# 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)

ANNEX XI

Annex XVII is amended as follows:

(1) the title of part F is replaced by the following:
F1.**Non-proportional reinsurance method 1;**

(2) the following part F.2 is added:

F2. **Non-proportional reinsurance method 2**
**Input data and method-specific data requirements**

(1) The data for estimating the undertaking-specific adjustment factor for non-proportional reinsurance shall consist of the aggregated annual losses of insurance and reinsurance claims that were reported to the insurance or reinsurance undertaking in segment *s* during the last financial years.

(2) The following method-specific data requirements shall apply:

(a) the data are representative for the premium risk that the insurance or reinsurance undertaking is exposed to during the following 12 months;

(b) the data do not indicate a higher premium risk than reflected in the standard deviation for premium risk used to calculate the Solvency Capital Requirement;

(c) the aggregated annual losses are estimated in the year the insurance and reinsurance claims were reported;

(d) data are available for at least five reporting years;

(e) where the recognisable stop loss reinsurance contract applies to gross claims, the aggregated annual losses are gross;

(f) where the recognisable stop loss reinsurance contract applies to claims after deduction of the recoverables from certain other reinsurance contracts and special purpose vehicles, the amounts receivable from those certain other reinsurance contracts and special purpose vehicles are deducted from the aggregated annual losses;

(g) the aggregated annual losses shall not include expenses incurred in servicing the insurance and reinsurance obligations;

(h) the data are consistent with the assumption that aggregated annual losses follow a lognormal distribution, including in the tail of the distribution.

**Method specification**

(1) For the purpose of paragraphs 4-7, the following notation shall apply:

(a) $n$ denotes the number of financial years for which aggregated annual losses data is available;

(b) $Y_i$ denotes the aggregated losses in financial year $i$;

(c) μ and ω denote the first and second moment, respectively, of the aggregated annual losses distribution, being equal to the following amounts:

$$\mu = \frac{1}{n}\sum_{i=1}^{n} Y_i$$

and

$$\omega = \frac{1}{n}\sum_{i=1}^{n} Y_2^i$$

(d) $b_1$ denotes the amount of the retention of the recognisable stop loss reinsurance contract referred to in Article 218(2);

(e) where the recognisable stop loss reinsurance contract referred to in Article 218(2) provides compensation only up to a specified limit, $b_2$ denotes the amount of that limit.

(2) The undertaking-specific specific adjustment factor for non-proportional reinsurance shall be equal to the following:

$$NP_{USP} = c \cdot NP' + (1 - c) \cdot NP$$

where:

(a) *c* denotes the credibility factor set out in section G;

(b) *NP′* denotes the estimated adjustment factor for non-proportional reinsurance set out in paragraph 5;

(c) *NP* denotes the adjustment factor for non-proportional reinsurance set out in Article 117(2).

(3) The estimated adjustment factor for non-proportional reinsurance shall be equal to the following:

| | | | |
|---|---|---|---|
| $NP' =$ | | $\sqrt{\frac{(\omega_1+\omega-\omega_2+2(b_2-b_1)(\mu_2-\mu))-\mu_1^2+\mu_2^2}{\omega-\mu^2}}$ | where paragraph 3(e) applies, |
| | | $\sqrt{\frac{\omega-\mu_2^2}{\omega-\mu^2}}$ | else. |

where the parameters $\mu_1$, $\mu_2$, $\omega_1$ and $\omega_2$ are set out in paragraph 6.

(4) The parameters $\mu_1$, $\mu_2$ , $\omega_1$ and $\omega_2$ shall be equal to the following:

$$\mu_1 = \mu \times N\left(\frac{\ln(b_1-\theta)}{\eta} - \eta\right) + b_1 \times N\left(-\frac{\ln(b_1)-\theta}{\eta}\right)$$

$$\mu_2 = \mu \times N\left(\frac{\ln(b_2-\theta)}{\eta} - \eta\right) + b_2 \times N\left(-\frac{\ln(b_2)-\theta}{\eta}\right)$$

$$\omega_1 = \omega \times N\left(\frac{\ln(b_1-\theta)}{\eta} - 2\times\eta\right) + b_2^1 \times N\left(-\frac{\ln(b_1)-\theta}{\eta}\right)$$

$$\omega_2 = \omega \times N\left(\frac{\ln(b_2-\theta)}{\eta} - 2\times\eta\right) + b_2^2 \times N\left(-\frac{\ln(b_2)-\theta}{\eta}\right)$$

where:

(a) *N* denotes the cumulative probability function of the normal distribution;

(b) *ln* denotes the natural logarithm;

(c) the parameters θ and η are equal to the following:

$$\theta = 2\ln\mu - \tfrac{1}{2}\ln\omega$$

$$\eta = \sqrt{\ln\omega - 2\ln\mu}$$

(5) Notwithstanding paragraph 5, where non-proportional reinsurance covers homogeneous risk-groups within a segment, the estimated adjustment factor for non-proportional reinsurance shall be equal to the following:

$$NP' = \frac{\sum_h V_{(prem,h)} \times NP'_{(h)}}{\sum_h V_{(prem,h)}}$$

where:

(a) $V_{(prem,h)}$ denotes the volume measure for premium risk of the homogeneous risk group h determined in accordance with paragraph 3 of Article 116;

(b) $NP'_{(h)}$ denotes the estimated adjustment factor for non-proportional reinsurance of homogeneous risk group *h* determined in accordance with paragraph 5.

**Changes to legislation:**
There are outstanding changes not yet made to Commission Delegated Regulation (EU) 2019/981. Any changes that have already been made to the legislation appear in the content and are referenced with annotations.
View outstanding changes

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

- Regulation power to modify conferred by 2023 c. 29 s. 3 Sch. 1 Pt. 3
- Regulation revoked by 2023 c. 29 Sch. 1 Pt. 3