

DECREE No 6
of Národná banka Slovenska
of 14 July 2015

**on solvency in regard to insurance undertakings not subject to a special regime
and in regard to reinsurance undertakings, branches of foreign insurance undertakings and
branches of foreign reinsurance undertakings**

Národná banka Slovenska, in accordance with Article 49(10) and Article 63(3) of Act No 39/2015 Coll. on insurance and on amendments to certain laws (hereinafter 'the Act'), has adopted this Decree:

Article 1
Subject matter

- (1) This Decree applies to
- (a) insurance undertakings not subject to a special regime and branches of foreign insurance undertakings (hereinafter an 'insurance undertaking'),
 - (b) reinsurance undertakings and branches of foreign reinsurance undertakings (hereinafter a 'reinsurance undertaking').
- (2) This Decree stipulates
- (a) the method for calculation of the basic solvency capital requirement,
 - (b) the definition of individual modules and sub-modules of the basic solvency capital requirement,
 - (c) the symmetric adjustment mechanism in the equity risk sub-module,
 - (d) the absolute floor of the minimum solvency capital requirement.

Article 2
Method for calculation of the basic solvency capital requirement

(1) The basic solvency capital requirement consists of the solvency capital requirements of the individual risk modules referred to under Article 49(2) of the Act and the solvency capital requirement of the intangible assets risk module calculated pursuant to a separate regulation.¹

(2) The basic solvency capital requirement is determined by aggregating the capital requirements of the individual risk modules referred to under the first point in Annex 1 and the solvency capital requirement for intangible assets risk.

Article 3
Definitions of individual modules and sub-modules of the basic solvency capital requirement

(1) The non-life underwriting risk module reflects the risk arising from life insurance obligations in relation to the perils covered and the processes used in the conduct of insurance or reinsurance business. It takes account of the uncertainty in the results of insurance and reinsurance undertakings related to existing insurance and reinsurance obligations as well as to new business expected to be written over the following 12 months.

(2) The solvency capital requirement of the non-life underwriting risk module is to be calculated as a combination of the capital requirements for at least the following:

¹ Commission Delegated Regulation (EU) No 2015/35 of 10 October 2014 amending 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) (OJ L 12, 17.1.2015).

- (a) the risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the timing, frequency and severity of insured events, and in the timing and amount of claim settlements (non-life premium and reserve risk),
- (b) the risk of loss, or of adverse change in the value of insurance liabilities, resulting from significant uncertainty of pricing and provisioning assumptions related to extreme or exceptional events (non-life catastrophe risk).

(3) The solvency capital requirement under paragraph 2 is to be calculated in accordance with the formula set out in the second point of Annex 1.

(4) The life underwriting risk module reflects the risk arising from life insurance obligations in relation to the perils covered and the processes used in the conduct of insurance or reinsurance business.

(5) The solvency capital requirement of the life underwriting risk module is to be calculated as a combination of the capital requirements for at least the following

- (a) the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of insurance liabilities (mortality risk),
- (b) the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance liabilities (longevity risk),
- (c) the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend or volatility of disability, sickness and morbidity rates (disability – morbidity risk),
- (d) the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of the expenses incurred in servicing life insurance or life reinsurance contracts (life-expense risk),
- (e) the risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the level, trend, or volatility of the revision rates applied to annuities, due to changes in legislation or in the state of health of the person insured (revision risk),
- (f) the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level or volatility of the rates of contract lapses, terminations and renewals (lapse risk),
- (g) the risk of loss, or of adverse change in the value of insurance liabilities, resulting from significant uncertainty of pricing and provisioning assumptions related to extreme or exceptional events (life-catastrophe risk).

(6) The solvency capital requirement under paragraph 5 is to be calculated in accordance with the formula set out in the third point of Annex 1.

(7) The health underwriting risk module reflects the risk arising from health insurance, whether it is pursued on a similar technical basis to that of life insurance or not, following from both the perils covered and the processes used in the conduct of insurance or reinsurance business.

(8) The health underwriting risk module includes at least these risks:

- (a) the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of the expenses incurred in servicing health insurance or health reinsurance contracts,
- (b) the risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the timing, frequency and severity of insured events, and in the timing and amount of claim settlements at the time of provisioning,
- (c) the risk of loss, or of adverse change in the value of insurance liabilities, resulting from the significant uncertainty of pricing and provisioning assumptions related to outbreaks of major epidemics, as well as the unusual accumulation of risks under such extreme circumstances.

(9) The market risk module reflects the risk arising from the level or volatility of market prices of financial instruments on the value of assets and liabilities of the undertakings.

(10) The solvency capital requirement of the market risk module reflects the structural mismatch between assets and liabilities, in particular with respect to the duration thereof. It is to be calculated as a combination of the capital requirements reflecting the following:

- (a) the sensitivity of the values of assets and liabilities to changes in the term structure of interest rates, or in the volatility of interest rates (interest rate risk),
- (b) the sensitivity of the values of assets and liabilities to changes in the level or in the volatility of market prices of equities (equity risk),
- (c) the sensitivity of the values of assets and liabilities to changes in the level or in the volatility of market prices of real estate (property risk),
- (d) the sensitivity of the values of assets and liabilities to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure (spread risk),
- (e) the sensitivity of the values of assets and liabilities to changes in the level or in the volatility of currency exchange rates (currency risk),
- (f) additional risks to an insurance or reinsurance undertaking stemming either from lack of diversification in the asset portfolio or from large exposure to default risk by a single issuer of securities or a group of related issuers (market risk concentrations).

(11) The solvency capital requirement under paragraph 10 is to be calculated in accordance with the formula set out in the fourth point of Annex 1.

(12) The counterparty default risk module reflects

- (a) losses due to unexpected default, or deterioration in the credit standing, of the counterparties and debtors of insurance and reinsurance undertakings over the following 12 months,
- (b) risk-mitigating contracts, such as reinsurance arrangements, securitisations and derivatives, and receivables from intermediaries,
- (c) collateral or other security held by or for the account of the insurance or reinsurance undertaking and the risks associated therewith,
- (d) credit exposures which are not covered in the spread risk sub-module, not mentioned under (a) and (c).

(13) The solvency capital requirement of the counterparty default risk module takes account of the overall counterparty risk exposure of the insurance or reinsurance undertaking to every counterparty, irrespective of the legal form of its contractual obligations to that undertaking.

Article 4

Symmetric adjustment mechanism in the equity risk sub-module

(1) The equity risk sub-module calculated in accordance with the standard formula includes a symmetric adjustment to the solvency capital requirement which reflects the risk arising from changes in the level of equity prices.

(2) The symmetric adjustment under paragraph 1 is determined by a function of the current level of an appropriate equity index and the weighted average level of that index. The weighted average is to be calculated over an appropriate period of time, which must be the same for all insurance and reinsurance undertakings.

(3) The symmetric adjustment made to the standard equity capital charge covering the risk arising from changes in the level of equity prices cannot result in the application of an equity capital charge changed by more than 10 percentage points compared to the standard equity capital charge.

Article 5

The absolute floor of the minimum solvency capital requirement

- (1) The absolute floor of the minimum solvency capital requirement for
- (a) non-life insurance undertakings is EUR 2 500 000, including captive insurance undertakings, save in the case where the risks of non-life insurance included in insurance classes listed in points 10 to 15 in

- Part A of Annex 1 of the Act are covered, in which case it is no less than EUR 3 700 000,
- (b) life insurance undertakings is EUR 3 700 000, including captive insurance undertakings,
 - (c) reinsurance undertakings is EUR 3 600 000,
 - (d) captive reinsurance undertakings is EUR 1 200 000.

(2) If an insurance undertaking operates in both life and non-life insurance business under Article 6(7)(c) of the Act, the absolute floor of the minimum solvency capital requirement is to be determined by the sum of the amounts set out in paragraph 1(a) and (b).

Article 6
Final provision

This Decree transposes the legally binding acts of the European Union listed in the Annex 2.

Article 7
Entry into force

This Decree enters into force on 1 January 2016.

Jozef Makúch
Governor
represented by Karol Mrva
Member of the NBS Bank Board
and Executive Directive for Financial Market Operations

Issuing unit: Regulation Department
Insurance Regulation Section

Produced by: Ing. Andrea Gondová

Tel.: +421 2 5787 3301
Fax: +421 2 5787 1118
Tel.: +421 2 5787 3404

The standard formula for calculation of the basic solvency capital requirement (SCR)

1. Calculation of the basic solvency capital requirement

The basic solvency capital requirement (SCR) is calculated as follows:

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

where SCR_i denotes the risk module i and SCR_j denotes the risk module j , and where 'i, j' means that the sum of the different terms should cover all possible combinations of i and j modules. In the calculation, SCR_i and SCR_j are replaced by the following:

$\text{SCR}_{\text{non-life}}$ which denotes the non-life underwriting risk module,

SCR_{life} which denotes the life underwriting risk module,

$\text{SCR}_{\text{health}}$ which denotes the health underwriting risk module,

$\text{SCR}_{\text{market}}$ which denotes the market risk module,

$\text{SCR}_{\text{default}}$ which denotes the counterparty default risk module.

The factor $\text{Corr}_{i,j}$ denotes the item set out in row i and in column j of the following correlation matrix:

i \ j	Market	Default	Life	Health	Non-life
Market	1	0.25	0.25	0.25	0.25
Default	0.25	1	0.25	0.25	0.5
Life	0.25	0.25	1	0.25	0
Health	0.25	0.25	0.25	1	0
Non-life	0.25	0.5	0	0	1

2. Calculation of the non-life underwriting risk module

The non-life underwriting risk module referred to under Article 3(1) and (2) is calculated as follows:

$$\text{SCR}_{\text{non-life}} = \sqrt{\sum_{i,j} \text{Corr}_{i,j} \times \text{SCR}_i \times \text{SCR}_j}$$

where SCR_i denotes the sub-module i and SCR_j denotes the sub-module j , and where 'i, j' means that the sum of the different terms should cover all possible combinations of i and j . In the calculation, SCR_i and SCR_j are replaced by the following:

$\text{SCR}_{\text{nl premium and reserve}}$ which denotes the non-life catastrophe risk sub-module,

$\text{SCR}_{\text{nl catastrophe}}$ which denotes the non-life catastrophe risk sub-module.

3. Calculation of the life underwriting risk module

The life underwriting risk module referred to under Article 3(3) and (4) is calculated as follows:

$$SCR_{life} = \sqrt{\sum_{i,j} Corr_{i,j} \times SCR_i \times SCR_j}$$

where SCR_i denotes the sub-module i and SCR_j denotes the sub-module j , and where 'i, j' means that the sum of the different terms should cover all possible combinations of i and j . In the calculation, SCR_i and SCR_j are replaced by the following:

$SCR_{mortality}$ which denotes the mortality risk sub-module,
 $SCR_{longevity}$ which denotes the longevity risk sub-module,
 $SCR_{disability}$ which denotes the disability – morbidity risk sub-module,
 $SCR_{life\ expense}$ which denotes the life expense risk sub-module,
 $SCR_{revision}$ which denotes the revision risk sub-module,
 SCR_{lapse} which denotes the lapse risk sub-module,
 $SCR_{life\ -\ catastrophe}$ which denotes the life catastrophe risk sub-module,

4. Calculation of the market risk module

The market risk module referred to under Article 3(7) and (8) is calculated as follows:

$$SCR_{market} = \sqrt{\sum_{i,j} Corr_{i,j} \times SCR_i \times SCR_j}$$

where SCR_i denotes the sub-module i and SCR_j denotes the sub-module j , and where 'i, j' means that the sum of the different terms should cover all possible combinations of i and j . In the calculation, SCR_i and SCR_j are replaced by the following:

$SCR_{interest\ rate}$ denotes the interest rate risk sub-module,
 SCR_{equity} denotes the equity risk sub-module,
 $SCR_{property}$ denotes the property risk sub-module,
 SCR_{spread} denotes the spread risk sub-module,
 $SCR_{concentration}$ denotes the market risk concentrations sub-module,
 $SCR_{currency}$ denotes the currency risk sub-module,

Schedule of transposed legally binding acts of the European Union

Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (OJ L 335, 17.12.2009) as amended by

- Directive 2011/89/EC of the European Parliament and of the Council of 16 November 2011 (OJ L 326, 8.12.2011),
- Directive 2012/23/EC of the European Parliament and of the Council of 12 September 2012 (OJ L 249, 14.9.2012),
- Directive 2013/23/EC of the European Parliament and of the Council of 13 May 2013 (OJ L 158, 10.6.2013),
- Directive 2013/58/EC of the European Parliament and of the Council of 11 December 2013 (OJ L 341, 18.12.2013),
- Directive 2014/51/EC of the European Parliament and of the Council of 16 April 2014 (OJ L 153, 22.5.2014).