

Comments Template on CP8 -Draft proposal for Guidelines on ORSA		Deadline 20 January 2012 12:00 CET
Name of Company:	Groupe Consultatif	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Confidential/Public
<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ Do not change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool ⇒ Leave the last column <u>empty</u>. ⇒ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a paragraph or a cell, keep the row <u>empty</u>. ⇒ Our IT tool does not allow processing of comments which do not refer to the specific numbers below. <p>Please send the completed template, <u>in Word Format</u>, to cp008@eiopa.europa.eu. Our IT tool does not allow processing of any other formats.</p> <p>The numbering of the paragraphs refers to Consultation Paper 008.</p>		
Reference	Comment	
General Comment	<p>We think generally that ORSA should</p> <ul style="list-style-type: none"> - not mean even in the longer term the necessity for undertakings to build internal models, and - should be seen as a management tool and not so much as a supervisory tool that could in some situations even trigger capital add-ons. We strongly support the overall approach taken by EIOPA of emphasising the need for undertakings to tailor their ORSA to their own circumstances. EIOPA should resist pressure to provide more detailed guidance on the form and content of the ORSA report <p>We believe that, for the ORSA to be a document suitable for the Board / AMSB to engage with, there must be every effort not to duplicate information that is reported on elsewhere in the company's systems and processes. For the supervisor's benefit, detailed</p>	

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	<p>reporting on processes such as risk management and technical provisions are already available elsewhere, e.g. in the SFCR or in the Actuarial Reports to the Board. The ORSA should focus on strategic level issues, not on technical issues. This applies in particular to paragraphs 3.18 (data quality) and 3.27 (technical provisions).</p> <p>We also recommend that it is made clear where the guidelines are referring to the ORSA report of the ORSA process as this is not always clear.</p> <p>Also, we feel that there is insufficient integration between the guidelines and the explanatory text. The integration is particularly lacking in the case of Guidelines 7 to 11, where the text in section 4 bears little relation to the guidelines</p> <p>The term “stressed situations” is used several times in the paper. An undertaking should specify the “stressed situation” in its ORSA-report to ensure clarity. This also counts for “materiality” of a risk.</p>	
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3.8.	<p>We would like to clarify the following sentence: “the risk profile of the undertaking as established for the ORSA and as part of the SCR calculation are considered at the same moment in time”.</p> <p>Indeed we consider that risk allocation and risk budget could be defined and adopted by the administrative and management or supervisory body (AMSB) prior to year end calculations, hence prior to SCR calculations. Hence we believe that fast close approaches where the risk profile considered for risk budget allocation may be assessed on a basis different than the opening balance sheet used for the SCR calculation provided that the changes in the risk profile between the two reference dates</p>	

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	(reference date used for the ORSA assessment and reference date used for the SCR calculation) are not material.	
3.9.	While the use of an internal model in the performance of ORSA is critical, simplified models should be allowed in areas of ORSA where the complexity of an internal model would be impractical / difficult (e.g. multi-year projection of economic balance sheet)	
3.10.		
3.11.		
3.12.	It is unclear what is "the first case" and "the second case".	
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3.14.	With the agreement of the local supervisor, it should be possible to perform an ORSA at an intermediate aggregation level when some local entities are not differentiated in terms of management and operate in the same country. Indeed, in such situations, performing the ORSA for each entity seems pointless insofar as the entities are managed at a global level.	
3.15.	The heading "Principle of proportionality" obscures the main purpose of this guideline which is to require undertakings to tailor their ORSA processes to their operational structure and risk management system. In order to ensure the ORSA is specific to each undertaking, the ORSA should take into consideration, not only the nature scale and complexity of the risks inherent to the business, but also : the recent and likely future stability of its business model; and the quality and consistency of its financial performance.	
3.16.		
3.17.	There is <u>too much duplication</u> in these requirements and with SFCR: - an internal report on ORSA should be sufficient evidence of the record of each ORSA process; - there should not be two levels of ORSA report, there should only be an internal document, shared with the supervisor. We think that producing a specific reporting about the ORSA and also including the same information in the RSR could be too burdensome. Therefore we would appreciate to confirm that the internal ORSA report will be the only reporting to the Supervisor about the ORSA and to	

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	clarify links with the Pillar 3 reporting.	
3.18.	Point c), information on “ (ii) data quality requirements” should be suppressed as data quality issues are adequately dealt with elsewhere in the Solvency II framework	
3.19.	As the ORSA process interacts with other business processes (e.g. strategic planning or risk management), the evidence and documentation from these processes should be accepted for ORSA to avoid additional efforts.	
3.20.		
3.21.	The wording implies that the use of Solvency II valuation bases should be the default approach for the ORSA and creates an unwarranted discouragement for undertakings wishing to adjust valuations on to a more economic basis. To give the correct emphasis, the guideline should be reworded to read: “Undertakings may apply recognition and valuation bases different from the Solvency II basis where the alternative basis reflects better the value to the business of the assets and liabilities.”.	
3.22.	The words “that may be used for assessing overall solvency needs” should be added at the end of the guidelines. Not all recognition bases are relevant in the context of solvency (e.g. IFRS profits). The additional words will clarify the requirements.	
3.23.	Amend the wording to « The undertaking should express the overall solvency needs in quantitative terms and complement the quantification by a qualitative description of <u>the material sources of the risks.</u> »	
3.24.	It is not necessary to subject every risk to a wide range of stress tests. Amend the wording to « The undertaking should subject the <u>material</u> risks to a sufficiently wide range of stress test/scenario analyses to provide an adequate basis for the assessment of the overall solvency needs <u>with Solvency II confidence standards</u> ». It could also be considered whether “stress test/scenario” could be omitted as the list is not exhaustive. See also 4.3.	
3.25.	When assessing potential shocks to the planning period, companies will be looking at say 50 or 100 or 200 year return period risks. Rather than assign them to individual years, it may be better to say « what if they happened some time in the planning period ». Therefore amend the wording to «The undertaking’s assessment of the overall solvency needs should be forward-looking, cover the whole of the business planning period, and	

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	if appropriate the separate years of the planning period ».	
3.26.	See 4.3.	
3.27.	The actuarial function should provide input on the compliance with the requirements regarding the calculation of technical provisions and on the risks arising from this calculation. It would be appropriate not to ask the actuarial function for input on the risks arising from calculation but to provide input on the adequacy of the modelling of the risks underlying this calculation (including data policy and management rules) capital requirements.	
3.28.	Further guidance would be welcome concerning how sovereign debt should be dealt with. In our understanding, significant discrepancies will systematically appear on this particular area of risks when comparing an undertaking's risk profile and the assumptions underlying the SCR calculation.	
3.29.	The wording should be updated: "The undertaking should take, <u>where appropriate</u> , the results of the ORSA and the insights gained in the process into account at least for the system of governance including long term capital management, business planning and produce development and design.	
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3.39.	The content of the guideline does not match the heading. Furthermore, the last words should be updated to read "... for each <u>relevant</u> solo undertaking". Consistency of indicators and processes reported in the ORSA between the group and solo entities	

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	needs to be ensured. We want to point out that the group ORSA should assess the group as a whole and not be an aggregation of solo ORSAs.	
3.40.	The wording should be updated to: "In the group ORSA the group should assess the <u>material</u> risks of the business in third countries in the same manner as for EEA-business with special attention to transferability and fungibility of capital and consequences of applying local capital requirements and technical provision calculations instead of the Solvency II framework in third countries. <u>This requirement does not apply to undertakings whose country regime is considered to be equivalent.</u>	
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4.2.	Several words have been missed from this sentence: "The assessment of "overall solvency needs" reflects the way <u>the</u> undertaking proposes to manage <u>the</u> risks they face..."	
4.3.	The emphasis should not be on ensuring the SCR is met at all time, rather that it should be met "with <u>sufficient probability</u> ...". The SCR is based over a one year time horizon and it is not appropriate for this to be a criteria over a longer period of time. Companies' capital levels may temporarily fall below the SCR for tactical purposes or due to the procyclical nature of the SCR calculation. It is for this reason that undertaking should be allowed to take into account EIOPA's action to allow a contracyclical premium (and hence more certainty is required on the application of the contracyclical premium). Furthermore, the MCR is the absolute regulatory limit while the SCR should represent a buffer on top of this. By specifying that companies should ensure they always meet the SCR will effectively force companies to maintain a significant capital buffer over and above regulatory capital levels.	
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4.5.	More details are necessary on how the deviations between the undertaking's risk profile and the assumptions underlying the SCR calculation shall be evidenced. As significant discrepancies will systematically appear on when comparing an undertaking's risk profile and the assumptions underlying the SCR calculation as a result of the risks attached to sovereign debt, further guidance should be provided on how this should be treated under the ORSA.	
4.6.	This is an important and useful clarification.	
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4.10.	In general, the AMSB performs a review and oversight role whilst the instructions and actions are performed by the Executives. It is important to maintain this distinction to ensure sufficient oversight within the organisation. Suggest change this wording to "...reviews management proposals on actions to be taken if ...".	
4.11.	As currently drafted the guideline could lead to entities using the standard formula evidencing a test of each and every assumption behind the standard formula. In reality the AMSB should review that overall the assumptions (including correlations assumed) are a reasonable basis for monitoring the risk of the specific entity	
4.12.	Same as 4.10: AMSB does not decide upon business and risk strategies, it approves those as suggested by management. Suggest change "decided upon" to "approved",	
4.13.		
4.14.	A report which tackles each of these issues "to a level of detail that enables a third party to evaluate the assessments" will be very long, and will not leave room for focus on the key risk and capital management issues. For the ORSA to be a document suitable for the Board / AMSB to engage with, there must be every effort to focus on strategic level risk and capital management issues and their implementation, not on technical measurement issues and their documentation. The text must make clear that the points (a) to (k) are issues that are worthwhile to be raised if they are material, but there must be no implication of "must"; Suggest amend the last sentence before (a) to read	

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	"The record of each ORSA process should include where material".	
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4.16.	There is clearly a potential efficiency benefit if the internal ORSA report can also serve as the ORSA supervisory report. To assist companies in designing a report which can satisfy both purposes, it would be helpful if the guidelines were extended to cover the contents of the internal ORSA report. Such guidance should cover both the minimum information that undertakings must provide and also some indication of the maximum level of detail that supervisors can routinely require to be included in the internal ORSA report	
4.17.	This paragraph merely repeats requirements from elsewhere and is unnecessary.	
4.18.	The material point here is that the assessment should cover the business planning period and is more relevant to guideline 10 rather than guideline 7.	
4.19.	It would be helpful to create a standard risk mapping (or at least a standard risk referential) in order to help undertakings to what risks they are supposed to take into account and assess at least. Some examples, showing how to set up the boundary between risks which would be covered by a certain amount of capital and risks which are managed by adequate processes, would be welcome.	
4.20.	This shows a misunderstanding of how insurers hold capital to meet risk. The amount of capital required is determined by the totality of the risks faced, allowing for diversification. The materiality of individual risks is irrelevant to this assessment.	
4.21.	If the undertaking has explained which risks are going to be managed with mitigation tools, the "why it will be done" part seems to cover the same thing. Suggestion - Remove "and why it will be done"	
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4.25.	In this section (as well as in many other sections) the impression is that users of the standard formula are confronted with the demand to introduce a "quasi" internal model by the "backdoor" of ORSA guidelines. If Solvency II allows the use of a standard formula for SMEs than there should not be too much effort for SMEs to prove the adequacy of	

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	this formula.	
4.26.	This seems illogical and inconsistent with the statement in 4.6 that internal model outputs in the ORSA can differ from the SCR.	
4.27.	It is not clear whether an undertaking still needs to quantify all the quantifiable risks as part of the risk assessment even though some of which may be managed through risk mitigation. It is also possible that some risks cannot be mitigated completely. Suggestion - Provide further clarifications	
4.28.	Amend the wording to "The assessment covers all <u>material</u> risks, including ...	
4.29.	If a solo entity is belongs to a group anf the group risks are covered by a group ORSA, this unnecessarily duplicates work.	
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4.35.	It is not clear what what "range of possible scenarios" will be required to be tested against the business plan. Suggestion - Provide further clarifications. The better wording would be " <u>relevant</u> scenarios for the plan have to be tested".	
4.36.	Guidance on how to link "external factors" to the assessment of overall solvency needs would be helpful.	
4.37.	Will each individual undertaking be required to demonstrate that the methods, parameters, dependencies of levels of confidence used in the projections are reasonable. Suggestion - Provide further clarifications	
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4.46.	<p>Recommend: The concept of compliance with requirements at all times needs to be clarified when applied to technical provisions. Our interpretation is that the undertaking has to permanently have a good view of its technical provisions as defined under Solvency II. Subsequently:</p> <ul style="list-style-type: none"> • A full calculation has to be performed regularly; this full calculation has to be compliant with the requirements set out in the regulatory texts. The frequency of the full calculations should depend on the volatility of the technical provisions. <p>Between these full calculations, the undertaking needs to monitor the external and internal factors that drive the level of technical provisions, in order to understand whether their evolution could lead to a significant change in the level of technical provisions, and subsequently whether a full recalculation is needed. Our interpretation is that the undertaking has to permanently have a good view of its technical provisions as defined under Solvency II. Subsequently:</p> <ul style="list-style-type: none"> • A full calculation has to be performed regularly; this full calculation has to be compliant with the requirements set out in the regulatory texts. The frequency of the full calculations should depend on the volatility of the technical provisions. • Between these full calculations, the undertaking needs to monitor the external and internal factors that drive the level of technical provisions, in order to understand whether their evolution could lead to a significant change in the level of technical provisions, and subsequently whether a full recalculation is needed. 	
4.47.	<p>Recommend: As per comment on 3.27 - the continuous compliance of technical provisions is covered within the normal governance of a company and therefore does not need to be specified in the context of the ORSA</p>	

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4.48.	As per comment on 3.27 - the continuous compliance of technical provisions and risks arising from the calculation are covered within the normal governance of a company and therefore does not need to be specified in the context of the ORSA	
4.49.	For entities using the standard formula it will be difficult for AMSBs to challenge the assumptions behind the SCR beyond an overall view that the risks tested under the standard formula are representative of the risks facing that entity. In addition, specific statements would be welcome in such guidelines concerning how sovereign debt should be dealt with.	
4.50.	We believe undertakings would benefit to receive information on the assumptions on which the SCR calculation is based as soon as possible.	
4.51.	Depending in the interpretation of this paragraph, it could lead to an onerous level of assessment for standard formula users. Are simplifications allowed? Will this encourage more companies down the internal model route? In addition, we believe that guidelines on the definition of "material deviations" would be helpful.	
4.52.	Putting this guideline in perspective, it seems that lots of detailed required, how will the principle of proportionality be applied here? The areas that require due consideration should be re-worded to "risks that are not considered in the standard formula and from risks that are <u>materially</u> under/overestimated by the standard formula compared to the risk profile". Especially, specific statements would be welcome in such guidelines concerning how sovereign debt should be dealt with.	
4.53.	A clear definition of "de-risk" would be appreciated. If this paragraph is interpreted "as is", its application would almost systematically compel undertakings to develop a partial internal model.	
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4.66.	Please provide clarification on the definition of "model error" and the purpose of the paragraph. To our understanding model errors are addressed by the model validation. The paragraph does not add any new value and can be deleted.	
4.67.	See 4.66	
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4.74.	It is unclear what this sentence means. To our understanding it wants to point out that a regular ORSA has to trigger a SCR calculation.	
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4.96.	There should be a distinction between the obligations for subsidiaries which are in the EU and subject directly to Solvency II and non-EU subsidiaries. See also 3.39	
4.97.	See 4.96	
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5.27.	<p>We understand that the very nature of the ORSA is to avoid a standard approach and to encourage each undertaking to set up a process which is proportionate to its nature, scale and complexity.</p> <p>However some examples of a structure and content of the internal ORSA report would be welcome in order to help undertakings to set up their own process.</p> <p>Besides, if no examples are published, it should be made clearer that the ORSA, being a recurrent and iterative process, might be progressively improved in order to fit the undertaking's needs, while the first assessments should allow for some shortcuts. This</p>	

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	iterative improvement process would avoid significant investments by the undertakings in setting up processes which would be assessed negatively by the supervisor.	
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Q1.		
Q2.	<p>It would be helpful to create a standard risk mapping (or at least a standard risk referential) in order to help undertakings to what risks they are supposed to take into account and assess at least.</p> <p>Some examples, showing how to set up the boundary between risks which would be covered by a certain amount of capital and risks which are managed by adequate processes, would be welcome.</p>	
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