than 50 % of the issuer's annual revenue is denominated in currencies of countries which are members of ^{F38}... the OECD;
 - e at least one of the following conditions is met for each of the last three financial years ending prior to the date on which the Solvency Capital Requirement is being calculated:
 - the annual turnover of the issuer exceeds EUR 10 000 000 ;
 - the balance sheet total of the issuer exceeds EUR 10 000 000 ;
 - the number of staff employed by the issuer exceeds 50.
- 4 The criteria in this paragraph are as follows:
 - a the co-investment agreement defines the types of bonds and loans to be underwritten, and the applicable assessment criteria;
 - b the co-investor provides the insurance or reinsurance undertaking with sufficient details of the underwriting process, including the criteria used, the organisational structure of the co-investor and the controls conducted by the co-investor;
 - c the co-investor provides the insurance or reinsurance undertaking with data on all applications for bonds and loans to be underwritten;
 - d the co-investor provides the insurance or reinsurance undertaking with details of all decisions to approve or reject applications for bonds and loans to be underwritten;
 - e the co-investor retains an exposure of at least 20 % of the nominal value of each bond and loan;
 - f the underwriting process is the same as the underwriting process followed by the co-investor for its other investments in comparable bonds and loans;

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

- g the insurance or reinsurance undertaking invests in all bonds and loans of the types referred to in point (a) for which the co-investor decides to approve the bond or loan application;
 - h the co-investor provides the insurance or reinsurance undertaking with information that allows the undertaking to understand the Internal Ratings Based Approach or, as applicable, internal model and its limitations, as well as its adequacy and appropriateness, in particular:
 - (i) a description of the Internal Ratings Based Approach or, as applicable, internal model, including the inputs and risk factors, the quantification of risk parameters and the underlying methods, and the general methodology applied;
 - (ii) a description of the scope of the use of the Internal Ratings Based Approach or, as applicable, internal model;
 - (iii) a description of the model validation process and of other processes which allow the model's performance to be monitored, the appropriateness of its specification to be reviewed over time, and the results of the Internal Ratings Based Approach or, as applicable, internal model to be tested against experience.
- 5 In a case where the co-investor falls within point (i) of paragraph 1(b):
- a the insurance or reinsurance undertaking clearly documents to which credit quality step the probability of default produced by the institution's Internal Ratings Based Approach corresponds;
 - b the mapping of probabilities of default to credit quality steps carried out by the insurance or reinsurance undertaking ensures that, for the bond or loan in question, the resulting level of capital requirement for the spread risk sub-module referred to in point (d) of the second subparagraph of Article 105(5) of Directive 2009/138/EC is appropriate;
 - c the mapping is based on Table 1 in Annex I to Commission Implementing Regulation (EU) 2016/1799 ⁽⁶⁾ ;
 - d adjustments are made in a prudent manner to the probabilities of default before the mapping is carried out, taking into account the qualitative factors set out in Article 7 of Implementing Regulation (EU) 2016/1799;
 - e an adjustment to the probabilities of default is made in either of the following situations:
 - (i) the time horizon covered by the Internal Ratings Based Approach deviates significantly from the 3-year time horizon set out in Article 4(2) of Implementing Regulation (EU) 2016/1799;
 - (ii) the definition of default used in the Internal Ratings Based Approach deviates significantly from the one set out in Article 4(4) of that Implementing Regulation.
- 6 In a case where the co-investor falls within point (ii) of paragraph 1(b), the internal model ensures that, for the bond or loan in question, the resulting level of capital requirement for the spread risk sub-module referred to in point (d) of the second subparagraph of Article 105(5) of Directive 2009/138/EC is appropriate.]

Textual Amendments

- F2** Inserted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the](#)

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).

- F36** Words in Art. 176c(1)(b)(ii) substituted (31.12.2020) by The Risk Transformation and Solvency 2 (Amendment) (EU Exit) Regulations 2019 (S.I. 2019/1233), regs. 1(4), **6(8)(a)**; 2020 c. 1, Sch. 5 para. 1(1)
- F37** Words in Art. 176c(3)(c) substituted (31.12.2020) by The Risk Transformation and Solvency 2 (Amendment) (EU Exit) Regulations 2019 (S.I. 2019/1233), regs. 1(4), **6(8)(b)(i)**; 2020 c. 1, Sch. 5 para. 1(1)
- F38** Words in Art. 176c(3)(d) omitted (31.12.2020) by virtue of The Risk Transformation and Solvency 2 (Amendment) (EU Exit) Regulations 2019 (S.I. 2019/1233), regs. 1(4), **6(8)(b)(ii)**; 2020 c. 1, Sch. 5 para. 1(1)

^{F39}Article 177

[^{F39}Spread risk on securitisation positions: general provisions]

Textual Amendments

- F39** Deleted by Commission Delegated Regulation (EU) 2018/1221 of 1 June 2018 amending Delegated Regulation (EU) 2015/35 as regards the calculation of regulatory capital requirements for securitisations and simple, transparent and standardised securitisations held by insurance and reinsurance undertakings (Text with EEA relevance).

^{F40}Article 178

Spread risk on securitisation positions: calculation of the capital requirement

1 The capital requirement $SCR_{securitisation}$ for spread risk on securitisation positions shall be equal to the loss in the basic own funds that would result from an instantaneous relative decrease of $stress_i$ in the value of each securitisation position i .

2 The risk factor $stress_i$ shall depend on the modified duration denominated in years (dur_i). dur_i shall not be lower than 1 year.

3 Senior STS securitisation positions which fulfil the requirements set out in Article 243 of Regulation (EU) No 575/2013 and for which a credit assessment by a nominated ECAI is available shall be assigned a risk factor $stress_i$ depending on the credit quality step and the modified duration of the securitisation position i , as set out in the following table:

Credit quality step	0		1		2		3		4		5 and 6		
	a_i	b_i	a_i	b_i	a_i	b_i	a_i	b_i	a_i	b_i	a_i	b_i	
up to 5	$b_i \cdot dur_i$	—	1,0 %	—	1,2 %	—	1,6 %	—	2,8 %	—	5,6 %	—	9,4 %

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date.

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More than 5 and up to 10	$a_i + b_i \cdot (dur_i - 5)$	5,0 %	0,6 %	6,0 %	0,7 %	8,0 %	0,8 %	14,0 %	1,7 %	28,0 %	3,1 %	47,0 %	5,3 %
More than 10 and up to 15	$a_i + b_i \cdot (dur_i - 10)$	8,0 %	0,6 %	9,5 %	0,5 %	12,0 %	0,6 %	22,5 %	1,1 %	43,5 %	2,2 %	73,5 %	0,6 %
More than 15 and up to 20	$a_i + b_i \cdot (dur_i - 15)$	11,0 %	0,6 %	12,0 %	0,5 %	15,0 %	0,6 %	28,0 %	1,1 %	54,5 %	0,6 %	76,5 %	0,6 %
More than 20	$\min[a_i + b_i \cdot (dur_i - 20); 1]$	14,0 %	0,6 %	14,5 %	0,5 %	18,0 %	0,6 %	33,5 %	0,6 %	57,5 %	0,6 %	79,5 %	0,6 %

4 Non-senior STS securitisation positions which fulfil the requirements set out in Article 243 of Regulation (EU) No 575/2013 and for which a credit assessment by a nominated ECAI is available shall be assigned a risk factor $stress_i$ depending on the credit quality step and the modified duration of the securitisation position i , as set out in the following table:

Credit quality step	Duration (dur_i)	0		1		2		3		4		5 and 6	
		a_i	b_i	a_i	b_i	a_i	b_i	a_i	b_i	a_i	b_i	a_i	b_i
up to 5	$\min[b_i \cdot dur_i; 1]$	—	2,8 %	—	3,4 %	—	4,6 %	—	7,9 %	—	15,8 %	—	26,7 %
More than 5 and up to 10	$\min[a_i + b_i \cdot (dur_i - 5); 1]$	14,0 %	1,6 %	17,0 %	1,9 %	23,0 %	2,3 %	39,5 %	4,7 %	79,0 %	8,8 %	100,0 %	0,0 %
More than 10 and up to 15	$a_i + b_i \cdot (dur_i - 10)$	22,0 %	1,6 %	26,5 %	1,5 %	34,5 %	1,6 %	63,0 %	3,2 %	100,0 %	0,0 %	100,0 %	0,0 %
More than 15 and up to 20	$a_i + b_i \cdot (dur_i - 15)$	30,0 %	1,6 %	34,0 %	1,5 %	42,5 %	1,6 %	79,0 %	3,2 %	100,0 %	0,0 %	100,0 %	0,0 %

Status: Point in time view as at 31/12/2020.

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up to 20													
More than 20	$\min[a_i + b_i \cdot (dur_i - 20); 1]$	38,0 %	1,6 %	41,5 %	1,5 %	50,5 %	1,6 %	95,0 %	1,6 %	100,0 %	0,0 %	100,0 %	0,0 %

5 Senior STS securitisation positions which fulfil the criteria set out in Article 243 of Regulation (EU) No 575/2013 and for which no credit assessment by a nominated ECAI is available shall be assigned a risk factor $stress_i$ depending on the modified duration of the securitisation position i , as set out in the following table:

Duration (dur_i)	$stress_i$	a_i	b_i
up to 5	$b_i \cdot dur_i$	—	4,6 %
More than 5 and up to 10	$a_i + b_i \cdot (dur_i - 5)$	23 %	2,5 %
More than 10 and up to 15	$a_i + b_i \cdot (dur_i - 10)$	35,5 %	1,8 %
More than 15 and up to 20	$a_i + b_i \cdot (dur_i - 15)$	44,5 %	0,5 %
More than 20	$\min[a_i + b_i \cdot (dur_i - 20); 1]$	47 %	0,5 %

6 Non-senior STS securitisation positions which fulfil the criteria set out in Article 243 of Regulation (EU) No 575/2013 and for which no credit assessment by a nominated ECAI is available shall be assigned a risk factor $stress_i$ equivalent to credit quality step 5 and depending on the modified duration of the exposure, as set out in the table in paragraph 3.

7 Re-securitisation positions for which a credit assessment by a nominated ECAI is available shall be assigned a risk factor $stress_i$ equal to the following formula:

$$stress_i = \min(b_i \cdot dur_i; 1)$$

where b_i shall be assigned depending on the credit quality step of re-securitisation position i , as set out in the following table:

Credit quality step	0	1	2	3	4	5	6
b_i	33 %	40 %	51 %	91 %	100 %	100 %	100 %

8 Securitisation positions not covered by paragraphs 3 to 7, for which a credit assessment by a nominated ECAI is available shall be assigned a risk factor $stress_i$ equal to the following formula:

$$stress_i = \min(b_i \cdot dur_i; 1)$$

where b_i shall be assigned depending on the credit quality step of securitisation position i , as set out in the following table:

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Credit quality step	0	1	2	3	4	5	6
b_i	12,5 %	13,4 %	16,6 %	19,7 %	82 %	100 %	100 %

9 Securitisation positions not covered by paragraphs 3 to 8, shall be assigned a risk factor $stress_i$ of 100 %.]

Textual Amendments

F40 Substituted by Commission Delegated Regulation (EU) 2018/1221 of 1 June 2018 amending Delegated Regulation (EU) 2015/35 as regards the calculation of regulatory capital requirements for securitisations and simple, transparent and standardised securitisations held by insurance and reinsurance undertakings (Text with EEA relevance).

[^{F41} Article 178a

Spread risk on securitisation positions: transitional provisions

1 Notwithstanding Article 178(3), securitisations issued before 1 January 2019 that qualify as type 1 securitisations in accordance with Article 177(2) in the version in force on 31 December 2018 shall be assigned a risk factor $stress_i$ in accordance with Article 178(3) even where those securitisations are not STS securitisations which fulfil the requirements set out in Article 243 of Regulation (EU) No 575/2013.

2 Paragraph 1 shall apply only in circumstances where no new underlying exposures were added or substituted after 31 December 2018 .

3 Notwithstanding Article 178(3), securitisations issued before 18 January 2015 that qualify as type 1 securitisations in accordance with Article 177(4) in the version in force on 31 December 2018 shall be assigned a risk factor $stress_i$ in accordance with Articles 177 and 178 in the version in force on 31 December 2018 .

4 Notwithstanding Article 178(3), securitisations issued before 1 January 2019 that qualify as type 1 securitisations in accordance with Article 177(5) in the version in force on 31 December 2018 shall, until 31 December 2025 , be assigned a risk factor $stress_i$ in accordance with Articles 177 and 178 in the version in force on 31 December 2018 .

[^{F42} For the purposes of paragraphs 3 and 4, Article 177 (in the version of this Regulation which was in force on 31 December 2018) continues to have effect notwithstanding its deletion by Article 1(3) of Commission Delegated Regulation (EU) 2018/1221, and has effect for those purposes with the following modifications—

a paragraph 2 is to be read as if—

- i) a reference to Regulation (EU) No 575/2013 were a reference to the version of that Regulation which was in force on 31 December 2018;
- ii) in point (b) “the EEA or” were omitted;
- iii) in point (h)(i)—
 - aa) for “national law of the Member State where the loans were originated” there were substituted “ loans were originated in the United Kingdom and the law of the United Kingdom ”;

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date.

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Instantaneous increase in spread (in percentage points)	0,3	1,5	2,6	4,5	8,4	16,20	16,20
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2 For the purposes of point (a) of paragraph 1, the instantaneous increase of the credit spread of the instruments underlying the credit derivatives for which a credit assessment by a nominated ECAI is not available shall be 5 percentage points.

3 Credit derivatives which are part of the undertaking's risk mitigation policy shall not be subject to a capital requirement for spread risk, as long as the undertaking holds either the instruments underlying the credit derivative or another exposure with respect to which the basis risk between that exposure and the instruments underlying the credit derivative is not material in any circumstances.

4 Where the larger of the capital requirements referred to in points (a) and (b) of paragraph 1 and the larger of the corresponding capital requirements calculated in accordance with Article 206(2) are not based on the same scenario, the capital requirement for spread risk on credit derivatives shall be the capital requirement referred to in paragraph 1 for which the underlying scenario results in the largest corresponding capital requirement calculated in accordance with Article 206(2).

Textual Amendments

F18 Substituted by [Commission Delegated Regulation \(EU\) 2016/467 of 30 September 2015 amending Commission Delegated Regulation \(EU\) 2015/35 concerning the calculation of regulatory capital requirements for several categories of assets held by insurance and reinsurance undertakings \(Text with EEA relevance\)](#).

Article 180

Specific exposures

1 Exposures in the form of bonds referred to Article 52(4) of Directive 2009/65/EC (covered bonds) which have been assigned to credit quality step 0 or 1 shall be assigned a risk factor $stress_i$ according to the following table.

Credit quality step	0	1
Duration (dur_i) up to 5	0,7 % . dur_i	0,9 % . dur_i
More than 5 years	$\min (3,5\% + 0,5\% \times (dur_i - 5); 1)$	$\min (4,5\% + 0,5\% \times (dur_i - 5); 1)$

2 Exposures in the form of bonds and loans to the following shall be assigned a risk factor $stress_i$ of 0 %:

^{F43}a

[^{F44}b United Kingdom central government and Bank of England denominated and funded in pounds sterling;]

Status: Point in time view as at 31/12/2020.

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- c multilateral development banks referred to in paragraph 2 of Article 117 of Regulation (EU) No 575/2013;
- d international organisations referred to in Article 118 of Regulation (EU) No 575/2013;

Exposures in the form of bonds and loans that are fully, unconditionally and irrevocably guaranteed by one of the counterparties mentioned in points (a) to (d), where the guarantee meets the requirements set out in Article 215, shall also be assigned a risk factor $stress_i$ of 0 %.

[^{F2}For the purposes of point (b) of the first subparagraph, exposures in the form of bonds and loans that are fully, unconditionally and irrevocably guaranteed by regional governments and local authorities listed in Article 1 of Commission Implementing Regulation (EU) 2015/2011 ⁽⁷⁾, where the guarantee meets the requirements set out in Article 215 of this Regulation, shall be treated as exposures to the central government.]

3 Exposures in the form of bonds and loans to central governments and central banks other than those referred to in point (b) of paragraph 2, denominated and funded in the domestic currency of that central government and central bank, and for which a credit assessment by a nominated ECAI is available shall be assigned a risk factor $stress_i$ depending on the credit quality step and the duration of the exposure according to the following table:

Credit quality step	Duration (dur_i)	0 and 1		2		3		4		5 and 6	
		a_i	b_i	a_i	b_i	a_i	b_i	a_i	b_i	a_i	b_i
up to 5	$b_i \times dur_i$	—	0,0 %	—	1,1 %	—	1,4 %	—	2,5 %	—	4,5 %
More than 5 and up to 10	$a_i + b_i \times (dur_i - 5)$	0,0 %	0,0 %	5,5 %	0,6 %	7,0 %	0,7 %	12,5 %	1,5 %	22,5 %	2,5 %
More than 10 and up to 15	$a_i + b_i \times (dur_i - 10)$	0,0 %	0,0 %	8,4 %	0,5 %	10,5 %	0,5 %	20,0 %	1,0 %	35,0 %	1,8 %
More than 15 and up to 20	$a_i + b_i \times (dur_i - 15)$	0,0 %	0,0 %	10,9 %	0,5 %	13,0 %	0,5 %	25,0 %	1,0 %	44,0 %	0,5 %
More than 20	$\min [a_i + b_i \times (dur_i - 20); 1]$	0,0 %	0,0 %	13,4 %	0,5 %	15,5 %	0,5 %	30,0 %	0,5 %	46,5 %	0,5 %

[^{F23a} Exposures in the form of bonds and loans to [^{F45}the United Kingdom's] regional governments and local authorities not listed in Article 1 of Implementing Regulation (EU) 2015/2011 (*) shall be assigned a risk factor $stress_i$ from the table in paragraph 3 corresponding to credit quality step 2.

3b Exposures in the form of bonds and loans that are fully, unconditionally and irrevocably guaranteed by [^{F46}the United Kingdom's] regional government or local authority

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that are not listed in Article 1 of Implementing Regulation (EU) 2015/2011, where the guarantee meets the requirements set out in Article 215 of this Regulation, shall be assigned a risk factor $stress_i$ from the table in paragraph 3 corresponding to credit quality step 2.]

4 Exposures in the form of bonds and loans to an insurance or reinsurance undertaking for which a credit assessment by a nominated ECAI is not available and where this undertaking meets its Minimum Capital Requirement, shall be assigned a risk factor $stress_i$ from the table in Article 176(3) depending on the undertaking's solvency ratio, using the following mapping between solvency ratios and credit quality steps:

Solvency ratio	196 %	175 %	122 %	95 %	75 %	75 %
Credit quality step	1	2	3	4	5	6

Where the solvency ratio falls in between the solvency ratios set out in the table above, the value of $stress_i$ shall be linearly interpolated from the closest values of $stress_i$ corresponding to the closest solvency ratios set out in the table above. Where the solvency ratio is lower than 75 %, $stress_i$ shall be equal to the factor corresponding to the credit quality steps 5 and 6. Where the solvency ratio is higher than 196 %, $stress_i$ shall be the same as the factor corresponding to the credit quality step 1.

For the purposes of this paragraph, 'solvency ratio' denotes the ratio of the eligible amount of own funds to cover the Solvency Capital Requirement and the Solvency Capital Requirement, using the latest available values.

5 Exposures in the form of bonds and loans to an insurance or reinsurance undertaking which does not meet its Minimum Capital Requirement shall be assigned a risk factor $stress_i$ according to the following table:

Duration (dur_i)	risk factor $stress_i$
up to 5	7,5 % . dur_i
More than 5 and up to 10	37,50 % + 4,20 % . ($dur_i - 5$)
More than 10 and up to 15	58,50 % + 0,50 % . ($dur_i - 10$)
More than 15 and up to 20	61 % + 0,50 % . ($dur_i - 15$)
More than 20	$\min(63,5\% + 0,5\% \times (dur_i - 20); 1)$

6 Paragraphs 4 and 5 of this Article shall only apply as of the first date of public disclosure, by the undertaking corresponding to the exposure, of the report on its solvency and financial condition referred to in Article 51 of Directive 2009/138/EC. Before that date, if a credit assessment by a nominated ECAI is available for the exposures, Article 176 of this Regulation shall apply, otherwise, the exposures shall be assigned the same risk factor as the ones that would result from the application of paragraph 4 of this Article to exposures to an insurance or reinsurance undertaking whose solvency ratio is 100 %.

7 Exposures in the form of bonds and loans to a third country insurance or reinsurance undertaking for which a credit assessment by a nominated ECAI is not available, situated in a country whose solvency regime is deemed equivalent^{F47} ... in accordance with [F48 Article 379A of this Regulation], and which complies with the solvency requirements of that third-

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country, shall be assigned the same risk factor as the ones that would result from the application of paragraph 4 of this Article to exposures to an insurance or reinsurance undertaking whose solvency ratio is 100 %.

8 Exposures in the form of bonds and loans to credit institutions and financial institutions within the meaning of points (1) and (26) of Article 4(1) of Regulation (EU) No 575/2013 which comply with the solvency requirements set out in Directive 2013/36/EU and Regulation (EU) No 575/2013, for which a credit assessment by a nominated ECAI is not available, shall be assigned the same risk factor as the ones that would result from the application of paragraph 4 of this Article to exposures to an insurance or reinsurance undertaking whose solvency ratio is 100 %.

9 The capital requirement for spread risk on credit derivatives where the underlying financial instrument is a bond or a loan to any exposure listed in paragraph 2 shall be nil.

F⁴⁹ 10

F⁵⁰ 10a

[^{F11} Exposures in the form of bonds and loans that fulfil the criteria set out in paragraph 12 shall be assigned a risk factor $stress_i$ depending on the credit quality step and the duration of the exposure according to the following table:

Credit quality step	Duration (dur_i)	0		1		2		3	
		a_i	b_i	a_i	b_i	a_i	b_i	a_i	b_i
up to 5	$b_i \cdot dur_i$	—	0,64 %	—	0,78 %	—	1,0 %	—	1,67 %
More than 5 and up to 10	$a_i + b_i \cdot (dur_i - 5)$	3,2 %	0,36 %	3,9 %	0,43 %	5,0 %	0,5 %	8,35 %	1,0 %
More than 10 and up to 15	$a_i + b_i \cdot (dur_i - 10)$	5,0 %	0,36 %	6,05 %	0,36 %	7,5 %	0,36 %	13,35 %	0,67 %
More than 15 and up to 20	$a_i + b_i \cdot (dur_i - 15)$	6,8 %	0,36 %	7,85 %	0,36 %	9,3 %	0,36 %	16,7 %	0,67 %
More than 20	$\min[a_i + b_i \cdot (dur_i - 20); 1]$	8,6 %	0,36 %	9,65 %	0,36 %	11,1 %	0,36 %	20,05 %	0,36 %

12 The criteria for exposures that are assigned a risk factor in accordance with paragraph 11 shall be:

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- a the exposure relates to a qualifying infrastructure investment that meets the criteria set out in Article 164a;
- b the exposure is not an asset that fulfils the following conditions:
 - it is assigned to a matching adjustment portfolio in accordance with Article 77b(2) of Directive 2009/138/EC,
 - it has been assigned a credit quality step between 0 and 2;
- c a credit assessment by a nominated ECAI is available for the exposure;
- d the exposure has been assigned a credit quality step between 0 and 3.

13 Exposures in the form of bonds and loans that meet the criteria set out in paragraph 12(a) and (b), but do not meet the criteria set out in paragraph 12(c), shall be assigned a risk factor $stress_i$ equivalent to credit quality step 3 and the duration of the exposure in accordance with the table set out in paragraph 11.]

[^{F14}14 Exposures in the form of bonds and loans that fulfil the criteria set out in paragraph 15 shall be assigned a risk factor $stress_i$ depending on the credit quality step and the duration of the exposure according to the following table:

Credit quality step		0		1		2		3	
Duration (dur_i)	$stress_i$	a_i	b_i	a_i	b_i	a_i	b_i	a_i	b_i
up to 5	$b_i \cdot dur_i$	—	0,68 %	—	0,83 %	—	1,05 %	—	1,88 %
More than 5 and up to 10	$a_i + b_i \cdot (dur_i - 5)$	3,38 %	0,38 %	4,13 %	0,45 %	5,25 %	0,53 %	9,38 %	1,13 %
More than 10 and up to 15	$a_i + b_i \cdot (dur_i - 10)$	5,25 %	0,38 %	6,38 %	0,38 %	7,88 %	0,38 %	15,0 %	0,75 %
More than 15 and up to 20	$a_i + b_i \cdot (dur_i - 15)$	7,13 %	0,38 %	8,25 %	0,38 %	9,75 %	0,38 %	18,75 %	0,75 %
More than 20	$\min[a_i + b_i \cdot (dur_i - 20); 1]$	9,0 %	0,38 %	10,13 %	0,38 %	11,63 %	0,38 %	22,50 %	0,38 %

15 The criteria for exposures that are assigned a risk factor in accordance with paragraph 14 shall be:

- a the exposure relates to a qualifying infrastructure corporate investment that meets the criteria set out in Article 164b;
- b the exposure is not an asset that fulfils the following conditions:

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- it is assigned to a matching adjustment portfolio in accordance with Article 77b(2) of Directive 2009/138/EC,
- it has been assigned a credit quality step between 0 and 2;
- c a credit assessment by a nominated ECAI is available for the infrastructure entity.
- d the exposure has been assigned a credit quality step between 0 and 3.

16 Exposures in the form of bonds and loans that meet the criteria set out in paragraph 15(a) and (b), but do not meet the criteria set out in paragraph 15(c), shall be assigned a risk factor $stress_i$ equivalent to credit quality step 3 and the duration of the exposure in accordance with the table set out in paragraph 14.]

Textual Amendments

- F2** Inserted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).
- F11** Inserted by Commission Delegated Regulation (EU) 2016/467 of 30 September 2015 amending Commission Delegated Regulation (EU) 2015/35 concerning the calculation of regulatory capital requirements for several categories of assets held by insurance and reinsurance undertakings (Text with EEA relevance).
- F14** Inserted by Commission Delegated Regulation (EU) 2017/1542 of 8 June 2017 amending Delegated Regulation (EU) 2015/35 concerning the calculation of regulatory capital requirements for certain categories of assets held by insurance and reinsurance undertakings (infrastructure corporates) (Text with EEA relevance).
- F43** Art. 180(2)(a) omitted (31.12.2020) by virtue of The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(26)(a)(i)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)
- F44** Art. 180(2)(b) substituted (31.12.2020) by The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(26)(a)(ii)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)
- F45** Words in Art. 180(3a) substituted (31.12.2020) by The Risk Transformation and Solvency 2 (Amendment) (EU Exit) Regulations 2019 (S.I. 2019/1233), regs. 1(4), **6(9)(a)**; 2020 c. 1, Sch. 5 para. 1(1)
- F46** Words in Art. 180(3b) substituted (31.12.2020) by The Risk Transformation and Solvency 2 (Amendment) (EU Exit) Regulations 2019 (S.I. 2019/1233), regs. 1(4), **6(9)(b)**; 2020 c. 1, Sch. 5 para. 1(1)
- F47** Words in Art. 180(7) omitted (31.12.2020) by virtue of The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(26)(b)(i)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)
- F48** Words in Art. 180(7) substituted (31.12.2020) by The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(26)(b)(ii)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)
- F49** Art. 180(10) omitted (31.12.2020) by virtue of The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(26)(c)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)
- F50** Art. 180(10a) omitted (31.12.2020) by virtue of The Financial Services (Miscellaneous) (Amendment) (EU Exit) Regulations 2019 (S.I. 2019/710), regs. 1(4), **28(3)**; 2020 c. 1, Sch. 5 para. 1(1)

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

Article 181

Application of the spread risk scenarios to matching adjustment portfolios

Where insurance undertakings apply the matching adjustment referred to in Article 77b of Directive 2009/138/EC, they shall carry out the scenario based calculation for spread risk as follows:

- (a) the assets in the assigned portfolio shall be subject to the instantaneous decrease in value for spread risk set out in Articles 176, 178 and 180 of this Regulation;
- (b) the technical provisions shall be recalculated to take into account the impact on the amount of the matching adjustment of the instantaneous decrease in value of the assigned portfolio of assets. In particular, the fundamental spread shall increase, by an absolute amount that is calculated as the product of the following:
 - (i) the absolute increase in spread that, multiplied by the modified duration of the relevant asset, would result in the relevant risk factor $stress_i$, referred to in Articles 176, 178 and 180 of this Regulation;
 - (ii) a reduction factor, depending on the credit quality as set out in the following table:

Credit quality step	0	1	2	3	4	5	6
Reduction factor	45 %	50 %	60 %	75 %	100 %	100 %	100 %

[^{F12}For assets in the assigned portfolio for which no credit assessment by a nominated ECAI is available, and for qualifying infrastructure assets and for qualifying infrastructure corporate assets that have been assigned credit quality step 3, the reduction factor shall be 100 %.]

Textual Amendments

- F12** Substituted by [Commission Delegated Regulation \(EU\) 2017/1542 of 8 June 2017 amending Delegated Regulation \(EU\) 2015/35 concerning the calculation of regulatory capital requirements for certain categories of assets held by insurance and reinsurance undertakings \(infrastructure corporates\)](#) (Text with EEA relevance).

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date.

Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

Subsection 6

Market risk concentrations sub-module

Article 182

Single name exposure

1 The capital requirement for market risk concentration shall be calculated on the basis of single name exposures. For this purpose exposures to undertakings which belong to the same corporate group shall be treated as a single name exposure. Similarly, immovable properties which are located in the same building shall be considered as a single immovable property.

2 The exposure at default to a counterparty shall be the sum of the exposures to this counterparty.

3 The exposure at default to a single name exposure shall be the sum of the exposures at default to all counterparties that belong to the single name exposure.

4 The weighted average credit quality step on a single name exposure shall be equal to the rounded-up average of the credit quality steps of all exposures to all counterparties that belong to the single name exposure, weighted by the value of each exposure.

5 For the purposes of paragraph 4, exposures for which a credit assessment by a nominated ECAI is available, shall be assigned a credit quality step in accordance with Chapter 1 Section 2 of this Title. [F6Exposures for which a credit assessment by a nominated ECAI is not available shall be assigned to credit quality step 5.]

[F26 For the purposes of paragraph 4, exposures to an insurance or reinsurance undertaking for which a credit assessment by a nominated ECAI is not available and where the undertaking meets its Minimum Capital Requirement shall be assigned to a credit quality step depending on the undertaking's solvency ratio using the following mapping between solvency ratios and credit quality steps:

Solvency Ratio	196 %	175 %	122 %	100 %	95 %
Credit quality step	1	2	3	3,82	5

Where the solvency ratio falls in between the solvency ratios set out in the table above, the credit quality step shall be linearly interpolated from the closest credit quality steps corresponding to the closest solvency ratios set out in the table above. Where the solvency ratio is lower than 95 %, the credit quality step shall be 5. Where the solvency ratio is higher than 196 %, the credit quality step shall be 1.

For the purposes of this paragraph, ‘ solvency ratio ’ denotes the ratio of the eligible amount of own funds to cover the Solvency Capital Requirement and the Solvency Capital Requirement, using the latest available values.

7 For the purposes of paragraph 4, exposures to an insurance or reinsurance undertaking for which a credit assessment by a nominated ECAI is not available and where the undertaking does not meet its Minimum Capital Requirement shall be assigned to credit quality step 6.

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Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

8 Paragraphs 6 and 7 of this Article shall only apply as of the first date of public disclosure, by the undertaking corresponding to the exposure, of the report on its solvency and financial condition [^{F51}report]. Before that date, the exposures shall be assigned to credit quality step 3,82.

9 For the purposes of paragraph 4, exposures to a third country insurance or reinsurance undertaking for which a credit assessment by a nominated ECAI is not available, situated in a country whose solvency regime is [^{F52}determined to be equivalent] in accordance with [^{F53}Article 379A of this Regulation], and which complies with the solvency requirements of that third country, shall be assigned to credit quality step 3,82.

10 For the purposes of paragraph 4, exposures to credit institutions and financial institutions, within the meaning of points (1) and (26) of Article 4(1) of Regulation (EU) No 575/2013 which comply with the solvency requirements set out in Directive 2013/36/EU and Regulation (EU) No 575/2013, for which a credit assessment by a nominated ECAI is not available, shall be assigned to credit quality step 3,82.

11 Exposures other than those to which a credit quality step is assigned under paragraphs 5 to 10 shall, for the purpose of paragraph 4, be assigned to credit quality step 5.]

Textual Amendments

- F2** Inserted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Text with EEA relevance\)](#).
- F6** Deleted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Text with EEA relevance\)](#).
- F51** Word in Art. 182(8) substituted (31.12.2020) by [The Risk Transformation and Solvency 2 \(Amendment\) \(EU Exit\) Regulations 2019 \(S.I. 2019/1233\)](#), regs. 1(4), **6(10)(a)**; 2020 c. 1, Sch. 5 para. 1(1)
- F52** Words in Art. 182(9) substituted (31.12.2020) by [The Risk Transformation and Solvency 2 \(Amendment\) \(EU Exit\) Regulations 2019 \(S.I. 2019/1233\)](#), regs. 1(4), **6(10)(b)(i)**; 2020 c. 1, Sch. 5 para. 1(1)
- F53** Words in Art. 182(9) substituted (31.12.2020) by [The Risk Transformation and Solvency 2 \(Amendment\) \(EU Exit\) Regulations 2019 \(S.I. 2019/1233\)](#), regs. 1(4), **6(10)(b)(ii)**; 2020 c. 1, Sch. 5 para. 1(1)

Article 183

Calculation of the capital requirement for market risk concentration

1 The capital requirement for market risk concentration shall be equal to the following:

$$SCR_{conc} = \sqrt{\sum_i Conc_i^2}$$

where:

- (a) the sum covers all single name exposures i ;
- (b) $Conc_i$ denotes the capital requirement for market risk concentration on a single name exposure i .

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date.

Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

2 For each single name exposure i , the capital requirement for market risk concentration $Conc_i$ shall be equal to the loss in the basic own funds that would result from an instantaneous decrease in the value of the assets corresponding to the single name exposure i equal to the following:

$$XS_i \times g_i$$

where:

- (a) XS_i is the excess exposure referred to in Article 184;
- (b) g_i is the risk factor for market risk concentration referred to in Articles 186 and 187;

Article 184

Excess exposure

1 The excess exposure on a single name exposure i shall be equal to the following:

$$XS_i = \text{Max}(0; E_i - CT_i \times \text{Assets})$$

where:

- (a) E_i denotes the exposure at default to single name exposure i that is included in the calculation base of the market risk concentrations sub-module;
- (b) Assets denotes the calculation base of the market risk concentrations sub-module;
- (c) CT_i denotes the relative excess exposure threshold referred to in Article 185.

2 The calculation base of the market risk concentration sub-module Assets shall be equal to the value of all assets held by an insurance or reinsurance undertaking, excluding the following:

- a assets held in respect of life insurance contracts where the investment risk is fully borne by the policy holders;
- b exposures to a counterparty which belongs to the same group as the insurance or reinsurance undertaking, provided that all of the following conditions are met:
 - (i) the counterparty is an insurance or reinsurance undertaking, an insurance holding company, a mixed financial holding company or an ancillary services undertaking;
 - (ii) the counterparty is fully consolidated in accordance with Article 335(1)(a);
 - (iii) the counterparty is subject to the same risk evaluation, measurement and control procedures as the insurance or reinsurance undertaking;
 - (iv) the counterparty is established in the [F54United Kingdom];
 - (v) there is no current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities from the counterparty to the insurance or reinsurance undertaking;
- c the value of the participations as referred to in [F55Article 68(6) of this Regulation] in financial and credit institutions that is deducted from own funds pursuant to Article 68 of this Regulation;
- d exposures included in the scope of the counterparty default risk module;
- e deferred tax assets;
- f intangible assets.

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date.

Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

[^{F13} The exposure at default on a single name exposure i shall be reduced by the amount of the exposure at default to counterparties belonging to that single name exposure and for which the risk factor for market risk concentration referred to in Articles 186 and 187 is 0 %.]

Textual Amendments

- F1** Substituted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).
- F54** Words in Art. 184(2)(b)(iv) substituted (31.12.2020) by The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(27)(a)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)
- F55** Words in Art. 184(2)(c) substituted (31.12.2020) by The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(27)(b)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)

Article 185

Relative excess exposure thresholds

Each single name exposure i shall be assigned, in accordance with the following table, a relative excess exposure threshold depending on the weighted average credit quality step of the single name exposure i , calculated in accordance with Article 182(4).

Weighted average credit quality step of single name exposure i	0	1	2	3	4	5	6
Relative excess exposure threshold CT_i	3 %	3 %	3 %	1,5 %	1,5 %	1,5 %	1,5 %

Article 186

Risk factor for market risk concentration

1 Each single name exposure i shall be assigned, in accordance with the following table, a risk factor g_i for market risk concentration depending on the weighted average credit quality step of the single name exposure i , calculated in accordance with Article 182(4).

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

Weighted average credit quality step of single name exposure i	0	1	2	3	4	5	6
Risk factor g_i	12 %	12 %	21 %	27 %	73 %	73 %	73 %

F ⁶ ₂
F ⁶ ₃
F ⁶ ₄
F ⁶ ₅
F ⁶ ₆

Textual Amendments

F6 Deleted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).

Article 187

Specific exposures

1 Exposures in the form of bonds as referred to Article 52(4) of Directive 2009/65/EC (covered bonds) shall be assigned a relative excess exposure threshold CT_i of 15 %, provided that the corresponding exposures in the form of covered bonds have been assigned to credit quality step 0 or 1. Exposures in the form of covered bonds shall be considered as single name exposures, regardless of other exposures to the same counterparty as the issuer of the covered bonds, which constitute a distinct single name exposure.

2 Exposures to a single immovable property shall be assigned a relative excess exposure threshold CT_i of 10 % and a risk factor g_i for market risk concentration of 12 %.

3 Exposures to the following shall be assigned a risk factor g_i for market risk concentration of 0 %:

- F⁵⁶_a
- [^{F57}b the United Kingdom central government and Bank of England denominated and funded in pounds sterling;
- c multilateral development banks referred to in Article 117(2) of Regulation (EU) No 575/2013;
- d international organisations referred to in Article 118 of Regulation (EU) No 575/2013.

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date.

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Exposures that are fully, unconditionally and irrevocably guaranteed by one of the counterparties mentioned in points (a) to (d), where the guarantee meets the requirements set out in Article 215, shall also be assigned a risk factor g_i for market risk concentration of 0 %.

[^{F2}For the purposes of point (b), exposures that are fully, unconditionally and irrevocably guaranteed by regional governments and local authorities listed in Article 1 of Implementing Regulation (EU) 2015/2011, where the guarantee meets the requirements set out in Article 215 of this Regulation, shall be treated as exposures to the central government.]

4 Exposures to central governments and central banks other than those referred to in point (b) of paragraph 3, denominated and funded in the domestic currency of that central government and central bank, shall be assigned a risk factor g_i for market risk concentration depending on their weighted average credit quality steps, in accordance with the following table.

Weighted average credit quality step of single name exposure i	0	1	2	3	4	5	6
Risk factor g_i	0 %	0 %	12 %	21 %	27 %	73 %	73 %

[^{F2a} Exposures to [^{F58}the United Kingdom's] regional governments and local authorities not listed in Article 1 of Implementing Regulation (EU) 2015/2011 shall be assigned a risk factor g_i for market risk concentration corresponding to weighted average credit quality step 2 in accordance with paragraph 4.

4b Exposures that are fully, unconditionally and irrevocably guaranteed by [^{F59}the United Kingdom's] regional government or local authority that is not listed in Article 1 of Implementing Regulation (EU) 2015/2011, where the guarantee meets the requirements set out in Article 215 of this Regulation, shall be assigned a risk factor g_i for market risk concentration corresponding to weighted average credit quality step 2 in accordance with paragraph 4.]

5 Exposures in the form of bank deposits shall be assigned a risk factor g_i for market risk concentration of 0 %, provided they meet all of the following requirements:

- a the full value of the exposure is covered by a government guarantee scheme in the [^{F60}United Kingdom];
- b the guarantee covers the insurance or reinsurance undertaking without any restriction;
- c there is no double counting of such guarantee in the calculation of the Solvency Capital Requirement.

Textual Amendments

- F2** Inserted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Text with EEA relevance\).](#)

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

- F56** Art. 187(3)(a) omitted (31.12.2020) by virtue of [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), **11(29)(a)(i)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)
- F57** Art. 187(3)(b) substituted (31.12.2020) by [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), **11(29)(a)(ii)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)
- F58** Words in Art. 187(4a) substituted (31.12.2020) by [The Risk Transformation and Solvency 2 \(Amendment\) \(EU Exit\) Regulations 2019 \(S.I. 2019/1233\)](#), regs. 1(4), **6(11)(a)**; 2020 c. 1, Sch. 5 para. 1(1)
- F59** Words in Art. 187(4b) substituted (31.12.2020) by [The Risk Transformation and Solvency 2 \(Amendment\) \(EU Exit\) Regulations 2019 \(S.I. 2019/1233\)](#), regs. 1(4), **6(11)(b)**; 2020 c. 1, Sch. 5 para. 1(1)
- F60** Words in Art. 187(5)(a) substituted (31.12.2020) by [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), **11(29)(b)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)

Subsection 7

Currency risk sub-module

Article 188

1 The capital requirement for currency risk referred to in point (e) of the second subparagraph of Article 105(5) of Directive 2009/138/EC shall be equal to the sum of the capital requirements for currency risk for each foreign currency. Investments in type 1 equities referred to in Article 168(2) and type 2 equities referred to in Article 168(3) which are listed in stock exchanges operating with different currencies shall be assumed to be sensitive to the currency of its main listing. Type 2 equities referred to in Article 168(3) which are not listed shall be assumed to be sensitive to the currency of the country in which the issuer has its main operations. Immovable property shall be assumed to be sensitive to the currency of the country in which it is located.

For the purposes of this Article, foreign currencies shall be currencies other than the currency used for the preparation of the insurance or reinsurance undertaking's financial statements ('the local currency').

2 For each foreign currency, the capital requirement for currency risk shall be equal to the larger of the following capital requirements:

- a the capital requirement for the risk of an increase in value of the foreign currency against the local currency;
- b the capital requirement for the risk of a decrease in value of the foreign currency against the local currency.

3 The capital requirement for the risk of an increase in value of a foreign currency against the local currency shall be equal to the loss in the basic own funds that would result from an instantaneous increase of 25 % in the value of the foreign currency against the local currency.

4 The capital requirement for the risk of a decrease in value of a foreign currency against the local currency shall be equal to the loss in the basic own funds that would result from an instantaneous decrease of 25 % in the value of the foreign currency against the local currency.

5 For currencies which are pegged to the euro, the 25 % factor referred to in paragraphs 3 and 4 of this Article may be adjusted in accordance with ^{F61}Commission Implementing

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Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

Regulation (EU) 2015/2017 of 11 November 2015 laying down implementing technical standards with regard to the adjusted factors to calculate the capital requirement for currency risk for currencies pegged to the euro in accordance with Directive 2009/138/EC of the European Parliament and of the Council], provided that all of the following conditions are met:

- a the pegging arrangement shall ensure that the relative changes in the exchange rate over a one-year period do not exceed the relative adjustments to the 25 % factor, in the event of extreme market events, that correspond to the confidence level set out in Article 101(3) of Directive 2009/138/EC;
- b one of the following criteria is complied with:
 - (i) participation of the currency in the European Exchange Rate Mechanism (ERM II);
 - (ii) existence of a decision from the Council which recognises pegging arrangements between this currency and the euro;
 - (iii) establishment of the pegging arrangement by the law of country establishing the country's currency.

For the purposes of point (a), the financial resources of the parties that guarantee the pegging shall be taken into account.

6 The impact of an increase or a decrease in the value of a foreign currency against the local currency on the value of participations as defined in [^{F62}Article 68(6) of this Regulation] in financial and credit institutions, shall be considered only on the value of the participations that are not deducted from own funds pursuant to Article 68 of this Regulation. The part deducted from own funds shall be considered only to the extent such impact increases the basic own funds.

7 Where the larger of the capital requirements referred to in points (a) and (b) of paragraph 2 and the largest of the corresponding capital requirements calculated in accordance with Article 206(2) are not based on the same scenario, the capital requirement for currency risk on a given currency shall be the capital requirement referred to in points (a) or (b) of paragraph 2 for which the underlying scenario results in the largest corresponding capital requirement calculated in accordance with Article 206(2).

Textual Amendments

- F61** Words in Art. 188(5) substituted (31.12.2020) by [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), **11(30)(a)** (as amended by [S.I. 2020/1385](#), regs. 1(2), 54(2) and with savings in [S.I. 2019/680](#), reg. 11)
- F62** Words in Art. 188(6) substituted (31.12.2020) by [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), **11(30)(b)** (as amended by [S.I. 2020/1385](#), regs. 1(2), 54(2) and with savings in [S.I. 2019/680](#), reg. 11)

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

SECTION 6

Counterparty default risk module

Subsection 1

General provisions

Article 189

Scope

1 The capital requirement for counterparty default risk shall be equal to the following:

$$SCR_{def} = \sqrt{SCR_2^{(def,1)} + 1,5 \times SCR_{(def,1)} \times SCR_{(def,2)} + SCR_2^{(def,2)}}$$

where:

- (a) $SCR_{def,1}$ denotes the capital requirement for counterparty default risk on type 1 exposures as set out in paragraph 2;
- (b) $SCR_{def,2}$ denotes the capital requirement for counterparty default risk on type 2 exposures as set out in paragraph 3.

2 Type 1 exposures shall consist of exposures in relation to the following:

- [^{F1}a Risk-mitigation contracts including reinsurance arrangements, special purpose vehicles and insurance securitisations;]
- b Cash at bank as defined in Article 6 item F of Council Directive 91/674/EEC⁽⁸⁾;
- c Deposits with ceding undertakings, where the number of single name exposures does not exceed 15;
- d Commitments received by an insurance or reinsurance undertaking which have been called up but are unpaid, where the number of single name exposures does not exceed 15, including called up but unpaid ordinary share capital and preference shares, called up but unpaid legally binding commitments to subscribe and pay for subordinated liabilities, called up but unpaid initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings, called up but unpaid guarantees, called up but unpaid letters of credit, called up but unpaid claims which mutual or mutual-type associations may have against their members by way of a call for supplementary contributions;
- e Legally binding commitments which the undertaking has provided or arranged and which may create payment obligations depending on the credit standing or default on a counterparty including guarantees, letters of credit, letters of comfort which the undertaking has provided [^{F1}.];
- [^{F2}f derivatives other than credit derivatives covered in the spread risk sub-module.]

3 Type 2 exposures shall consist of all credit exposures which are not covered in the spread risk sub-module and which are not type 1 exposures, including the following:

- a Receivables from intermediaries;
- b Policyholder debtors;
- c mortgage loans which meet the requirements in Article 191(2) to (13);
- d Deposits with ceding undertakings, where the number of single name exposures exceeds 15;

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Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

- e Commitments received by an insurance or reinsurance undertaking which have been called up but are unpaid as referred to in paragraph 2(d), where the number of single name exposures exceeds 15.
- 4 Insurance and reinsurance undertakings may, at their discretion, consider all exposures referred to in points (d) and (e) of paragraph 3 as type 1 exposures, regardless of the number of single name exposures.
- 5 Where a letter of credit, a guarantee or an equivalent risk mitigation technique has been provided to fully secure an exposure and this risk mitigation technique complies with the requirements of Articles 209 to 215, then the provider of that letter of credit, guarantee or equivalent risk mitigation technique may be considered as the counterparty on the secured exposure for the purposes of assessing the number of single name exposures.
- 6 The following credit risks shall not be covered in the counterparty default risk module:
- a the credit risk transferred by a credit derivative;
 - b the credit risk on debt issuance by special purpose vehicles, ^{F63} ...;
 - c the underwriting risk of credit and suretyship insurance or reinsurance as referred to in lines of business 9, 21 and 28 of Annex I of this Regulation;
 - d the credit risk on mortgage loans which do not meet the requirements in Article 191(2) to (9) [^{F1}];
 - [^{F2}e the credit risk on assets posted as collateral to a CCP or a clearing member that are bankruptcy remote.]
- 7 Investment guarantees on insurance contracts provided to policy holders by a third party and for which the insurance or reinsurance undertaking would be liable should the third party default shall be treated as derivatives in the counterparty default risk module.

Textual Amendments

- F1** Substituted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Text with EEA relevance\)](#).
- F2** Inserted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Text with EEA relevance\)](#).
- F63** Words in Art. 189(6)(b) omitted (31.12.2020) by virtue of [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), **11(30A)** (as amended by S.I. 2019/1390, regs. 1(4), 11(3)(h); S.I. 2020/1385, regs. 1(2), 54(2); and with savings in S.I. 2019/680, reg. 11)

Article 190

Single name exposures

- 1 The capital requirement for counterparty default risk shall be calculated on the basis of single name exposures. For that purpose exposures to undertakings which belong to the same corporate group shall be treated as a single name exposure.
- 2 The insurance or reinsurance undertaking may consider exposures which belong to different members of the same legal or contractual pooling arrangement as different single

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name exposures where the probability of default of the single name exposure is calculated in accordance with Article 199 and the loss-given-default is calculated in accordance with Article 193 if it is a pool exposure of type A, in accordance with Article 194 if it is a pool exposure of type B and in accordance with Article 195 if it is a pool exposure of type C. Alternatively exposures to the undertakings which belong to the same pooling arrangement shall be treated as a single name exposure.

Article 191

Mortgage loans

1 Retail loans secured by mortgages on residential property (mortgage loans) shall be treated as type 2 exposures under the counterparty default risk provided the requirements in paragraphs 2 to 13 are met.

2 The exposure shall be either to a natural person or persons or to a small or medium sized enterprise.

3 The exposure shall be one of a significant number of exposures with similar characteristics such that the risks associated with such lending are substantially reduced.

4 The total amount owed to the insurance or reinsurance undertaking and, where relevant, to all related undertakings within the meaning of Article 212(1)(b) and (2) of Directive 2009/138/EC, including any exposure in default, by the counterparty or other connected third party, shall not, to the knowledge of the insurance or reinsurance undertaking, exceed EUR 1 million. The insurance or reinsurance undertaking shall take reasonable steps to acquire this knowledge.

5 The residential property is or will be occupied or let by the owner.

6 The value of the property does not materially depend upon the credit quality of the borrower.

7 The risk of the borrower does not materially depend upon the performance of the underlying property, but on the underlying capacity of the borrower to repay the debt from other sources, and as a consequence, the repayment of the facility does not materially depend on any cash flow generated by the underlying property serving as collateral. For those other sources, the insurance or reinsurance undertaking shall determine maximum loan-to-income ratio as part of its lending policy and obtain suitable evidence of the relevant income when granting the loan.

8 All of the following requirements on legal certainty shall be met:

- a a mortgage or charge is enforceable in all jurisdictions which are relevant at the time of the conclusion of the credit agreement and shall be properly filed on a timely basis;
- b all legal requirements for establishing the pledge have been fulfilled;
- c the protection agreement and the legal process underpinning it enable the insurance or reinsurance undertaking to realise the value of the protection within a reasonable timeframe.

9 All of the following requirements on the monitoring of property values and on property valuation shall be met:

- a the insurance or reinsurance undertaking monitors the value of the property on a frequent basis and at a minimum once every three years. The insurance or reinsurance undertaking carries out more frequent monitoring where the market is subject to significant changes in conditions;

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- b the property valuation is reviewed when information available to the insurance or reinsurance undertaking indicates that the value of the property may have declined materially relative to general market prices and that review is external and independent and carried out by a valuer who possesses the necessary qualifications, ability and experience to execute a valuation and who is independent from the credit decision process.

10 For the purposes of paragraph 9, insurance or reinsurance undertakings may use statistical methods to monitor the value of the property and to identify property that needs revaluation.

11 The insurance or reinsurance undertaking shall clearly document the types of residential property they accept as collateral and their lending policies in this regard. The insurance or reinsurance undertaking shall require the independent valuer of the market value of the property, as referred to in Article 198(2), to document that market value in a transparent and clear manner.

12 The insurance or reinsurance undertaking shall have in place procedures to monitor that the property taken as credit protection is adequately insured against the risk of damage.

13 The insurance or reinsurance undertaking shall report all of the following data on losses stemming from mortgage loans to the supervisory authority:

- a losses stemming from loans that has been classified as type 2 exposures according with Article 189(3) in any given year;
- b overall losses in any given year.

F64 14

Textual Amendments

F64 Art. 191(14) omitted (31.12.2020) by virtue of [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), **11(31)** (as amended by [S.I. 2020/1385](#), regs. 1(2), 54(2) and with savings in [S.I. 2019/680](#), reg. 11)

Article 192

Loss-given-default

1 The loss-given-default on a single name exposure shall be equal to the sum of the loss-given-default on each of the exposures to counterparties belonging to the single name exposure. The loss-given-default shall be net of the liabilities towards counterparties belonging to the single name exposure provided that those liabilities and exposures are set off in the case of default of the counterparties and provided that Articles 209 and 210 are complied with in relation to that right of set-off. No offsetting shall be allowed for if the liabilities are expected to be met before the credit exposure is cleared.

[^{F2}Where insurance and reinsurance undertakings have concluded contractual netting agreements covering several derivatives that represent credit exposure to the same counterparty, they may calculate the loss-given-default on those derivatives, as set out in paragraphs 3 to 3c, on the basis of the combined economic effect of all of those derivatives that are covered by the same contractual netting agreement, provided that Articles 209 and 210 are complied with in relation to the netting.]

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2 The loss-given-default on a reinsurance arrangement or insurance securitisation shall be equal to the following:

$$LGD = \max[50\% \times (REcoverables + 50\% \times RM_{re}) - F \times Collateral; 0]$$

where:

- (a) *Recoverables* denotes the best estimate of amounts recoverable from the reinsurance arrangement or insurance securitisation and the corresponding debtors;
- (b) RM_{re} denotes the risk mitigating effect on underwriting risk of the reinsurance arrangement or securitisation;
- (c) *Collateral* denotes the risk-adjusted value of collateral in relation to the reinsurance arrangement or securitisation;
- (d) F denotes a factor to take into account the economic effect of the collateral arrangement in relation to the reinsurance arrangement or securitisation in case of any credit event related to the counterparty.

Where the reinsurance arrangement is with an insurance or reinsurance undertaking or a third country insurance or reinsurance undertaking and 60 % or more of that counterparty's assets are subject to collateral arrangements, the loss-given-default shall be equal to the following:

[^{F18}

$$LGD = \max(90\% \times (Recoverables + 50\% \times RM_{re}) - F' \times Collateral; 0)$$

]

where:

F' denotes a factor to take into account the economic effect of the collateral arrangement in relation to the reinsurance arrangement or securitisation in the case of a credit event related to the counterparty.

[^{F13} The loss-given-default on a derivative falling within Article 192a(1) shall be equal to the following:

$$LGD = \max(18\% \cdot (Derivative + 50\% \cdot RM_{fin}) - 50\% \cdot F' \cdot Value; 0)$$

where:

- (a) *Derivative* denotes the value of the derivative determined in accordance with Article 75 of Directive 2009/138/EC;
- (b) RM_{fin} denotes the risk-mitigating effect on market risk of the derivative;
- (c) *Value* denotes the value of the assets held as collateral determined in accordance with Article 75 of Directive 2009/138/EC;
- (d) F' denotes a factor to take into account the economic effect of the collateral arrangement in relation to the derivative in case of a credit event related to the counterparty.]

[^{F23a} Notwithstanding paragraph 3, the loss-given-default on a derivative falling within Article 192a(2) shall be equal to the following:

$$LGD = \max(16\% \cdot (Derivative + 50\% \cdot RM_{fin}) - 50\% \cdot F'' \cdot Value; 0)$$

where:

- (a) *Derivative* denotes the value of the derivative in accordance with Article 75 of Directive 2009/138/EC;

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- (b) RM_{fin} denotes the risk-mitigating effect on market risk of the derivative;
- (c) $Value$ denotes the value of the assets held as collateral in accordance with Article 75 of Directive 2009/138/EC;
- (d) F'' denotes a factor to take into account the economic effect of the collateral arrangement in relation to the derivative in case of a credit event related to the counterparty.

3b The loss-given-default on derivatives other than those referred to in paragraphs 3 and 3a shall be equal to the following, provided that the derivative contract meets the requirements of Article 11 of Regulation (EU) 648/2012:

$$LGD = \max(90 \% \cdot (Derivative + 50 \% \cdot RM_{fin}) - 50 \% \cdot F'' \cdot Value; 0)$$

where:

- (a) $Derivative$ denotes the value of the derivative determined in accordance with Article 75 of Directive 2009/138/EC;
- (b) RM_{fin} denotes the risk-mitigating effect on market risk of the derivative;
- (c) $Value$ denotes the value of the assets held as collateral determined in accordance with Article 75 of Directive 2009/138/EC;
- (d) F''' denotes a factor to take into account the economic effect of the collateral arrangement in relation to the derivative in case of a credit event related to the counterparty.

3c The loss-given-default on derivatives not covered by paragraphs 3, 3a and 3b shall be equal to the following:

$$LGD = \max(90 \% \cdot (Derivative + RM_{fin}) - F''' \cdot Collateral; 0)$$

where:

- (a) $Derivative$ denotes the value of the derivative determined in accordance with Article 75 of Directive 2009/138/EC;
- (b) RM_{fin} denotes risk-mitigating effect on market risk of the derivative;
- (c) $Collateral$ denotes the risk-adjusted value of collateral in relation to the derivative;
- (d) F''' denotes a factor to take into account the economic effect of the collateral arrangement in relation to the derivative in case of a credit event related to the counterparty.

3d Where the loss-given-default on derivatives is to be calculated on the basis referred to in the second subparagraph of paragraph 1, the following rules shall apply for the purposes of paragraphs 3 to 3c:

- a the value of the derivative shall be the sum of the values of the derivatives covered by the contractual netting arrangement;
- b the risk-mitigating effect shall be determined at the level of the combination of derivatives covered by the contractual netting arrangement;
- c the risk-adjusted value of collateral shall be determined at the level of the combination of derivatives covered by the contractual netting arrangement.]

[^{F14} The loss-given-default on a mortgage loan shall be equal to the following:

$$LGD = \max(Loan - (80 \% \times Mortgage + Guarantee); 0)$$

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where:

- a) *Loan* denotes the value of the mortgage loan determined in accordance with Article 75 of Directive 2009/138/EC;
- b) *Mortgage* denotes the risk-adjusted value of the mortgage;
- c) *Guarantee* denotes the amount that the guarantor would be required to pay to the insurance or reinsurance undertaking if the obligor of the mortgage loan were to default at a time when the value of the property held as mortgage were equal to 80 % of the risk-adjusted value of the mortgage.

For the purposes of point (c), a guarantee shall be recognised only if it is provided by a counterparty mentioned in points (a) to (d) of the first subparagraph of Article 180(2) and it complies with the requirements set out in Articles 209, 210 and points (a) to (e) of Article 215.]

5 The loss-given-default on a legally binding commitment as referred to in Article 189(2)(e) of this Regulation shall be equal to the difference between its nominal value and its value in accordance with Article 75 of Directive 2009/138/EC.

6 The loss-given-default on cash at bank as defined in Article 6 item F of Council Directive 91/674/EEC, of a deposit with a ceding undertaking, of an item listed in Article 189(2)(d) or Article 189(3)(e) of this Regulation, or of a receivable from an intermediary or policyholder debtor, as well as any other exposure not listed elsewhere in this Article shall be equal to its value in accordance with Article 75 of Directive 2009/138/EC.

Textual Amendments

- F1** Substituted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Text with EEA relevance\)](#).
- F2** Inserted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Text with EEA relevance\)](#).
- F18** Substituted by [Commission Delegated Regulation \(EU\) 2016/467 of 30 September 2015 amending Commission Delegated Regulation \(EU\) 2015/35 concerning the calculation of regulatory capital requirements for several categories of assets held by insurance and reinsurance undertakings \(Text with EEA relevance\)](#).

^{F2} Article 192a

Exposure to clearing members

1 For the purposes of Article 192(3), a derivative falls within this paragraph if the following requirements are met:

- a the derivative is a CCP-related transaction in which the insurance or reinsurance undertaking is the client;
- b the positions and assets of the insurance or reinsurance undertaking related to that transaction are distinguished and segregated, at the level of both the clearing member and the CCP, from the positions and assets of both the clearing member and the other

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- clients of that clearing member and as a result of that distinction and segregation those positions and assets are bankruptcy remote in the event of the default or insolvency of the clearing member or one or more of its other clients;
- c the laws, regulations, rules and contractual arrangements applicable to or binding the insurance or reinsurance undertaking or the CCP facilitate the transfer of the client's positions relating to that transaction and of the corresponding collateral to another clearing member within the applicable margin period of risk in the event of default or insolvency of the original clearing member. In such circumstance, the client's positions and the collateral shall be transferred at market value, unless the client requests to close out the position at market value;
 - d the insurance or reinsurance undertaking has available an independent, written and reasoned legal opinion that concludes that, in the event of legal challenge, the relevant courts and administrative authorities would find that the client would bear no losses on account of the insolvency of the clearing member or of any the clients of that clearing member under any of the following laws:
 - (i) the laws of the jurisdiction of the insurance or reinsurance undertaking, its clearing member or the CCP;
 - (ii) the law governing the transaction;
 - (iii) the law governing the collateral;
 - (iv) the law governing any contract or agreement necessary to meet the requirement set out in point (b);
 - e the CCP is a qualifying central counterparty.
- 2 For the purposes of Article 192(3a), a derivative falls within this paragraph if the requirements set out in paragraph 1 are met, with the exception that the insurance or reinsurance undertaking is not required to be protected from losses in the event that the clearing member and another client of the clearing member jointly default.]

Textual Amendments

- F2** Inserted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Text with EEA relevance\)](#).

Article 193

Loss-given-default for pool exposures of type A

1 For pool exposures of type A which the undertaking considers as separate single name exposures in accordance with Article 190(2), where members are each only liable up to their respective portion of the obligation covered by the pooling arrangement, the loss-given-default shall be calculated in accordance with Article 192.

For pool exposures of type A which the undertaking considers as separate single name exposures in accordance with Article 190(2), where members are each liable up to the full amount of the obligation covered by the pooling arrangement, the loss-given-default calculated in accordance with Article 192 shall be multiplied by the risk-share factor, calculated as follows:

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$$\text{risk-share_factor} = e^{-0,15(\min(SR, 196\%) - 1)}$$

where:

(a)

$$SR = (1 - P) \times \frac{\sum_i EOF_i}{\sum_i (EOF_i / SR_i)} + \sum_j P_j \times SR_j$$

;

(b) i denotes all pool members falling within the scope defined in Article 2 of Directive 2009/138/EC and j denotes all pool members excluded from the scope of Article 2 of that Directive;

(c)

$$P = \sum_j P_j$$

;

(d) P_j denotes the share of the total risk of the pooling arrangement undertaken by pool member j ;

(e) for pool members for which a credit assessment by a nominated ECAI is available, SR_i and SR_j shall be assigned in accordance with the following table:

Credit quality step	0	1	2	3	4	5	6
SR_i	196 %	196 %	175 %	122 %	95 %	75 %	75 %

(f) for pool members which fall within the scope of Directive 2009/138/EC and for which a credit assessment by a nominated ECAI is not available, SR_i and SR_j shall be the latest available solvency ratio;

(g) for pool members situated in a third country and for which a credit assessment by a nominated ECAI is not available:

(i) SR_i and SR_j shall be equal to 100 % where the pool member is situated in a country whose solvency regime is deemed equivalent pursuant to [F65 Article 379A of this Regulation];

(ii) SR_i and SR_j shall be equal to 75 % where the pool member is situated in a country whose solvency regime is not deemed equivalent pursuant to [F65 Article 379A of this Regulation].

2 Where the undertaking is ceding risk to a pooling arrangement by the intermediary of a central undertaking, the central undertaking shall be considered as part of the pooling arrangement and its share of the risk calculated accordingly.

Textual Amendments

F65 Words in Art. 193(1)(g) substituted (31.12.2020) by [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), **11(32)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)

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Article 194

Loss-given-default for pool exposures of type B

1 For pool exposures of type B which the undertaking considers as separate single name exposures in accordance with Article 190(2), where members are each liable up to the full amount of the obligation covered by the pooling arrangement, the loss-given-default shall be calculated as follows:

$$LGD = \max \left(\left((1 - RR_C) \times \left(\frac{P_U}{(1 - P_C)} \times BE_C + \Delta RM_C \right) - F \times Collateral \right); 0 \right)$$

where:

- (a) P_U denotes the undertaking's share of the risk according to the terms of the pooling arrangement;
- (b) P_C denotes the counterparty member's share of the risk according to the terms of the pooling arrangement;
- (c) RR_C is equal to:
 - (i) 10 % if 60 % or more of the assets of the counterparty member are subject to collateral arrangements;
 - (ii) 50 % otherwise;
- (d) BE_C denotes the best estimate of the liability ceded to the counterparty member by the undertaking, net of any amounts reinsured with counterparties external to the pooling arrangement;
- (e) ΔRM_C denotes the counterparty member's contribution to the risk-mitigating effect of the pooling arrangement on the underwriting risk of the undertaking;
- (f) $Collateral$ denotes the risk-adjusted value of collateral held by the counterparty member of the pooling arrangement;
- (g) F denotes the factor to take into account the economic effect of the collateral held by the counterparty member, calculated in accordance with Article 197.

2 For pool exposures of type B which the undertaking considers as separate single name exposures in accordance with Article 190(2), where members are each only liable up to their respective portion of the obligation covered by the pooling arrangement, the loss-given-default shall be calculated as follows:

$$LGD = \max \left(\left((1 - RR_C) \times (P_C \times BE_U + \Delta RM_C) - F \times Collateral \right); 0 \right)$$

where:

- (a) P_C denotes the counterparty member's share of the risk according to the terms of the pooling arrangement;
- (b) RR_C is equal to:
 - (i) 10 % if 60 % or more of the assets of the counterparty member are subject to collateral arrangements;
 - (ii) 50 % otherwise;

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- (c) BE_U denotes the best estimate of the liability ceded to the pooling arrangement by the undertaking, net of any amounts reinsured with counterparties external to the pooling arrangement;
- (d) ΔRM_C denotes the counterparty member's contribution to the risk-mitigating effect of the pooling arrangement on the underwriting risk of the undertaking;
- (e) *Collateral* denotes the risk-adjusted value of collateral held by the counterparty member of the pooling arrangement;
- (f) F denotes the factor to take into account the economic effect of the collateral held by the counterparty member, calculated in accordance with Article 197.

Article 195

Loss-given-default for pool exposures of type C

For pool exposures of type C which the undertaking considers as separate single name exposures in accordance with Article 190(2), the loss-given-default shall be calculated as follows:

$$LGD = \max(((1 - RR_{CE}) \times (P_U \times BE_{CE} + \Delta RM_{CE}) - F \times Collateral); 0)$$

where:

- (a) P_U denotes the undertaking's share of the risk according to the terms of the pooling arrangement;
- (b) RR_{CE} is equal to:
 - (i) 10 % if 60 % or more of the assets of the external counterparty are subject to collateral arrangements;
 - (ii) 50 % otherwise;
- (c) BE_{CE} denotes the best estimate of the liability ceded to the external counterparty by the pooling arrangement as a whole;
- (d) ΔRM_{CE} denotes the external counterparty's contribution to the risk-mitigating effect of the pooling arrangement on the underwriting risk of the undertaking;
- (e) *Collateral* denotes the risk-adjusted value of collateral held by the counterparty member of the pooling arrangement;
- (f) F denotes the factor to take into account the economic effect of the collateral held by the counterparty member, calculated in accordance with Article 197.

[^{F1} Article 196

Risk-mitigating effect

The risk-mitigating effect on underwriting or market risks of a reinsurance arrangement, securitisation or derivative shall be the larger of zero and the difference between the following capital requirements:

- (a) the hypothetical capital requirement for underwriting or market risk of the insurance or reinsurance undertaking, calculated in accordance with Sections 1 to 5 of this Chapter,

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that would apply if the reinsurance arrangement, securitisation or derivative did not exist;

- (b) the capital requirement for underwriting or market risk of the insurance or reinsurance undertaking.]

Textual Amendments

- F1** Substituted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).

Article 197

Risk-adjusted value of collateral

1 [F1Where the criteria set out in Article 214 of this Regulation are met, the risk-adjusted value of collateral provided by way of security, as referred to in point (b) of Article 1(26), shall be equal to the difference between the value of the assets held as collateral, valued in accordance with Article 75 of Directive 2009/138/EC, and the adjustment for market risk, as referred to in paragraph 5 of this Article, provided that both of the following requirements are fulfilled:]

- a the insurance or reinsurance undertaking has (or is a beneficiary under a trust where the trustee has) the right to liquidate or retain, in a timely manner, the collateral in the event of a default, insolvency or bankruptcy or other credit event relating to the counterparty (the counterparty requirement);
- b the insurance or reinsurance undertaking has (or is a beneficiary under a trust where the trustee has) the right to liquidate or retain, in a timely manner, the collateral in the event of a default, insolvency or bankruptcy or other credit event relating to the custodian or other third party holding the collateral on behalf of the counterparty (the third party requirement).

2 Where the counterparty requirement is met and the criteria set out in Article 214 of this Regulation are met and the third party requirement is not met, the risk-adjusted value of a collateral provided by way of security, as referred to in Article 1(26)(b) of this Regulation, shall be equal to 90 % of the difference between the value of the assets held as collateral in accordance with Article 75 of Directive 2009/138/EC and the adjustment for market risk, as referred to in paragraph 5 of this Article.

3 Where either the counterparty requirement is not met or the requirements in Article 214 are not met, the risk-adjusted value of collateral provided by way of security, as referred to in Article 1(26)(b), shall be zero.

4 The risk-adjusted value of a collateral of which full ownership is transferred, as referred to in Article 1(26)(a) of this Regulation, shall be equal to the difference between the value of the assets held as collateral, valued in accordance with Article 75 of Directive 2009/138/EC, and the adjustment for market risk, as referred to in paragraph 5 of this Article, provided the requirements in Article 214 of this Regulation are fulfilled.

5 The adjustment for market risk is the difference between the following capital requirements:

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- a the hypothetical capital requirement for market risk of the insurance or reinsurance undertaking that would apply if the assets held as collateral were not included in the calculation;
- b the hypothetical capital requirement for market risk of the insurance or reinsurance undertaking that would apply if the assets held as collateral were included in the calculation.

6 For the purposes of paragraph 5, the currency risk of the assets held as collateral shall be calculated by comparing the currency of the assets held as collateral against the currency of the corresponding exposure.

[^{F17} Where, in case of insolvency of the counterparty, the determination of the insurance or reinsurance undertaking's proportional share of the counterparty's insolvency estate in excess of the collateral does not take into account that the undertaking receives the collateral, the factors F , F' , F'' and F''' referred to in Article 192(2) to (3c) shall all be 100 %. In all other cases these factors shall be 50 %, 18 %, 16 % and 90 % respectively.]

Textual Amendments

- F1** Substituted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Text with EEA relevance\)](#).

Article 198

Risk-adjusted value of mortgage

1 The risk-adjusted value of mortgage shall be equal to the difference between the value of the residential property held as mortgage, valued in accordance with paragraph 2, and the adjustment for market risk, as referred to in paragraph 3.

2 The value of the residential property held as mortgage shall be the market value reduced as appropriate to reflect the results of the monitoring required under Article 191(9) and (10) of this Regulation and to take account of any prior claims on the property. The external, independent valuation of the property shall be the same or less than the market value calculated in accordance with Article 75 of Directive 2009/138/EC.

3 The adjustment for market risk referred to in paragraph 1 shall be the difference between the following capital requirements:

- a the hypothetical capital requirement for market risk of the insurance or reinsurance undertaking that would apply if the residential property held as mortgage were not included in the calculation;
- b the hypothetical capital requirement for market risk of the insurance or reinsurance undertaking that would apply if the residential property held as mortgage were included in the calculation.

4 For the purposes of paragraph 2, the currency risk of the residential property held as mortgage shall be calculated by comparing the currency of the residential property against the currency of the corresponding loan.

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Subsection 2

Type 1 exposures

Article 199

Probability of default

1 The probability of default on a single name exposure shall be equal to the average of the probabilities of default on each of the exposures to counterparties that belong to the single name exposure, weighted by the loss-given-default in respect of those exposures.

2 Single name exposure i for which a credit assessment by a nominated ECAI is available shall be assigned a probability of default PD_i in accordance with the following table.

Credit quality step	0	1	2	3	4	5	6
Probability of default PD_i	0,002 %	0,01 %	0,05 %	0,24 %	1,20 %	4,2 %	4,2 %

3 Single name exposures i to an insurance or reinsurance undertaking for which a credit assessment by a nominated ECAI is not available and where this undertaking meets its Minimum Capital Requirement, shall be assigned a probability of default PD_i depending on the undertaking's solvency ratio, in accordance with the following table:

Solvency ratio	196 %	175 %	150 %	125 %	122 %	100 %	95 %	75 %
Probability of default	0,01 %	0,05 %	0,1 %	0,2 %	0,24 %	0,5 %	1,2 %	4,2 %

Where the solvency ratio falls in between the solvency ratios specified in the table above, the value of the probability of default shall be linearly interpolated from the closest values of probabilities of default corresponding to the closest solvency ratios specified in the table above. Where the solvency ratio is lower than 75 %, the probability of default shall be 4,2 %. Where the solvency ratios is higher than 196 %, the probability of default shall be 0,01 %.

For the purposes of this paragraph, 'solvency ratio' denotes the ratio of the eligible amount of own funds to cover the Solvency Capital Requirement and the Solvency Capital Requirement, using the latest available values.

4 Exposures to an insurance or reinsurance undertaking that do not meet its Minimum Capital Requirement shall be assigned a probability of default equal to 4,2 %.

5 Paragraphs 3 and 4 of this Article shall only apply as of the first date of public disclosure, by the undertaking corresponding to the exposure, of the report on its solvency and financial condition^{F66}.... Before that date, if a credit assessment by a nominated ECAI is available for the exposures, paragraph 2 shall apply. Otherwise, the exposures shall be assigned

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the same risk factor as the ones that would result from the application of paragraph 3 to exposures to an insurance or reinsurance undertaking whose solvency ratio is 100 %.

6 Exposures to a third country insurance or reinsurance undertaking for which a credit assessment by a nominated ECAI is not available, situated in a country whose solvency regime is deemed equivalent ^{F67}... in accordance with [^{F68}Article 379A of this Regulation], and which complies with the solvency requirements of that third-country, shall be assigned a probability of default equal to 0,5 %.

7 Exposures to credit institutions and financial institutions within the meaning of points (1) and (26) of Article 4(1) of Regulation (EU) No 575/2013 which comply with the solvency requirements set out in Directive 2013/36/EU and Regulation (EU) No 575/2013, for which a credit assessment by a nominated ECAI is not available, shall be assigned a probability of default equal to 0,5 %.

8 Exposures to counterparties referred to in points (a) to (d) of Article 180(2) shall be assigned a probability of default equal to 0 %.

9 The probability of default on single name exposures other than those identified in paragraphs 2 to 8 shall be equal to 4,2 %.

10 Where a letter of credit, a guarantee or an equivalent arrangement is provided to fully secure an exposure and this arrangement complies with Articles 209 to 215, the provider of that letter of credit, guarantee or equivalent arrangement may be considered as the counterparty on the secured exposure for the purposes of assessing the probability of default of a single name exposure.

11 For the purposes of paragraph 10, exposures fully, unconditionally and irrevocably guaranteed by counterparties listed in [^{F69}Commission Implementing Regulation (EU) 2015/2011 laying down implementing technical standards with regard to the lists of regional governments and local authorities, exposures to whom are to be treated as exposures to the central government in accordance with Directive 2009/138/EC of the European Parliament and of the Council] shall be treated as exposures to the central government.

[^{F2}]^{X3}12 Notwithstanding paragraphs 2 to 11, exposures referred to Article 192(3) shall be assigned a probability of default equal to 0,002 %.

13 Notwithstanding paragraphs 2 to 12, exposures referred to Article 192(3a) shall be assigned a probability of default equal to 0,01 %.]

Editorial Information

X3 Substituted by [Corrigendum to Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Official Journal of the European Union L 161 of 18 June 2019\)](#).

Textual Amendments

F2 Inserted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Text with EEA relevance\)](#).

F66 Words in Art. 199(5) omitted (31.12.2020) by virtue of [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), **11(33)(a)** (as amended by [S.I. 2020/1385](#), regs. 1(2), 54(2) and with savings in [S.I. 2019/680](#), reg. 11)

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- F67** Words in Art. 199(6) omitted (31.12.2020) by virtue of The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(33)(b)(i)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)
- F68** Words in Art. 199(6) substituted (31.12.2020) by The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(33)(b)(ii)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)
- F69** Words in Art. 199(11) substituted (31.12.2020) by The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(33)(c)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)

Article 200

Type 1 exposures

1 Where the standard deviation of the loss distribution of type 1 exposures is lower than or equal to 7 % of the total losses-given-default on all type 1 exposures, the capital requirement for counterparty default risk on type 1 exposures shall be equal to the following:

$$SCR_{def,i} = 3 \times \sigma$$

where σ denotes the standard deviation of the loss distribution of type 1 exposures, as defined in paragraph 4.

2 Where the standard deviation of the loss distribution of type 1 exposures is higher than 7 % of the total losses-given-default on all type 1 exposures and lower or equal to 20 % of the total losses-given-default on all type 1 exposures, the capital requirement for counterparty default risk on type 1 exposures shall be equal to the following:

$$SCR_{def,i} = 5 \times \sigma$$

where σ denotes the standard deviation of the loss distribution of type 1 exposures.

3 Where the standard deviation of the loss distribution of type 1 exposures is higher than 20 % of the total losses-given-default on all type 1 exposures, the capital requirement for counterparty default risk on type 1 exposures shall be equal to the total losses-given-default on all type 1 exposures.

4 The standard deviation of the loss distribution of type 1 exposures shall be equal to the following:

$$\sigma = \sqrt{V}$$

where V denotes the variance of the loss distribution of type 1 exposures.

Article 201

Variance of the loss distribution of type 1 exposures

1 The variance of the loss distribution of type 1 exposures as referred to in paragraph 4 of Article 200 shall be equal to the sum of V_{inter} and V_{intra} .

2 V_{inter} shall be equal to the following:

$$V_{inter} = \sum_{(j,k)} \frac{PD_k \times (1 - PD_k) \times PD_j \times (1 - PD_j)}{1,25 \times (PD_k + PD_j) - PD_k \times PD_j} \times TLGD_j \times TLGD_k$$

where:

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- (a) [F1the sum covers all possible combinations (j,k) of probabilities of default on single name exposures in accordance with Article 199;]
- (b) $TLGD_j$ and $TLGD_k$ denote the sum of losses -given- default on type 1 exposures from counterparties bearing a probability of default PD_j and PD_k respectively.
- 3 V_{intra} shall be equal to the following:

$$V_{intra} = \sum_j \frac{1,5 \times PD_j \times (1 - PD_j)}{2,5 - PD_j} \times \sum_{PD_j} LGD_i^2$$

where:

- (a) the first sum covers all different probabilities of default on single name exposures in accordance with Article 199;
- (b) the second sum covers all single name exposures that have a probability of default equal to PD_j ;
- (c) LGD_i denotes the loss-given-default on the single name exposure i .

Textual Amendments

- F1** Substituted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).

Subsection 3

Type 2 exposures

Article 202

Type 2 exposures

The capital requirement for counterparty default risk on type 2 exposures shall be equal to the loss in the basic own funds that would result from an instantaneous decrease in value of type 2 exposures by the following amount:

$$90\% \times LGD_{receivables>3months} + \sum_i 15\% \times LGD_i$$

where:

- (a) $LGD_{receivables>3months}$ denote the total losses-given-default on all receivables from intermediaries which have been due for more than three months
- (b) the sum is taken on all type 2 exposures other than receivables from intermediaries which have been due for more than three months;
- (c) LGD_i denotes the loss-given-default on the type 2 exposure i .

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SECTION 7

Intangible asset module

Article 203

The capital requirement for intangible asset risk shall be equal to the following:

$$SCR_{\text{intangible}} = 0,8 \times V_{\text{intangible}}$$

where $V_{\text{intangibles}}$ denotes the amount of intangible assets as recognised and valued in accordance with point 2 of Article 12.

SECTION 8

Operational risk

Article 204

1 The capital requirement for the operational risk module shall be equal to the following:

$$SCR_{\text{Operational}} = \min(0,3 \times BSCR; Op) + 0,25 \times Exp_{ul}$$

where:

- (a) $BSCR$ denotes the Basic Solvency Capital Requirement;
- (b) Op denotes the basic capital requirement for operational risk charge;
- (c) Exp_{ul} denotes the amount of expenses incurred during the previous 12 months in respect of life insurance contracts where the investment risk is borne by policy holders.

2 The basic capital requirement for operational risk shall be calculated as follows:

$$Op = \max(Op_{\text{premiums}}; Op_{\text{provisions}})$$

where:

- (a) Op_{premiums} denotes the capital requirement for operational risks based on earned premiums;
- (b) $Op_{\text{provisions}}$ denotes the capital requirement for operational risks based on technical provisions.

3 The capital requirement for operational risks based on earned premiums shall be calculated as follows:

$Op_{\text{premiums}} =$	$0,04 \cdot (Earn_{\text{life}} - Earn_{\text{life-ul}}) + 0,03 \cdot Earn_{\text{non-life}} + \max(0; 0,04 \cdot (Earn_{\text{life}} - 1,2 \cdot pEarn_{\text{life}} - (Earn_{\text{life-ul}} - 1,2 \cdot pEarn_{\text{life-ul}}))) + \max(0; 0,03 \cdot (Earn_{\text{non-life}} - 1,2 \cdot pEarn_{\text{non-life}}))$
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where:

- (a) $Earn_{\text{life}}$ denotes the premiums earned during the last 12 months for life insurance and reinsurance obligations, without deducting premiums for reinsurance contracts;

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- (b) $Earn_{life-ul}$ denotes the premiums earned during the last 12 months for life insurance and reinsurance obligations where the investment risk is borne by the policy holders without deducting premiums for reinsurance contracts;
- (c) $Earn_{non-life}$ denotes the premiums earned during the last 12 months for non-life insurance and reinsurance obligations, without deducting premiums for reinsurance contracts;
- (d) $pEarn_{life}$ denotes the premiums earned during the 12 months prior to the last 12 months for life insurance and reinsurance obligations, without deducting premiums for reinsurance contracts;
- (e) $pEarn_{life-ul}$ denotes the premiums earned during the 12 months prior to the last 12 months for life insurance and reinsurance obligations where the investment risk is borne by the policy holders without deducting premiums for reinsurance contracts;
- (f) $pEarn_{non-life}$ denotes the premium earned during the 12 months prior to the last 12 months for non-life insurance and reinsurance obligations, without deducting premiums for reinsurance contracts.

For the purposes of this paragraph, earned premiums shall be gross, without deduction of premiums for reinsurance contracts.

4 The capital requirement for operational risk based on technical provisions shall be calculated as follows:

$$Op_{provisions} = 0,0045 \times \max(0; TP_{life} - TP_{life-ul}) + 0,03 \times \max(0; TP_{non-life})$$

where:

- (a) TP_{life} denotes the technical provisions for life insurance and reinsurance obligations;
- (b) $TP_{life-ul}$ denotes the technical provisions for life insurance obligations where the investment risk is borne by the policy holders;
- (c) $TP_{non-life}$ denotes the technical provisions for non-life insurance and reinsurance obligations.

For the purposes of this paragraph, technical provisions shall not include the risk margin, and shall be calculated without deduction of recoverables from reinsurance contracts and special purpose vehicles.

SECTION 9

Adjustment for the loss-absorbing capacity of technical provisions and deferred taxes

Article 205

General provisions

The adjustment referred to in Article 103(c) of Directive 2009/138/EC for the loss-absorbing capacity of technical provisions and deferred taxes shall be the sum of the following items:

- (a) the adjustment for the loss-absorbing capacity of technical provisions;
- (b) the adjustment for the loss-absorbing capacity of deferred taxes.

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Article 206

Adjustment for the loss-absorbing capacity of technical provisions

1 The adjustment for the loss-absorbing capacity of technical provisions shall be equal to the following:

$$Adj_{TP} = - \max(\min(BSCR - nBSCR; FDB); 0)$$

where:

- (a) *BSCR* denotes the Basic Solvency Capital Requirement referred to in Article 103(a) of Directive 2009/138/EC;
- (b) *nBSCR* denotes the net Basic Solvency Capital Requirement as referred to in paragraph 2 of this Article;
- (c) *FDB* denotes the technical provisions without risk margin in relation to future discretionary benefits

2 The net Basic Solvency Capital Requirement shall be calculated in accordance with Section 1, Subsection 1 to 7 of Chapter V with all the following modifications:

- a where the calculation of a module or sub-module of the Basic Solvency Capital Requirement is based on the impact of a scenario on the basic own funds of insurance and reinsurance undertakings, the scenario can change the value of the future discretionary benefits included in technical provisions;
- b the scenario based calculations of the life underwriting risk module, the SLT health underwriting risk sub-module, the health catastrophe risk sub-module, the market risk module and the counterparty default risk module as well as the scenario-based calculation set out in points (c) and (d) shall take into account the impact of the scenario on future discretionary benefits included in technical provisions; this shall be done on the basis of assumptions on future management actions that comply with Article 23;
- c instead of the capital requirement for counterparty default risk on type 1 exposures referred to in Article 189(1), the calculation shall be based on the capital requirement that is equal to the loss in basic own funds that would result from an instantaneous loss, due to default events relating to type 1 exposures, of the amount of the capital requirement for counterparty default risk on type 1 exposures referred to in Article 189(1);
- d where insurance and reinsurance undertakings use a simplified calculation for a specific capital requirement as set out in Articles 91, 92, 93, 94, 95(1), 95(2), 96, 101, 103(1)(a), 103(1)(b) or 104 the undertakings shall base the calculation on the capital requirement that is equal to the loss in basic own funds that would result from an instantaneous loss of the amount of the capital requirement referred to in the relevant Article and shall assume that the instantaneous loss is due to the risk that the capital requirement referred to in that Article captures.

3 For the purposes of point (b) of paragraph 2, insurance and reinsurance undertakings shall take into account any legal, regulatory or contractual restrictions in the distribution of future discretionary benefits.

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Article 207

Adjustment for the loss-absorbing capacity of deferred taxes

1 The adjustment for the loss-absorbing capacity of deferred taxes shall be equal to the change in the value of deferred taxes of insurance and reinsurance undertakings that would result from an instantaneous loss of an amount that is equal to the sum of the following:

- a the Basic Solvency Capital Requirement referred to in Article 103(a) of Directive 2009/138/EC;
- b the adjustment for the loss-absorbing capacity of technical provisions referred to in Article 206 of this Regulation;
- c the capital requirement for operational risk referred to in Article 103(b) of Directive 2009/138/EC.

[^{F12} For the purposes of paragraph 1, deferred taxes shall be valued in accordance with Article 15(1) and (2), without prejudice to paragraphs 2a, 2b and 2c of this Article.]

[^{F2a} Where the loss referred to in paragraph 1 would result in an increase in the amount of deferred tax assets, insurance and reinsurance undertakings shall not utilise that increase for the purposes of the adjustment referred to in that paragraph unless they are able to demonstrate to the satisfaction of the supervisory authority that it is probable that future taxable profit will be available against which that increase can be utilised, taking into account all of the following:

- a any legal or regulatory requirements on the time limits relating to the carry-forward of unused tax losses or the carry-forward of unused tax credits;
- b the magnitude of the loss referred to in paragraph 1 and its impact on the undertaking's current and future financial situation and on insurance product pricing, market profitability, insurance demand, reinsurance coverage and other macro-economic variables;
- c the increased uncertainty in future profit following the loss referred to in paragraph 1, as well as the increasing degree of uncertainty relating to future taxable profit following that loss, as the projection horizon becomes longer.

2b For the purposes of demonstrating that it is probable that future taxable profit will be available, insurance and reinsurance undertakings shall not apply assumptions that are more favourable than those used for the valuation and utilisation of deferred tax assets in accordance with Article 15.

2c For the purposes of demonstrating that it is probable that future taxable profit will be available, the assumptions applied by insurance and reinsurance undertakings shall meet the following conditions:

- a new business sales in excess of those projected for the purposes of the insurance or reinsurance undertaking's business planning shall not be assumed;
- b new business sales beyond the horizon of the insurance or reinsurance undertaking's business planning and beyond a maximum of five years shall not be assumed;
- c the rates of return on the insurance or reinsurance undertaking's investments following the loss referred to in paragraph 1 shall be assumed to be equal to the implicit returns of the forward rates derived from the relevant risk-free interest rate term structure obtained after that loss, unless the insurance or reinsurance undertaking is able to provide credible evidence of likely returns in excess of those implicit returns;
- d where, without prejudice to point (a), the insurance or reinsurance undertaking sets a projection horizon for profits from new business that is longer than the horizon of

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its business planning, a finite projection horizon shall be set and appropriate haircuts shall be applied to the profits from new business projected beyond the horizon of the undertaking's business planning. Such haircuts shall be assumed to increase the further into the future the profits are projected.

2d Insurance and reinsurance undertakings may assume the implementation of future management actions following the loss referred to in paragraph 1, provided that the provisions laid down in Article 23 are complied with.]

3 For the purposes of paragraph 1, a decrease in deferred tax liabilities or an increase in deferred tax assets shall result in a negative adjustment for the loss-absorbing capacity of deferred taxes.

4 Where the calculation of the adjustment in accordance with paragraph 1 results in a positive change of deferred taxes, the adjustment shall be nil.

5 Where it is necessary to allocate the loss referred to in paragraph 1 to its causes in order to calculate the adjustment for the loss-absorbing capacity of deferred taxes, insurance and reinsurance undertakings shall allocate the loss to the risks that are captured by the Basic Solvency Capital Requirement and the capital requirement for operational risk. The allocation shall be consistent with the contribution of the modules and sub-modules of the standard formula to the Basic Solvency Capital Requirement. Where an insurance or reinsurance undertaking uses a partial internal model where the adjustment to the loss-absorbing capacity of technical provisions and deferred taxes are not within the scope of the model, the allocation shall be consistent with the contribution of the modules and sub-modules of the standard formula which are outside of the scope of the model to the Basic Solvency Capital Requirement.

Textual Amendments

- F1** Substituted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).
- F2** Inserted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).

SECTION 10

Risk mitigation techniques

Article 208

Methods and Assumptions

1 Where insurance or reinsurance undertakings transfer underwriting risks using reinsurance contracts or special purpose vehicles that meet the requirements set out in Articles 209, 211 and 213, and where these arrangements provide for protection in several of the scenario-based calculations set out in Title I, Chapter V, Sections 2, 3 and 4, the risk-mitigating effects of these contractual arrangements shall be allocated to the scenario-based calculations in a manner that, without double-counting, captures the economic effect of the protections provided.

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In particular, the economic effect of the protections provided shall be captured in determining the loss in basic own funds in the scenario-based calculations.

[^{F12} Where insurance or reinsurance undertakings transfer underwriting risks using finite reinsurance contracts, as defined in Article 210(3) of Directive 2009/138/EC, that meet the requirements set out in Articles 209, 211 and 213 of this Regulation, those contracts shall be recognised in the scenario based calculations set out in Title I, Chapter V, Sections 2, 3 and 4 of this Regulation only to the extent underwriting risk is transferred to the counterparty of the contract. Notwithstanding the previous sentence, finite reinsurance, or similar arrangements where the effective risk transfer is comparable to that of finite reinsurance, shall not be taken into account for the purposes of determining the volume measures for premium and reserve risk in accordance with in Articles 116 and 147 of this Regulation, or for the purposes of calculating undertaking-specific parameters in accordance with Section 13 of this Chapter.]

Textual Amendments

- F1** Substituted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Text with EEA relevance\).](#)

Article 209

Qualitative Criteria

1 When calculating the Basic Solvency Capital Requirement, insurance or reinsurance undertakings shall only take into account risk-mitigation techniques as referred to in Article 101(5) of Directive 2009/138/EC where all of the following qualitative criteria are met:

- a the contractual arrangements and transfer of risk are legally effective and enforceable in all relevant jurisdictions;
- b the insurance or reinsurance undertaking has taken all appropriate steps to ensure the effectiveness of the arrangement and to address the risks related to that arrangement;
- c the insurance or reinsurance undertaking is able to monitor the effectiveness of the arrangement and the related risks on an ongoing basis;
- d the insurance or reinsurance undertaking has, in the event of a default, insolvency or bankruptcy of a counterparty or other credit event set out in the transaction documentation for the arrangement, a direct claim on that counterparty;
- e there is no double counting of risk-mitigation effects in own funds and in the calculation of the Solvency Capital Requirement or within the calculation of the Solvency Capital Requirement.

2 Only risk-mitigation techniques that are in force for at least the next 12 months and which meet the qualitative criteria set out in this Section shall be fully taken into account in the Basic Solvency Capital Requirement. In all other cases, the risk-mitigation effect of risk-mitigation techniques that are in force for a period shorter than 12 months and which meet the qualitative criteria set out in this Section shall be taken into account in the Basic Solvency Capital Requirement in proportion to the length of time involved for the shorter of the full term of the risk exposure or the period that the risk-mitigation technique is in force.

[^{F13} Where contractual arrangements governing the risk-mitigation techniques will be in force for a period shorter than the next 12 months and the insurance or reinsurance undertaking intends to replace that risk-mitigation technique at the time of its expiry with a similar

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arrangement or where that risk-mitigation technique is subject to an adjustment to reflect changes in the exposure that it covers, the risk-mitigation technique shall be fully taken into account in the Basic Solvency Capital Requirement provided all of the following qualitative criteria are met:

- a the insurance or reinsurance undertaking has a written policy on the replacement or adjustment of that risk-mitigation technique, covering situations including the situation where the insurance or reinsurance undertaking uses several contractual arrangements in combination to transfer risk as referred to in Article 210(5);
- b the replacement or adjustment of the risk-mitigation technique takes place more often than once per week only in cases where, without the replacement or adjustment, an event would have a material adverse impact on the solvency position of the insurance or reinsurance undertaking;
- c the replacement or adjustment of the risk-mitigation technique is not conditional on any future event which is outside of the control of the insurance or reinsurance undertaking and where the replacement or adjustment of the risk-mitigation technique is conditional on any future event that is within the control of the insurance or reinsurance undertaking, the conditions for such replacement or adjustment are clearly documented in the written policy referred to in point (a);
- d the replacement or adjustment of the risk-mitigation technique is realistically based on replacements and adjustments undertaken previously by the insurance or reinsurance undertaking and consistent with the undertaking's current business practice and business strategy;
- e there is no material risk that the risk-mitigation technique cannot be replaced or adjusted due to an absence of liquidity in the market;
- f the risk that the cost of replacing or adjusting the risk-mitigation technique increases during the following 12 months is reflected in the Solvency Capital Requirement;
- g the replacement or adjustment of the risk-mitigation technique would not be contrary to requirements that apply to future management actions set out in Article 23(5);
- h the initial contractual maturity is not shorter than one month in cases where the insurance or reinsurance undertaking transfers risks through the purchase or issuance of financial instruments;
- i the initial contractual maturity is not shorter than three months where the insurance or reinsurance undertaking transfers underwriting risks using reinsurance contracts or special purpose vehicles.]

Textual Amendments

- F1** Substituted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Text with EEA relevance\).](#)

Article 210

Effective Transfer of Risk

1 The contractual arrangements governing the risk-mitigation technique shall ensure that the extent of the cover provided by the risk-mitigation technique and the transfer of risk is clearly defined and incontrovertible.

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2 The contractual arrangement shall not result in material basis risk or in the creation of other risks, unless this is reflected in the calculation of the Solvency Capital requirement.

3 Basis risk is material if it leads to a misstatement of the risk-mitigating effect on the insurance or reinsurance undertaking's Basic Solvency Capital Requirement that could influence the decision-making or judgement of the intended user of that information, including the supervisory authorities.

4 The determination that the contractual arrangements and transfer of risk is legally effective and enforceable in all relevant jurisdictions in accordance with Article 209(1)(a) shall be based on the following:

- a whether the contractual arrangement is subject to any condition which could undermine the effective transfer of risk, the fulfilment of which is outside the direct control of the insurance or reinsurance undertaking;
- b whether there are any connected transactions which could undermine the effective transfer of risk.

[^{F25} Where an insurance or reinsurance undertaking combines several contractual arrangements to transfer risk, each of the contractual arrangements shall meet the requirements set out in paragraphs 1 and 4 and the contractual arrangements in combination shall meet the requirements set out in paragraphs 2 and 3.]

Textual Amendments

- F2** Inserted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Text with EEA relevance\)](#).

Article 211

Risk-Mitigation techniques using reinsurance contracts or special purpose vehicles

1 Where insurance or reinsurance undertakings transfer underwriting risks using reinsurance contracts or special purpose vehicles, in order for them to take into account the risk-mitigation technique in the Basic Solvency Capital Requirement, the qualitative criteria set out in Articles 209 and 210 and those set out in paragraphs 2 to 6 shall be met.

2 In the case of reinsurance contracts the counterparty shall be any of the following:

- a an insurance or reinsurance undertaking which complies with the Solvency Capital Requirement;
- b a third-country insurance or reinsurance undertaking, situated in a country whose solvency regime is deemed equivalent or temporarily equivalent ^{F70}... in accordance with [^{F71}Article 378A of this Regulation] and which complies with the solvency requirements of that third-country;

^{F72}[^{F1c} a third country insurance or reinsurance undertaking that is not situated in a country whose solvency regime is deemed equivalent or temporarily equivalent in accordance with [^{F73}Article 378A of this Regulation] that has been assigned to credit quality step 3 or better in accordance with Section 2 of Chapter I of this Title.]

[^{F13} Where a counterparty to a reinsurance contract is an insurance or reinsurance undertaking which ceases to comply with the Solvency Capital Requirement after the

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reinsurance contract has been entered into, the protection offered by the insurance risk-mitigation technique may be partially recognised for a period of no longer than six months after the counterparty ceases to comply with the Solvency Capital Requirement. In that case, the effect of the risk-mitigation technique shall be reduced by the percentage by which the Solvency Capital Requirement is breached. As soon as the counterparty has restored compliance with the Solvency Capital Requirement, the effect of the risk-mitigation technique shall no longer be reduced. Where the counterparty fails to restore compliance with the Solvency Capital Requirement within that period of six months, the effect of the risk-mitigation technique shall no longer be recognised. Where, before the end of the period of six months, the insurance or reinsurance undertaking becomes aware that it is unlikely that the counterparty will be able to restore compliance with the Solvency Capital Requirement within that period, the insurance or reinsurance undertaking shall no longer recognise the effect of the risk-mitigation technique in the Basic Solvency Capital Requirement.]

[^{F23a} Notwithstanding paragraph 3, where a counterparty to a reinsurance contract is an insurance or reinsurance undertaking which ceases to comply with the Minimum Capital Requirement after the reinsurance contract has been entered into, the effect of the risk-mitigation technique shall no longer be recognised in the Basic Solvency Capital Requirement.]

4 Where risk is transferred to a special purpose vehicle the requirements referred to in [^{F74}Articles 318 to 327 of this Regulation] shall be met for the risk-mitigation technique to be taken into account in the Basic Solvency Capital Requirement; where the requirements for a special purpose vehicle to be fully-funded cease to be fully met after the arrangement has been entered into, the protection offered by the insurance risk-mitigation technique may be partially recognised, provided that the insurance or reinsurance undertaking can demonstrate that compliance with the fully-funded requirement will be restored within three months; for this purpose, the effect of the risk-mitigation technique shall be reduced by the percentage of the aggregated maximum risk exposure of the special purpose vehicle, referred to in Article 326 of this Regulation not covered by the assets of the special purpose vehicle ^{F75}....

^{F765}

6 Where risk is transferred to a special purpose vehicle that is regulated by a third country supervisory authority, the risk-mitigation technique shall only be taken into account in the Basic Solvency Capital Requirement where requirements equivalent to those set out in [^{F77}Articles 318 to 327 of this Regulation] are met by the special purpose vehicle.

Textual Amendments

- F1** Substituted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).
- F2** Inserted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).
- F70** Words in Art. 211(2)(b) omitted (31.12.2020) by virtue of The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(34)(a)(i)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)
- F71** Words in Art. 211(2)(b) substituted (31.12.2020) by The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(34)(a)(ii)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)

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- F72** By The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(34)(a)(i)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11), it is provided that (31.12.2020) the words “to that laid down in Directive 2009/138/EC” are omitted
- F73** Words in Art. 211(2)(c) substituted (31.12.2020) by virtue of The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(34)(a)(ii)** (as amended by S.I. 2020/1385, regs. 1(2), **54(2)** and with savings in S.I. 2019/680, **reg. 11**)
- F74** Words in Art. 211(4) substituted (31.12.2020) by The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(34)(c)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)
- F75** Words in Art. 211(4) omitted (31.12.2020) by virtue of The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(34)(d)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)
- F76** Art. 211(5) omitted (31.12.2020) by virtue of The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(34)(e)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)
- F77** Words in Art. 211(6) substituted (31.12.2020) by The Solvency 2 and Insurance (Amendment, etc.) (EU Exit) Regulations 2019 (S.I. 2019/407), regs. 1(2), **11(34)(c)** (as amended by S.I. 2020/1385, regs. 1(2), 54(2) and with savings in S.I. 2019/680, reg. 11)

Article 212

Financial Risk-Mitigation techniques

[^{F1} Where insurance or reinsurance undertakings transfer risk, in order for the risk-mitigation technique to be taken into account in the Basic Solvency Capital Requirement, in other cases than in the cases referred to in Article 211(1), including transfers through the purchase or issuance of financial instruments, the qualitative criteria provided in paragraphs 2 to 5 shall be met, in addition to the qualitative criteria set out in Articles 209 and 210.]

2 The risk-mitigation technique shall be consistent with the insurance or reinsurance undertaking's written policy on risk management, as referred to in Article 44(2) of Directive 2009/138/EC.

3 The insurance or reinsurance undertaking shall be able to value the assets, liabilities that are subject to the risk mitigation technique and, where the risk-mitigation technique includes the use of financial instruments, the financial instruments, reliably in accordance with Article 75 of Directive 2009/138/EC.

4 Where the risk-mitigation technique includes the use of financial instruments, the financial instruments shall have a credit quality which has been assigned to credit quality step 3 or better in accordance with Section 2, Chapter I of this Title.

5 Where the risk-mitigation technique is not a financial instrument, the counterparties to the risk-mitigation technique shall have a credit quality which has been assigned to credit quality step 3 or better in accordance with Section 2, Chapter I of this Title.

Textual Amendments

- F1** Substituted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European

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Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).

Article 213

Status of the counterparties

[^{F1} In the event that the qualitative criteria in Article 211(1), or Article 212(4) or (5) are not met, insurance and reinsurance undertakings shall only take into account the risk-mitigation techniques when calculating the Basic Solvency Capital Requirement where one of the following criteria is met:

- a the risk-mitigation technique meets the qualitative criteria set out in Articles 209, 210 and Article 212(2) and (3) and collateral arrangements exist that meet the criteria provided in Article 214;
- b the risk-mitigation technique is accompanied by another risk-mitigation technique that, when viewed in combination with the first technique, meets the qualitative criteria set out in Articles 209 and 210 and Article 212(2) and (3), with the counterparties to that other technique meeting the criteria provided in Articles 211(1) and Article 212(4) and (5).]

2 For the purposes of point (a) of paragraph 1 of this Article, where the value, in accordance with Article 75 of Directive 2009/138/EC of the collateral is less than the total risk exposure, the collateral arrangement shall only be taken into account to the extent that the collateral covers the risk exposure.

Textual Amendments

- F1** Substituted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Text with EEA relevance\).](#)

Article 214

Collateral Arrangements

1 In the calculation of the Basic Solvency Capital Requirement, collateral arrangements shall only be recognised where, in addition to the qualitative criteria in Articles 209 and 210, the following criteria are met:

- a the insurance or reinsurance undertaking transferring the risk shall have the right to liquidate or retain, in a timely manner, the collateral in the event of a default, insolvency or bankruptcy or other credit event of the counterparty;
- b there is sufficient certainty as to the protection achieved by the collateral because of either of the following:
 - (i) it is of sufficient credit quality, is of sufficient liquidity and is sufficiently stable in value;
 - (ii) it is guaranteed by a counterparty, other than a counterparty referred to in Article 187(5) and 184(2) who has been assigned a risk factor for concentration risk of 0 %;

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- c there is no material positive correlation between the credit quality of the counterparty and the value of the collateral;
 - d the collateral is not securities issued by the counterparty or a related undertaking of that counterparty.
- 2 Where a collateral arrangement meets the definition in Article 1(26)(b) and involves collateral being held by a custodian or other third party, the insurance or reinsurance undertaking shall ensure that all of the following criteria are met:
- a the relevant custodian or other third party segregates the assets held as collateral from its own assets;
 - b the segregated assets are held by a deposit-taking institution that has a credit quality which has been assigned to credit quality step 3 or better in accordance with Section 2, Chapter I of this Title;
 - c the segregated assets are individually identifiable and can only be changed or substituted with the consent of the insurance or reinsurance undertaking or a person acting as a trustee in relation to the insurance or reinsurance undertaking's interest in such assets;
 - d the insurance or reinsurance undertaking has (or is a beneficiary under a trust where the trustee has) the right to liquidate or retain, in a timely manner, the segregated assets in the event of a default, insolvency or bankruptcy or other credit event relating to the custodian or other third party holding the collateral on behalf of the counterparty;
 - e the segregated assets shall not be used to pay, or to provide collateral in favour of, any person other than the insurance or reinsurance undertaking or as directed by the insurance or reinsurance undertaking.

Article 215

Guarantees

In the calculation of the Basic Solvency Capital Requirement, guarantees shall only be recognised where explicitly referred to in this Chapter, and where in addition to the qualitative criteria in Articles 209 and 210, all of the following criteria are met:

- (a) the credit protection provided by the guarantee is direct;
- (b) the extent of the credit protection is clearly defined and incontrovertible;
- (c) the guarantee does not contain any clause, the fulfilment of which is outside the direct control of the lender, that:
 - (i) would allow the protection provider to cancel the protection unilaterally;
 - (ii) would increase the effective cost of protection as a result of a deterioration in the credit quality of the protected exposure;
 - (iii) could prevent the protection provider from being obliged to pay out in a timely manner in the event that the original obligor fails to make any payments due;
 - (iv) could allow the maturity of the credit protection to be reduced by the protection provider;
- (d) on the default, insolvency or bankruptcy or other credit event of the counterparty, the insurance or reinsurance undertaking has the right to pursue, in a timely manner, the guarantor for any monies due under the claim in respect of which the protection is

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provided and the payment by the guarantor shall not be subject to the insurance or reinsurance undertaking first having to pursue the obligor;

- (e) the guarantee is an explicitly documented obligation assumed by the guarantor;
- (f) the guarantee fully covers all types of regular payments the obligor is expected to make in respect of the claim.

SECTION 11

Ring fenced funds

Article 216

Calculation of the Solvency Capital Requirement in the case of ring-fenced funds and matching adjustment portfolios

1 In the case of ring-fenced funds determined in accordance with Article 81(1) of this Regulation or in the case insurance or reinsurance undertakings have received approval to apply a matching adjustment to the risk-free interest term structure in accordance with Article 77b of Directive 2009/138/EC, insurance and reinsurance undertakings shall make an adjustment to the calculation of the Solvency Capital Requirement following the method that is set out in Article 217 of this Regulation.

2 However, where an insurance or reinsurance undertaking has received supervisory approval to apply [^{F78}a duration-based equity risk sub-module] to a ring-fenced funds, it shall not adjust the calculation in accordance with Article 217 of this Regulation, but base the calculation of the assumption of full diversification between the assets and liabilities of the ring-fenced funds and the rest of the undertaking.

Textual Amendments

F78 Words in Art. 216(2) substituted (31.12.2020) by [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), **11(35)** (as amended by [S.I. 2020/1385](#), regs. 1(2), 54(2) and with savings in [S.I. 2019/680](#), reg. 11)

Article 217

Solvency Capital Requirement calculation method for ring-fenced funds and matching adjustment portfolios

1 Insurance and reinsurance undertakings shall calculate a notional Solvency Capital Requirement for each ring-fenced fund and each matching adjustment portfolio, as well as for the remaining part of the undertaking, in the same manner as if those ring-fenced funds and matching adjustment portfolio and the remaining part of the undertaking were separate undertakings.

2 Insurance and reinsurance undertakings shall calculate their Solvency Capital Requirement as the sum of the notional Solvency Capital Requirements for each of the ring-fenced funds and each matching adjustment portfolio and for the remaining part of the undertaking.

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3 Where the calculation of the capital requirement for a risk module or sub-module of the Basic Solvency Capital Requirement is based on the impact of a scenario on the basic own funds of the insurance or reinsurance undertaking, the impact of the scenario on the basic own funds at the level of the ring-fenced fund and matching adjustment portfolio and the remaining part of the undertaking shall be calculated.

4 The basic own funds at the level of the ring-fenced fund or matching adjustment portfolio shall be those restricted own-fund items that meet the definition of basic own funds set out in Article 88 of Directive 2009/138/EC.

5 Where profit participation arrangements exist in the ring-fenced fund, insurance and reinsurance undertakings shall apply the following approach when adjusting the Solvency Capital Requirement:

- a where the calculation referred to in paragraph 3 would result in an increase in the basic own funds at the level of the ring-fenced fund, the estimated change in those basic own funds shall be adjusted to reflect the existence of profit participation arrangements in the ring-fenced fund; in this case, the adjustment to the change in the basic own funds of the ring-fenced fund shall be the amount by which technical provisions would increase due to the expected future distribution to policy holders or beneficiaries of that ring-fenced fund;
- b where the calculation referred to in paragraph 3 would result in a decrease in the basic own funds at the level of the ring-fenced fund, the estimated change in those basic own funds for the calculation of the net Basic Solvency Capital Requirement, as referred to in Article 206(2), shall be adjusted to reflect the reduction in future discretionary benefits payable to policy holders or beneficiaries of that ring-fenced fund; the adjustment shall not exceed the amount of future discretionary benefits within the ring-fenced fund.

6 Notwithstanding paragraph 1, the notional Solvency Capital Requirement for each ring-fenced fund and each matching adjustment portfolio shall be calculated using the scenario-based calculations under which basic own funds for the undertaking as a whole are most negatively affected.

7 For the purposes of determining the scenario under which basic own funds are most negatively affected for the undertaking as a whole, the undertaking shall first calculate the sum of the results of the impacts of the scenarios on the basic own funds at the level of each ring-fenced fund and each matching adjustment portfolio, in accordance with paragraphs 3 and 5. The sums at the level of each ring-fenced fund and each matching adjustment portfolio shall be added to one another and to the results of the impact of the scenarios on the basic own funds in the remaining part of the insurance or reinsurance undertaking.

8 The notional Solvency Capital Requirement for each ring-fenced fund and each matching adjustment portfolio shall be determined by aggregating the capital requirements for each sub-module and risk module of the Basic Solvency Capital Requirement.

9 Insurance and reinsurance undertakings shall assume that there is no diversification of risks between each of the ring-fenced funds and each matching adjustment portfolio and the remaining part of the insurance or reinsurance undertaking.

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SECTION 12

Undertaking-specific parameters

Article 218

Subset of standard parameters that may be replaced by undertaking-specific parameters

1 The subset of standard parameters that may be replaced by undertaking-specific parameters as set out in Article 104(7) of Directive 2009/138/EC shall comprise the following parameters:

- a in the non-life premium and reserve risk sub-module, for each segment set out in Annex II of this Regulation:
 - (i) the standard deviation for non-life premium risk referred to in Article 117(2) (a) of this Regulation;
 - (ii) the standard deviation for non-life gross premium risk referred to in Article 117(3) of this Regulation;
 - (iii) [^{F1}the adjustment factor for non-proportional reinsurance referred to in Article 117(3) of this Regulation, provided that there is a recognisable excess of loss reinsurance contract or a recognisable stop loss reinsurance contract for that segment as set out in paragraph 2 of this Article;]
 - (iv) the standard deviation for non-life reserve risk referred to in Article 117(2) (b) of this Regulation;
- b in the life revision risk sub-module, the increase in the amount of annuity benefits referred to in Article 141 of this Regulation, provided that the annuities falling under that sub-module are not subject to material inflation risk;
- c in the NSLT health premium and reserve risk sub-module, for each segment set out in Annex XIV of this Regulation:
 - (i) the standard deviation for NSLT health premium risk referred to in Article 148(2)(a) of this Regulation;
 - (ii) the standard deviation for NSLT health gross premium risk referred to in Article 148(3) of this Regulation;
 - (iii) [^{F1}the adjustment factor for non-proportional reinsurance referred to in Article 148(3) of this Regulation, provided that there is a recognisable excess of loss reinsurance contract or a recognisable stop loss reinsurance contract for that segment as set out in paragraph 2 of this Article;]
 - (iv) the standard deviation for NSLT health reserve risk referred to in Article 148(2)(b) of this Regulation;
- d in the health revision risk sub-module, the increase in the amount of annuity benefits referred to in Article 158 of this Regulation, provided that the annuities falling under that sub-module are not subject to material inflation risk.

Insurance and reinsurance undertakings shall not replace both the standard parameters referred to in point (a)(ii) and (iii) of the same segment or both the standard parameters referred to in point (c)(ii) and (iii) of the same segment.

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2 ^[F1]An excess of loss reinsurance contract or a stop loss reinsurance contract for a segment shall be considered recognisable provided it meets the following conditions:]

^[F1]a where the contract is an excess of loss reinsurance contract, it provides for complete compensation up to a specified limit or without limit for losses of the ceding undertaking that relate either to single insurance claims, or to all insurance claims under the same policy during a specified time period, and that are larger than a specified retention;]

^[F2]aa where the contract is a stop loss reinsurance contract, it provides for complete compensation specified limit or without limit for aggregated losses of the ceding undertaking that relate to all insurance claims in the segment or homogeneous risk groups within the segment during a specified time period and that are larger than a specified retention;]

b it covers all insurance claims that the insurance or reinsurance undertaking may incur in the segment or homogeneous risk groups within the segment during the following 12 months;

c it allows for a sufficient number of reinstatements so as to ensure that all claims of multiple events incurred during the following 12 months are covered;

d it complies with Articles 209, 210, 211 and 213.

^[F1]For the purposes of this Article, ‘excess of loss reinsurance contract’ shall also denote arrangements with special purpose vehicles that provide risk transfer which is equivalent to that of an excess of loss reinsurance contract, and ‘stop loss reinsurance contract’ shall also denote arrangements with special purpose vehicles that provide risk transfer which is equivalent to that of a stop loss reinsurance contract.]

^[F13] Where an insurance or reinsurance undertaking has concluded several excess of loss reinsurance contracts, or several stop loss reinsurance contracts, that individually meet the requirement set out in point (d) of paragraph 2, and in combination meet the requirements set out in points (a), (b) and (c) of that paragraph, their combination shall be considered as one recognisable excess of loss reinsurance contract or, as applicable, one stop loss reinsurance contract.]

4 For the purposes of points (b) and (d) of paragraph 1, inflation risk shall be considered to be material where ignoring it in the calculation of the capital requirement for revision risk could influence the decision-making or the judgement of the users of that information, including the supervisory authorities.

Textual Amendments

F1 Substituted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Text with EEA relevance\)](#).

F2 Inserted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Text with EEA relevance\)](#).

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Article 219

Data criteria

- 1 Data used to calculate undertaking-specific parameters shall only be considered to be complete, accurate and appropriate where they satisfy the following criteria:
 - a the data meet the conditions set out in Article 19(1), (2) and (3), and the insurance or reinsurance undertaking complies in relation to that data with the requirements set out in Article 19(4), where any reference to the calculation of technical provisions shall be understood as referring to the calculation of the undertaking-specific parameter;
 - b the data are capable of being incorporated into the standardised methods;
 - c the data do not prevent the insurance or reinsurance undertaking from complying with the requirements of Article 101(3) of Directive 2009/13/EC;
 - d the data meet any additional data requirement necessary to use each standardised method.
 - e the data and its production process are thoroughly documented, including:
 - (i) the collection of data and analysis of its quality, where the documentation required includes a directory of the data, specifying their source, characteristics and usage and the specification for the collection, processing and application of the data;
 - (ii) the choice of assumptions used in the production and adjustment of the data, including adjustments with regard to reinsurance and catastrophe claims and about the allocation of expenses, where the documentation required includes a directory of all relevant assumptions that the calculation of technical provisions is based upon and a justification for the choice of the assumptions;
 - (iii) the selection and application of actuarial and statistical methods for the production and the adjustment of the data;
 - (iv) the validation of the data.
- 2 Where external data are used, they shall satisfy the following additional criteria:
 - a the process for collecting data is transparent, auditable and known by the insurance or reinsurance undertaking that uses the data to calculate undertaking-specific parameters on its basis;
 - b where the data stem from different sources, the assumptions made in the collection, processing and application of data ensure that the data are comparable;
 - c the data stem from insurance and reinsurance undertakings whose business and risk profile is similar to that of the insurance or reinsurance undertaking whose undertaking-specific parameter is calculated in the basis of those data;
 - d undertakings using the external data are able to verify that there is sufficient statistical evidence that the probability distributions underlying their own data and that of the underlying external data have a high degree of similarity, in particular with respect to the level of volatility they reflect;
 - e external data only comprises data from undertakings with a similar risk profile and this risk profile is similar to the risk profile of the undertaking using the data, in particular that the external data comprise data from undertakings whose business nature and risk profile with respect to the external data is similar and for which there is sufficient

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statistical evidence that the probability distributions underlying the external data will exhibit a high degree of homogeneity.

Article 220

Standardised methods to calculate the undertaking-specific parameters

1 Where insurance and reinsurance undertakings calculate undertaking-specific parameters they shall use, for each parameter, the standardised methods set out in Annex XVII as follows:

- a the premium risk method for undertaking-specific parameters replacing the standard parameters referred to in Article 218(1)(a)(i), (a)(ii), (c)(i) and (c)(ii);
- b the reserve risk method 1 or the reserve risk method 2 for undertaking-specific parameters replacing the standard parameters referred to in Article 218(1)(a)(iv), and (c)(iv);
- [^{F1}c where there is a recognisable excess of loss reinsurance contract, the non-proportional reinsurance method 1, or, where there is a recognisable stop loss reinsurance contract, the non-proportional reinsurance method 2 for undertaking-specific parameters replacing the standard parameters referred to in Article 218(1)(a)(iii) and (c)(iii);]
- d the revision risk method for undertaking-specific parameters replacing the standard parameters referred to in Article 218(1)(b) and (d).

2 Where the undertaking is able to use more than one standardised method, the method that provides the most accurate result for the purposes of fulfilling the calibration requirements included in Article 101(3) of Directive 2009/138/EC shall be used.

However, where an undertaking is not able to demonstrate the greater accuracy of the results of one standardised method over the other standardised methods to calculate an undertaking-specific parameter, the method providing the most conservative result shall be used.

Textual Amendments

- F1** Substituted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Text with EEA relevance\).](#)

SECTION 13

Procedure for updating correlation parameters

Article 221

[^{F79}1 The PRA must collect the quantitative undertaking-specific data necessary for determining dependencies between risks referred to in Article 309(8).]

^{F80}2

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

Textual Amendments

- F79** Art. 221(1) substituted (31.12.2020) by [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), **11(36)(a)** (as amended by [S.I. 2020/1385](#), regs. 1(2), 54(2) and with savings in [S.I. 2019/680](#), reg. 11)
- F80** Art. 221(2) omitted (31.12.2020) by virtue of [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), **11(36)(b)** (as amended by [S.I. 2020/1385](#), regs. 1(2), 54(2) and with savings in [S.I. 2019/680](#), reg. 11)

Status: Point in time view as at 31/12/2020.

Changes to legislation: Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date.

Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

- (1) ^{F2}Commission Implementing Regulation (EU) No 2015/2450 of 2 December 2015 laying down implementing technical standards with regard to the templates for the submission of information to the supervisory authorities according to Directive 2009/138/EC of the European Parliament and of the Council (OJ L 347/1, 2.12.2015, p. 1214).]
- (2) ^{F12}Regulation (EU) No 346/2013 of the European Parliament and of the Council of 17 April 2013 on European social entrepreneurship funds (OJ L 115, 25.4.2013, p. 18).]
- (3) ^{F12}Regulation (EU) No 345/2013 of the European Parliament and of the Council of 17 April 2013 on European venture capital funds (OJ L 115, 25.4.2013, p. 1).]
- (4) ^{F1}Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision (OJ L 83, 22.3.2013, p. 1).]
- (5) ^{F2}Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (OJ L 182, 29.6.2013, p. 19).]
- (6) ^{F2}Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016 laying down implementing technical standards with regard to the mapping of credit assessments of external credit assessment institutions for credit risk in accordance with Articles 136(1) and 136(3) of Regulation (EU) No 575/2013 of the European Parliament and of the Council (OJ L 275, 12.10.2016, p. 3).]
- (7) ^{F2}Commission Implementing Regulation (EU) 2015/2011 of 11 November 2015 laying down implementing technical standards with regard to the lists of regional governments and local authorities, exposures to whom are to be treated as exposures to the central government in accordance with Directive 2009/138/EC of the European Parliament and of the Council (OJ L 295, 12.11.2015, p. 3).]
- (8) Council Directive 91/674/EEC of 19 December 1991 on the annual accounts and consolidated accounts of insurance undertakings, OJ L 374, 31.12.1991, p. 7.

Textual Amendments

- F1** Substituted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).
- F2** Inserted by Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance).
- F12** Substituted by Commission Delegated Regulation (EU) 2017/1542 of 8 June 2017 amending Delegated Regulation (EU) 2015/35 concerning the calculation of regulatory capital requirements for certain categories of assets held by insurance and reinsurance undertakings (infrastructure corporates) (Text with EEA relevance).

Status:

Point in time view as at 31/12/2020.

Changes to legislation:

Commission Delegated Regulation (EU) 2015/35, CHAPTER V is up to date with all changes known to be in force on or before 20 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations.