

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

[<sup>X1</sup>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 1

*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

**Changes to legislation:** Commission Delegated Regulation (EU) 2015/35, SECTION 1 is up to date with all changes known to be in force on or before 11 October 2023. 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) View outstanding changes

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.

[<sup>F13</sup> 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.]

[<sup>F23a</sup> 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.]

[<sup>F14</sup> [<sup>F3</sup> 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;

**Changes to legislation:** Commission Delegated Regulation (EU) 2015/35, SECTION 1 is up to date with all changes known to be in force on or before 11 October 2023. 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) View outstanding changes

- 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.

<sup>F4</sup> ...]

#### 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:

**Changes to legislation:** Commission Delegated Regulation (EU) 2015/35, SECTION 1 is up to date with all changes known to be in force on or before 11 October 2023. 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) View outstanding changes

- (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,  $\text{Corr}_{i,j}$ ,  $\text{SCR}_i$  and  $\text{SCR}_j$  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 [F<sup>1</sup>For 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;

**Changes to legislation:** Commission Delegated Regulation (EU) 2015/35, SECTION 1 is up to date with all changes known to be in force on or before 11 October 2023. 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) View outstanding changes

- 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).

[<sup>F12</sup> 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:

**Changes to legislation:** Commission Delegated Regulation (EU) 2015/35, SECTION 1 is up to date with all changes known to be in force on or before 11 October 2023. 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) View outstanding changes

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

,

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:

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

where:

- (a)  $V_{(prem,s)}$  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.

*F<sup>2</sup>Article 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

**Changes to legislation:** Commission Delegated Regulation (EU) 2015/35, SECTION 1 is up to date with all changes known to be in force on or before 11 October 2023. 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) View outstanding changes

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:

- a)  $SCR_{firei}$  denotes the largest industrial fire risk concentration;
- b)  $SCR_{firec}$  denotes the largest commercial fire risk concentration;
- c)  $SCR_{firer}$  denotes the largest residential fire risk concentration.

**Changes to legislation:** Commission Delegated Regulation (EU) 2015/35, SECTION 1 is up to date with all changes known to be in force on or before 11 October 2023. 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) View outstanding changes

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)  $\theta$  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;



**Changes to legislation:** Commission Delegated Regulation (EU) 2015/35, SECTION 1 is up to date with all changes known to be in force on or before 11 October 2023. 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) View outstanding changes

- (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)  $\int^F CAR_k$  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)  $\int^F q$  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.

**Changes to legislation:** Commission Delegated Regulation (EU) 2015/35, SECTION 1 is up to date with all changes known to be in force on or before 11 October 2023. 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) View outstanding changes

### 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):

- (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)  $BE_{\text{long}}$  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:

$SCR_{\text{disability-morbidity}} =$	$0,35 \cdot CAR_1 \cdot d_1 + 0,25 \cdot 1,1^{(n-3)/2} \cdot (n - 1) \cdot CAR_2 \cdot d_2 + 0,2 \cdot 1,1^{(n-1)/2} \cdot t \cdot n \cdot BE_{\text{dis}}$
---------------------------------------	---

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

- (a)  $CAR_t$  denotes the total capital at risk, meaning the sum over all contracts of the higher of zero and the difference between the following amounts:
  - (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 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

**Changes to legislation:** Commission Delegated Regulation (EU) 2015/35, SECTION 1 is up to date with all changes known to be in force on or before 11 October 2023. 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) View outstanding changes

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:

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

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 %;

**Changes to legislation:** Commission Delegated Regulation (EU) 2015/35, SECTION 1 is up to date with all changes known to be in force on or before 11 October 2023. 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) View outstanding changes

(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.

*[<sup>F2</sup>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 \(Solvency II\) \(Text with EEA relevance\).](#)

**Changes to legislation:** Commission Delegated Regulation (EU) 2015/35, SECTION 1 is up to date with all changes known to be in force on or before 11 October 2023. 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) View outstanding changes

## 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.

*[<sup>F2</sup>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 \(Solvency II\) \(Text with EEA relevance\).](#)

**Changes to legislation:** Commission Delegated Regulation (EU) 2015/35, SECTION 1 is up to date with all changes known to be in force on or before 11 October 2023. 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) View outstanding changes

## 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 \(Solvency II\) \(Text with EEA relevance\).](#)

**Changes to legislation:** Commission Delegated Regulation (EU) 2015/35, SECTION 1 is up to date with all changes known to be in force on or before 11 October 2023. 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) View outstanding changes

## 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)  $BE_{\text{long}}$  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:

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

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:

**Changes to legislation:** Commission Delegated Regulation (EU) 2015/35, SECTION 1 is up to date with all changes known to be in force on or before 11 October 2023. 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) View outstanding changes

$SCR_{income-protection-disability-morbidity} =$	$0,35 \cdot CAR_1 \cdot d_1 + 0,25 \cdot 1,1^{(n-3)/2} \cdot (n - 1) \cdot CAR_2 \cdot d_2 + 0,2 \cdot 1,1^{(n-1)/2} \cdot t \cdot n \cdot BE_{dis}$
--	--

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:

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

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;



**Changes to legislation:** Commission Delegated Regulation (EU) 2015/35, SECTION 1 is up to date with all changes known to be in force on or before 11 October 2023. 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) View outstanding changes

- (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.

## [<sup>F2</sup>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);

**Changes to legislation:** Commission Delegated Regulation (EU) 2015/35, SECTION 1 is up to date with all changes known to be in force on or before 11 October 2023. 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) View outstanding changes

- (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  $dur_{lob}$ .

**Changes to legislation:** Commission Delegated Regulation (EU) 2015/35, SECTION 1 is up to date with all changes known to be in force on or before 11 October 2023. 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) View outstanding changes

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:

$$SCR_{bonds} = MV^{bonds} \times \left( \sum_i \%MV^i_{bonds} \times stress_i + \%MV^{notrating}_{bonds} \times \min[duration_{notrating} \times 0,03; 1] \right) + \Delta Liab_{al}$$

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;

**Changes to legislation:** Commission Delegated Regulation (EU) 2015/35, SECTION 1 is up to date with all changes known to be in force on or before 11 October 2023. 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) View outstanding changes

- (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:

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

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.

**Changes to legislation:** Commission Delegated Regulation (EU) 2015/35, SECTION 1 is up to date with all changes known to be in force on or before 11 October 2023. 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) View outstanding changes

## *[<sup>F2</sup>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<sup>(1)</sup>;
- (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:

**Changes to legislation:** Commission Delegated Regulation (EU) 2015/35, SECTION 1 is up to date with all changes known to be in force on or before 11 October 2023. 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) View outstanding changes

- (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 [F1Where 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 \(Solvency II\) \(Text with EEA relevance\).](#)

**Changes to legislation:** Commission Delegated Regulation (EU) 2015/35, SECTION 1 is up to date with all changes known to be in force on or before 11 October 2023. 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) View outstanding changes

## Article 108

### Simplified calculation of the risk mitigating effect for proportional reinsurance arrangements

[<sup>F1</sup>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)  $\text{Recoverables}_i$  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.

**Changes to legislation:** Commission Delegated Regulation (EU) 2015/35, SECTION 1 is up to date with all changes known to be in force on or before 11 October 2023. 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) View outstanding changes

- (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)  $\Delta RM_{CEP}$  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.

*[<sup>F1</sup>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) [<sup>F1</sup>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.



**Changes to legislation:** Commission Delegated Regulation (EU) 2015/35, SECTION 1 is up to date with all changes known to be in force on or before 11 October 2023. 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) View outstanding changes

### 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<sup>2</sup> 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:

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

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;
- $\sigma_s$  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](#)

**Changes to legislation:** Commission Delegated Regulation (EU) 2015/35, SECTION 1 is up to date with all changes known to be in force on or before 11 October 2023. 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) View outstanding changes

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.

## <sup>F2</sup> 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<sub>re</sub>* 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).

**Changes to legislation:** Commission Delegated Regulation (EU) 2015/35, SECTION 1 is up to date with all changes known to be in force on or before 11 October 2023. 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) View outstanding changes

## 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  $\sigma$  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.

**Changes to legislation:** Commission Delegated Regulation (EU) 2015/35, SECTION 1 is up to date with all changes known to be in force on or before 11 October 2023. 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) [View outstanding changes](#)

- (1) [<sup>F2</sup>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](#)).]

#### 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 \(Solvency II\) \(Text with EEA relevance\)](#).

### Changes to legislation:

Commission Delegated Regulation (EU) 2015/35, SECTION 1 is up to date with all changes known to be in force on or before 11 October 2023. 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.

View outstanding changes

### Changes and effects yet to be applied to :

- Regulation revoked by [2023 c. 29 Sch. 1 Pt. 3](#)
- Recital 53 Sentence 1 replacement by [EUR 2016/2283](#) Regulation

### Changes and effects yet to be applied to the whole legislation item and associated provisions

- Art. 177(2)(b) words omitted by [S.I. 2019/407 reg. 11\(25\)\(a\)](#) (This amendment not applied to legislation.gov.uk. Reg. 11(25)(39) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1(2), 22)
- Art. 177(2)(h)(i) words omitted by [S.I. 2019/407 reg. 11\(25\)\(b\)\(ii\)](#) (This amendment not applied to legislation.gov.uk. Reg. 11(25)(39) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1(2), 22)
- Art. 177(2)(h)(i) words substituted by [S.I. 2019/407 reg. 11\(25\)\(b\)\(i\)](#) (This amendment not applied to legislation.gov.uk. Reg. 11(25)(39) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1(2), 22)
- Art. 177(2)(r) words substituted by [S.I. 2019/407 reg. 11\(25\)\(c\)](#) (This amendment not applied to legislation.gov.uk. Reg. 11(25)(39) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1(2), 22)
- Art. 177(2)(s) words substituted by [S.I. 2019/407 reg. 11\(25\)\(c\)](#) (This amendment not applied to legislation.gov.uk. Reg. 11(25)(39) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1(2), 22)
- Art. 177(2)(t) words substituted by [S.I. 2019/407 reg. 11\(25\)\(d\)](#) (This amendment not applied to legislation.gov.uk. Reg. 11(25)(39) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1(2), 22)
- Art. 177(5)(a) words substituted by [S.I. 2019/407 reg. 11\(25\)\(f\)](#) (This amendment not applied to legislation.gov.uk. Reg. 11(25)(39) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1(2), 22)
- Art. 177(5)(c) words substituted by [S.I. 2019/407 reg. 11\(25\)\(f\)](#) (This amendment not applied to legislation.gov.uk. Reg. 11(25)(39) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1(2), 22)