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Warsaw, 30 December 2015

Item 2321

ORDINANCE OF
THE MINISTER OF FINANCE[1)]

of 23 December 2015

on the detailed method of calculating the Basic Solvency Capital Requirement on the basis of the standard formula[2)]

Pursuant to Article 252(9) of the Act of 11 September 2015 on insurance and reinsurance activity (Journal of Laws item 1844), it is ordered as follows:

§ 1. For the purpose of the Ordinance, the following definitions shall apply:

1) non-life insurance and reinsurance obligations – the obligations referred to in points (4)-(12) of Part A, points (16)-(24) of Part B and points (26)-(28) of Part C of Annex I to 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), hereinafter referred to as "Commission Delegated Regulation (EU) 2015/35";

2) life insurance and reinsurance obligations – the obligations referred to in points (30)-(32) and (34) of Part D and point (36) of Part E of Annex I to Commission Delegated Regulation (EU) 2015/35;

3) health insurance and reinsurance obligations– the obligations referred to in points (1)-(3) of Part A, points (13)-(15) of Part B, point (25) of Part C, points (29) and (33) of Part D, and point (35) of Part E of Annex I to Commission Delegated Regulation (EU) 2015/35;

[1)] The Minister of Finance manages the government administration department – financial institutions, pursuant to § 1(2) (3) of the Ordinance of the Prime Minister of 17 November 2015 on the detailed scope of activity of the Minister of Finance (Journal of Laws item 1900).

[2)] This Ordinance:
1) for the matters covered by it, shall implement 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 of 17 December 2009, p. 1 as amended);
2) shall serve the application of 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) (OJ L 12 of 17 January 2015, p. 1).

4) non-life premium and reserve risk – the risk of loss, or of adverse change in the value of non-life insurance and reinsurance liabilities, resulting from fluctuations in the timing, frequency and severity of insured or reinsured events, and in the timing and amount of claim settlements;

5) non-life catastrophe risk – the risk of loss, or of adverse change in the value of non-life insurance and reinsurance liabilities, resulting from significant uncertainty of pricing and provisioning assumptions for solvency purposes, related to extreme or exceptional events;

6) mortality risk – the risk of loss, or of adverse change in the value of life insurance and reinsurance 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;

7) longevity risk – the risk of loss, or of adverse change in the value of life insurance and reinsurance 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;

8) disability-morbidity risk – the risk of loss, or of adverse change in the value of life insurance and reinsurance liabilities, resulting from changes in the level, trend or volatility of disability, sickness and morbidity rates;

9) life-expense risk – the risk of loss, or of adverse change in the value of life insurance and reinsurance liabilities, resulting from changes in the level, trend, or volatility of the expenses incurred in servicing insurance or reinsurance contracts;

10) revision risk – the risk of loss, or of adverse change in the value of life insurance and reinsurance liabilities, resulting from fluctuations in the level, trend, or volatility of the revision rates applied to annuities, due to changes in the legal environment or in the state of health of the person insured;

11) lapse risk – the risk of loss, or of adverse change in the value of life insurance and reinsurance liabilities, resulting from changes in the level, trend, or volatility of the rates of insurance and reinsurance contract lapses, terminations, renewals and surrenders;

12) life-catastrophe risk – the risk of loss, or of adverse change in the value of life insurance and reinsurance liabilities, resulting from the significant uncertainty of pricing and provisioning assumptions for solvency purposes, related to extreme or irregular events;

13) non-life health premium and reserve risk – the risk of loss, or of adverse change in the value of health insurance and reinsurance liabilities, resulting from fluctuations in the timing, frequency and severity of insured events, and in the timing and amount of claim settlements;

14) health-expense risk – the risk of loss, or of adverse change in the value of health insurance and reinsurance liabilities, resulting from changes in the level, trend, or volatility of the expenses incurred in servicing insurance and reinsurance contracts;

15) pandemic risk – the risk of loss, or of adverse change in the value of health insurance and reinsurance liabilities, resulting from the significant uncertainty of pricing and provisioning assumptions for solvency purposes, related to outbreaks of major pandemic, as well as the unusual accumulation of risks under such extreme circumstances;

16) interest rate risk – the risk associated with the sensitivity of the values of assets, liabilities and financial instruments to changes in the term structure of interest rates, or in the volatility of interest rates;

17) equity risk – the risk associated with the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of equities;

18) property risk – the risk associated with the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of real estate;

19) spread risk – the risk associated with the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure;

20) currency risk – the risk associated with the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of currency exchange rates;

21) market risk concentrations – 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.

§ 2. The insurance and reinsurance undertaking shall calculate the Basic Solvency Capital Requirement on the basis of the standard formula in accordance with point (1) of the Annex to the Ordinance.

§ 3. 1. The non-life underwriting risk module shall reflect the risk arising from non-life insurance and reinsurance obligations, in relation to the perils covered and the processes used in the conduct of business, covered by insurance or reinsurance contracts.

2. The non-life underwriting risk module shall take account of the uncertainty in the results of the insurance or reinsurance undertaking related to:

1) concluded insurance contracts, insurance guarantee contracts and reinsurance contracts;

2) insurance contracts, insurance guarantee contracts and reinsurance contracts expected to be written over the following 12 months.

3. The non-life underwriting risk module shall consist of at least the following sub-modules:

1) non-life premium and reserve risk;

2) non-life catastrophe risk.

4. The insurance and reinsurance undertaking shall calculate the non-life underwriting risk module in accordance with point (2) of the Annex to the Ordinance.

§ 4. 1. The life underwriting risk module shall reflect the risk arising from life insurance and reinsurance obligations, in relation to the perils covered and the processes used in the conduct of business, covered by insurance or reinsurance contracts.

2. The life underwriting risk module shall consist of at least the following sub-modules:

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1) mortality risk;

2) longevity risk;

3) disability-morbidity risk;

4) life-expense risk;

5) revision risk;

6) lapse risk;

7) life-catastrophe risk.

3. The insurance and reinsurance undertaking shall calculate the life underwriting risk module in accordance with point (3) of the Annex to the Ordinance.

§ 5. 1. The health underwriting risk module shall reflect the risk arising from health insurance and reinsurance obligations, in relation to the perils covered and the processes used in the conduct of business, covered by insurance or reinsurance contracts.

2. The health underwriting risk module shall consist of at least the following sub-modules:

1) non-life health premium and reserve risk;

2) health-expense risk;

3) pandemic risk.

3. The insurance and reinsurance undertaking shall calculate the health underwriting risk module in accordance with point (4) of the Annex to the Ordinance.

§ 6. 1. The market risk module shall reflect:

1) the risk arising from the level or volatility of market prices of financial instruments which have an impact upon the value of the assets and liabilities of the insurance and reinsurance undertaking;

2) the structural mismatch between assets and liabilities, in particular with respect to the duration thereof.

2. The market risk module shall consist of at least the following sub-modules:

1) interest rate risk;

2) equity risk;

3) property risk;

4) spread risk;

5) currency risk;

6) market risk concentrations.

3. When calculating the equity risk sub-module, the insurance and reinsurance undertaking shall take into account the symmetric adjustment to the equity capital charge.

4. The symmetric adjustment referred to in paragraph 3 is a function of:

1) the current level of an appropriate equity index and

2) a weighted average level of that index calculated over the period of time referred to in Article 172(2) (b) of Commission Delegated Regulation (EU) 2015/35.

5. Equity risk stress, taking into account the symmetric adjustment referred to in paragraph 3, may not be:

1) higher than the standard equity risk stress by over 10 percentage points;

2) lower than the standard to equity risk stress by over 10 percentage points.

6. The insurance and reinsurance undertaking shall calculate the market risk module in accordance with point (5) of the Annex to the Ordinance.

§ 7. 1. The counterparty default risk module shall reflect possible losses due to unexpected default, or deterioration in the credit standing, of the counterparties and debtors of the insurance or reinsurance undertaking over the following 12 months.

2. The counterparty default risk module shall cover risk-mitigating contracts, in particular:

1) reinsurance arrangements;

2) insurance securitisation;

3) derivatives;

4) receivables from intermediaries;

5) credit exposures which are not covered in the spread risk sub-module.

3. When calculating the counterparty default risk module, the insurance and reinsurance undertaking shall take account of collateral or other security held by or for the account of the insurance or reinsurance undertaking and the risks associated therewith.

4. When calculating the counterparty default risk module, the insurance and reinsurance undertaking shall take account of the overall counterparty risk exposure of the insurance or reinsurance undertaking concerned to that counterparty, irrespective of the legal form of its contractual obligations to that undertaking.

5. The insurance and reinsurance undertaking shall calculate the counterparty default risk module in accordance with Article 189 of Commission Delegated Regulation (EU) 2015/35.

§ 8. The Ordinance shall enter into force on 1 January 2016.

Minister of Finance: *P. Szałamacha*

Annex to the Ordinance of the Minister of Finance
of 23 December 2015 (item 2321)

DETAILED METHOD OF CALCULATING THE BASIC SOLVENCY CAPITAL REQUIREMENT ON THE BASIS OF THE STANDARD FORMULA

1. The insurance and reinsurance undertaking shall calculate the Basic Solvency Capital Requirement based on the standard formula as follows:

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

where the individual symbols denote the following:

- BSCR – Basic Solvency Capital Requirement,
- SCR_i, SCR_j – risk modules referred to in Article 252(1) of the Act of 11 September 2015 on insurance and reinsurance activity,
- $Corr_{i,j}$ – correlation coefficients for risk modules as set out in the correlation matrix below:

i \ j	Market risk	Counterparty default risk	Life underwriting risk	Health underwriting risk	Non-life a underwriting risk
Market risk	1	0.25	0.25	0.25	0.25
Counterparty default risk	0.25	1	0.25	0.25	0.5
Life underwriting risk	0.25	0.25	1	0.25	0
Health underwriting risk	0.25	0.25	0.25	1	0
Non-life underwriting risk	0.25	0.5	0	0	1

2. The insurance and reinsurance undertaking shall calculate the non-life underwriting risk module as follows:

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

where the individual symbols denote the following:

- $SCR_{non\text{-}life}$ – non-life underwriting risk module,
- SCR_i, SCR_j – risk sub-modules referred to in § 3(3),
- $Corr_{i,j}$ – correlation coefficients for risk sub-modules, which are referred to in § 3(3), as set out in Article 114(3) of Commission Delegated Regulation (EU) 2015/35.

3. The insurance and reinsurance undertaking shall calculate the life underwriting risk module as follows:

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

where the individual symbols denote the following:

- SCR_{life} – life underwriting risk module,
- SCR_i, SCR_j – risk sub-modules referred to in § 4(2),
- $Corr_{i,j}$ – correlation coefficients for risk sub-modules, which are referred to in § 4(2), as set out in Article 136(3) of Commission Delegated Regulation (EU) 2015/35.

4. The insurance and reinsurance undertaking shall calculate the health underwriting risk module as follows:

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

where the individual symbols denote the following:

- SCR_{health} – health underwriting risk module,
- SCR_i, SCR_j – risk sub-modules referred to in § 5(2),
- $Corr_{i,j}$ – correlation coefficients for risk sub-modules, which are referred to in § 5(2), as set out in Article 144(3) of Commission Delegated Regulation (EU) 2015/35.

5. The insurance and reinsurance undertaking shall calculate the market risk module as follows:

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

where the individual symbols denote the following:

- SCR_{market} – market risk module,

– SCR_i, SCR_j – risk sub-modules referred to in § 6(2),

$Corr_{i, j}$ – correlation coefficients for risk sub-modules, which are referred to in § 6(2), as set out in Article 164(3) of Commission Delegated Regulation (EU) 2015/35.

6. The sums of the formulae referred to in points (1)-(5) shall cover all possible combinations of risk sub-modules (i, j).