

*(only the Italian version is authentic)*

## **IVASS REGULATION No. 11 OF 22 DECEMBER 2015**

**REGULATION CONCERNING THE USE BY INSURANCE AND REINSURANCE UNDERTAKINGS OF THE SPECIFIC PARAMETERS OF THE UNDERTAKING AND GROUP-SPECIFIC PARAMETERS IN THE DETERMINATION OF THE SOLVENCY CAPITAL REQUIREMENT CALCULATED USING THE STANDARD FORMULA AS REFERRED TO IN TITLE III (PURSUIT OF INSURANCE BUSINESS), CHAPTER IV-BIS (SOLVENCY CAPITAL REQUIREMENTS), SECTION II (STANDARD FORMULA), ARTICLE 45-SEXIES, PARAGRAPH 7, OF LEGISLATIVE DECREE No. 209 OF 7 SEPTEMBER 2005 – CODE OF PRIVATE INSURANCE RESULTING FROM THE NATIONAL IMPLEMENTATION OF THE EIOPA GUIDELINES ON THE FINANCIAL REQUIREMENTS OF THE SOLVENCY II REGIME (1<sup>ST</sup> PILLAR REQUIREMENTS).**

### **INSTITUTE FOR THE SUPERVISION OF INSURANCE**

HAVING REGARD to Law No. 576 of 12 August 1982, on the reform of insurance supervision and the establishment of ISVAP;

HAVING REGARD to article 13 of Decree Law No. 95 of 6 July 2012, converted into Law no. 135 of 7 August 2012, concerning urgent measures for the review of public spending with unchanged services for citizens and establishing the institution of IVASS;

HAVING REGARD to Legislative Decree No. 209 of 7 September 2005, introducing the Code of Private Insurance, as amended by Legislative Decree No. 74 of 12 May 2015, implementing Directive 2009/138/EC on the taking up and pursuit of the business of insurance and reinsurance and, in particular, articles 45-bis, 45-sexies, paragraph 7, 45-terdecies, 66-quater, 206-bis, paragraphs 1, 2 and 3, 216-ter, 216-quinquies and 216-sexies;

HAVING REGARD to the Delegated Regulation (EU) 2015/35 of the Commission of 10 October 2014 supplementing Directive No. 2009/138/EC on the taking up and pursuit of the business of insurance and reinsurance and, in particular, articles 218, 219, 220, 338 and 356 and annex XVII;

HAVING REGARD to Implementing Regulation (EU) 2015/498 of the Commission of 24 March 2015, laying down implementation technical provisions with regard to the approval procedure, applied by the Supervisory Authority, for use of undertaking-specific parameters in accordance with Directive 2009/138/EC of the European Parliament and of the Council;

HAVING REGARD to the Guidelines issued by EIOPA in terms of undertaking-specific parameters;

HAVING REGARD to IVASS Regulation No. 3 of 5 November 2013 on the implementation of the provisions of article 23 of Law No. 262 of 28 December 2005, concerning the procedures for the adoption of regulatory and general acts of IVASS;

has adopted the following

### **REGULATION**

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## TITLE I GENERAL PROVISIONS

### Art. 1 (Legislative sources)

1. This Regulation has been adopted in accordance with articles 45-bis, paragraph 2, 191, paragraph 1, letter b), number 2 and letter s), and 216-ter, paragraph 1 of Legislative Decree No. 209 of 7 September 2005 as amended by Legislative Decree No. 74 of 12 May 2015.

### Art. 2 (Definitions)

1. For the purposes of this Regulation, the applicable definitions are those laid down by Legislative Decree No. 209 of 7 September 2005 and by Commission Delegated Regulation (EU) 2015/35. In addition, the following definitions shall apply:
  - a) "Delegated Acts" – the Delegated Regulation (EU) 2015/35 of the Commission;
  - b) "Code" – Legislative Decree No. 209 of 7 September 2005, as amended by Legislative Decree No. 74 of 12 May 2015;
  - c) "Expert judgement" – the judgement expressed in compliance with article 2 of the Delegated Acts;
  - d) "USP" – the undertaking-specific parameters referred to in article 45-sexies, paragraph 7, of the Code;
  - e) "GSP" – the group-specific parameters referred to in article 338 of the Delegated Acts;
  - f) "EU Regulation 2015/498" – the Implementing Regulation (EU) 2015/498 of the Commission;
  - g) "Ultimate Italian parent company" – the ultimate Italian parent company referred to in article 210, paragraph 2, of the Code.

### Art. 3 (Scope)

1. This Regulation applies to insurance and reinsurance undertakings whose head offices are in the territory of the Italian Republic and to the branches of insurance and reinsurance undertakings whose head offices are in a third State and to the ultimate Italian parent companies.

## TITLE II USPs

### Art. 4 (Adoption of USPs)

1. In application of article 45-sexies, paragraph 7, of the Code, the undertaking may, in the calculation of the capital requirement, replace the subset of parameters defined in the standard formula referred to in article 218 of the Delegated Acts, with one or more USPs if the standard formula does not lead to an appropriate representation of its risks.

2. The use of the USPs is subject to the authorisation of IVASS, issued in accordance with the approval procedure referred to in EU Regulation 2015/498.
3. Without prejudice to the applicability of the rules on partial internal models, referred to in articles 46-bis, 46-ter and from 46-novies to 46-quinquiesdecies of the Code, the use of USPs subject to the authorisation of IVASS, issued in accordance with the approval procedure referred to in Regulation EU 2015/498, does not allow changes to standardised methods, applied in accordance with the provisions of article 220 of the Delegated Acts.
4. The inputs used for the calculation of USPs are the same as or are in any case consistent with those used to calculate the technical provisions.
5. The evaluations leading to the identification of USPs and those related to their determination fall within the scope of activities of the risk management system of the undertaking.
6. The actuarial function, in application of the principle referred to in article 30-sexies, paragraph 1, letter i) of the Code contributes to the evaluations referred to in paragraph 5 and the data consistency checks referred to in paragraph 4.

## **Chapter I**

### **Data for the calculation of USPs**

#### Art. 5 (Data quality standards)

1. The undertaking ensures compliance with the data quality standards referred to in article 219 of the Delegated Acts in relation to each USP, regardless of the significance of the segment for which it is used or the nature, scope and complexity of the risks referred to by said parameter.

#### Art. 6 (Adoption of expert judgement in the determination of USPs)

1. In the determination of USPs, an undertaking may adopt assumptions defined on the basis of the expert judgement solely for adjustments to existing data aimed at increasing data conformity to the criteria referred to in article 219 of the Delegated Acts.
2. In the determination of USPs, the undertaking may not adopt assumptions defined on the basis of expert judgement either to replace missing data, lengthen the time series or increase the level of granularity of the data.
3. At the request of IVASS, the undertaking shall demonstrate compliance with the criteria set out in this article.

Art. 7

(Adjustments of data to improve its level of adequacy)

1. Pursuant to the provisions of article 6, in the determination of USP the undertaking adjusts the historical data to eliminate the effects of risks that are not relevant during the 12 months after the reference date.
2. Data adjustments that may alter the risk variability being measured are not allowed.

Art. 8

(Data adjustments to eliminate the effects of catastrophic events)

1. For the purposes of replacing standard parameters as referred to in article 218, paragraph 1 letters a)(i), a)(ii), c)(i) and c)(ii) of the Delegated Acts, the undertaking applies the premium risk method as referred to in article 220, paragraph 1, letter a) of the Delegated Acts and defines internal policies and procedures designed to:
  - a) identify the losses arising from catastrophic events;
  - b) adjust the data to eliminate losses arising from catastrophic events as referred to in point a), under the provisions of Annex XVII point B, paragraph 2, letter e), of the Delegated Acts;
2. The policies and procedures referred to in paragraph 1 are stable and consistent over time and may provide for the use of expert judgement, in accordance with the provisions laid down in article 6.
3. The adjustments referred to in this article are consistent with the criteria used by the undertaking to define losses arising from catastrophic events in the valuations of the capital requirement. In detail:
  - a) for the parameters pursuant to article 218, paragraph 1, letters a)(i) and a)(ii) of the Delegated Acts, the consistency is to be referred to the criteria used for the catastrophe risk sub-module for non-life insurance;
  - a) for the parameters pursuant to article 218, paragraph 1, letters c)(i) and c)(ii) of the Delegated Acts, the consistency is to be referred to the criteria used for the catastrophe risk sub-module for health insurance;

Art. 9

(Data adjustments to reflect reinsurance agreements)

1. For the purposes of replacing standard parameters as referred to in article 218, paragraph 1, letters a)(iv) and c)(iv) of the Delegated Acts, the undertaking applies one of the two reserve risk methods referred to in article 220, paragraph 1, letter b) of the Delegated Acts and defines internal policies and procedures designed to adjust the data to eliminate the effects of the relevant reinsurance covers in accordance with the provisions laid down in annex XVII, point C., paragraph 2, letter c), and point D., paragraph 2, letter f) of the Delegated Acts.

2. The policies and procedures referred to in paragraph 1 are stable and consistent over time and may provide for the use of expert judgement, in accordance with the provisions laid down in article 6.
3. For the purposes of replacing standard parameters as referred to in article 218, paragraph 1, letters a)(i) and c)(i) of the Delegated Acts, in addition to the provisions of article 8 of this Regulation, the undertaking also applies the provisions referred to in paragraphs 1 and 2, relating to data adjustments to eliminate the effects of reinsurance covers, in accordance with the provisions referred to in annex XVII point B., paragraph 2, letter d) of the Delegated Acts.
4. The undertaking verifies that the data used to calculate the USPs as referred to in paragraph 3 also reflects the reinsurance policy of the undertaking in the 12 months after the reference date.
5. For the purposes of the application of this article, the undertaking ensures that changes in insurance retention in non-proportional reinsurance agreements are adequately considered in cases in which they have an impact on the volatility of reserve risk.

#### Art. 10

(Calculation of adjustment factor for non-proportional reinsurance in the scope of premium risk)

1. For the purposes of replacing standard parameters as referred to in article 218, paragraph 1, letters a)(iii) and c)(iii) of the Delegated Acts, the undertaking applies the non-proportional reinsurance method referred to in article 220, paragraph 1, letter c) of the Delegated Acts and ensures that data both gross and net of non-proportional reinsurance fulfils the criteria set out in this Chapter for the 12 months after the reference date.
2. In particular, the net data referred to in paragraph 1 shall:
  - a) reflect the effects of non-proportional reinsurance covers in force and the non-proportional reinsurance policy of the undertaking;
  - b) exclude the effects of other types of non-proportional reinsurance no longer in force but which existed at the time referred to by the data;
  - c) maintain unchanged the level of data granularity.
3. The net data is deemed complete only if the premium risk volatility expressed by the data can be considered representative of the volatility in the 12 months after the reference date.

## Chapter II

### Compliance with the requirements on an ongoing basis

#### Art. 11

(Compliance with USP use requirements on an ongoing basis)

1. Compliance with the requirements supporting the authorisation to use USPs is part of the internal assessment of risk and solvency referred to in article 30-ter of the Code.

2. The undertaking shall promptly inform IVASS in the event of any significant changes to information provided under the authorisation procedure governed by EU Regulation 2015/498, providing the necessary details on the significant changes.
3. When the use of new data involves significant changes, the undertaking, in addition to the obligations referred to in paragraph 2, shall, at the request of IVASS, transmit all the details relevant to the calculation of the USP, processed with the new data, to demonstrate compliance with the requirements supporting the authorisation.
4. The undertaking that becomes aware that the application of a standardised method – different from that associated with the USP for which it has obtained authorisation – may provide a more accurate result in order to meet the calibration requirements referred to in article 45-ter, paragraphs 3 and 4 of the Code, shall promptly submit to IVASS a new application for authorisation for the use of a new USP, calculated using this alternative standardised method.

Art. 12  
(Corrective measures)

1. In the case that the requirements supporting the authorisation are no longer complied with, IVASS may revoke the authorisation to use the USP, in line with the provisions of article 6 of EU Regulation 2015/498, unless the scope of the non-compliance, the actions that the undertaking intends to take and the time needed for their completion permit the restoration of the requirements within a period of three months.

**Chapter III**  
**Use of USPs at the request of IVASS**

Art. 13  
(Request by IVASS for use of USPs)

1. IVASS, in application of article 45-terdecies of the Code, identifies and informs the undertaking of which of the standard parameters referred to in article 218 of the Delegated Acts should be replaced by USPs, as the undertaking's risk profile deviates significantly from the assumptions underlying the standard formula calculation.
2. In the determinations referred to in paragraph 1, IVASS considers the following elements, where relevant:
  - a) the findings reached under the supervisory review process;
  - b) the nature, type and size of the deviation;
  - c) the probability and magnitude of the negative impact for policyholders and beneficiaries;
  - d) the level of sensitivity of the assumptions that determine the deviation;
  - e) the expected duration and volatility of the deviation.

3. In the communication referred to in paragraph 1, IVASS indicates the date by which the undertaking is required to submit the application referred to in article 1 of Regulation EU 2015/498, taking into account the specificities of the undertaking and the circumstances possibly presented by the latter to IVASS. The undertaking's application must also identify the standardised method, which, among the methods referred to in annex XVII of the Delegated Acts, provides the most accurate result for the purpose of meeting the calibration requirements referred to in article 45 ter, paragraphs 3 and 4 of the Code.

### **TITLE III GSPs**

#### **Art. 14**

(Application for authorisation to use GSPs)

1. The ultimate Italian parent company that requests IVASS authorisation to replace, in the calculation of group capital requirement, a subset of the standard formula parameters with one or more GSPs, shall apply the provisions of articles from 5 to 13.
2. The GSP authorisation procedure referred to in paragraph 1 is implemented by adopting the same procedures defined for USPs by EU Regulation 2015/498.

#### **Art. 15**

(Use of GSPs for the purposes of group solvency calculation)

1. The ultimate Italian parent company that calculates the group capital requirement using the consolidated accounts method, or as a combination of the deduction and aggregation method and the consolidated accounts method in accordance with article 216-ter and the relevant IVASS implementation Regulation and with article 216-quinquies of the Code, can use group-specific parameters only on the consolidated data, calculated pursuant to article 335, paragraph 1, letters a), b) and c) of the Delegated Acts, in accordance with the provisions of articles 338 and 356 of the Delegated Acts.

#### **Art. 16**

(Use of USPs in the group solvency calculation with the deduction and aggregation method)

1. The use of GSPs is not allowed in the calculation of the group capital requirement with the deduction and aggregation method as per article 216-ter, paragraph 5, of the Code.
2. In the calculation of the group capital requirement with the method referred to in paragraph 1, the ultimate Italian parent company uses the USPs authorised for the calculation of the individual requirement of the group undertakings.



Art. 17  
(Group data quality)

1. In order to ensure the consistency of statistical assumptions underlying the data used at individual undertaking level and at group level, the ultimate Italian parent company shall, at the request of IVASS, demonstrate with appropriate evidence that the nature of the business of the group and its risk profile are similar to those of the individual undertakings that provide the data.
2. The ultimate Italian parent company shall check whether the effect of reducing the risk arising from reinsurance contracts or from the use of special purpose entities emerging from the data of the individual group undertakings also affects the consolidated data of the group.
3. In cases where the verification referred to in paragraph 2 does not have a positive outcome, the ultimate Italian parent company shall make appropriate adjustments to the data to ensure compliance with the conditions referred to in Title II, Chapter I.

**TITLE IV**  
**Final Provisions**

Art. 18  
(Publication and entry into force)

1. This Regulation shall be published in the Official Journal of the Italian Republic and in IVASS Bulletin and website.
2. This Regulation shall enter into force on 1<sup>st</sup> January 2016.

On behalf of the Joint Directorate  
Director  
(pursuant to art. 9, paragraph 2 of the IVASS Statute)