



**Solvency Assessment and Management:  
Steering Committee  
Errata (v 4) to Final Position Paper 74<sup>1</sup> (v 4)  
Minimum Capital Requirement (MCR)**

**ERRATA**

The following amendment to Final Position Paper 74 as described below needs to be implemented.

The reasons for the errata are:

- Non-Life MCR – there was a change in the segmentation in DD29 which had to be incorporated in this Position Paper 74. Terrorism was introduced as a separate class of business with the same parameters used for Miscellaneous business.
- Life MCR.
  - A minimum of 0 was introduced in the first part of the formula in MCR5c.
  - The following changes were made to MCR5d:
    - An update to the segmentation in DD29 which had to be incorporated in Position Paper 74.
    - In C2.1 and C2.2 the word investment was added before guarantees to clarify the type of guarantee referred to.
    - Life Annuities (Partially or Fully guaranteed) were moved from C2.2 to C3.
    - Combined policies (4a(ii) and 4b(ii)) were retained in C2.2 based on the interpretation that the guarantee refers to an investment guarantee on the investment/unit fund.
    - The distinction between partially and fully guaranteed products that was in C2.2 has been removed.

Amendments to the life and non-life linear formula are shown below.

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<sup>1</sup> Errata (v 4) to Position Paper 74 (v 4) was approved as a FINAL Position Paper by the SAM Steering Committee on 17 October 2016.

### Amendments – Non-Life Linear Formula:

- **MCR4 d.**
  - A new reporting class 17 called Terrorism was introduced with the same parameters as the Miscellaneous class (i.e. 20% and 17%).
  - The Reinsurance reporting class will change from 17 to 18.
  - The references to DD29 were therefore updated.

The updated table will therefore look as follows:

<i>j</i>	<i>Reporting Class</i>	<i>Reporting Class reference (DD29)</i>	$\alpha_j$	$\beta_j$
<b>Direct and corresponding proportional reinsurance business</b>				
1	Motor	1, 18a, 18d	13%	11%
2	Property	2, 18a, 18d	14%	13%
3	Agriculture	3, 18a, 18d	20%	17%
4	Engineering	4, 18a, 18d	14%	13%
5	Marine	5, 18a, 18d	18%	22%
6	Aircraft	6, 18a, 18d	18%	22%
7	Transport	7, 18a, 18d	18%	22%
8	Rail	8, 18a, 18d	18%	22%
9	Legal Expense	9, 18a, 18d	20%	17%
10	Liability	10, 18a, 18d	14%	20%
11	Consumer Credit	11, 18a, 18d	25%	28%
12	Trade Credit	12, 18a, 18d	25%	28%
13	Guarantee	13, 18a, 18d	25%	28%
14	Accident and Health	14, 18a, 18d	20%	17%
15	Travel	15, 18a, 18d	20%	17%
16	Miscellaneous	16, 18a, 18d	20%	17%
17	Terrorism	17	20%	17%
<b>Non-Proportional and other business</b>				
18	Reinsurance	18 b, c, e, f	26%	21%

## Amendments – Life Linear Formula:

- **MCR5 c.**

- A minimum of 0 was introduced in the first part of the formula. This is to prevent offsets when aggregating multiple funds, if the result of the calculation  $\{\alpha_{C.1.1} \cdot C_{1.1} + \alpha_{C.1.2} \cdot C_{1.2}\}$  is negative at a fund level.
- The revised formula is:

$$MCR_L = \max \left\{ \sum_{Funds} (\max(\alpha_{C.1.1} \cdot C_{1.1} + \alpha_{C.1.2} \cdot C_{1.2}, 0)); WP_{-floor} \cdot C_{1.1} \right\} + \sum_{j \in \{C.2.1, C.2.2, C.3\}} \alpha_j \cdot C_j + \alpha_{C.4} \cdot CAR.$$

- **MCR5 d.**

- Reporting classes not covered in the previous document due to updated segmentation were added in C1 and C2
- The word investment was added before guarantees in section 2 to clarify the nature of the guarantee.
- The classification used for reporting of technical provisions in TP1.1 does not distinguish between fully and partially guaranteed products. We therefore decided to remove the distinction introduced in C2.2.
- Since C2.2 now refers to products with investment guarantees and does not distinguish between full and partial guarantees it was no longer appropriate to include 2a(i) Guaranteed Life Annuities under C2.2 as the guarantee is more than an investment guarantee. This would now fall under C3, Combined policies (4a(ii) and 4b(ii)) were retained in C2.2 based on the interpretation that the guarantee refers to an investment guarantee on the investment/unit fund.

<i>Index (j)</i>	<i>Segment</i>	$\alpha_j$	<b>Reporting Class reference (DD29)</b>
Contracts with discretionary participation:			2a(iii),3a(iv),3b(iv), 3c(iv),3d(iv),4a(v),4b(v), 5a(xi),5b(xi),5c(xi)
C.1.1	Minimum liability calculated as BEL_min, as defined in the calculation of the loss absorbing capacity of technical provisions in the SCR	6.2%	
C.1.2	Loss absorbing capacity of technical provisions calculated as BEL – BEL_min, as defined in the calculation of the loss absorbing capacity of technical provisions in the SCR	-6.7%	

Contracts where the policyholder bears the investment risk:

C.2.1	technical provisions for contracts without	0.5%	2a(ii),3a(ii),3a(iii),3b(ii),
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<i>Index (j)</i>	<i>Segment</i>	$\alpha_j$	<b>Reporting Class reference (DD29)</b>
	investment guarantees		3b(iii), 3c(ii), 3c(iii),3d(ii),3d(iii),4a(iii), 4a(iv),4b(iii),4b(iv),5a(ix), 5a(x), 5b(ix),5b(x), 5c(ix),5c(x)
C.2.2	technical provisions for contracts with investment guarantees	1.8%	3a(i),3b(i),3c(i),3d(i), 4a(ii), 4b(ii), 5a(viii),5b(viii), 5c(viii)
Contracts without profit participation:			All business not included in C1 or C2 above
C.3	technical provisions for contracts without profit participation	2.9%	