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Dear Dr Steffen

CEIOPS Issues Paper CEIOPS-IGSRR-09/08
Own Risk and Solvency Assessment (ORSA)

The Groupe Consultatif welcomes the opportunity to share your thinking and to comment on the issues which CEIOPS has identified in relation to the ORSA proposals contained in the framework Solvency II Directive.

General Comments

The Groupe sees the ORSA as a very important tool of the Solvency II project. It is essential not only for the supervisor but also for the undertaking itself as, when implementing an ORSA process, the undertaking will better understand its solvency risks. As such, it is essential that the ORSA is forward-looking and takes into account the undertaking's business plan and projections.

We believe that actuaries are well-positioned both to help in creating the principles for how ORSA should be undertaken, and then actually to perform in companies the analyses needed in ORSA. Therefore, as you are already aware, we have currently in development the concept of a solvency report template to cover issues requiring consideration in ORSA. In this way, the Groupe Consultatif wishes to present its ideas to CEIOPS on the ORSA process and on how actuaries could play their part in performing the ORSA.

ORSA and the Proportionality Principle

One of the difficulties in implementing ORSA is the scope of the ORSA:

- on one hand, the Issues Paper (in particular Paras 2 - 3) states that excessive complexity and sophistication is not what is required, and also the principle of proportionality must be observed; and
- on the other hand, in line with the proposal for a Directive, the Issues Paper necessarily offers fairly extensive guidelines on what should be in an ORSA.

We believe that proportionality should be the guiding principle of applying the principles for ORSA:

- first the principles of ORSA are developed, and
- each undertaking performs its ORSA taking into account the proportionality principle.

This would be a good starting point not only for smaller companies but also generally: the size of an undertaking is not the only factor influencing the extent of ORSA. For example, we think that an ORSA of a pure life insurer is very different to an ORSA of a pure non-life insurer because of different risk emphasis. It would not be good to have different principles for a life and non-life insurer (or a small/large insurer) but instead the same principles should be used and applied accordingly. We suggest that it would be appropriate for CEIOPS to offer illustrative ORSA case studies, and we would be happy to support CEIOPS in developing these.

Group ORSA

We suggest that the ORSA for groups certainly needs additional work. A good starting point here also would be to develop first a solo ORSA and then add relevant group-specific elements to it. This is not meant to mean, however, that in groups there should first be solo ORSA's and the group ORSA would be a collection of these with the group-specific elements added. Instead only the group ORSA should be performed, taking into account the need to handle the issues specific to the group structure accordingly.

Parameterisation of the SCR calculation

In paragraph 24, the Issues Paper states that "*The purpose of the ORSA is to ensure that undertakings have robust processes for assessing and monitoring their overall solvency needs, not to duplicate, validate or analyse in detail the parameterisation of the SCR calculation*". This purpose appears to us to require some elaboration or clarification. Undertakings should consider, as part of the ORSA process, whether their own risk profile is such that it is in order for them to use the standard SCR formula, and they should be required to explain the outcome of this consideration. In those cases where the SCR includes the use of certain company-specific parameters, these should be consistent with the ORSA analysis.

Capital add-ons

We agree in principle with paragraph 44 of the Issues Paper that the outcome of the ORSA may be the basis for consideration of a possible additional capital requirement over and above the SCR otherwise calculated. We suggest that, for the sake of clarity, it should be explicit that any capital add-on required having regard to an ORSA should automatically be reconsidered as the ORSA is subsequently updated.

ORSA – Principles and guidance for undertakings

The ORSA is the responsibility of the undertaking and should be regularly reviewed and approved by the undertaking's administrative or management body

We agree that it is essential that the management body with responsibility to stakeholders of the undertaking regularly reviews and approves the ORSA. We assume that the phrase 'administrative or management body' means this.

The ORSA should encompass all material risks that may have an impact on the undertaking's ability to meet its obligations under insurance contracts

We agree with this principle. We suggest that it could be made clearer that, at the outset of the ORSA process, the undertaking should consider all risks and then separate these into material and immaterial (for example, the profile may be such that liquidity risk is, in practice, immaterial).

However we have the feeling that the suggested focus points listed under points 69 – 75 might be somewhat non-life related. It could be reasonable to add testing inadequacy of the standard formula in assessing the impact of the specific discretionary participation features on the solvency requirement

The ORSA should be based on adequate measurement and assessment processes and form an integral part of the management process and decision making framework of the undertaking

We agree with this principle, which we see as being exactly analogous with the 'use test' to be prescribed for internal models.

Paragraph 80 appears to us to be perhaps looser than may have been intended. We agree that it may be reasonable for an undertaking to use (with supporting justification) more economically realistic valuation approaches for ORSA than are prescribed for Solvency II, but we do not see any reason why it should be allowed to use less economically realistic approaches.

The ORSA should be forward-looking, taking into account the undertaking's business plans and projections

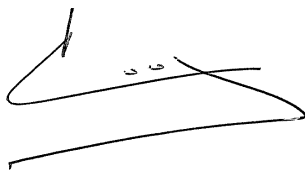
We agree and we acknowledge that the appropriate planning horizon may depend on the nature of the undertaking's business and sometimes also on market conditions.

The ORSA process and outcome should be appropriately evidenced and internally documented as well as independently assessed.

Of course we agree that the process and outcome should be appropriately evidenced and internally documented. We suggest that the second sentence of paragraph 89 is rather loosely drawn and might better be "The assessment may be conducted by an appropriately skilled internal or external resource, such as an auditor or the actuarial function, as long as they are independent in the assessment task."

We hope that these brief comments are of assistance to you. The Groupe Consultatif remains at your disposal for further consultation and advice, and we look forward to continuing our dialogue with you.

Yours sincerely



Karel Goossens
Chairman, Insurance Committee



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