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Solvency II Reporting and Public Disclosure - Loss distribution risk profile (S.21.01.01) and Non-life distribution of underwriting risks — by sum insured (S.21.03.01)

Template S.21.01.01 - Claim Size Brackets for the Loss Distribution Risk Profile

In terms of the Article 11 (m) of the Commission Implementing Regulation (EU) 2015/2450 of 2nd 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 (“*the ITS*”) undertakings are required to submit in template S.21.01.01 of Annex 1 – Loss Distribution Risk Profile, claims incurred split by claim size brackets within an accident or underwriting year for each line of business (“LoB”). Annex II requires national supervisory authorities (“NSAs”) to define the start and end point of each bracket where the reporting currency is not Euro. NSAs may also specify claim size brackets where the incurred losses are small.

Reporting Currency of the ‘start claims incurred’ and ‘end claims incurred’ brackets

Annex II to the ITS defines the base ‘start claims incurred’ and ‘end claims incurred’ brackets in EUR. The MFSA is required to define equivalent options for the amounts to be used in the 20 brackets for undertakings using reporting currencies other than EUR. The MFSA has determined this convention:

- i. where the reporting currency of the undertaking is in GBP or USD, the ‘start claims incurred’ and ‘end claims incurred’ brackets shall be the same as those used for the EUR currency as specified in Annex II of the ITS.
- ii. for reporting currencies other than GBP, EUR and USD, the ‘start claims incurred’ and ‘end claims incurred’ items of each bracket should be multiplied by a fixed exchange rate factor and rounded to the nearest hundred.

The fixed exchange factor shall be the European Central Bank EUR to reporting currency exchange rate as at 31st December 2015. It has been chosen in order to have consistent brackets over time. The MFSA may amend the fixed exchange factor in the future for a specific currency if the value of that currency relative to the EUR changed to the extent that the claim size brackets are no longer appropriate.

‘Start claims incurred’ and ‘end claims incurred’ brackets

The ITS states that the NSA may specify claims size brackets, in particular, where the incurred losses are less than 100,000. The MFSA will not be specifying fixed values for the 20 brackets of the start claims incurred and end claims incurred brackets where losses are less than 100,000. Undertakings with small losses are expected to come up with their own values of limits for the 20 brackets. As a guide, the undertaking may split the claims incurred into 20 brackets of 250 each and the 21st bracket for sums insured greater than or equal to 5,000. For losses greater

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than 100,000, undertakings are expected to use one of the 5 base options as specified in Annex II.

When using either the undertaking specific **or** the five base options for the 20 brackets, the MFSA expects undertakings to:

- a) select the limits of brackets which provide the best insight into the distribution of claims incurred for each LoB;
- b) where possible, show an even distribution of the claims incurred and avoid a scenario where nearly all the number of claims for a LoB fall into bracket 1 or bracket 21;
- c) discuss any change to the undertaking specific or base option of claims incurred size brackets for a LoB with the MFSA prior to making the change; and
- d) only change the base option of claims incurred size brackets for a LoB if the current selected base option would give inadequate insight into the distribution of claims incurred.

Template S.21.03.01 – Non-life distribution of underwriting risks by Sum Insured

In terms of the Article 11 (o) of the ITS undertakings are required to submit in template S.21.03.01 of Annex 1 - information on non-life underwriting risks aggregated by sum insured size brackets within a LoB. Annex II requires NSAs to define the start and end point of each bracket where the reporting currency is not Euro. NSAs may also specify sums insured brackets where the sums insured are small.

Reporting Currency of the intervals within which the sum insured of the individual underwriting risks are reported

Annex II to the ITS defines the base ‘start sum insured’ and ‘end sum insured’ brackets in EUR. The MFSA is required to define equivalent options for the amounts to be used in the 20 brackets. Undertakings should follow this convention:

- i. Where the reporting currency of the undertaking is in GBP or USD, the start and end sum insured brackets shall be the same as those used for the EUR currency as specified in Annex II of the ITS.
- ii. For reporting currencies other than GBP, EUR and USD, the ‘start sum insured’ and ‘end sum insured’ items of each bracket should be multiplied by a fixed exchange rate factor and rounded to the nearest hundred.

The fixed exchange factor shall be the European Central Bank EUR to reporting currency exchange rate as at the undertaking’s financial year end. It has been chosen in order to have consistent brackets over time. The MFSA may amend the fixed exchange factor in the future for a specific currency if the value of that currency relative to the EUR changed to the extent that the claim size brackets are no longer appropriate.

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‘Start sum insured’ and ‘end sum insured’ brackets

The ITS states that the NSA may specify sum insured size brackets, in particular where the sum insured is less than 100,000. The MFSA will not be specifying fixed values for the 20 brackets of the start sum insured and end sum insured brackets where losses are less than 100,000. Undertakings with small sums insured are expected to come up with their own specific values of the 20 brackets. As a guide, the undertaking may split the sums insured into 20 brackets of 1,250 and the 21st bracket for sums insured greater than or equal to 25,000. For sums insured greater than 100,000, undertakings are expected to use one of the 5 base options as specified in Annex II.

When using either the undertaking specific **or** the five base options for the 20 brackets, the MFSA expects undertakings to:

- a) select the limits of brackets which provide the best insight into the distribution of sums insured for each LoB;
- b) where possible, show an even distribution of the sums insured and avoid a situation where nearly all the sums insured for a LoB fall into bracket 1 or bracket 21;
- c) discuss any change to the undertaking specific or base option of sum insured size brackets for a LoB with the MFSA prior to making the change; and
- d) only change the base option of sums insured size brackets for a LoB if the current selected base option would give inadequate insight into the distribution of claims incurred.

Any queries in relation to the above should be addressed to the Insurance and Pensions Supervision Unit on ipsu@mfsa.com.mt.

Communications Unit
Malta Financial Services Authority
03 November, 2016