Summary of Comments on Consultation Paper 65 - CEIOPS-CP-65/09

CEIOPS-SEC-167-10
January 2010

CP No. 65 - L2 Advice on Partial Internal Models

CEIOPS would like to thank AB Lietuvos draudimas, ACA, AFS, AMICE, Association of British Insurers, Assuralia, CEA, CNP Assurances, CRO Forum, Deloitte, DIMA, EMB Consultancy LLP, Equitable Life Assurance Society (UK), FEE, FFSA, German Insurance Association – Gesamtverband der D, GROUPAMA, Groupe Consultatif, Institut des actuaires (France), Investment & Life Assurance Group Ltd, IUA, Just Retirement Limited, KPMG ELLP, Legal & General Group, Lucida plc, Munich Re, Pacific Life Re, PricewaterhouseCoopers LLP, RBS Insurance, ROAM, RSA Insurance Group, UNESPA – Association of Spanish Insurers, and Unum Limited

The numbering of the paragraphs refers to Consultation Paper No. 65 (CEIOPS-CP-65/09)

No.	Name	Reference	Comment	Resolution
1.	AB Lietuvos draudimas	General Comment	We broadly agree with the contents of this paper. Our only area of major disagreement is the choosing of Option 2 for integration techniques. This would appear to be less efficient and more time bound than Option 3.	Noted.
2.	ACA	General Comment	Partial internal models are possible even for minor changes in comparison to the standard model. We think that this is the right way to give small companies the same choices as bigger ones. This is especially important for small and even mid-sized companies for which some of the modules of the standard modules do not seem well fitted.	Noted.
			Also the flexibility by allowing different risk categorizations is welcomed.	
			For aggregation methods, option 2 seems to be alright. It should also be ensured that these standards are applied in the same way in every country.	
3.	AFS	General Comment	The Association of Friendly Societies represents the friendly society sector in the UK. We have 45 friendly	Noted.

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		society members, who are all member-owned mutual organisations. Typically they offer long term savings and protection policies, with generally low minimum premiums. Friendly societies are typically small, though well-capitalised, and have a distinctly different business model to shareholder-owned insurers. We would like to thank CEIOPS for the chance to comment on this paper.	
4. AMICE	General Comment	These are AMICE's views at the current stage of the project. As our work develops, these views may evolve depending in particular on other elements of the framework which are not yet fixed. In our opinion, CEIOPS should distinguish between the following two different situations related to the integration of partial internal models: Integrating partial internal model results into the standard formula; Integrating standard formula results into the partial internal model: This case should be treated in this consultation paper, where the PIM is close to be a full internal model. In this regard, the undertaking should be allowed to propose alternative methodologies. Unstification limited scope internal model	CEIOPS disagrees with the need of such formal distinction, which would be very subjective and hard to make in many circumstances, for examples when 50% of risks and major units are modelled within the scope of the internal model. CEIOPS draws the attention to the fact when the wide majority risks units fall under the scope of the partial internal model, the diversifications benefits between the internal model and standard formula results' will be typically lower and immaterial in many circumstances. For further details please to answer to comment 11.

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We agree with CEIOPS that the undertaking should justify the limited scope of its internal model. We also agree that supervisory authorities should retain the power to disagree with the undertakings proposed scope and reject the model, to approve the internal model with conditions and to require the undertaking to submit a transitional plan to extend the scope of the model. However, AMICE members believe that if the internal model is rejected, the undertaking should have the right to appeal the supervisory decision on the limited scope of the partial internal model.	Noted. We do not intend that there should be appeal from the decision of the supervisory authority. CEIOPS does not have the power to overrule its members in their supervisory duties. Legal avenues of objection will remain open.
☐ Timeframe approval partial internal model	
In line with our comments to CP37, CEIOPS should provide a reasonable timeframe at Level 2 on the approval of the limited scope of the partial internal model.	Not agreed. This suggestion is against Level 1 text.
☐ List of Techniques to integrate Partial Internal Models in Level 3	
We agree with CEIOPS that providing a list of acceptable methodologies to integrate partial internal models should not limit the flexibility of the undertaking to decide the best way to merge the internal model and standard formula results. This list of methodologies should be as principle-based as possible.	Noted.

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If the list is too restrictive, it will be inappropriately burdensome for undertakings to prove the inappropriateness of these methodologies before being able to suggest an alternative way to integrate partial internal models. Additionally we believe that providing a list of techniques at Level 3 will help undertakings to reduce costs and will provide the needed flexibility to apply the techniques that better reflect the risk profile of the undertaking.	Agreed. CEIOPS is keen on working constructively with stakeholders on the chosen option, namely on the Level 3 aggregation techniques. Consequently, CEIOPS proposes the creation of a joint taskforce between CEIOPS and stakeholders to address this question.
However, we wonder whether CEIOPS foresees to reach an acceptable level of harmonization in the application of integration mechanisms as part of the Level 3 guidance. After all, the establishment of a European level playing field across Europe is a key aim of Solvency II	On Level 3 Guidance CEIOPS will issues further provisions in order to ensure to an adequate level of harmonization and the maintenance of a level playing field.
Risks not covered in the Standard Formula CEIOPS' paper states that a partial internal model may cover specific risks which may arise at solo or group level and which are not explicitly considered by the Standard	Although CEIOPS understands the concern over the integration of risks not covered in the standard formula, nevertheless, CEIOPS is sceptical of providing

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			Formula. We suggest that CEIOPS provide some examples of risks that might not be adequately captured in the standard formula and which should be the best way to approach them. Strategic and Reputational risks are good examples of risks which would be best covered by a qualitative approach. More analysis is needed on how to approach commodity and contagion risk.	further input either regarding type of risks or on how to model them (as they vary from undertaking to undertaking), other than the general modelling requirements stated in Article 121, 122 and 124 as it would induce systemic risk which the internal model regime aims to mitigate. CEIOPS is of the opinion that such task is more suitable for the actuarial profession to undertake.
5.	Unum	General Comment	Where the standard formula correlation matrix is neither feasible nor appropriate for the integration of the partial internal model into the standard formula, firms should be able to provide their own aggregation method subject to supervisory approval. We would therefore support option 3: integration of the partial internal model using structures and parameters provided by the firm or (if these are approved by supervisors) techniques provided by supervisors. As firms will have developed the partial models they will be better placed to design the most appropriate approach to integrate their model into the standard formula.	Noted. CEIOPS maintain its view on the policy option that should be followed, as justified in detail this consultation paper. Nonetheless as mentioned in answer to comment 4, CEIOPS is keen on working constructively with stakeholders on the chosen option, namely on the L3 aggregation techniques.
			Option 2 (use of one of the aggregation methods provided by CEIOPS) could be retained where the integration approach proposed by the firm has been rejected by supervisors. For the enforcement of option 2 there should be clear harmonised criteria for all supervisors in order to avoid any regulatory arbitrage and ensure consistency of	Consequently CEIOPS proposes the creation of a joint taskforce between CEIOPS and stakeholders to address this question. Agreed on the need to ensure

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			application across Europe	harmonization, for further details please refer to answer to comment nr. 4.
6.	Association of British Insurers	General Comment	We welcome CEIOPS' advice and their flexible approach to partial modelling as we believe partial models are a key instrument to enhance risk management. In particular, we welcome CEIOPS' recognition that a partial internal model may be an appropriate permanent solution	Noted.
			Demonstrating "inappropriateness" could be a very difficult test to fulfil and we therefore believe firms should be able to propose the most appropriate alternative approach for the integration of their model into the standard formula. This may include the standard formula correlation matrix but could also be based on the firm's own integration approach. Supervisors would then review the proposal based on its merits and on feasibility and appropriateness. We would expect firms to demonstrate that this more	Noted. CEIOPS maintain its view on the policy option that should be followed, as justified in detail this consultation paper.
			appropriately reflects their risk profile and give explanations as to why they consider their own approach is more suitable where they choose not to use the standard formula. We would therefore also support option 3: integration of the partial internal model using structures and parameters provided by the undertaking or (if these are approved by supervisors) techniques provided by supervisors. As firms	As stressed before CEIOPS wishes to engage in a fruitful dialogue with stakeholders to ensure L3 techniques are feasible and adequate, and with a degree of flexibility that will allow undertakings' risk profile to adequately capture.
			will have developed the partial models themselves they will be better placed to design the most appropriate approach to integrate their model into the standard formula. In this respect we would highlight the results of the impact assessment provided in the Annex C as they conclude that option 3 "may allow undertakings to capture more	Consequently, CEIOPS proposes the creation of a joint taskforce between CEIOPS and stakeholders to address this question.

Summary of Comments on Consultation Paper 65 - CEIOPS-CEIOPS-SEC-167-10 CP-65/09 January 2010 **CP No. 65 - L2 Advice on Partial Internal Models** appropriately their risk profile than with the other options, CEIOPS understands the ultimately leading to a more adequate calculation of the concern with the timetable of SCR. Under this assumption option 3 will increase the deliverable of Level 3 Guidance. likelihood of a level playing field being achieved" (C.62). CEIOPS intends to provide As demonstrated by this impact assessment, option 3 regular draft consultations to would therefore better fulfil the key principles of Solvency stakeholders' on the work done II: better understanding and assessment of the risks, on this subject. We note enhanced level playing field with a "permanent neutral however the provisions set out impact on policyholders" (C.56) as opposed to options 1 in paragraphs 3.95 to 3.101 to and 2. In addition, we are concerned that option 2 will address this specific question. create uncertainty as to which aggregation options will or will not be listed. This might delay the development of internal models until this list is made available. Noted. CEIOPS reminds however the requirement of Article 113 nr. 1 paragraph c) of the Level 1 text, which states that the internal model design must be consistent with the principles set out in Subsection 1 so as to allow the partial internal model to be fully integrated into the Solvency Capital Requirement standard formula. As stressed before CEIOPS wishes to engage in a fruitful dialogue with stakeholders to Option 2 (use of one of the aggregation methods provided ensure L3 techniques are by CEIOPS) could however be retained where the feasible and adequate, and with integration approach proposed by the undertaking has a degree of flexibility that will been rejected by supervisors. For the enforcement of allow undertakings' risk profile

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option 2 there should be clear harmonised criteria for all supervisors in order to avoid any regulatory arbitrage and ensure consistency of application across Europe.	to adequately capture. For further details please refer to answer to comments 4 and 5.
We believe that the default requirement to use the standard formula correlation matrix coefficients in integrating the partial internal model's results into the standard formula's results is excessive. Methods which are equally acceptable and better fits the insurer's business should also be allowed, especially as the actual correlation matrix proposed includes a number of areas of prudence (e.g. increasing the "independent" correlations across the board) and does not take into account basic elements such as directionality of the yield stress. In addition, the matrix does not take into account whether non-linearity has been captured elsewhere by the insurer.	
	Noted. The required clarification is already provided in paragraphs 3.148 to 3.152 and

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		"Strong evidence" is not clearly defined. We believe that this requirement is potentially too onerous and does not reflect the number of assumptions made in constructing the standard formula correlation matrix. We would anticipate that explicit analysis and allowance of non-linearity impacts would be considered as "strong evidence" that the standard formula correlation matrix would not be appropriate.	3.172 (and cross references in that paragraph) of this consultation paper.Noted. If the undertaking is able to demonstrate that non-linearity impacts result in significant deviations in capturing its risk profile then those will be considered as strong evidence.
			Agreed. This is already the underlying idea.
		Finally, we believe that where a supervisor imposes a partial internal model excluding a major business unit in an equivalent non-EEA regime, this should be dealt on a case by case basis	
7. Assuralia	General	We understand that supervisors will be relatively free in	The "freedom" in the

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Comment	the context of the assessment and the approval of internal models (full or partial). Consequently, we feel that there is a high requirement for the implementation of standards and guidance for the supervisory authorities with the aim of the most objective and uniform possible approach in this context. For example, for more qualitative aspect of the problem like the risk model: we can imagine the establishment of a grid with different levels being function of several criteria relevant for the assessment of this risk?	assessment of internal models by supervisory authorities is established both in the Level 1 text and Level 2 implementing measures Noted. CEIOPS will work on the development of technical standards to ensure an adequate degree of supervisory convergence.
8.	Confidential comment deleted.	

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9.	CEA	General Comment	The CEA welcomes the opportunity to comment on the Consultation Paper (CP) No. 65 on Partial internal models.	
			It should be noted that the comments in this document should be considered in the context of other publications by the CEA.	
			Also, the comments in this document should be considered as a whole, i.e. they constitute a coherent package and as such, the rejection of elements of our positions may affect the remainder of our comments.	
			These are CEA's views at the current stage of the project. As our work develops, these views may evolve depending in particular, on other elements of the framework which are not yet fixed.	
			1. Moreover, it should be noted that this consultation has been carried on an extremely short time frame which has not allowed a complete analysis of all the advice. Therefore, the following comments focus only on the main aspects of CEIOPS' advice and are likely to be subject to further elaboration in the future.	
			Key Comments:	
			The CEA supports many, but not all, aspects of this paper.	Noted.
Resolu	tions on Comments on CEIOP	S-CP-65/09	The acceptance that a partial internal model may be an appropriate permanass solution is welcomed and should be emphasised.	

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10. CNP Assurances	General Comment	CNP Assurances disagrees on the general approach proposed by CEIOPS for choosing the aggregation method. We believe that it is not consistent with the philosophy of internal model and will deter undertakings from developing their own aggregation techniques and even their own internal models given this constraint.	Noted on the preferred policy option. Please refer to answer to comments 5 and 6. As stressed before CEIOPS wishes to engage in a fruitful dialogue with stakeholders to ensure Level 3 techniques are feasible and adequate, and with a degree of flexibility that will allow undertakings' risk profile to adequately capture. For further details please refer to answer to comment 4.
		We also believe that definitions of a Major Business Unit and of the scope of the internal model are key issues; the proposed definitions should include the possibility of exceptions as long as they are clearly identified. Once again, having too restrictive definitions of a Major Business Unit or of the scope of the model would deter undertakings from developing internal models.	Not agreed. The scope should be clearly defined in order to avoid "cherry picking" situations. The definition shall not include exceptions as these may give rise to possible ambiguity in the scope, or may allow the exclusion of risks with weaker management. Please refer to paragraphs 3.15 and 3.16 of this consultation paper.
11. CRO Forum	General Comment	65.A It is appropriate to align the guidance of the cascade from fully applying the standard model to a full internal model (priority: medium)	Great care is needed when drawing comparisons between undertakings specific

Summary of Comments on Consultation Paper 65 - CEIOPS-CEIOPS-SEC-167-10 CP-65/09 January 2010 CP No. 65 - L2 Advice on Partial Internal Models parameters. These are two Taking into account section 3.6 of CP 75 (Undertaking distinct frameworks. For further specific parameters for SCR), we think it is appropriate to details please refer to answer to align the guidance of the cascade from fully applying the comment 9. standard model to a full internal model. Undertaking Specific Parameters (USP) can be seen as a first step towards using a (partial) internal model. In terms of (applying for) approval the procedures to follow and the way approval is obtained should follow the same logic. The cascade is referred to in section 3.6 of CP 75. CP 65 and CP 75 should therefore probably be reviewed together for consistency. A sliding scale of requirements from full internal model to USP would support such consistency. Noted on the preferred policy option. Please refer to answer to 65.B The proposed solution (option 2) for the partial comments 5 and 6. model's integration with the standard formula is very prescriptive. We prefer option 3 (priority: high) However, CEIOPS is keen on working constructively with We disagree with the selection of Option 2 because it is (a) prescriptive and (b) based on advice of level 3 which is stakeholders on the chosen option, namely on the L3 likely to be finalised in Dec 2011, not giving firms enough time to update their models and apply for model approval aggregation techniques. in time for Oct 2012. Consequently CEIOPS proposes the creation of a joint taskforce Moreover, we believe that Option 1 is not in line with the between CEIOPS and spirit of Solvency II directive and we strongly oppose any stakeholders to address this consideration of that option as a viable integration question. solution. As for option 1, the impact We consider Option 3 to be a most appropriate approach assessment analysis to developing partial internal models because it allows demonstrates it is the less firms to propose their own solutions for integrating PIM satisfying of the three options. and standard formula, which was the original intent of the Nevertheless, this option is still

Summary of Comments on Consultation Paper 65 - CEIOPS-CEIOPS-SEC-167-10 CP-65/09 January 2010 CP No. 65 - L2 Advice on Partial Internal Models SII directive (i.e., insurance undertaking implementing a compliant with the Level 1 text. model that is specific to them and can be accurately model The compliance with the Level 1 and manage their business). text was confirmed for as all policy options in all CEIOPS' consultation papers. Noted. Please refer to answer to 65.C The definitions of major business unit at solo and comment 118. group level should be compatible (priority: medium) Noted. The independence The advice in this paper appears to suggest that the risks requirements don't oblige major associated with certain lines of business with-in a major business units to be legal business unit (MBU) will not be allowed to split [between entities. This strict material and immaterial business lines] on the basis that interpretation is not foreseen in they are no being managed with independence (para the paper. Undertakings are 3.20). responsible for establishing their own definition of major business Requiring a major business unit, in the context of a group units as long as they are partial model, to be a legal entity means that a solo partial compliant with requirements model developed for a major business unit within a solo expressed on the paper. The entity could not form part of a group partial model. This onus of proof that a business could result in some immaterial business being included in unit is independent lies within the internal model on the basis that it is not being undertakings. independently managed. This is inconsistent with the views expressed in the white text of the consultation paper which For further details please refer allows for major lines of business to be modelled for on the to answer to comment 6.

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basis of materiality (especially para 3.3).	
We propose that the advice is clarified to reflect that material lines of business in MBUs is allowed to be modelled for on an internal model basis while immaterial business lines can be calculated on a standard formula basis.	
65.D The paper does not seem to address in any way the issue of a 'forced' partial internal model resulting from a major business unit being in an equivalent non-EEA regime (priority: medium)	Please refer to answer to comment 6.
The advice should clarify that any instances of 'forced' partial internal models due to equivalence will be assessed on a case-by-case basis with the local/group supervisors as part of the model approval process.	
65.E Nearly Full Internal Model vs. partial internal model (priority: medium)	Not agreed. CEIOPS advice addresses both situations this
The advice on PIMs is designed to stop firms from cherry picking and it is mainly geared for insurance undertakings who would be approaching the modelling from bottom up (i.e., mostly on Standard formula with models for key risks).	clearly stated in paragraph 3.7 of this consultation paper.
However, most large insurance undertakings are approaching the modelling from top down, with a view to model all the material risks, with the exception of immaterial business.	Not agreed. All material quantifiable risk should be included in the SCR calculatio

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			adopting this approach are allowed to consider their model as a full internal model/ nearly full internal model, implemented based on the concept of proportionality (inline with the spirit of the SII directive)) and should therefore not be subject to the advice outlined in this paper for Partial internal models.	and/or in the standard formula. For further details please refer to paragraph 3.52 of this advice and to the advice of coverage of material quantifiable risk on the CEIOPS Advice for Level 2 Implementing measures on solvency II: Tests and Standards for Internal Model Approval. The concept of a "nearly" full internal model is not foreseen in the L1 text. A so call "nearly" full internal model is indeed a partial internal model is indeed a partial internal model subject to the advice on this consultation paper. For further details please refer to answer to comment 4.
12.	DIMA	General Comment	DIMA welcomes the opportunity to comment on this paper. Comments on this paper may not necessarily have been made in conjunction with other consultation papers issued by CEIOPS. By introducing the concept of "major business units", this paper does not appear to contemplate scenarios in which firms may need to use a partial internal model by applying the standard formula only to less material business units. This scenario may arise in a number of circumstances, including:	The concept of major business units is not introduced in this consultation paper it is mentioned explicitly in Article 112, number 2 and in Article 123 of the Level 1 text. According to the referred article 112 partial modelling may be applied for the whole business or only to one or more major business units.
			- expansion into a new line of business, where the firm has insufficient lead time to update its internal model	Not agreed. This Consultation Paper allows "Minor" business

Summary of Comments on Consultation Paper 65 - CEIOPS-CEIOPS-SEC-167-10 CP-65/09 January 2010 CP No. 65 - L2 Advice on Partial Internal Models and have the revisions approved by the regulator; and units to fall under the scope of the standard formula. where firms are developing partial internal models as a transitional step towards the development of a full internal model, they are likely to concentrate scarce resources and time on developing internal models for those aspects of their business with the most material risk elements and most material impact on their solvency capital requirements. This may require that less material business units are assigned lower priority and subjected to the standard formula for an interim period, for example a non-life reinsurer with a small element of health reinsurance, or a composite reinsurer writing a small element of life business. We would raise some concerns that this paper prejudices against firms expanding their businesses through expansion into new lines of business in that it does not appear to facilitate situations where companies with approved full or partial internal models need to apply the standard model to a new line of business for an interim period. In general, undertakings which reach certain criteria of nature, scale and complexity should be encouraged to use internal models in order to gain from the associated Agreed. That idea is expressed in this consultation paper, deeper understanding of the risks inherent in their please refer to 3.30 of this business. Partial internal models are an important first step along this road. As such, partial internal models consultation paper. should also be encouraged. An undertaking using a partial internal model may be required to justify why it is not using an internal model for all areas of the business. There may be many valid

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13.	FEE	General Comment	We have considered as we have been developing our detailed responses to individual Consultation Papers whether there are any matters which come to mind as generic observations that CEIOPS and the European Commission might find helpful.	
			We are mindful that the general principle underlying the regulatory framework is to develop Level 2 and Level 3 regulation and guidance which supports the intention of the Directive. Whilst we recognise the challenge faced by CEIOPS in sustaining where possible a principles based regulatory framework, our sense is that the detail developed in most of the Consultation Papers have tended to be more prescriptive than might initially have been envisaged. There is little doubt that to achieve consistency of application a degree of clarification is necessary. Accountants and auditors face the same challenge when interpreting Accounting Standards with many correspondents seeking greater clarity. However, the temptation to publish detailed supplementary guidance or rules should be strenuously avoided where possible.	
			We suggest that the European Commission in making the final Level 2 regulation might best be focused on narrowing down rather than extending the guidance proposed by CEIOPS where possible. This would have the added advantage of reducing the apparent and ever increasing weight of the regulatory text.	

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capable of practi particular, we ag adaptations of ar Consultation Pap flexibility and fre	paper's proposal to be comprehensive and cal and consistent application. In tree with the conclusions on the necessary ticles 118 to 124. We observe that the er takes into account the important tedom in the definition of the scope of the model allowed by the Directive.	
our answer to th Supervisory Repo (FEE comment le which we sugges	erspective, we reiterate our comments in e CEIOPS Consultation Paper 58 on orting and Public Disclosure Requirements etter issued on 11 September 2009), in sted further consideration of assurance and s of modelled SCR requirements, taking in	Agreed
	ble education needed for users regarding visors in approving internal models;	Agreed.
and risk manage	on with the undertaking's internal control ment on the financial reporting framework rried out by the auditor; and	
3. information assumptions and	on that specifically supports the model processes.	
	st point, we note that information on nodels should also take in account scope of	

General Comment	The acceptance that a partial internal model may be an appropriate permanent solution is welcomed and should be emphasised.	
	If it is appropriately applied it should provide companies with sufficient flexibility to develop partial internal models that will both be cost effective and improve their risk management to the benefit of their policyholders. We insist that it should be left up to undertakings to select the components to be modeled individually based on their own assessment. In practice, some scopes of application will be ruled out due to restrictions in terms of calculation or data. In other areas there will be a trade-off between the costs involved and the expected benefit in the form of a more tailored assessment of risks. Undertakings are best placed to assess this. To ensure a harmonised approach amongst supervisors and avoid any regulatory arbitrage, CEIOPS should disclose the process to be followed by the supervisory authorities when assessing the scope of the partial internal models and approving the application of the undertakings. Cooperation among supervisors (group, local, third countries) needs to be clarified and eased in order to ensure undertakings are in a position of implementing their internal models in a wide-ranging and consistent manner.	Agree. This idea is clearly expressed in this consultation paper, please refer to paragraphs 3.30 and 3.46. Noted. Please refer to answer to comment 9.
		the components to be modeled individually based on their own assessment. In practice, some scopes of application will be ruled out due to restrictions in terms of calculation or data. In other areas there will be a trade-off between the costs involved and the expected benefit in the form of a more tailored assessment of risks. Undertakings are best placed to assess this. To ensure a harmonised approach amongst supervisors and avoid any regulatory arbitrage, CEIOPS should disclose the process to be followed by the supervisory authorities when assessing the scope of the partial internal models and approving the application of the undertakings. Cooperation among supervisors (group, local, third countries) needs to be clarified and eased in order to ensure undertakings are in a position of implementing their internal models in a wide-ranging and consistent

Summary of Comments on Consultation Paper 65 - CEIOPS-CEIOPS-SEC-167-10 CP-65/09 January 2010 **CP No. 65 - L2 Advice on Partial Internal Models** carefully designed. FFSA considers that it could be an issue, especially for third countries where the local regulator is not concerned by the Solvency II framework. FFSA thinks that the procedure to reach a joint decision among the supervisory authorities concerned for group partial internal model approval should be sufficiently Noted. Please refer to detailed and standardized: it should not depend on the paragraphs 3.60 and 3.173 of supervisory authorities involved in the process and the this consultation paper process should be the same for all applicants. Otherwise, some market distortions would arise. Noted on the preferred policy A transitional plan should not be used by supervisory option. Please refer to answer to authority as a means to ensure an easier integration of the comments 5 and 6. partial internal model's results into the standard formula's results. That is, force wider use of the partial model to As for an updated list of methodologies please refer to avoid complex calculations or difficult conversations with 3.165 to 3.170 of this regard to integration of results. This would be highly burdensome and onerous for undertakings. consultation paper. As for the appeal process please Regarding the integration of partial internal models FFSA is refer to answer to comment 4. in favour of option 3. In order to ensure that there is no competitive distortions, CEIOPS should publish an updated list of possible methodologies used amongst undertakings. In order to avoid regulatory arbitrage, any decision from supervisory authorities should be based on expert judgement. As undertakings should not suffer from any lack of adequate resources or knowledge of the supervisory authorities, they should be able to appeal the supervisory authorities' decisions when no expert judgement is provided. Not agreed. Please refer to The concept of a list of acceptable methodologies to integrate partial internal model should not limit the answer to comments 4 and 11. flexibility of the undertaking to suggest the best way to

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		merge internal model results and standard formula ones. This list of methodologies should be as principle-based as possible. If the list is too restrictive, it could be very burdensome for undertakings to prove the inappropriateness of these methodologies one by one before being able to suggest the best way to integrate Partial internal model results.	Noted. The definitions are compatible. Please refer to
		Two different situations should be considered: the first one relates to the integration of partial internal model results into the standard formula; the second relates to the integration of the standard formula results into the partial internal model. The second case should be treated in the CP, mainly when the partial internal model is close to be a full internal model. In this case, flexibility for the undertaking to suggest methodologies should be allowed.	answer to comment 9.
		1. The definitions of major business unit at solo and group level should be compatible. Requiring a major business unit in the context of a group partial model to be a legal entity means that a solo partial model developed for a major business unit within a solo entity could not form part of a group partial model. This is inappropriate and likely to result in a worse group partial model as the default position would be to use the standard formula, which by definition would not capture the risk profile of the solo entity as well.	
15.		Confidential comment deleted.	
16. German Insurance Association – Gesamtverband der D	General Comment	GDV recognises CEIOPS' effort regarding the implementing measures and likes to comment on this consultation paper. In general, GDV supports the detailed comment of CEA. Nevertheless, the GDV highlights the most important	

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issues for the German market based on CEIOPS' advice in the blue boxes. It should be noted that our comments might change as our work develops.	
Based on our experience during the previous two consultation waves we also want to express our concerns with regard to CEIOPS decisions:	
1. restricting the consultation period of the 3rd wave to less than 6 six weeks	
2. splitting the advice to the EU-commission in two parts ((1) first+second wave and (2) third wave) although both parts are highly interdependent	
3. not taking into account many comments from the industry due to the high time pressure (first+second wave)	
These decisions could reduce the quality of the outcome of this consultation process. Therefore we might deliver further comments after we fully reviewed the documents.	
From our point of view, it could be foreseen that especially the calibration of the QIS5 will not be appropriate nor finalised when beginning in August 2010.	
It should be noted that the comments in this document should be considered in the context of other publications	

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by the GDV.	
Also, the comments in this document should be considered as a whole, i.e. they constitute a coherent package and as such, the rejection of elements of our positions may affect the remainder of our comments.	
These are GDV's views at the current stage of the project. As our work develops, these views may evolve depending in particular, on other elements of the framework which are not yet fixed.	
Key Comments:	
The GDV supports many, but not all, aspects of this paper	
The acceptance that a partial internal model may be an appropriate permanent solution is welcomed and should be emphasised.	Agreed.
If this CP is appropriately applied it should provide companies with sufficient flexibility to develop partial internal models that will both be cost effective and improve their risk management to the benefit of their policyholders.	Agreed.
We insist that it should be left up to undertakings to select	Noted. It is the undertaking's responsibility to choose and

Summary of Comments on Consultation Paper 65 - CEIOPS-CEIOPS-SEC-167-10 CP-65/09 January 2010 **CP No. 65 - L2 Advice on Partial Internal Models** the components to be modeled individually based on their justify the scope of internal. own assessment. In practice, some scopes of application This idea is clearly expressed on will be ruled out due to restrictions in terms of calculation the consultation paper, or data. In other areas there will be a trade-off between notwithstanding with the costs involved and the expected benefit in the form of supervisory powers and options. a more tailored assessment of risks. Undertakings are best placed to assess this. The aim of partial models should be to facilitate and encourage more sophisticated risk management, which should include how companies integrate the internal and standard formula components in their partial models. Noted on the preferred policy The presumption in the paper is that the standard formula option. Please refer to answer to correlation matrix should, in the first instance, be used to comments 5 and 6. integrate standard formula and internal approaches, with other approaches only being used if this is either not feasible or is not appropriate. However, as is acknowledged in CP74, a correlation matrix aggregation approach has many technical weaknesses. Thus companies are in the first instance required to use an approach with significant weaknesses. This goes against the underlying aim of partial models which is to allow companies to use more sophisticated modelling approaches. Therefore the GDV rejects this prioritization. In particular, we do support the view that any integration techniques covered under the Level 3 Aggregation Techniques should not be subject to the use test, especially not when prescribed by the supervisor.

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Companies should, in the first instance, be allowed to use their own integration approaches with this being subject to supervisory review. It is essential that this is considered in the Impact Assessment. Instead of only allowing this if using the standard formula correlation matrix integration approach is either not feasible or not appropriate, it should be the starting point in order to improve the sophistication of companies' risk models. The approaches used by companies should be reviewed by supervisors for their appropriateness. However, where the large majority of a company's SCR is calculated using the standard formula approach, the GDV accepts that within option 3 using the standard formula correlation matrix might be appropriate as a first step. Clarification is needed on the 'strong evidence' required for the appropriateness test	Noted. Please refer to answer to comment 9.
Confirmation is needed that where a partial model addresses some or all of the known weaknesses associated with the standard formula (as described in CP74) using the standard approach correlation matrix would be deemed inappropriate.	Noted. Please refer to answer to comment 6. Noted. The definitions are compatible. Please refer to

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THO OF LE Advice on Faltial Internal Floaters	answer to comments 9 and 11.
The definitions of major business unit at solo and group level should be compatible	
Requiring a major business unit in the context of a group partial model to be a legal entity means that a solo partial model developed for a major business unit within a solo entity could not form part of a group partial model. This is inappropriate and likely to result in a worse group partial model as the default position would be to use the standard formula, which by definition would not capture the risk profile of the solo entity as well.	Noted. Please refer to answer comments 4 and 9.
To ensure a harmonised approach amongst supervisors and avoid any regulatory arbitrage, CEIOPS should disclose the process to be followed by the supervisory authorities when assessing the scope of the partial internal models and approving the application of the undertakings. Cooperation among supervisors (group, local, third countries) needs to be clarified and eased in order to ensure undertakings are in a position of implementing their internal models in a wide-ranging and consistent manner.	
Objectivity and comparability of supervisory decisions are strongly needed, thus, they should be based on clear and distinctive rules or criteria.	Noted. Please refer to answer comment 9.
As requested in the addendum to CP37, CEIOPS should	

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			disclose the process to be followed by the supervisory authorities when dealing with group partial internal models: Allocation of roles for validation should be carefully designed. The GDV considers that it could be an issue, especially for third countries where the local regulator is not concerned by the Solvency II framework. We think that the procedure to reach a joint decision among the supervisory authorities concerned for group partial internal model approval should be sufficiently detailed and standardized: it should not depend on the supervisory authorities involved in the process and the process should be the same for all applicants. Otherwise, some market distortions would arise.	Noted. Please refer to answer to comment 9.
			Care is needed to ensure that the statistical quality requirements for partial internal models and the requirements for the use of undertaking specific parameters are aligned. This is important as companies may progress from using undertaking specific parameters to a partial model and the transition should be made as easy as possible in order to encourage improvements in companies' risk management	
17.	GROUPAMA	General Comment	Groupama wants to highlight two main issues on this paper: - The concept of a list of acceptable methodologies to integrate partial internal models should not limit the	Noted. Please refer to answer to comments 4.

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			merge internal model results and standard formula ones. This list of methodologies should be as principle-based as possible. By contrast, if the list is too restrictive, it could be very burdensome for undertakings to prove the inappropriateness of these methodologies one by one before being able to suggest the best way to integrate PIM. - Two different situations should be isolated: one is integrating partial internal model results into the standard formula; the other is integrating standard formula results into the partial internal model. The second case should be treated in the CP, where the PIM is close to being a full internal model. In this case, flexibility for the undertaking to suggest methodologies should be allowed. - We recommend the option 3: undertakings should be allowed to suggest their own methodology before using a "standard" methodology which by definition is not made to	Not agreed. Please refer to answer to comments 4 and 11 Not agreed. Please refer to answer to comments 5 and 6.
18.	Groupe Consultatif	General Comment	fit the undertaking PIM structure. (3.108) Internal models can be extremely complex which makes documentation and transparency important. In order to get reliable models a scientific approach to model building is desirable. Therefore it seems desirable to require that the principles used in model building are publicly available, so they can be criticised and scrutinized by a number of qualified people, which is the basis for a scientific approach and high quality modelling. Furthermore, the risk of model arbitrage will decrease, the existence of which would destroy both the adequacy of the regulation and the level playing field for competition This will also increase confidence among the general public and stimulate discussions and new research among researchers	Noted. Agreed. Please refer to answer to comments 4.

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The Groupe Consultatif welcomes CEIOPS' consultation paper on partial internal models. We understand that more work is required to develop possible ways of integrating partial internal models into the standard model, given the list of options mentioned by CEIOPS. We think that the actuarial profession could contribute to this and would support the full range of methods to be applied when considered appropriate. From that perspective, we think the current approach to prove inappropriateness of a method gives too little space for other methods.	Noted. Please refer to answer to comments 5 and 6.
Policy options for integrating the Partial Internal Model into the standard model	
We understand that, given the fact that the correlations from the standard model are not to be replaced by the undertaking, these correlations should also be the point of reference for integrating the partial internal model into the standard model. However, we remark that the barrier for applying other methods should not be too high, especially given consultation paper 74 in which CEIOPS illustrates that a correlation approach is not always appropriate. We believe that in any case, the undertaking should assess the feasibility and appropriateness of the method to be used. The undertaking should propose a method that meets both	

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tests. We have considered the 3 policy options in the consultation paper. We think that the company itself should choose or develop one method and show that it is feasible and appropriate. We support policy option 3 and fear that option 2 is too biased to the standard formula approach. In particular, the decision trees to integrate partial internal models with the standard formula for all options starts with the requirement to show with "strong evidence" that the feasibility test or the appropriateness test is not fulfilled by the standard formula parameters. It should be satisfactory to show improvements from standard formula integration to company specific integration with strong evidence.	Noted. Please refer to answer to comments 5, 6 and 11.
The approval process of partial internal model should allow for a level playing field across all member states. In this context, this comment applies in particular to the interpretation of the "feasibility" and "appropriateness" tests.	Noted.
We would welcome (and could possibly contribute to the development of) a list with possible integration techniques, but rather as non-binding guidance than as binding list of options.	Agreed. CEIOPS thanks and welcomes Groupe Consultatif contiribution. For further detail please refer to answer to comment 4.
We disagree with option 1. We do not agree that the supervisor is better positioned than the undertaking to determine parameters that adequately and appropriately	Noted. Please refer to answer to comment 11.

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reflect the risk profile of the undertaking. Also, we do not think that assuming zero diversification is generally more appropriate than the given standard correlations. Option 1 does not contribute to a better reflection of the	Noted. Please refer to answer to comments 11.
risk profile in the SCR. We disagree with option 2, given the fact that this option will be unnecessarily burdensome for the undertakings. Also, there is the danger of systemic risk when using the list of integration techniques as mentioned.	Not agreed. Please refer to paragraphs C.59, C60, C67 and C92 on this consultation paper.
We agree that option 3 will lead to an outcome-focused consistency and this should be preferred to process-focused consistency achieved by option 1 and option 2.	Noted
Adaptations to use test for Partial Internal Models	
We support the basic assumption that the partial internal model and the dependency structure within this partial internal model should fully comply to the Use Test principles as documented in CEIOPS 'Advice on Tests and Standards for internal models approval' (CP56). However, the way to integrate the partial internal model into the standard model can only be subject to the use test when the partial internal model is part of a larger internal model, but not when it concerns integration in the standard model which may not be used for business decisions. We remark that the tests that should be passed are with respect to feasibility and appropriateness and not with respect to use	

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		Remark on the alignment of Partial Internal models (CP 65) and Undertaking Specific Parameters (CP 75) We recommend reviewing CP 65 and CP 75 together in order to ensure consistency. A sliding scale of requirements from full internal model to Undertaking Specific Parameters would support this. For clarification: We assume that the requirements for the internal models apply for the internal part of the partial model, this should be explicitly specified.	Noted. Please refer to answer to comments 9. Agreed. This idea is clearly stated in paragraphs 1.7 and 1.8 of this consultation paper.
19. Investment & Life Assurance Group Ltd	General Comment	 This is a route many firms will go down and advice in this area is welcomed. The approach suggested is flexible which is welcomed. The level of justification and governance required for regulatory approval could discourage firms from developing their standard formulas into an internal model via a partial model. Longer term only firms that can see a real capital benefits will be encouraged to improve their risk management through the partial internal model route. 	Agreed. Agreed.

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20.	Just Retirement Limited	General Comment	We welcome the modelling freedom allowed by the Level 1 text for Partial Internal Models. The benefits of this freedom are, however, contingent on the approaches to aggregation and integration permitted.	
			Partial Internal Models will cover a continuum of potential approaches and techniques, ranging from the modelling of a specific risk module within one entity, to an almost complete Internal Model, where only a small number of risk modules or business units are omitted, owing to the materiality of their risks. The approach adopted to aggregating the capital under a Partial Internal Model therefore needs to recognise this "continuum of sophistication", for example:	
			- Where the Partial Internal Models in question is "closer" (using an appropriate definition) to the standard formula we believe that Option 2 could be an appropriate and feasible approach.	The referred separation may not always be easy to perform. For further details please refer to answer to comment 4.
			- Where the Partial Internal Models in question is "closer" (again, using an appropriate definition) to a full Internal Model we would suggest that option 3 is more appropriate – firms in this situation should be able to provide their own aggregation method, subject to supervisory approval. In this instance, as firms have developed a complex, albeit partial, internal model, they will be better placed to design an integration approach which is appropriate to the nature of the firm and its risks. For these firms, we believe option 3 is the approach most likely to reduce systemic risk, capture an undertaking's risk profile and promote good risk management and model	In the extreme situations of this continuum, that is, almost everything under the scope of internal model or otherwise, the lower in principle will be diversification benefits between the parts under the internal model and the parts under the standard formula. For further details please refer to answer to comments 4 and 11.

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		use. Option 2 is not appropriate to complex Partial Internal Models and would inhibit firms from developing models approaching a full Internal Model, providing a disincentive to proactive risk management.	Noted.
		As a specific example of a modelling feature which needs to be available to those opting for a Partial Internal Model, simulation approaches have significant technical advantages over correlation matrices and give much richer insight into the interplay between risks. In our view CEIOPS should encourage the use of simulation in preference to other techniques where this is proportionate, not unduly burdensome and where the technical advantages are material, and this is best achieved by recognising the continuum described above and allowing option 3 for those Partial Internal Models which warrant it.	
21. Legal & General Group	General Comment	We welcome CEIOPS' advice on partial internal models as we believe partial models are a key instrument to enhance risk management.	
		Where the standard formula correlation matrix is neither feasible nor appropriate for the integration of the partial internal model into the standard formula, firms should be able to provide their own aggregation method subject to supervisory approval. We would therefore support option 3: integration of the partial internal model using structures and parameters provided by the undertaking or (if these are approved by supervisors) techniques provided by supervisors. As firms will have developed the partial models they will be better placed to design the most appropriate approach to integrate their model into the standard formula.	Not agreed. Please refer to answer to comment 6.

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		Option 2 (use of one of the aggregation methods provided by CEIOPS) could be retained where the integration approach proposed by the undertaking has been rejected by supervisors. For the enforcement of option 2 there should be clear harmonised criteria for all supervisors in order to avoid any regulatory arbitrage and ensure consistency of application across Europe.	Noted
22. Lucida plc	General Comment	Lucida is a specialist UK insurance company focused on annuity and longevity risk business. We currently insure annuitants in the UK and the Republic of Ireland (the latter through reinsurance).	Not agreed. Please refer to answer to comment 6.
		Since internal models are intended to encourage insurers to accurately model the risks to which they are exposed, we believe that Option 3 is the best approach to model integration.	
23. Munich Re	General Comment	We fully support all of the GDV statements and would like to add the following points:	
		This commentary is preliminary in respect of level 3 amendments.	
		Chapter 3.5 is generally structured not in line with the actuarial profession, as it is biased to the standard formula integration technique:	
		The decision tree of all options to integrate partial internal models to the standard formula starts with the requirement to show with "strong evidence" that the feasibility test or the appropriateness test is not fulfilled by the standard formula parameters.	

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		It should be satisfactory to show improvements from standard formula integration to company specific integration with strong evidence.	Not agreed. Please note also need to comply Article 113 number 1 paragraph c).
		From the options given we prefer option 3 instead of option 2 which has been proposed by CEIOPS.	
		The approval process of partial internal model should allow for a level playing field across all member states. In this context, this comment applies in particular to the interpretation of the "feasibility" and "appropriateness" tests.	Noted. Please refer to answer to comments 9 and 11.
		Especially in groups with centralized risk management we see a potential for conflict with the definition of "major business unit" and would encourage CEIOPS to provide more guidance in this respect.	Please refer to paragraph 3.244 of this consultation paper.
		In cases of prescribed aggregation methods we see potential for conflicts with the use test und would encourage CEIOPS to provide more guidance in this respect.	
24. Pacific Life Re	General Comment	Pacific Life Re welcomes CEIOPS's general approach to the integration of Partial Internal models with the standard formula. In particular, we welcome the high degree of flexibility and the proposal to suggest a range of integration techniques in Level 3 guidance.	
		We would hope that the Level 3 guidance will contain a technique relating to the integration of partial internal models with individual risk sub-modules not included in the partial internal model. This is expanded on in section 3.168	

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			below.	
25.	PricewaterhouseCoopers LLP	General Comment	We applaud the approaches taken in this CP that recognise the practical challenges of integration and maintenance of a partial model.	
26.	RBS Insurance	General Comment	□ We disagree with the default option of using the standard formula correlation matrix no matter what. We feel that if the partial internal model is modelling the majority of the undertaking's risks (say more than half) then the method of integrating the PIM should be decided by the undertaking along with detailed justification of why this method has been chosen, and a comparison with the results if the standard formula correlation matrix is used. In general we feel that the process for the integration of the partial internal model is very cumbersome and could be streamlined by not being so prescriptive.	The default is not to use the standard formula "no matter what". Whenever there is strong evidence that is either is not feasible to use the standard formula or it is inappropriate undertakings should move to step 2 in the aggregation process. For further details please refer answer to comments 6, 9 and 11. Not agreed.
27.	ROAM	General Comment	ROAM is totally agree with AMICE comments on this CP.	Noted.
28.	RSA Insurance Group	General Comment	We broadly agree with the contents of this paper. Our only area of major disagreement is the choosing of Option 2 for integration techniques. This would appear to be less efficient and more time bound than Option 3.	Not agreed. For further details please refer answers to comments 6, 9 and 18.
29.	UNESPA – Association of Spanish Insurers	General Comment	UNESPA (Association of Spanish Insurers and Reinsurers) appreciates the opportunity to analyze and comment on Consultation Paper 65 on Partial internal models UNESPA is the representative body of more than 250 private insurers and reinsurers that stand for	

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approximately the 96% of Spanish insurance market. Spanish Insurers and reinsurers generate premium income of more than € 55 bn, directly employ 60.000 people and invest more than € 400 bn in the economy.	
The comments expresed in this response represent the UNESPA's views at this stage of the project. As our develops, these views may evolve depending in particular, on other elements of the framework which are not yet fixed.	
UNESPA welcomes the initiative of CEIOPS to develop the technical features and the validation process on Partial Internal Models through this Consultation Paper	
UNESPA deems balanced the level of flexibility that CEIOPS allow to develop internal partial models. This is consistent with one of the main principles that Solvency II: the companies should know in depth the risks and should be able to manage them.	
This is a key factor to ensure that the final model, as a combination of standard formula and internal models, calculates an SCR that is able to replicate the risk profile of the insurance company (or group), and, at the same time, may be useful within the limited scope, as a tool for strategic decision-making and global risk management.	

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However it should be noted that this consultation has been carried on an extremely short time frame which has not allowed a complete analysis of all the advice. Therefore, the following comments focus only on the main aspects of CEIOPS' advice and are likely to be subject to further elaboration in the future. Partial internal models should not necessarily be a previous step toward a total internal model.	Agreed. This idea is clearly emphasized in the consultation paper. For further details please refer to paragraph 3.30 of this consultation paper. Noted.
CEIOPS, through this Consultation Paper, gives power to the supervision authority to request an "extension of the scope" of the partial internal model, mainly motivated by an inadequate scope. But at no time speaks of request a mere "modification of the scope".	The L1 text in article 113 (2) explicitly mentions only extensions of the scope and not modifications/restrictions. Nevertheless, it is true that in some cases it may be useful to ask a modification and not an extension of the scope. This could be done during the assessment of the internal model, as the supervisor may ask the undertaking to make some modifications to its internal model (see paragraph 3.117 of CEIOPS Advice for

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While it is true that the text does not explicitly cited that the supervisor, under certain situations, force the companies to adopt an internal model, the fact of "request extensions" and not to "request modifications" could be interpreted as a hidden intention of the supervisor to ask undertakings, that has chosen for the partial internal models approach, ended up operating under the scope of advanced models.	Not agreed. This clearly not the intention to use this supervisory power as a way to force undertakings to use full internal models.
The development of partial (or full) internal models requires an important investment of time, human and financial resources. In order to know accurately the risk profile of the undertaking and the quality of their management, this option is the one which combines the need for a more complete risk analysis under a limited resources context.	
	Agreed.
Therefore, CEIOPS should be as clear as possible in promoting the partial internal model as an option as valid as the standard approach or the full internal models.	Noted.

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	The freedom of choice of this approach must be leave at the discretion of the insurance companies, in line with their strategic objectives and capabilities. The justification of the extent of the scope of partial	
	internal models requires conditions that seem restrictive and given by the supervisor without sufficient justification. Certain weaknesses, that we believe should be strengthened, have been found, like the request of	
	"specific exercises", the lack of a concrete list of provisions to justify the limited scope of the model or the incentive to announce the decision of the company to adopt a full internal model in the future, to get the validation of the partial internal model.	The reasons why a supervisor may request the extension of
	The right of supervisor to request the extent of the scope of the partial internal model should be explained better. We have just mentioned that we miss a concrete, closed	the scope may differ considerable therefore CEIOPS does not consider to be appropriate or desirable to issue the proposed list.
	and fully requirements that allow the companies to justify the limited scope of the model.	Please refer paragraph 3.60 of this consultation paper.
	According to this, two reasons are given to CEIOPS to request the extent of the partial internal model:	The onus of the justification of the limited scope of internal models lies within (re)insurance

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	☐ The company has not justified the limited scope properly.	undertakings. We believe this flexibility is appropriate.
	☐ Lack of adequacy of the model to the risk profile.	CEIOPS believes this process is not feasible or appropriate and would restrict the modelling
	UNESPA believes that CEIOPS should:	freedom allowed by the Level 1 Text to insurance undertakings.
	$\hfill \square$ Describe in detail the reasons for the limited scope of the model.	
	\square Determine concretely how to verify whether the final formula meets the risk profile or not.	
	Both aspects, of critical importance, should be developed now and it is not desirable waiting for Level 3 phase.	The question of methodologies and disclosure will be dealt at Level 3. As for the regular update of the list, CEIOPS believes this idea is properly
	A greater level of transparency throughout the process is required.	emphasized in the paper. For further detail please refer to paragraphs 3.165 to 3.170 of this consultation paper.
	In addition to gaps in the assessment process on the limited scope and the requirement for its expansion by the supervisor in circumstances not too specific, we must comment that CEIOPS should clarify:	
	$\hfill \square$ The methodologies to develop the integration techniques.	
	\square The disclosure of the integration techniques.	
	☐ A real compromise to have the integration list updated regularly.	

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			Noted. For further details please to answer to comments 6.
		Option chosen for integrate the partial internal model into standard formula	
			Agreed.
		UNESPA believes Option 3 is the most adequate. Using their own techniques companies will get greater flexibility and a better adjust of their models to their risk profile.	
		However, option 2 will be also acceptable if the supervisor keeps their compromise of having the list of integration techniques updated regularly with the best practices developed by the companies.	Noted. Please refer to answer to comments 6.
		The weaknesses of the correlation matrix of standard formula are well known. Under these conditions, this aggregation technique should not be applied. Furthermore, if this option is widely used, there may be a systemic risk situation, since the insurance industry would not be able to calculate their SCR accurately.	
30. Deloitte	1.	European Union member firms of Deloitte Touche Tohmatsu are currently involved in the Level 2 Impact Assessment of Solvency II conducted by the European Commission. "integration of partial internal models" is one of the policy issues and options dealt with by this impact assessment. As a consequence, we have restricted our	Noted.

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		comments to those areas where there is no overlap with the issues addressed in the Impact Assessment.		
		Overall, we consider this paper to be important, as most undertakings willing to use an internal model will start with a partial model in the first few years of the new regime (however, we do not take position on the integration techniques for the reason mentioned above).		
31. CRO Forum	2.5.	A sliding scale should be defined for following the procedure for the approval of internal model and recital 14 b referred to in section 2.2 of CP 75. This states:	For sliding scale, please refer to answer to comment 9.	
		"In particular, the new solvency regime should not be too burdensome for insurance undertakings who specialise in providing specific types of insurance or providing services to specific customer segments, and it should recognise that specialising in this way can be a valuable tool for efficiently and effectively managing risk. In order to achieve this objective, as well as the proper application of the proportionality principle, provision should also be made to specifically allow undertakings to use their own data to calibrate the parameters in the underwriting risk modules of the standard formula of the Solvency Capital Requirement."		
32. Groupe Consultatif	3.4.	The term "business unit" is expanded and defined as "major business unit" – why is this?	For the explanation of the concept of major business unit, please refer to answer to comment 12.	
33. Munich Re	3.4.	The term business unit is expanded and defined as "major business unit".	For the explanation of the concept of major business unit, please refer to answer to comment 12.	

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34.	CRO Forum	3.5.	Partial internal Models may also use a different aggregation and dependencies structure (aggregation of the basic risks in a different manner than the one decided for the SCR standard formula). In full stochastic internal models aggregation may also be determine with common shock techniques and unbundling risks effects may become a very difficult topic that will not ease integration of the PIM in the SCR standard structure.	Noted.
35.	Groupe Consultatif	3.5.	We are satisfied that CEIOPS recognises the need for flexibility when it comes to partial internal models and underline that the intended use within the undertaking should always be the driving factor when it comes to the development and structure of partial internal models.	Agreed.
36.	IUA	3.5.	We are supportive of the fact that all situations are possible - from partial models that have more limited scope to those that cover all but a few risks and business units.	Noted.
37.	Association of British Insurers	3.6.	We welcome CEIOPS' flexible approach to partial modelling which is in line with the level 1 Directive.	Noted.
38.	CEA	3.6.	The CEA strongly supports giving companies as much flexibility as possible over the design of partial internal models.	Noted.
39.	Association of British Insurers	3.7.	See comments under 3.6	Noted.
40.	CEA	3.7.	The CEA strongly supports the statement that "It shall be stressed that all situations are possible ()". We advise	Noted.

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			that the same the same principle is applied to undertaking specific parameters as requested in our feedback to section 3.12 of CP 75.	
41.	CRO Forum	3.7.	Line 11: "It shall be stressed that all situations are possible ()" The same principle should be applied to USP as requested in section 3.12 of CP 75.	Noted.
42.	Groupe Consultatif	3.7.	We strongly support the comment that "It shall be stressed that all situations are possible ()".	Noted.
43.			Confidential comment deleted.	
44.	CNP Assurances	3.8.	We do not understand Bullet Point n°6: does this mean that as soon as a model is used for assessing the loss-absorbing capacity of technical provisions and deferred taxes, it should be considered as a partial internal model? If so, each projection model would be considered as a partial internal model and would fall into the scope of this Consultation Paper.	The referred situations will not occur. Partial internal models to model this adjustment are submitted to the internal moderegime (namely in terms of compliance with the tests and standards) and need prior supervisory approval. Partial internal models that model this adjustment go beyond the calculation kernel of a p+rojection model. Notwithstanding with supervisory powers, it is the undertaking's choice to apply for a partial internal model to model the referred adjustment.
45.	CRO Forum	3.8.	We think the scope list should more precisely deal with the	Not agreed. Please refer to

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			cases of full internal models failing to model the complete undertaking activity and risks :	answer to comments 11.
			a) There is a full model but it does not cover all business units	
			b) There is a full model and it covers all business units, but not all portfolios are captured fully.	
			c) There is a model that does not cover all risks	
			d) There is a model that covers all risks but a risk or subrisk is not completely modelled.	
			e) There is a full model but it fails to meet approval on some specific topics	
			1. Some of the risk are not adequately captured (to the opinion of the approver)	
			2. The use test is not fully met for example because it is not used in all business units.	
			We would propose to add one possibility for insurers to use a partial internal model e.g. for specific homogeneous risk groups. A (re-) insurer should be able to apply a (partial) internal model for one HRG while using the standard model for another. A (re-)insurer could be faced with a lack of data for one HRG thus not meeting the various requirements for that specific HRG while for another enough reliable, historic and credible data is available.	
46.	Groupe Consultatif	3.8.	The freedom allowed by the Level 1 text for partial internal models is commented as being high. The items listed reduce this freedom by using the in novel major business unit concept undefined at Level 1.	Disagreed. Please refer to answer to comment 32.

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47.	Lloyd's	3.8.	The fifth bullet point does not make sense within the context of the list. Suggest deleting this fifth bullet and amending the fourth to say:	Agreed. Changed accordingly.
			One or more risk sub-modules, in the same or different risk modules, for one or more major business units.	
48.	Just Retirement Limited	3.8.	We welcome the modelling freedom allowed by the Level 1 text for Partial Internal Models. The benefits of this freedom are, however, contingent on the approaches to aggregation and integration permitted.	Noted
49.	KPMG ELLP	3.8.	Where a business unit that is not 'major' as defined has risks that are not good match for the risk profile under the SCR standard approach, it should be possible for (re)insurance undertakings to put forward a case for a partial internal model, even if the burden of proof is greater.	Not agreed, this suggestion is against the Level 1 text. Please refer to answer to comment 12. Undertakings may use partial internal models for the whole business or for one or more major business units. A "minor" business unit can be modelled if the whole business is modelled or if it is a part of a major business unit.
50.	Lucida plc	3.8.	We are happy that the ability to use a partial internal model to model risk sub-modules that refer to different risk modules is permitted. This might be a more appropriate way of assessing inter-dependent risks within an undertaking.	Agreed.
51.	Munich Re	3.8.	The freedom allowed by the Level 1 text for partial internal models is commented to be high. The items below try to reduce this freedom by using the in Level 1 undefined major business unit concept.	Disagreed. Please refer to answer to comments 12 and 49.

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52.	UNESPA – Association of Spanish Insurers	3.8.	UNESPA deems balanced the level of flexibility that CEIOPS allow to develop internal partial models. This is consistent with one of the main principles that Solvency II: the companies should know in depth the risks and should be able to manage them.	Agreed
53.			Confidential comment deleted.	
54.	CRO Forum	3.9.	Partial internal models may also use other dependencies and aggregation structure than the SCR standard one	Agreed within the limited scope of the partial internal model as referred in paragraph 1.7 of this consultation paper. As for the aggregation between the partial internal model result and the standard formula result's the procedure detailed in section 3.5 of this consultation paper should be followed.
55.	EMB Consultancy LLP	3.9.	 We welcome the option to use different risk categories. We believe that the article referenced should be 122(1) subtitled 'Calibration Standards' rather than 120(1). We strongly support in principle the possibility of using a different time period and risk measure where it provides an at least equivalent level of policyholder protection and we believe this is aligned with the idea of an internal model (either partial or full) that can be embedded in the business and satisfy the relevant use test requirements. We would however like to see clarification on how equivalence could be demonstrated by an 	Noted. Agreed. Changed accordingly.(all the articles need to be changed) Please refer to paragraph 3.259 of this consultation paper.

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		undertaking, and this should be expanded here for partial models.	Noted.		
		3. We are pleased to see that there is no requirement for a partial model to follow a modular structure as we believe this will provide the necessary flexibility for organisations to build tools that fit their business models and risk profiles. Imposing a modular structure would provide unnecessary and inappropriate restriction on the approaches that could be taken, and consequently a disincentive to those firms considering partial models over the standard formula approach.			
56. Groupe Consultatif	3.9.	See our comments in 3.5 and 3.7.	Noted.		
57. Just Retirement Limited	3.9.	We would note our view that the Option 2 proposed by CEIOPs will make it more onerous for firms following a non-modular structure to integrate their model than those who operate a modular approach. This may result in disincentivising arguably more sophisticated and realistic modelling approaches, particularly where undertakings have taken steps to remediate the shortcomings of correlation matrices identified in CP74. See also comment under 3.196.	Please refer to answer to that comment.		
58. DIMA	3.10.	A major business unit should be "managed with independence and with dedicated governance processes". Does this imply that a major business unit should have a full Solvency II governance structure? Would separate management of that business unit, together with reporting of that unit as a separate segment, constitute independence and dedicated governance structure?	This not imply that a major business unit should have a full Solvency II governance structure		
59. KPMG ELLP	3.10.	The definition of 'major business unit' is used elsewhere in Solvency II and so this should be a general definition and	There are specific cross references to this in other		

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			not specific to partial internal models.	CEIOPS consultation papers.
			Please can CEIOPS clarify whether all three aspects have to be in place, or whether these are alternatives.	The three aspects need to be in place.
			In respect of the first bullet (managed with independence and dedicated governance processes), we would find it helpful if CEIOPS were to explain what it envisaged in this regard in a situation where the group is subject to centralised risk management. We also believe there could be situations where this cannot be clearly met (for example where line management covers both material and immaterial risks within the same business unit). In the example shown, management may wish to see the material risks considered under an internal model approach, but on a cost benefit basis, prefer to consider the immaterial risks on a standard formula basis.	Noted.
60.	CEA	3.11.	The CEA supports the view that major business unit and use test are closely related. This is however not consistent with the view as described in 3.28.	Not agreed. For further details please refer to answer to comment 9.
			A (re-)insurer organises its business in such a manner that is consistent with its view of how to steer the organisation. It follows that the approach and structure deemed most appropriate at a solo level is likely to also be used at a group level, which requires consistent definitions of major business units at the solo and group levels. The organisation structure should not be restricted by the disallowance of the use of partial internal models.	
61.	CRO Forum	3.11.	We support the view that major business unit and use test	Not agreed. Please refer to

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		are closely related. This is however not consistent with the view as described in 3.28.	answer to comment 60.
		A (re-)insurer organises its business in such a manner that is consistent with its view of how to steer the organisation. The organisation structure should not be restricted by the disallowance of the use of partial internal models.	
62. Deloitte	3.11.	We agree it makes sense for the term major business unit to be linked closely to the use test as defined in article 118.	Noted.
63. Groupe Consultatif	3.11.	We support the view that the definition of the term "major business unit" for a company and the use test are closely related. This is, however, not quite consistent with the view described in 3.28.	Not agreed. Please refer to answer to comment 60.
64. KPMG ELLP	3.11.	We agree that the term 'major business unit' should be closely aligned with both the Use test and profit and loss attribution.	Noted.
65. Deloitte	3.12.	We would welcome clarity around the definition of "material" impact on SCR.	Noted.
		In any case, major business units should not be defined in terms of material impact on the SCR. Some segments could be highly reinsured and hence have low impact on the SCR. The reinsurance structure for these segments could vary and hence the majority will vary. The majority of business units should be as stable as possible (see 3.13).	
66. DIMA	3.12.	An indicative threshold could be drawn to define what is "materially significant": 5%, 10% or 50%. According to the threshold, a number of risk modules could be automatically out of the scope of potential partial internal	Not agreed. This level of prescription would limited freedom of allowed to undertakings and would create

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		models.	arbitrages opportunities around the threshold. Additionally this level of detail is not consistent with overall structure and detail of this consultation paper.			
67. Deloitte	3.13.	See comment on 3.12	Please refer to the answer to that comment.			
68. Deloitte	3.14.	The article states that changes in the definition of major business units can result in a major change to the internal model. This suggests that a change in the criteria established in art. 3.18 can trigger a change in the model, and require a re-approval of the partial model, even though the underlying risk scope of the partial model does not change. The need to re-approve the partial model should be proportionate to the impact of the business unit change.	Noted			
69. DIMA	3.15.	Clarification is sought where a business unit is excluded from the scope of an internal model, but the assets associated with that excluded business unit are co-mingled with assets generated from business units within the scope of the internal model. Would this scenario constitute ambiguity as to which assets are included in the scope of the internal model? If so, is there a requirement to ring fence the assets associated with a business unit which is excluded from an internal model? If ring fencing of assets is a requirement, compliance with this requirement is likely to be unworkable in many circumstances.	These situations may be allowed but need to assessed on a case by case basis.			
70. KPMG ELLP	3.15.	We strongly agree that there should be no ambiguity around what is inside and outside the scope of the major business units.	Noted.			

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71. CEA	3.17.	The CEA believes that the following examples should be included to the list: ☐ geographical regions; ☐ LOB in a group perspective (containing the same	Agreed. Changed accordingly.
72. Deloitte	3.17.	business – for example motor – for several legal entities). We think that further examples should be provided in the list: 1) geographical regions; and 2) LOBs from a group	Please refer to answer to comment 71.
73. DIMA	3.17.	perspective (containing the same business, e.g. motor for several legal entities). Examples provided might be in contradiction with the feasibility test.	Not agreed. Whenever the feasibility test is not passed the undertaking should follow the
			process established in section 3.5 of this consultation paper where it is explained how to proceed.
74. KPMG ELLP	3.17.	We agree that the examples cited could give rise to major business units. In this respect, where different branches of a company are treated as either subject to the standard formula SCR or a partial internal model, we would expect there to be clear distinguishing features to those included within the partial internal model. This would ensure that similar risks are treated in a consistent manner across the (re)insurance undertaking/group.	Noted.
75. DIMA	3.18.	A company using a partial internal model in practice for risk management should be permitted to use such a model to calculate the SCR.	Noted.

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76.	IUA	3.19.	We agree that groups are very complex and can vary greatly, and therefore it is necessary to have flexibility when defining business units.	Agreed.
77.	KPMG ELLP	3.19.	We note that in a group situation, CEIOPS would expect a major business unit to typically be a legal entity. However, we believe that some groups may wish to apply a partial internal model in respect of some risks across the group as a whole, rather than apply a partial internal model to certain material subsidiaries only. In this regard, we welcome the fact that CEIOPS recognises that in some situations it could be possible to apply a different approach.	Paragraph 3.20 also states other examples of a MBU can be in a Group context and that groups should be given a fair amount of flexibility in the definition of a MBU, subject to conditions expressed in this consultation paper.
78.	ACA	3.20.	We agree with the general principles. However the presence of "dedicated governance processes" could be a too restrictive criterion.	Noted.
79.	AMICE	3.20.	CEIOPS states that business units should be managed with independence and with dedicated governance processes. AMICE members believe that this requirement is very restrictive; undertakings should be allowed to implement partial internal models at portfolio level or lines of business level.	
80.	Unum	3.20.	The requirement for there to be independent management and dedicated governance if interpreted strictly could be onerous. There may be perfectly valid reasons why an internal model approach cannot be implemented throughout the business, e.g. unavailable/inadequate data. The main consideration should be whether the partial model results in more appropriate and effective risk	Noted.

			cP-65/09 CP No. 65 - L2 Advice on Partial Internal Models management than would be the case with the use of the standard formula.	DPS- CEIOPS-SEC-167-10 January 2010
81.	Association of British Insurers	3.20.	1. The requirement for there to be independent management and dedicated governance if interpreted too strictly could be very onerous. There may be perfectly valid reasons why an internal model approach cannot be implemented throughout the business, e.g. unavailable/inadequate data. The main consideration should be whether the partial model results in more appropriate and effective risk management than would be the case with the use of the standard formula.	Noted.
			2. Furthermore, the advice in this paragraph suggests that the risks associated with certain lines of business within a major business unit (MBU) will not be allowed to split, between material and immaterial business lines for instance, on the basis that they are not being managed with independence. This could result in some immaterial business being included in the internal model on the basis that it is not being independently managed. This is inconsistent with the views expressed in the white text which allows for major lines of business to be modelled for on the basis of materiality (especially para 3.3).	Not agreed. Please refer to answer to comment 12 and 49.
			We propose that the advice is clarified to reflect that material lines of business in MBUs can be modelled for on an internal model basis while immaterial business lines are calculated on a standard formula basis.	We see no need for clarification. That idea is allowed by the level 1 text in article 112 number 2.
			We would therefore suggest that a major business unit is defined as:	Not agreed. The first bullet points do not belong to definition of a MBU. Defining major business unit as a line of

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	One or more risk modules for the whole business, for one or more major business units or major business lines	business is clearly restricting the freedom allowed to undertakings by this consultation paper.
	☐ One or more risk sub-modules for the whole business or for one or more major business units or major business lines	constitution papers
	where a major business line is defined as distinct defined line(s) of business in a firm:	
	☐ Which is managed with identified specific governance processes (and is therefore subject to the use test)	
	$\hfill\Box$ For which it makes sense to carry out the profit and loss attribution separately, and for which segmentation is applied in line with Article 79	
	☐ For which it makes sense to calculate the capital charge for any of the risks modelled	
	$\hfill\Box$ The capital arising from the (aggregated) business lines / units is material to the business	
	Linking the business line to segmentation (Article 79) would give a link to a firm's management of assets and liabilities in line with this business (with therefore links to governance and use).	
	The final bullet (or alternative wording) should avoid the situation of cherry picking lines of business as an internal model calibration would need to meet all the requirements, but allow for the situation where immaterial lines of	Please refer to answer to answer to comments 11 and 12.

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		model when a major business unit definition was not suitable.		
82. CEA	3.20.	The definition of a major business unit is too restrictive. The requirement for there to be independent management and dedicated governance if interpreted strictly could be onerous as in practice there is likely to be some commonality with the rest of the business with regard to these aspects. The requirement for separate P&L attribution could also be unnecessarily onerous. There may be perfectly valid reasons why an internal model approach cannot be implemented throughout the business, e.g. unavailable/inadequate data. The main consideration should be whether the partial model results in more appropriate and effective risk management than would be the case with the use of the standard formulae. The risk of cherry picking should have already been addressed when requiring the company to justify its (limited) scope.		
		We recommend that the first two bullet points are dropped.	Not agreed. Noted.	
		Undertakings should be allowed and indeed encouraged to model homogeneous risks groups and lines of business individually. Such an approach also has the advantage of allowing a more progressive and incremental approach to partial internal model development, which would make the development of such models more cost effective and therefore widespread.	Please refer to answer to answer to comments 11 and 12.	

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			The proportionality principle should apply when implementing partial internal models. Indeed, when some risks are not material, undertakings should be allowed to exclude them.	
83.	CNP Assurances	3.20.	We would like CEIOPS to give details on the meaning of the first bullet point: "which is managed with independence and with dedicated governance processes". Does a specific ALM strategy for a sub-portfolio meet this definition? If so, this first bullet point could be replaced by a reference to a "homogenous group of contracts managed by the insurer in the same way".	Noted.
			Regarding the third bullet point, we would like to point out that the calculation of the loss-absorbing capacity of deferred taxes can only be performed at entity level.	
84.	CRO Forum	3.20.	The advice in this paragraph suggests that the risks associated with certain lines of business with-in a major business unit (MBU) will not be allowed to split [between material and immaterial business lines] on the basis that they are no being managed with independence. This could result in some immaterial business being included in the internal model on the basis that it is not being independently managed. This is inconsistent with the views expressed in the white text which allows for major lines of business to be modelled for on the basis of materiality (especially para 3.3).	Not agreed. Please refer to answer to comment 12 and 49.
			We propose that the advice is clarified to reflect that material lines of business in MBUs is allowed to be	

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			modelled for on an internal model basis while immaterial business lines are calculated on a standard formula basis.	
85.	EMB Consultancy LLP	3.20.	The definition of major business unit seems sensible and aligned with the idea of a model as a tool that is embedded in the business and not just an isolated construct for the calculation of regulatory capital.	Noted.
86.	FFSA	3.20.	Major business unit	
			The following statement seems too restrictive: "Which is managed with independence and with dedicated governance process"	Noted.
			Undertakings should be allowed to implement progressively partial internal models. Hence, undertakings should be allowed to implement partial internal models at portfolio level or homogeneous group of risks.	
			FFSA disagrees with the inclusion of deferred taxes at a major business unit level. Deferred taxes must be assessed at company level.	Article 112 number of the Level 1 text allows this possibility.
			Proportionality principle should apply when implementing partial internal models. Indeed, when some risks are not material, undertakings should be allowed to exclude them.	Noted. Please refer to answer to comment 84
87.			Confidential comment deleted.	
88.	German Insurance Association – Gesamtverband der D	3.20.	The definition of a major business unit is too restrictive	Noted.
			The requirement for there to be independent management and dedicated governance if interpreted strictly could be onerous as in practice there is likely to be some commonality with the rest of the business with regard to	Please refer to answer to comment 82.

			ary of Comments on Consultation Paper 65 - CEIO CP-65/09 CP No. 65 - L2 Advice on Partial Internal Models	PPS- CEIOPS-SEC-167-10 January 2010
			these aspects. The requirement for separate P&L attribution could also be unnecessarily onerous. There may be perfectly valid reasons why an internal model approach cannot be implemented throughout the business, e.g. unavailable/inadequate data. The main consideration should be whether the partial model results in more appropriate and effective risk management than would be the case with the use of the standard formulae. The risk of cherry picking should have already been addressed when requiring the company to justify its (limited) scope. We recommend that the first two bullet points are dropped Undertakings should be allowed to implement progressively partial internal models. Hence, undertakings should be allowed to implement partial internal models at portfolio level or homogeneous group of risks. [Deleting the adjustment for the loss absorbing capacity of deferred taxes from the enumeration is not necessary because the particular SCR components are listed with "and/or".]Proportionality principle should apply when implementing partial internal models. Indeed, when some risks are not material, undertakings should be allowed to exclude them.	Article 112 number of the Level 1 text allows this possibility.
89.	Just Retirement Limited	3.20.	1. The requirement for independence / dedicated governance could be onerous. This may also conflict with CP 66 on centralised risk management, depending on what is meant by "dedicated governance".	Please refer to answer to comment 59.

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90.	KPMG ELLP	3.20.	See 3.10	See answer to that comment.
91.	Lloyd's	3.20.	The paragraph is not clear on whether all three bulleted points must be met to define a major business unit, or if just one or more of them are necessary conditions. It is vital that this is clear. We are strongly of the view that, in order to match the principles of the use test (and set out in paragraph 3.21), the latter approach is more appropriate and gives management the flexibility to define major business units to match their internal definitions. This can be achieved by adding "or" at the end of the second bullet, as follows:	
			For which it makes sense to calculate profits and losses as set out in Article 121 of the level 1 text, given the undertaking's business and organisation; or	
92.	Legal & General Group	3.20.	This is very onerous especially for small firms. The independence should be judged by the regulator in the context of his/her knowledge of the firm and only if there are material issues should the regulator require expensive external experts to be hired. In many firms the governance is managed by a limited number of people and so the roles will not have the degree of independence that a larger firm may have. This is likely to apply to small subsidiaries although in a larger firm there will be oversight from the central risk function. In all cases proportionality should apply.	The proportionality principle is applicable to this provision as to all provisons.
93.			Confidential comment deleted.	
94.			Confidential comment deleted.	
95.	UNESPA - Association of	3.20.	The definition of major business unit is very restrictive and	Noted.

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Spanish Insurers	imposes conditions that may be too costly for companies.	
	The requirements imposed by CEIOPS in the definition of major business unit are too restrictive and require deep organizational changes in the entities, which could not be related to their adjustment to the Solvency II framework.	
	Considering major business units as autonomous entities with independent systems of governance implies that some common bodies such as the Senior Management would be divided to provide unique service to each business unit.	Not agrred. This implication should not be inferred from this consultation paper. Please refer to answer to comment 83.
	Other requests as to report separate P&L for each major business unit represent a critical issue, just because implies burdensome administrative costs.	Noted.
		Noted.
	UNESPA keeps that the main reason to consider a partial internal model approach should be to achieve that certain relevant areas of the company be able to reproduce better their own risk profile.	
	We recommend to take into account the idea of looking for structures (inside the company or the group) that contribute to reflect in a better way the risk profile of the company (or the group).	Please refer to answer to
	Also, it must be shown concrete guidelines to avoid "cherry-picking" during the creation of major business	comment 89.

			ary of Comments on Consultation Paper 65 - CEIC CP-65/09 CP No. 65 - L2 Advice on Partial Internal Models	OPS- CEIOPS-SEC-167-10 January 2010
			units	
96.	CEA	3.21.	The key criterion should be more effective and appropriate risk management	Noted.
			Too great an emphasis is placed on the Use Test and P&L. As described in 3.20, the main consideration should be whether the partial model results in more appropriate and effective risk management than would be the case with the use of the standard formulae. The risk of cherry picking should have already been addressed when requiring the company to justify its (limited) scope.	
97.	Deloitte	3.21.	As for 3.11	Please refer to the answer to that comment.
98.	German Insurance Association – Gesamtverband der D	3.21.	The key criterion should be more effective and appropriate risk management Too great an emphasis is placed on the Use Test and P&L. As described in 3.20, the main consideration should be whether the partial model results in more appropriate and	Noted.
			effective risk management than would be the case with the use of the standard formulae. The risk of cherry picking should have already been addressed when requiring the company to justify its (limited) scope.	
99.	Groupe Consultatif	3.21.	We agree.	Noted.
100.	UNESPA – Association of Spanish Insurers	3.21.	The key criteria should be more precision and appropriateness on reproduction of the risk profile and	Noted. Please refer to answer to comment 95.

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		improve the risk management.	
		As we defend looking for structures (inside the entity or the Group) for which will be possible to reflect the risk profile in the best way through partial internal models, we believe that major business units has to be designed to achieve this aim.	
		We remark again that the "cherry-picking" risk should be treated in depth, both in the selection of the risks to include upon the configuration of the major business units when the supervision authorities require the companies to justify the limited scope of the model.	
101. Deloitte	3.22.	As for 3.12	Please refer to the answer to that comment.
102. DIMA	3.22.	An indicative threshold could be drawn to define what is "materially significant": 5%, 10% or 50%. According to the threshold, a number of risk modules could be automatically out of the scope of potential partial internal models.	Please refer to the answer to comment 66.
103. Lloyd's	3.22.	We are concerned that the definition of "major business units" set out here is unnecessarily restrictive and is not consistent with that in paragraphs 3.20 and 3.21. An undertaking's internal definition of a major business unit will not normally be predicated on its contribution to the SCR, hence imposing this as a constraint on the definition may conflict with the use test. For example, a business unit could meet all three of the characteristics set out in 3.20 but, because of diversification effects, for example,	comment 65.

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		not have a significant impact on the SCR.	
104. Lucida plc	3.22.	The implication of this paragraph seems to be that unless an undertaking uses a partial internal model for the whole business, it cannot use it for any subset of the immaterial business units. This restriction seems disproportionate for an undertaking for a large number of immaterial business units that could be added one at a time (with immaterial impact) into the internal model process, although we recognise that this interpretation could be forced by the wording of the Level 1 text. We would prefer it to be recognised that the impact of using a partial internal model, or using the standard formula, to incorporate an immaterial business unit, is likely to be immaterial, and as such the protection to policyholders will be unchanged – in which case it would be	
		coherent with the requirement to constantly strive to improve the model to allow immaterial business units to be added individually when it is appropriate to do so.	
105. CEA	3.26.	These examples of possible major business units seem reasonable. However, if the requirements of 3.20 were to be interpreted strictly most would fail to meet the requirements for a major business unit.	Noted.
106. CNP Assurances	3.26.	We believe that the proposed examples are too constraining; MBU should be defined at a lower level. We would like CEIOPS to precise whether it is possible to "cross" the proposed definitions (e.g. defining a Major Business Unit by a specific LOB for a specific country).	These are only examples, they are not exhaustive

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107.	German Insurance Association – Gesamtverband der D	3.26.	These examples of possible major business units seem reasonable. However, if the requirements of 3.20 were to be interpreted strictly most would fail to meet the requirements for a major business unit.	Noted.
108.	Groupe Consultatif	3.26.	We agree with the examples given.	Noted.
109.	PricewaterhouseCoopers LLP	3.26.	The list of possible major business units is sensible but we would query a ring fenced fund. These can be very material funds and therefore face all the issues that a solo entity faces in terms of properly justifying a partial model. So we would consider a ring fenced fund to be just as likely to apply for a partial model as a solo entity. We agree with the other tests that set a hurdle of reality of a stand alone part of the wider business.	Ring fenced funds are the fir example given.
110.	UNESPA – Association of Spanish Insurers	3.26.	In general, we agree with the examples of major Business units proposed, only if the requirements of 3.20 were not to be interpreted strictly.	Noted.
			Most of the examples given by CEIOPS would have enough entity and unique characteristics to be necessary to reproduce their risk profile in a separate manner. But some of the examples would fail to meet it, like branches, particularly in the relation to the requirement in the autonomy of management inside the company or the group, and also due of its significance (if we do not consider groups of branches).	Noted.

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111.	AMICE	3.27.	AMICE members` interpretation of "major business unit" is a legal entity (for a group as well as for a solo undertaking), but could also be a business segment / business area covering products from several legal entities.	This is a strict interpretation. This consultation paper allows for more flexibility both at solo and at group level.
112.	CEA	3.27.	See comments for 3.20 and 3.21 above.	See answer to those comments.
113.	German Insurance Association – Gesamtverband der D	3.27.	See comments for 3.20 and 3.21 above.	See answer to those comments.
114.			Confidential comment deleted.	
115.	UNESPA – Association of Spanish Insurers	3.27.	See comments given for 3.20 and 3.21	See answer to those comments.
116.	Association of British Insurers	3.28.	We would emphasise that the definitions of major business unit at solo and group level should be consistent. Requiring a major business unit in the context of a group partial model to be a legal entity means that a solo partial model developed for a major business unit within a solo entity could not form part of a group partial model. This would not be appropriate.	The definitions are consistent. Please refer to answer to comment 9.
117.	Unum	3.28.	We would emphasise that the definitions of major business unit at solo and group level should be consistent. Requiring a major business unit in the context of a group partial model to be a legal entity means that a solo partial model developed for a major business unit within a solo entity could not form part of a group partial model. This would not be appropriate.	The definitions are consistent. Please refer to answer to comment 9.

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118. CEA	3.28.	This requirement could result in a solo partial internal model not being able to be used in a group partial internal model.	Noted. Paragraphs 3.19 and 3.28 changed to avoid the referred situation.
		An example of this would be where say a ring-fenced fund within a solo entity was accepted as a major business unit and modelled using an "internal model approach" with the balance using the standard approach, i.e. a partial model. However, this would not be possible in a group partial internal model and instead either a full internal model would need to be developed for the solo entity or more realistically the standard approach used. Either way there would be an inappropriate inconsistency between the group and solo model, which could result in inappropriate risk decisions being taken at a group level.	
		The CEA recommends that this paragraph is deleted.	
		Also, it should be clarified that a major business unit can be more than one legal entity. So there should be added the words "one or more legal entities".	Agreed. However no changes are required. Undertakings ar able to model or more major business units.
119. CRO Forum	3.28.	We welcome CEIOPS view that the major business unit may not always be a legal entity and could be based on separate measure provided by the solo undertaking. We consider this to be reasonable because it is vital that the solo undertakings are permitted to use their own judgements, based on materiality and proportionality to define what they consider to be a major business unit, which will not always be defined by as the legal entity.	Agreed.

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120.	German Insurance Association – Gesamtverband der D	3.28.	This requirement could result in a solo partial internal model not being able to be used in a group partial internal model. An example of this would be where say a ring-fenced fund within a solo entity was accepted as a major business unit and modelled using an "internal model approach" with the balance using the standard approach, i.e. a partial model. However, this would not be possible in a group partial internal model and instead either a full internal model would need to be developed for the solo entity or more realistically the standard approach used. Either way there would be an inappropriate inconsistency between the group and solo model, which could result in inappropriate risk decisions being taken at a group level. The GDV recommends that this paragraph is deleted.	Please refer to answer to comment 118.
			It should be clarified that a major business unit can be more than one legal entity. So there should be added the words "one or more legal entities".	
121.	Groupe Consultatif	3.28.	We believe the expectation for a major business unit (in a group internal model) to be a legal entity is unnecessarily constraining and potentially inaccurate given the range of influences in the way in which an organisation is run. We do not believe that it is appropriate to include this paragraph in the formal advice.	Noted.
122.	Just Retirement Limited	3.28.	2. It should be clarified whether a legal entity must	Noted. Is already clear in this

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			always correspond to a Major Business Unit, or whether there are circumstances (e.g. immaterial legal entities) where this relationship would not have to hold.	paragraph that may exist circunstances where this mannot hold
123.	Legal & General Group	3.28.	It is not the case that business units are also legal entities. Often business units cut across several legal entities, and a single entity may have elements of different business units within it. Business units may be established with reference to type of business (savings, protection,), or distribution channel, not just by geography.	Noted.
124.	UNESPA – Association of Spanish Insurers	3.28.	This requirement restricts freedom for insurance companies or groups to develop partial internal models.	
			UNESPA believes that, according to the comments of paragraphs 3.20 and 3.21, significant structures must be identified to help reflect better risk profile and improve risk management, without distinction between independent entities or insurance groups.	Please refer to the answer to those comments.
			I.e, for an insurance group, which is trying to develop a partial internal model could be more adequate to model the market risk for the whole group instead of individually for each company, since the existence of an unique management policy that implies a similar risk profile on every portfolio.	Please refer to answer to comment 9.
			Therefore, imposing concrete structures to the architecture of the partial internal model may limit the reproduction of the profile risk and also the simplicity of the model.	

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125.	Unum	3.30.	If the data and risks included in the partial model are small in relation to the overall risk for the company then they could be included in the aggregation of the internal model, if not small then could be aggregated by the Standard formula.	Not understood. Clarification needed.
126.	CRO Forum	3.30.	In section 3.14 of CP75 the Solvency II framework is presented as "a range of methods that increases in terms of both risk sensitivity and complexity for the calculation of the SCR:	Please refer to answer to comment 9.
			□ Simplifications	
			☐ Standard formula	
			☐ Use of undertaking-specific parameters within the design of the standard formula	
			☐ Partial internal models	
			☐ Full internal models"	
			By making reference to Article 108a of the Level 1 text CEIOPS considers it not appropriate to use undertaking-specific parameters (USP) in conjunction with a simplified method. However, it may be possible that an undertaking can demonstrate that it is able to meet the requirements using both simplifications and USP. Hence, this seems to be inconsistent with the requirement that the reason for the limited scope (difference from Standard model?) should be justified by the undertaking.	
127.	DIMA	3.30.	It seems that the approach is limiting. Instead of	Not agreed. This clearly not the

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		promoting partial internal models as a first step to full internal models and as a way to improve risk management, it seems that partial internal models are viewed with suspicion and the undertaking has to justify the reason for not using a full internal model. Undertakings benefiting from partial internal models for risk management purposes and passing the use test should be allowed to use those models for determining the SCR. If the partial internal model is then satisfactory, it will result in "pressure to improve the quality of the partial internal model" and could lead to the development of a full internal model.	intention. The justification of the limited scope comes directly from Article 113, number 1, paragraph a). Furthermore paragraph 3.30 of this consultation paper clearly states that those examples are not exhaustive.
		Examples provided might be in contradiction with the feasibility test, in particular in the case of mergers and/or acquisitions. Groups using a partial internal model can include sub-module calculation of SCR for one entity and calculation of the same sub-module can be done with the standard formula for another entity. Then we would not have correlation matrix and feasibility may not be satisfied or we lose fully the benefit of diversification.	
128. Groupe Consultatif	3.30.	We recommend aligning CP 65 and CP 75. What is acceptable justification for the limited scope of an internal model has the potential to differ significantly between Member States. The CP gives no context or	Please refer to answer to comment 9. The onus of the justification of the limited scope of internal
		advice to supervisory authorities and undertakings on how to operate with a partial internal model. This has potential implications for meeting the Use Test particularly in cases where the increased scope of a partial internal model may purely be for supervisory reasons.	models lies within (re)insurance undertakings. We believe this flexibility is appropriate. CEIOPS believes that further advice is not feasible or appropriate and would restrict

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			the modelling freedom allowed by the Level 1 Text to insurance undertakings.
129. Lucida plc	3.30.	We acknowledge that it is appropriate for an undertaking to justify the limited scope of application.	Noted.
130. Munich Re	3.30.	The justification of the limited scope of an internal model can differ strongly across the member states. The Level 2 paper gives no advice to the supervisory authorities and the undertakings how to operate with a partial internal model. This has implication on fulfilling the Use Test as the increased scope may be only for supervisory reasons.	Please refer to answer to comment 128.
131. Deloitte	3.31.	The statement that scope extensions are outside the model change policy seems contradictory: a scope extension is a major model change in most cases.	Not agreed please refer to paragraphs 3.102 and 3.103 of CEIOPS' Advice for Level 2 Implementing Measures on Solvency II on: The procedure to be followed for the approval of an internal model.
132.		Confidential comment deleted.	
133. CEA	3.32.	a) Clear rules are needed in which cases the supervisors may disagree with the scope and reject the model.	Disagreed in both cases. The reasons why may disagree with
		c) Clear rules are needed in which cases a transition plan may be called for. In both cases it is important to have objective criteria to	the scope and reject the model or request the extension of the scope may differ considerable therefore CEIOPS does not consider to be appropriate or desirable to issue the proposed
		avoid arbitrariness and unequal application between member states.	list, flexibility is needed in order

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			to ensure internal reflect adequately the risk profile of insurance undertaking. For further provisions on request on scope extension's were already provided. CEIOPS' Advice for Level 2 Implementing Measures on Solvency II on: The procedure to be followed for the approval of an internal model and on paragraphs 3.53 to 3.60 of this consultation paper.
134. CRO Forum	3.32.	We suggest to clarify what happens when the supervisory authority disagree with undertaking's proposed scope and reject the model as well as how this assessment is applied consistently by all supervisory authorities.	Please refer to answer to comment 133.
135. Deloitte	3.32.	We would welcome more detailed information about potential rationale for a., b. and c. We would appreciate a statement like, 'Supervisory authorities will provide suggestions for improvement to the undertaking before rejecting a model or requiring a transition plan."	Please refer to answer to comment 29 and 133.
136. DIMA	3.32.	"The onus to demonstrate that the limited scope is properly justified lies with the undertaking": there is no promotion of at least a partial internal model. It may be better to rephrase the text and ask the undertaking to demonstrate the benefit of the partial internal model on the three pillars and why it is not appropriate in other parts of the portfolio where it is intended that the standard formula should be used.	Not agreed.

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137.	KPMG ELLP	3.32.	Paragraph 3.30 states that a transitory step towards full internal models is just one example of why a (re)insurance undertaking may wish to apply to use a partial internal model to determine its SCR. Against that background, we believe that a requirement to submit a transitional plan to extend the scope of the model's use should only routinely be requested in this situation, as it could potentially force significant costs on an organisation.	Please refer to paragraph 3.53 to 3.60 of consultation paper.
138.	AFS	3.33.	The CP states that setting out the scope of an internal model is not a trivial task. For Friendly Societies we would look to be able to produce a limited scope statement compared to large insurance groups	Noted.
139.	DIMA	3.35.	Clarification is sought where a business unit is excluded from the scope of an internal model, but the assets associated with that excluded business unit are co-mingled with assets generated from business units within the scope of the internal model. Would this scenario constitute ambiguity as to which assets are included in the scope of the internal model? If so, is there a requirement to ring fence the assets associated with a business unit which is excluded from an internal model? Are facultative reinsurance covers considered as exceptions? In this case, any module or business unit where there are some facultatives could not be eligible to	Please refer to answer to comment 69. This consultation paper is not intended to be go into that level of detail. Please refer to answer to comment 29 and 133.
140.	KPMG ELLP	3.35.	use partial internal models. Agreed.	Noted.
141.	KPMG ELLP	3.36.	We agree that setting clear boundaries regarding the scope of a partial internal model in a group situation will bring additional challenges.	

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142.	CEA	3.37.	Proportionality should apply when deciding whether entities with similar (relative) risk profiles should modelled in the same way, i.e. whether or not to use the standard formulae. The CEA does not agree that having two entities with similar risk profiles should necessarily result in the same approach be taken in a group partial model as proportionality should apply. If one entity is much less significant than the other (even though their relative risk profiles are similar) then it should be acceptable on proportionality grounds for different approaches to be used, i.e. for the smaller entity to use the standard approach. This would then be consistent with the proportionality requirement in 3.39, 3.49 and 3.57.	This is a mere expectation, please note that is presented as "may expect" mot as "shall expect" and that "This is notwithstanding with the provisions set out below, as well as other possible factors".
			The CEA suggests amending the text as follows: "Additionally, subject to proportionality, it may be expected that for two legal entities with similar risk profiles"	Not agreed.
143.	CRO Forum	3.37.	It is proposed that for two entities of a group with similar risk profiles, the SCR should be calculated in the same manner. We note that the proposal does not clearly state what part is to proof that the risk profiles are similar (or not) and how similar risk profiles are defined (e.g. on the basis of similar volatility, similar reinsurance structure, similar statistical low, etc) ?	Please refer to answer to comment 142.
144.	Deloitte	3.37.	Although we agree in general that two legal entities with similar risk profiles should be expected to be modelled on	Please refer to answer to comment 142.

a similar basis, we question the legal basis and consequences of this remark, as it is not a part of the advice section, and this requirement is not included in paragraph 3.1, which discusses the scope of partial internal models. 3.37. When using a partial internal model for the sole reason that it has acquired a new legal entity, it should be up to the group to demonstrate that the previous model of the new entity better reflect its risk profile than the standard formula or than the internal model of the rest of the group. Moreover, the group should demonstrate than the new entity model is correctly integrated to the group internal model in terms of risk mitigation and risk concentration. If the group plans to keep the previous model, it should justify it. If it intends to extend its own internal model to the newly acquired entity, it should propose a transitional plan to extend its internal model to the new entity.		Summary of Comments on Consultation Paper 65 - CEIC CP-65/09 CR No. 65 - L2 Advise on Partial Internal Models	OPS- CEIOPS-SEC-167-1 January 2010
that it has acquired a new legal entity, it should be up to the group to demonstrate that the previous model of the new entity better reflect its risk profile than the standard formula or than the internal model of the rest of the group. Moreover, the group should demonstrate than the new entity model is correctly integrated to the group internal model in terms of risk mitigation and risk concentration. If the group plans to keep the previous model, it should justify it. If it intends to extend its own internal model to the newly acquired entity, it should propose a transitional plan to extend its internal model for the sole reason that it has acquired a new legal entity, it should be up to the group to demonstrate that the previous model of the new entity better reflect its risk profile than the standard formula or than the internal model of the rest of the group. Moreover, the group should demonstrate than the new entity model is correctly integrated to the group internal model in terms of risk mitigation and risk concentration. If the group plans to keep the previous model, it should justify it. If it intends to extend its own internal model to		consequences of this remark, as it is not a part of the advice section, and this requirement is not included in paragraph 3.1, which discusses the scope of partial	
justify it. If it intends to extend its own internal model to the newly acquired entity, it should propose a transitional plan to extend its internal model to the new entity. 3.37. When using a partial internal model for the sole reason that it has acquired a new legal entity, it should be up to the group to demonstrate that the previous model of the new entity better reflect its risk profile than the standard formula or than the internal model of the rest of the group. Moreover, the group should demonstrate than the new entity model is correctly integrated to the group internal model in terms of risk mitigation and risk concentration. If the group plans to keep the previous model, it should justify it. If it intends to extend its own internal model to	roupe Consultatif 3.37.	that it has acquired a new legal entity, it should be up to the group to demonstrate that the previous model of the new entity better reflect its risk profile than the standard formula or than the internal model of the rest of the group. Moreover, the group should demonstrate than the new entity model is correctly integrated to the group internal	Noted. Paragraphs 3.38, 3.39 and 3.48 were changed.
(France) that it has acquired a new legal entity, it should be up to the group to demonstrate that the previous model of the new entity better reflect its risk profile than the standard formula or than the internal model of the rest of the group. Moreover, the group should demonstrate than the new entity model is correctly integrated to the group internal model in terms of risk mitigation and risk concentration. If the group plans to keep the previous model, it should justify it. If it intends to extend its own internal model to		justify it. If it intends to extend its own internal model to the newly acquired entity, it should propose a transitional	
justify it. If it intends to extend its own internal model to		that it has acquired a new legal entity, it should be up to the group to demonstrate that the previous model of the new entity better reflect its risk profile than the standard formula or than the internal model of the rest of the group. Moreover, the group should demonstrate than the new entity model is correctly integrated to the group internal	
plan to extend its internal model to the new entity.		justify it. If it intends to extend its own internal model to the newly acquired entity, it should propose a transitional	

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			entities have similar risk profiles (or we would argue are subject to the same risks that one entity has obtained a partial internal model in respect of that risk), the expectation should be that the SCR could be determined for both entities in a similar manner, but agree that this should be refutable. Where inconsistent approaches are agreed at solo level, the implications for the group SCR, especially where the alternative deduction and aggregation approach is followed.	This situation will be dealt by college of supervisors of the Group.
148.	UNESPA – Association of Spanish Insurers	3.37.	Companies with similar risk profile should not be force to adopt the same approach. UNESPA does not agree that entities having a similar risk	Please refer to answer to comment 142.
			profile should be under the same approach because: It has to be taken into account a proportionality matter: the effort to develop a partial internal model will not be the same in each case. We should not forget that one of the main principles that inspired the Solvency II Directive is that it should be the least costly as possible for entities.	
			Due the wide range of risks that surround the insurance market, it is very difficult to conclude that certain company presents the same risk profile to a competitor. It is necessary to analyse carefully all their risks and how they are being managed before suggesting an approach to each one.	
149.	CRO Forum	3.38.	We would like to ask particular attention for the situation where a Group has a full internal model, but some less	Not agreed. Please refer to answer to comment 11.

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			material legal entities are included using a standard model approach. We believe that this should be considered as a full internal model rather than a partial internal model. We agree that the undertaking shall justify this appropriately.	
150.	Deloitte	3.38.	The paper gives examples of plausible reasons for excluding legal entities from the scope. It includes "Modelling the excluded legal entities lines may be disproportionate for the nature, complexity and scale of the risks inherent in the business of these entities". We would welcome clarity around whether supervisors can require legal entities that are material to be included in the scope.	Please refer to answer to comment 133.
151.	Groupe Consultatif	3.38.	We would request guidance for the situation where a group has a full internal model, but some less material legal entities are included using a standard model approach. We believe that this should be considered as a full internal model rather than a partial internal model if the undertaking has justified this appropriately.	Not agreed. Please refer to answer to comment 11.
			The time issues when calculating the SCR should be taken into account very carefully. Indeed, as computational capabilities are increasing constantly (in terms of pure hardware improvements or modelling techniques), an entity which has computational time issues should:	Noted.
			 clearly explain the issue describe what measures (in particular simplifications) it took to get through the issue submit a forecast timetable to fully use its internal model 	

			eary of Comments on Consultation Paper 65 - CEIC CP-65/09 CP No. 65 - L2 Advice on Partial Internal Models	OPS- CEIOPS-SEC-167- January 2010
152.	Lloyd's	3.38.	The number of parameters should not be the driver behind whether or not to include particular parts of the business in the internal model. This reason would only be acceptable within the context of the other three bullet points and so we recommend removing bullet point 3.	Not agreed.
153.	Institut des actuaires (France)	3.38.	The time issues when calculating the SCR should be taken into account very carefully. Indeed, as computational capabilities are increasing constantly (in terms of pure hardware improvements or modelling techniques), an entity which has computational time issues should:	Please refer to answer to comment 151
			 clearly explain the issue describe what measures (in particular simplifications) it took to get through the issue 	
			- submit a forecast timetable to fully use its internal model	
154.	UNESPA – Association of Spanish Insurers	3.39.	It is necessary to define more precisely the requirements of the supervisor to evaluate the limited scope of the model	Please refer to answer to comment 29 and 133.
			At this point, related to the requirements, CEIOPS uses the expression "among others". UNESPA considers that redaction is insufficient. This point needs to be developed with more precision, indicating all the aspects to be evaluated by the supervisor	
			UNESPA does not consider adequate that the validation process depends on the existence of a transitional plan to	

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		extend the scope of the model. This may be understood as an intention by the supervision authority to force the company to adopt an advanced approach in the future.	
		We believe that CEIOPS should guarantee the freedom of choice of the approach, and strengthen the importance of the partial internal models option.	
155. KPMG ELLP	3.40.	Running the 'internal model' with different scopes may not be a trivial exercise as the technology may not have be in place elsewhere in the group.	Noted.
156. AFS	3.41.	The nature of Friendly Societies often means that their business is of a type peculiar to them (e.g. tax exempt savings plans or Holloway sickness policies) or that they are 'one product' firms. Consequently the Standard Model which is calibrated to reflect the business profile of a typical and diversified insurance company may not be appropriate to the risk profile of Friendly Societies. Where this is the case we would look to be able to use partial internal models of a complexity proportional to the size and nature of the Friendly Societies business.	Noted.
157. Groupe Consultatif	3.41.	This comment refers to paragraphs 3.41 to 3.44. This part of the consultation paper deals with the requirements that the undertaking should meet in order to prove that its partial internal model correctly reflect its risk profile. However, it seems than the undertaking should also prove that its partial internal model also "reflects"	This wording is taken directly from Article 113, number 1 paragraph c).

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		more appropriately" its risk profile. By this phrase, we understand that the undertaking should prove that its risk profile is better reflected by his partial internal model than by the standard formula.	Agreed.
		In that case, a simple qualitative assessment and explanation that the partial internal model correctly models all the risk modules describes in the subsection 1 is not enough. Undertakings should prove quantitatively that their SCR is more reliable than the one calculated by the standard formula.	Noted.
		A way to prove it could be by presenting stress tests results of its partial internal model against the standard formula.	
158. Institut des actuaires (France)	3.41.	This comment refers to paragraphs 3.41 to 3.44. This part of the consultation paper deals with the requirements that the undertaking should meet in order to prove that its partial internal model correctly reflect its risk profile. However, it seems than the undertaking should also prove that its partial internal model also "reflects more appropriately" its risk profile. By this phrase, we understand that the undertaking should prove that its risk profile is better reflected by his partial internal model than by the standard formula.	Please refer to answer to comment 157.
		In that case, a simple qualitative assessment and explanation that the partial internal model correctly models all the risk modules describes in the subsection 1 is not enough. Undertakings should prove quantitatively that their SCR is more reliable than the one calculated by the standard formula.	

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		A way to prove it could be by presenting stress tests results of its partial internal model against the standard formula.			
159. Lucida plc	3.44.	We agree that a key principle is that the SCR shall correspond to the VaR of the basic own funds of an undertaking subject to a confidence level of 99.5% over a one-year period	Noted.		
160.		Confidential comment deleted.			
161. Lucida plc	3.45.	We see the key difficulty with building a partial internal model is how to incorporate the results into modules calculated using the standard formula and maintain the calibration at a confidence level of 99.5% over a one-year period.	Noted.		
162. AMICE	3.46.	More guidance is needed to understand whether the requirements regarding the limited scope would be valid for small, medium, and large undertakings. AMICE members expect that a partial internal model may be considered as an end-state from the beginning, and no transitional plan to extend the scope of the model should be mandatory.	The requirements are valid for SMEs. Please refer to paragraph 3.60, the transitional plan is a supervisory option and certainly not automatic.		
163. CEA	3.46.	Justification of the limited scope of the partial internal model: In point b) it is unclear to which conditions Ceiops is referring to? Is it capital add-ons?	No. It refers to paragraph 3.241 of CEIOPS' Advice for Level 2 Implementing Measures on Solvency II on: The procedure to be followed for the approval of an internal model		

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			The following option should be added as a possible outcome:	Noted. Paragraph 3.46 was changed for greater clarification.
			d) Agree with undertakings proposed scope and accept the model	
			The CEA would like Ceiops to disclose the process to be followed by supervisory authorities when assessing the scope of the partial internal model at group level.	Noted: word deleted.
			Delete: "always". If undertakings create and use the internal model correctly as written down in the guidelines, supervisory authorities should not retain the power to interrupt in internal models.	Not agreed. Please refer to answer to comment 4.
			The CEA believes that there should be an appropriate appeal process in place where the undertaking is able to refer it's case to Ceiops. Where a supervisory authority does disagree with an undertaking's proposed scope the burden of proof to show why the scope is inappropriate should lie with the supervisory authorities.	
164.	CRO Forum	3.46.	The paper in unclear on what happens when the supervisory authorities disagree with the undertaking's proposed scope and reject the model. We believe that there should be sufficient appeal process in place where the undertaking is able to refer its case to group supervisor or even CEIOPS to make the final decision. In the event where supervisory authority does	For details on mode rejection lease refer to CEIOPS' Advice for Level 2 Implementing Measures on Solvency II on: The procedure to be followed for the approval of an internal model
			disagree with undertaking proposed scope the burden of proof to show why the scope is inappropriate should lie	Not agreed. Please refer to

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			with the supervisory authorities.	answer to comment 4.
165.	DIMA	3.46.	"The onus to demonstrate that the limited scope is properly justified lies with the undertaking": there is no promotion of at least a partial internal model. It may be better to rephrase the text and ask the undertaking to demonstrate the benefit of the partial internal model on the three pillars and why it is not appropriate in other parts of the portfolio where it is intended that the standard formula should be used.	Please refer to answer to comment 136.
166.	FFSA	3.46.	Justification of the limited scope of the partial internal model:	Please refer to answer to comment 163.
			(point b): FFSA wonders to which conditions CEIOPS is referring? Is it capital add-on?	Please refer to answer to
			FFSA would like CEIOPS to add the following option:	comment 163.
			d) Agree with undertakings proposed scope and accept the model	Noted
			FFSA would like CEIOPS to disclose the process to be followed by supervisory authorities when assessing the scope of the partial internal model at group level.	
167.	Lloyd's	3.46.	A partial internal model's limited scope may be a matter of necessity, rather than choice. For example, an undertaking may intend that, ultimately, its model will have wider or even full scope, but may not yet have developed all of the modules to the necessary level. It such cases, the undertaking will have its own transitional plan. The paragraph, as written, is not clear that this situation could be considered as "justification for the limited scope" (this is picked up in 3.30, but that is not part of the draft Level 2 measures), and may discourage undertakings from using	Noted. Please refer to answer to comment 127. CEIOPS does not considers feasable or appropriate to enumerate all possible justifications of limited scope in its advice that most likely limit undertaking's freedom allowed by the level 1 Text and supervisory authorities's powers. Superisory

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		adequate components from an unfinished internal modelling process as a partial internal model in their SCR. We suggest that the paragraph is amended, as follows: The onus to demonstrate that the limited scope is properly justified lies with the undertaking. To do so, undertakings may wish to supplement their rationale with quantitative evidence. The justification may reflect the fact that the partial internal model represents the completed phase of an initiative to produce a partial internal model of wider scope, or even a full internal model. Such justifications should be accompanied by a transitional plan. However, supervisory authorities always retain the power to:	reasoning provide by undertakings. The referred situation if properly justified may be accepted.
		 a) Disagree with the undertaking's proposed scope and reject the model; 	
		b) Approve it with conditions;	
		 c) Require the undertaking to submit a transitional plan to extend the scope of the model; or 	
		 d) Require changes to any transitional plan to extend the scope of the model submitted by the undertaking. 	
168. German Insurance Association – Gesamtverband der D	3.46.	Justification of the limited scope of the partial internal model: In point b) it is unclear to which conditions CEIOPS is referring to? Is it capital add-ons? The following option should be added as a possible	The c point b) is referring to pragragraph 3.243 of CEIOPS' Advice for Level 2 Implementing Measures on Solvency II on: The procedure to be followed for the approval of an internal

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		outcome:	model
		d) Agree with undertakings proposed scope and accept the model	Please refer to answer to comments 163 and 166.
		The GDV would like CEIOPS to disclose the process to be followed by supervisory authorities when assessing the scope of the partial internal model at group level.	
		5. Delete: "always". If undertakings create and use the internal model correctly as written down in the guidelines, supervisory authorities should not retain the power to interrupt in internal models.	
169. KPMG ELLP	3.46.	We agree that proper justification for the scope of the partial internal model is required.	Noted.
170.		Confidential comment deleted.	
171. UNESPA – Association of Spanish Insurers	3.46.	Justification of the limited scope of the partial internal model:	Please refer to answer to comment 168.
		Option b) must be clarified to which additional conditions are referring to.	Please refer to answer to
		Furthermore, CEIOPS has forgotten a very important option: the acceptance of the model since the supervisor agrees with the company limited scope of the model.	comment 163.
		UNESPA believes that, in order to give security to the companies and avoid future inconsistence problems among local supervisors, CEIOPS should disclose specific guidelines that describe the process that any European company has to follow to submit the limited scope of its	Disagreed. Please refer to answer to comment 29.

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			partial internal model, including a calendar to commit, documentation to report or major guidelines to respect.			
172.	CEA	3.47.	It is not clear what is meant by "The definition of the scope shall not include exceptions as these may give rise to possible ambiguity"?			
			It is not clear what this means. It is often helpful when defining a scope, e.g. for a project, to clarify what is in scope and what is out of scope. The key requirement should be for there to be clarity over the scope of the partial internal model is. In this regard it would be helpful for Ceiops to provide examples demonstrating what would be acceptable scope statements and what would not. Having such examples is likely to make the approval process more efficient for all concerned, i.e. both companies and supervisors.	We believe the level of detail provided is the suitable for a Level 2 advice.		
173.	CNP Assurances	3.47.	We disagree with the principle stating that exceptions should be forbidden; they should be allowed as long as they are clearly identified and documented. Once again, having a too restrictive definition of the scope of the model would deter undertakings from developing internal models	Not agreed. In addition to reasons already give in paragraph 3.47 of this consultation pape: CEIOPS believe that allowance for exceptions may lead to regulatory arbitrage and cherry picking situations.		
174.	German Insurance	3.47.	It is not clear what is meant by "The definition of the scope	Please refer to answer to		

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			CP No. 65 - L2 Advice on Partial Internal Models	
	Association – Gesamtverband der D		shall not include exceptions as these may give rise to possible ambiguity"?	comment 172.
			It is not clear what this means. It is often helpful when defining a scope, e.g. for a project, to clarify what is in scope and what is out of scope. The key requirement should be for there to be clarity over the scope of the partial internal model is. In this regard it would be helpful for CEIOPS to provide examples demonstrating what would be acceptable scope statements and what would not. Having such examples is likely to make the approval process more efficient for all concerned, i.e. both companies and supervisors.	
175.	AB Lietuvos draudimas	3.48.	This could happen in reverse where the Group purchases a company with a SF and it needs a partial internal model until the new company is brought into the full Group model.	Agreed. Text changed accordingly.
176.	CEA	3.48.	It should be made clearer that following a merger, all other considerations included in this section should be looked at first before requiring extending the scope partial internal model to the new entity.	Noted.
177.	DIMA	3.48.	"A group may end up using a partial internal model for the sole reason that it has acquired a new legal entity that was using an approved internal model (either full or partial). This situation may not be considered as cherry-picking, as it may better reflect the risk profile of undertakings. However, the supervisory authority may evaluate whether or not a transitional plan to extend the scope of the model	Noted.

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		shall be imposed." Might the situation be extended to merging of legal entities into one, i.e. partial internal model because the acquired entity continues to use its internal model and the other uses the standard model; would it be considered as cherry-picking and thus rejected? It should not, at least if there is a transitional plan.	
178. FFSA	3.48.	FFSA finds this statement too restrictive. Following the merger, the materiality of the business unit or the risk module which it is proposed to apply the partial internal model to should be considered before extending the partial internal model. Also, considerations regarding the data and the risk profile of the new entity should be taken into account.	Noted.
179. German Insurance Association – Gesamtverband der D	3.48.	It should be made clearer that following a merger, all other considerations included in this section should be looked at first before requiring to extend the scope partial internal model to the new entity.	Please refer to answer to comment 176.
180. Groupe Consultatif	3.48.	Here, the situation that a group acquires a new legal entity which uses an internal model, is mentioned. We would suggest that CEIOPS extends this advice to include the opposite (and more likely) example as per 3.37 (a group using an internal model takes over an entity using the standard model). We disagree with the supervisory authority judging whether a transitional plan should be imposed as a first step. The supervisor may assess whether the partial internal model is meeting the requirements in order to	Please refer to answer to comment 175. This idea is not expressed in the text. Please refer to paragraphs 3.50 and 3.51.

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		remain being used for the SCR calculation. The undertaking should decide whether or not the scope for the partial internal model should be extended and this should be subject to supervisory review and challenge.	
181. Investment & Life Assurance Group Ltd	3.48.	Combining internal model co-dependencies and standard formula approach is going to be challenging. The regulator can impose a plan to extend the scope of a model and this is a concern.	Noted.
182. RSA Insurance Group	3.48.	This could happen in reverse where the Group purchases a company with a SF and it needs a partial internal model until the new company is brought into the full Group model.	Please refer to answer to comment 175.
183. UNESPA – Association of Spanish Insurers	3.48.	M&A processes	Please refer to answer to comments 176 and 180.
		It has to be clarified that, after a merge, certain aspects should be looked prior the requirement of extent the scope of partial internal model to the other companies of the group. Of course one of these requirements should be the proportionality criterion (See comments to 3.37).	
184. AB Lietuvos draudimas	3.49.	These are all sensible comments.	Noted.
185. CEA	3.49.	We appreciate this is not meant to be an exhaustive list of why undertakings may limit the scope of their models. In general, it should be assumed that the reasons for developing full and partial internal models are that they will allow a more accurate assessment and quantification of a company's risk exposure as they will be tailored to and designed for the specific needs of the company.	

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		However, there may be cases where the standard formula is appropriate. Therefore, we suggest adding to the list: "Standard model capture appropriately the risk / or risk profile of the business units"	Noted. Paragraph changed.	
186. Deloitte	3.49.	See 3.38	See answer to that paragraph.	
187. Lloyd's	3.49.	"Bellow" should be replaced with "below".	Agreed. Changed accordingly	
188. German Insurance Association – Gesamtverband der D	3.49.	 We appreciate this is not meant to be an exhaustive list of why undertakings may limit the scope of their models. In general, it should be assumed that the reasons for developing full and partial internal models are that they will allow a more accurate assessment and quantification of a company's risk exposure as they will be tailored to and designed for the specific needs of the company. However, there may be cases where the standard formula is appropriate. Therefore, we suggest adding to the list: "Standard model capture appropriately the risk / or risk profile of the business units" 	Please refer to answer to comment 185.	
189. RSA Insurance Group	3.49.	These are all sensible comments.	Noted	
190. UNESPA – Association of Spanish Insurers	3.49.	See comments for 3.20 and 3.21 above	See answer to those comments.	
191. Lloyd's	3.50.	Surely it is consistency with the profit and loss attribution that is expected, rather than compliance. Suggest	Agreed. Changed accordingly.	

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		amending second bullet to:	
		Consistency with the profit and loss attribution as set out in Article 121 of the Level 1 text	
192. Association of British Insurers	3.51.	We would interpret "specific exercises" as providing further validation of information on the performance of the model through simple scenario or stress exercises. Such requirement should be kept proportionate to the overall impact on the SCR and targeted to get a better understanding of the model.	Please refer to paragraph 3.40.
193. Unum	3.51.	It is unclear to us what is meant by "specific exercises".	Please refer to paragraph 3.40.
194. CEA	3.51.	The advice needs to be clearer on what is meant by "specific exercises" to be performed by undertakings when the supervisory authorities are dissatisfied with the justification provided by the undertakings.	Please refer to paragraph 3.40. Please refer to answer to comment 197.
		We are concerned that this may lead to unduly onerous requirements. We would as such expect supervisors to demonstrate the efficiency of such practices before they are imposed on undertakings, in particular as we are unsure on what is meant by "specific exercises".	
		In order to ensure supervisory convergence in this field, the advice should also specify the process to be followed by supervisory authorities when asking undertakings to perform these "specific exercises".	
195. CNP Assurances	3.51.	We would like CEIOPS to precise the "specific exercises" that might be required.	Please refer to paragraph 3.40. Please refer to answer to
		We also want to point out that CEIOPS should keep in mind the need for consistency between supervisory	comment 197.

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		authorities' policies regarding definition of the scope of a partial internal model to avoid regulatory arbitrage.	
196. Deloitte	3.51.	The exercises referred to should be described as done in paragraph 3.40.	Agreed.
197. FFSA	3.51.	Justification of the limited scope of the partial internal model:	Not agreed. It is neither feasible nor appropriate to predict all
		FFSA would like CEIOPS to disclose on the specific exercises to be performed by undertakings when the supervisory authorities are dissatisfied with the justification provided by the undertakings.	possible cases. That would limit supervisory power's and may potenciate model rejections instead of a better assessment.
		Also, FFSA would like CEIOPS to disclose on the process to be followed by the supervisory authorities when asking undertakings to perform these specific exercises as to ensure a harmonised approach among supervisors.	
198. German Insurance Association – Gesamtverband der D	3.51.	The advice needs to be clearer on what is meant by "specific exercises" to be performed by undertakings when the supervisory authorities are dissatisfied with the justification provided by the undertakings.	Please refer to answer to comment 194 and 197.
		We are concerned that this may lead to unduly onerous requirements. We would as such expect supervisors to demonstrate the efficiency of such practices before they are imposed on undertakings, in particular as we are unsure on what is meant by "specific exercises"	
		In order to ensure supervisory convergence in this field, the advice should also specify the process to be followed by supervisory authorities when asking undertakings to perform these "specific exercises".	

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199. UNESPA – Association of Spanish Insurers	3.51.	It is not clear the meaning of "specific exercises"	Please refer to answer to comment 194 and 197.
		UNESPA believes that this section is too discretionary and more details about the "specific exercises" should be disclosed.	
		$\hfill\Box$ To define concrete situations under the "specific exercises" may be required.	
		$\hfill\Box$ Then, "specific exercises" should be defined to each concrete situation.	
		☐ Finally, a validation process to each "specific exercise" should be performed.	
		Only in this way it will be possible a validation process of the limited scope of the partial internal model free of the arbitrariness of the supervision authorities.	
200. Lloyd's	3.52.	This paragraph is headed "better reflection of the risk profile" but it is not clear how it relates to that heading. Suggest the final sentence is amended to:	Not agreed.
		Partial internal models do not necessarily need to cover the full extent of those risks, as long as the limited extent of the coverage leads to a better reflection of the overall risk profile.	
201. UNESPA – Association of Spanish Insurers	3.52.	UNESPA agrees with the interpretation of CEIOPS, which is consistent with the wide grade of flexibility allowed in the process of development of partial internal models.	Noted.

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202.	Association of British Insurers	3.54.	Transitional plan to extend the scope of a partial internal model: This paragraph implies that a plan to extend the scope of a partial internal model may be requested, at the discretion of the supervisor. The question we wish to have clarified is the supervisor's criteria for requesting a transitional plan.	For further details on transitional plan please refer to paragraphs 3.54 to 3.60 of this consultation paper to paragraphs 3.216 to 3.235, 3.238 to 3.239 and 3.262 to 3.265 and 3.269 of CEIOPS's Advice for Level 2 Implementing Measures on Solvency II on: The procedure to be followed for the approval of an internal model.
203.	CEA	3.54.	It should be specified that other options are available before requiring undertakings to extend the scope of their models. For example, an intermediate step may be to apply undertaking specific parameters.	Please refer to answer to comment 202. Please refer to answer to comment 9.
			Proposed re-draft of the last sentence: "More precisely if the model fails to comply with the partial internal model requirements, namely with the provisions set out in Article 111(1), supervisors may then decide to require such a plan."	
204.	IUA	3.54.	This paragraph suggests that a plan to extend the scope of a partial internal model may be requested, at the discretion of the supervisor. We would appreciate clarity on circumstances where supervisors' may request such a transitional plan. This paragraph also seems to imply that	Please refer to answer to comment 202.

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			the default presumption is that such a plan will be required unless the supervisor is otherwise satisfied. We would question whether that is the right approach; supervisors should require a transitional plan where they have concerns about the partial model's scope or reflection of the firm's risk profile.	
205.	CEA	3.55.	Re-draft: "may be approved as a permanent solution" should be changed to: "have to be approved as a permanent solution". If the criteria listed here are met then there should be no reason why the scope of partial internal models should not be approved as a permanent solution. After comply with the criteria, internal models have to be approved as a permanent solution.	Agreed. Changed accordingly.
206.	CRO Forum	3.55.	We welcome CEIOPS' comments to allow the supervisory authorities to approve the Partial internal model as a permanent solution once supervisors have satisfied themselves that it meets the appropriate requirements.	Noted.
			It is our interpretation that once the partial internal model is approved any changes to the model will be managed and communicated [to supervisors] through the "changed management process" described in CP37. We consider this to be a reasonable control in place because "change management process" will be reviewed and approved by the supervisors as part of the model approval process.	
207.	Groupe Consultatif	3.55.	We welcome the suggestion by CEIOPS to allow the supervisory authorities to approve the partial internal	The referred conditions are expressed in Article 113 of the

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		model as a permanent solution, when meeting the requirements. However, we are of the opinion that also for this permanent solution similar conditions as for full internal models should apply (dealing with changing market circumstances, changing risk profiles, and regular review). We would assume a regular review to confirm (or not) the permanency of the PIM may be needed.	Level 1 text for partial internal models.
208. KPMG ELLP	3.55.	We welcome the confirmation that in certain situations, a partial internal model can be a permanent solution and not a transitory step to a full internal model.	Confirmed. Please refer to answer to comment 162.
209. UNESPA – Association of Spanish Insurers	3.55.	This section and 3.39 should have the same content. Therefore, both should be revised to have the same content.	Not agreed. This refers to the whole article 113 whereas the 3.39 refers to article 113 number 1 paragraph a).
		Given the importance of the provisions of assessment and approval of the limited extent of the model, CEIOPS should be more concrete in the definition of these provisions.	
210. CRO Forum	3.56.	It may be good to include in the transition plan the option of moving further to the Standard model (making more use of USP). Some changes may require making more use the Standard model (including USP, temporarily).	Not agreed. Partial internal models and undertakings' specific parameters are two distinct frameworks. Please refer to answer to comment 9.
211. Deloitte	3.56.	The requirements laid down by the supervisory authorities to extend the scope of a partial internal model may require the extension of the scope of the internally-modelled segments. It must be noted that due to this extended	Not agrred this is not allowed by the L1 text

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			scope there are potential implications on fulfilling the Use Test. It should be possible to have such requirements with regards to the supervisory authorities only – with no impact on the Use Test.	
212.	Groupe Consultatif	3.56.	We disagree with the requirement for a transitional plan, which the supervisor can request. If the partial internal model is not properly integrated in the standard model, this issue should be solved. Extending the scope of the partial internal model is a possible solution, but not the only one. Similar comments apply in relation to concerns about cherry picking. The requirement by a supervisory authority to extend the scope of a partial internal model may have implications for fulfilling the Use Test as the increased scope may not match the insurer's planned use of the model.	To ask a transitional plan is one possibility amongst other. The idea of the example was not to express that this circunstances a transitional plan will be required but solely to serve as an example of situations where a transitional plan may be required. Please refer to answer to comment 211.
213.	Munich Re	3.56.	The requirement to extend the scope of an partial internal model given by the supervisory authorities and the undertakings may require to extend the scope of the internal modelled segments. This has implication on fulfilling the Use Test as the increased scope may be only for supervisory reasons.	Please refer to answer to comment 211.
214.	AMICE	3.57.	AMICE requires clarification about the sentence: "This may include situations where the supervisory authority is aware that the undertaking has developed a model to quantify the risk but the undertaking has chosen not to apply for approval for that part of the internal model." The decision to implement internal models is a management decision; the supervisory authority has to prove any inadequacy of the module of the standard formula for covering the risks underwriten by the	This refers to situations where an undertaking uses a internal model with wider scope for the ORSA process but has required the supervisory approval of a more limited scope model.

			ary of Comments on Consultation Paper 65 - CEIO CP-65/09 CP No. 65 - L2 Advice on Partial Internal Models insurance undertaking.	PS- CEIOPS-SEC-167-10 January 2010
215.	CEA	3.57.	There should be no presumptions on the motivation for partial internal models The CEA agrees that there should be no cherry picking. We believe that the limited scope may be motivated by the reasons listed in 3.46 to 3.52. We disagree with the idea that the supervisory authority may required a transitional plan if it becomes aware that the undertaking has developed a model to quantify the risk but the undertaking has chosen not to apply for approval for that part of the internal model. We disagree that the supervisory authorities may request a transitional plan in the cases written down in 3.57. An internal model of an undertaking should not be evaluated compared to a model of another undertaking. Only supervisory authorities have the knowledge of the entire insurance market and can give hints about developing market standards for internal models. However, the assessment of one undertaking 's model should not depend on another undertaking is activity.	Please refer to answer to comment 212. Not agreed. Comparasion between the ORSA process and the internal model will be a primary supervisory tool, very usefull to detect potential cherry picking situations mongs other.
216.	CNP Assurances	3.57.	We disagree with the first bullet point. The undertaking itself should be the only one to decide if its modelling is robust enough to be proposed to homologation as a partial internal model.	Noted. Please refer to answer to comment 212.

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217.	Deloitte	3.57.	We would welcome clarity around what this means for non-EU based subsidiaries which are major business units. Can the supervisor require a transitional plan to extend the scope and include these?	Yes, as as the group SCR need to include all material quantifiable risks within the group
218.	DIMA	3.57.	The motivation for not applying for approval for partial internal model for part of a portfolio may not always be for cherry-picking purposes. The extension of partial internal model could increase the burden on an undertaking (documentations + follow ups and operation risk increase + costs for implementation, etc) while not being meaningful for capital requirement.	Noted.
219.	FFSA	3.57.	Transitional plan: FFSA disagrees with the following statement: "this may include situations where the supervisory authority is aware that the undertaking has developed a model to quantify the risk but the undertaking has chosen not to apply for approval for that part of the internal model."	Noted. Please refer to answer to comment 212.
			Indeed the scope of the model may not be material, or the model may not be sufficiently robust, or not being used to manage the business.	
220.	IUA	3.57.	We note that the proportionality principle is referred to here. We think it is important that all supervisors are cognisant of the proportionality principle when deciding on whether to require a transitional plan. We would have concerns if firms were required to extend the scope of their model, if it would be disproportionately costly or burdensome to extend the scope. Supervisory consistency will also be important across Europe.	Noted.

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221.	KPMG ELLP	3.57.	The fact that 'similar undertakings' are able to model risks does not necessarily mean that a firm should be 'forced' to develop a model for these risks. The proportionality principle should always be applied, and in particular it should be recognised that there is a cost burden to creating models to internal model approval standard. Unless the risk is expected to be material to the undertaking or the overall SCR, the supervisory authority should ensure that the ORSA encapsulates the risks appropriately and, if applicable, consider how this should best be reflected in the SCR.	Noted. Please refer to answer to comment 212.
222.			Confidential comment deleted.	
223.	UNESPA – Association of Spanish Insurers	3.57.	There should be no presumptions by the supervisor on the motivation for partial internal models. UNESPA does not agree the supervisor may require a transitional plan if knows the entity has developed a model to quantify certain risks but they have decided not to apply for its approval.	Noted. Please refer to answer to comment 212.
			The decision taking by the company to step forward to a partial or an advanced approach, from a standard model, should be an own and free decision, justified by their specific studies, analysis, structure and resources. Furthermore, in those situations the supervisor, before	
			calling for an extent of the scope, should ask to the entity of the reasons that moved the company not to advance to a certain approach.	

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224. Association of British Insurers	3.58.	We are concerned this might not be sufficient to ensure proper interaction with the undertaking concerned. Firms should be able to object and present arguments where a supervisor requests a transitional plan.	Noted. Please refer to answer to comment 202.
225. CEA	3.58.	Further details are needed under Level 2 on when and how a transitional plan may be required.	Noted. Please refer to answer to comment 202.
		We believe that a more explicit process should be put in place which would ensure that the undertakings are also involved in the decision making process on the scope of the model and in particular that undertakings are also able to challenge the decisions taken by supervisors.	Please refer to answer to comment 4.
226. FFSA	3.58.	Transitional plan To ensure a harmonized approach the details of the transitional plan should be included in level 2 guidance.	Noted. Please refer to answer to comment 202.
227. UNESPA – Association of Spanish Insurers	3.58.	The details of the content of the transition plan must be disclosed in this Consultation Paper.	Noted. Please refer to answer to comment 202.
		Given the special importance of the transition plan content, mainly for reasons of supervisory convergence, it must be included in the Level 2 Implementation Measures.	
228. CEA	3.59.	We disagree with the following: "transforming the "may" in paragraph 111(2) into a "shall" ". This is in contradiction with 3.35 which states that the request for a	The paragraph is expressing enforcing the idea that the plan automatic but it is a supervisory

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			transitional plan is not automatic but it is a supervisory option.	option.
229.	FFSA	3.59.	Transitional plan FFSA strictly disagrees with the following: "transforming the "may" in paragraph 111(2) into a "shall" ". This statement is in contradiction with 3.35 which states that the request for a transitional plan is not automatic but it is a supervisory option.	Please refer to answer to comment 228.
230.	AMICE	3.60.	See our comment to paragraph 3.46 above.	See the answer to that comment.
231.	Association of British Insurers	3.60.	We welcome CEIOPS' recognition that a partial internal model may be an appropriate final position for companies. This will incentivise firms to better manage their risk through the use of partial models.	Noted.
232.	CEA	3.60.	Acceptance that a partial internal model may be an appropriate final position for companies is welcome and is likely to result in a greater number of companies developing a partial model and improving their system of risk management. However we believe that it needs to be made clearer that default approach should be that no transitional plan is	Noted.
			required. Proposed re-draft of the last sentence: "More precisely if the model fails to comply with the partial internal model requirements, namely with the provisions set out in Article 111(1), supervisors may therefore decide to require such a plan."	

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233. German Insurance Association – Gesamtverband der D	3.60.	Acceptance that a partial internal model may be an appropriate final position for companies is welcome and is likely to result in a greater number of companies developing a partial model and improving their system of risk management.	Noted.	
		However we believe that it needs to be made clearer that default approach should be that no transitional plan is required.		
		Proposed re-draft of the last sentence: "More precisely if the model fails to comply with the partial internal model requirements, namely with the provisions set out in Article 111(1), supervisors may therefore decide to require such a plan."		
234. Groupe Consultatif	3.60.	We would welcome some reassurance from CEIOPS that a transitional plan is not only not automatic, but would not normally be required.	Noted.	
235. Just Retirement Limited	3.60.	We welcome CEIOPS's clarification that a transitional plan is not automatic.	Noted.	
236. PricewaterhouseCoopers LLP	3.60.	We strongly support the emphasis properly placed on the need for a transitional plan to a full model being a question of "may" and not "shall". We believe that the longer term maintenance of a partial model could be entirely good risk management and save both the (re)insurer and the supervisor wasting time on a needless extension.	Noted.	

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237. Groupe Consultatif	3.61.	The decision trees for all options to integrate partial internal models to the standard formula start with the requirement to show with "strong evidence" that the feasibility test or the appropriateness test is not fulfilled by the standard formula parameters.	Please refer to answer to comment 18.
		It should be sufficient instead to show strong evidence that an approach is an improvement on the standard formula method	
238. Lloyd's	3.61.	We welcome the flexibility given to undertakings in integrating the partial internal model under section 3.5. Given the complexity of this topic, this section addresses the key points well.	Noted.
239. Munich Re	3.61.	The decision tree of all options to integrate partial internal models to the standard formula starts with the requirement to show with "strong evidence" that the feasibility test or the appropriateness test is not fulfilled by the standard formula parameters. It should be satisfactory to show improvements from standard formula integration to company specific integration with strong evidence.	Please refer to answer to comment 18.
240. AFS	3.62.	Being able (when feasible and appropriate) to use the standard formula correlation matrix should simplify the complexity of applying the partial internal model and is a good default position for Friendly Societies as it will be the least complex implementation of a partial internal model	Noted.
241. AMICE	3.62.	We agree with the CEA that the default approach should not be the standard correlation matrix approach but undertaking 's integration approach.	Noted.

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242. Association of British Insurers	3.62.	Demonstrating "inappropriateness" could be a very difficult test to fulfil and we therefore believe firms should be able to propose the most appropriate alternative approach for the integration of their model into the standard formula. This may include the standard formula correlation matrix but could also be based on the firm's own integration approach. Supervisors would then review the proposal based on its merits and on feasibility and appropriateness. We would expect firms to demonstrate that this more appropriately reflects their risk profile and give explanations as to why they consider their own approach is more suitable where they choose not to use the standard formula.	Please refer to answer to comment 6.
243. CEA	3.62.	The CEA disagrees that the default is the standard correlation matrix approach – companies should be able to use more sophisticated integration approaches that address some or all of the acknowledged weaknesses of correlation matrix aggregation approaches (see Section 3.1.3 in CP74). In the first instance companies should be allowed to use their own integration approach with the appropriateness of this being reviewed by supervisors.	Please refer to answer to comment 9.
244. CRO Forum	3.62.	It is strange that CEIOPS seems to make use of the elimination principle: If it can not be proven the method is incorrect, it shall be used. Normally one would require demonstrating a "fit for use" test.	Noted. Please refer to paragraph 3.71.
245. Groupe Consultatif	3.62.	It is strange that CEIOPS seems to prefer the use of choice by elimination: If it cannot be proven that a method is	Noted. Please refer to paragraph 3.71.

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		incorrect, it shall be used. A more efficient approach would be to apply a "fit for use" test.	
		We understand that, given the fact that the correlations from the standard model are not normally to be replaced by undertakings, these correlations should also be the point of reference for integrating the partial internal model into the standard model. We believe that in all cases, the undertaking should assess the feasibility and appropriateness of this.	Noted.
246. Lloyd's	3.62.	We do not agree that that standard formula correlation matrix should be the default approach. As set out in our response to CP73 we have significant reservations about CEIOPS' proposals on standard formula correlation parameters. We consider that, in the first instance, firms should be able to use the technique they judge to be most appropriate, if necessary with supervisory approval. We believe that this will produce a more accurate outcome than would defaulting to the standard formula.	comment 6.
247. Lucida plc	3.62.	We agree that feasibility and appropriateness are the relevant things to test.	Noted.
248. UNESPA – Association of Spanish Insurers	3.62.	We disagree with the first step in any of the 3 options regarding to the use of correlation matrix of the standard formula.	Please refer to answer to comment 6.
		UNESPA does not agree with the requirement that forces to use the correlation matrix of the standard formula before considering more flexible and better adapted to the risk profile alternatives, in any of the 3 integration methods, proposed by the supervision authority or by the	

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		company itself.	
		Furthermore, due the wide liberty allowed on the design of partial internal models, its use in most of cases will probably be impossible.	
249. Unum	3.63.	See comments under 3.143	See answer to that comment.
250. Association of British Insurers	3.63.	See comments under 3.62 and 3.143	See answer to those comments
251. CEA	3.63.	See our comments on 3.62. None of the options are appropriate as they all have the standard approach correlation matrix as the starting default position thereby potentially resulting in less sophisticated models and less effective risk management.	Please refer to answer to comments 6 and 9.
		Of the options suggested Option 3 is the most preferable as it would provide the industry with the greatest flexibility and therefore the greatest scope to have better models. However, all 3 options impose a potential barrier to the use of more sophisticated integrated approaches, which is inappropriate and against the spirit behind partial models.	
252. CRO Forum	3.63.	Again (see comment 3.62) there should be strong evidence that the techniques provided by the supervisory authorities are inappropriate. It may be better to demonstrate other techniques can be approved if they are better aligned to the risk profile concerned (similar to USP).	Please refer to answer to commenst 6,9 and 245.

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253. Equitable Life Assurance Society (UK)	3.63.	The Society considers that the approach of using a firm's own dependency structures and parameters (subject to supervisory approval) should be permissible as an alternative to standard techniques to be listed at Level 3, without the need to demonstrate that none of these are feasible/appropriate. The firm's own techniques are likely to reflect the firm's own risk dependencies much more closely than any standard technique and would therefore provide a more accurate calculation of the SCR.	Please refer to answer to comments 6 and 9.
254. Groupe Consultatif	3.63.	Again (see comment 3.62) the advice states that there should be strong evidence that the techniques provided by the supervisory authorities are inappropriate. It may be better to demonstrate other techniques can be approved if they are better aligned to the risk profile concerned (similar to USP). We therefore generally support option 3.	Please refer to answer to commenst 6,9 and 245.
255. Lloyd's	3.63.	The sentence should read "If the standard formula correlation matrix is either not feasible or not appropriate". We favour option 3 over option 2. See para 3.142	Noted.
256. Just Retirement Limited	3.63.	See comments in 3.143	See answer to that comment.
257. KPMG ELLP	3.63.	We believe that (re)insurance undertakings should be allowed the maximum flexibility to develop their own model to match their own risk profile and believe it could be difficult for CEIOPS to impose and parameterise methods on undertakings.	Noted.
258. UNESPA – Association of Spanish Insurers	3.63.	The preferred option of integration for UNESPA is number 3, although option 2 may be acceptable if the list is appropriate and complete (e.g if it includes methods that companies normally use and is updated to include new developments and innovations).	Noted.

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			Option 3 is preferred, although option 2 is acceptable if the integration method list includes the best methodologies in use by companies.	
			The acceptability of option 2 depends on the methodologies it contains and on the reasonability of the supervision authorities when they asses them.	
			Supervisors must commit to know, evaluate and, where appropriate, adopt the best practices in the industry.	
259.	KPMG ELLP	3.66.	We believe that the primary test should be 'appropriateness' and not feasibility. The aggregation technique should be chosen to provide the best match for the risk profile.	Noted.
260.	UNESPA – Association of Spanish Insurers	3.66.	UNESPA asks CEIOPS to define more in depth the contents of the feasibility test of the correlation matrix of the standard formula in the integration process of the partial internal partial model into standard formula.	Not agreed.
261.	CEA	3.67.	The example is unclear. Does Ceiops refer to same business units within a group? (e.g. two life business units?).	No, this is a solo example.
262.	CRO Forum	3.67.	We understand that, as soon as the dependencies	Not agreed. There may

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	T	CP No. 65 - L2 Advice on Partial Internal Models structures of the PIM will be different to the one of the SCR	circuntances where the
		structures of the PIM will be different to the one of the SCR standard formula feasibility test would not be passed, and would like to had this example	dependencies structure may be different and still be feasible and appropriate to use the standard formula correlation matrix.
263. FFSA	3.67.	Feasibility test	Please refer to answer to
		The example is unclear. Does CEIOPS refer to same business units within a group (e.g. two life business units?). FFSA requests for more clarifications.	comment 261.
264. KPMG ELLP	3.68.	We believe that the appropriateness test should be about evidencing that an alternative approach is more appropriate and not that the 'standard technique' is inappropriate.	Not agreed.
265. CEA	3.69.	The difficulty with proving inappropriateness is clear from this section. It would be better to allow companies to choose the integration approach and to require them to demonstrate that this "more appropriately reflects the risk profile of the undertaking".	Not agreed.
266. CRO Forum	3.69.	The difficulty with proving inappropriateness is clear from this section. It would be better to demonstrate that the Alternative integration technique "more appropriately reflects the risk profile of the undertaking"	Not agreed.
267. Groupe Consultatif	3.69.	The difficulty with proving inappropriateness is clear from this section. It would be better to demonstrate that the alternative integration technique "more appropriately reflects the risk profile of the undertaking"	Not agreed.
268. Lucida plc	3.69.	We agree that a key principle is that the SCR shall	Noted.

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		correspond to the VaR of the basic own funds of an undertaking subject to a confidence level of 99.5% over a one-year period	
269. CRO Forum	3.70.	Better that the approval request of the alternative integration technique includes the equivalence of the SCR and the Risk profile requirements.	Noted. It does include, please refer to paragraph 3.172.
		Indeed, keeping in mind the difficulty to calibrate VAR dependencies, it seems nearly impossible in most of the cases to demonstrate that the appropriateness test would not be passed	
270. Groupe Consultatif	3.70.	We recommend supplementing the approval request for the alternative integration technique with a section on the equivalence of the SCR and the risk profile requirements.	Noted.
271. IUA	3.70.	We would question why it is necessary for undertakings to provide strong evidence that the Standard Formula correlation matrix is not appropriate, rather than demonstrating why an alternative correlation matrix would be more appropriate, particularly where strong evidence is required.	Please refer to answer to commenst 6, 9 and 245.
272. KPMG ELLP	3.70.	We believe that the evidence should be that the technique produces an SCR that meets the principles of paragraph 3.69	Noted.
273. Lucida plc	3.70.	We consider a key benefit of using partial internal models would be to better determine the inter-dependency of risks that are "up/down" in the Standard Formula. By this we refer to risks that are set as being the higher of an upward or downward shock. To use the calibration matrix as prescribed in the Standard Formula to combine risks that	Noted.

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		are "up/down" in nature forces the calibration matrix to consider the worst possible combination of "up/down" and "up/down" for each pair of risks, whereas being able to model them in a stochastic scenario setting would better enable us to understand the key drivers of the capital requirements in each scenario. We understand that the calibration of the random variables used in constructing the stochastic scenarios will need to be backed by strong evidence, but we are also concerned that conceptually this could give a lower SCR than the Standard Formula construction which is hindered by the need to ensure that it gives at least 99.5% protection but in certain scenarios for certain firms could give much higher than 99.5% protection. We consider the wording of 3.70a) to be consistent with our understanding that if we could show strong evidence that our preferred integration method was calibrated to 99.5% protection, that would be sufficient to reject the Standard Formula integration method. This comment also applies to 3.148.	
274. CEA	3.71.	The fact that using the standard correlation matrix is likely not to be a 100% satisfactory integration technique is a good reason for allowing companies to replace it with more appropriate approaches as we recommend in 3.62 above.	Not agreed.
275. Groupe Consultatif	3.71.	The fact that using the standard correlation matrix is likely not to be a 100% satisfactory integration would suggest that a lesser test than strong evidence of inappropriateness should perhaps be set.	Not agreed.
276. IUA	3.71.	Given that CEIOPS acknowledges that it is difficult for the standard formula correlation matrix to fit the specified	Not agreed.

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		criteria perfectly, it may be useful for firms to demonstrate why they think an alternative approach is more appropriate. Particularly in light of our comment to Paragraph 3.70.	
277. KPMG ELLP	3.71.	We believe that (re)insurance undertakings should be able to demonstrate that an alternative approach is a better match for their risk profile and not prove that the standard approach is inappropriate.	Not agreed.
278. CEA	3.72.	See comments to 3.62 and 3.63.	See answer to those comments.
279. CRO Forum	3.72.	It is strange that CEIOPS seems to make use of the elimination principle: If it can not be proven the method is incorrect, it shall be used. Normally one would require to demonstrate a "fit for use" test.	Please refer to answer to comment 245.
280. Deloitte	3.72.	This paragraph does not provide additional information. We suggest it is either deleted, or that more clarity is provided around what is meant by "significant evidence".	Not agreed.
281. FFSA	3.72.	Strong evidence related to the integration method	Noted.
		In order to ensure a harmonised approach, CEIOPS should disclose a process to be followed by the supervisors in order to ensure that there is no regulatory arbitrage.	
282. Groupe Consultatif	3.72.	It is strange that CEIOPS seems to prefer the use of choice by elimination: If it cannot be proven that a method is incorrect, it shall be used. A more efficient approach would be to apply a "fit for use" test. We believe that 'strong evidence' is too high a hurdle for	Please refer to answer to comment 245.

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			using an alternative integration technique especially given consultation paper 74 on correlations in which CEIOPS illustrates that a correlation approach is often not appropriate.	Noted. Not agreed.
			In addition to this, it is unclear what 'significant' means in this context. Definition of strong evidence could also be improved/clarified.	Noted.
283.	Munich Re	3.72.	Definition of strong evidence could be improved.	Noted.
284.	CEA	3.73.	We remark that the appropriateness test should indeed be validated, but that the 'Ceiops Advice on Tests and Standards for internal models approval' is applicable to the full internal model rather than to each and every subpiece of this model.	Not agreed. Proportionality principle applies.
285.	Groupe Consultatif	3.73.	We agree that the appropriateness test should be validated, but note that the 'CEIOPS Advice on Tests and Standards for internal models approval' is applicable to the full internal model rather than to each and every subcomponent of this model.	Not agreed. Proportionality principle applies.
286.	CEA	3.74.	See comments to 3.62 and 3.63.	See answer to those comments.
			We disagree with the following wording "If the supervisory authority is of the opinion that the strong evidence is not appropriate"	Not agreed.
			Supervisory authority decision should be based on expert judgement, not on an opinion.	

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		Redraft: "If the alternative integration technique is not approved, then standard formula's integration technique should be used."	Not agreed.
287. CRO Forum	3.74.	We would prefer: "If alternative integration technique is not approved then standard formula's integration technique should be used."	Not agreed.
288. FFSA	3.74.	Strong evidence related to the integration method	Not agreed.
		FFSA disagrees with the following wording "If the supervisory authority is of the opinion that the strong evidence is not appropriate"	
		Supervisory authority decision should be based on expert judgement, not on an opinion.	
289. UNESPA – Association of Spanish Insurers	3.74.	UNESPA disagrees with this wording: "If the supervisory authority is of the opinion that the Strong evidence is not appropriate"	Not agreed.
		Supervision Authority should demonstrate that the insurance company does not comply with each of the provisions of the appropriateness test:	
		☐ Equivalence with SCR at one year 99.5 VaR	
		☐ Alignment with the profile risk.	
		☐ Use of additional data	
		☐ Use test.	

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		Furthermore, to be consistent with the position set out by UNESPA in 3.62, there will always have to look for a different integration technique to the standard formula integration matrix, since this option is presented as the least able to reproduce the risk profile of the entity.	
290. CRO Forum	3.75.	We would prefer: "If alternative integration technique is not approved then standard formula's integration technique should be used."	Not agreed.
291. Lucida plc	3.75.	We welcome the discussion of the various options considered.	Noted.
292. CEA	3.76.	See comments to 3.62 and 3.63.	See answer to those comments.
		In option1, it is unclear how supervisors will decide which coefficients are to be applied in case the standard formula correlation matrix fails the feasibility test	Noted. This is not the chosen option.
		It is clear however that option 1 will fail to ensure supervisory convergence in terms of which coefficients are applied in case the standard formula correlation matrix fails the feasibility test.	
293. CRO Forum	3.76.		
294. FFSA	3.76.	Policy options regarding the integration of partial internal models - Option 1	Noted. This is not the chosen option.
		Feasibility test	

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		FFSA would like CEIOPS to disclose on the methodology to be followed by the supervisory authorities in assessing the new correlation coefficients. The methodology should ensure a harmonised approach amongst supervisory authorities and avoid regulatory arbitrage, such as using coefficients equal to one (no diversification benefits).			
295. Groupe Consultatif	3.76.	We do not agree that the supervisor is better positioned than the undertaking to determine parameters that adequately and appropriately reflect the risk profile of the undertaking.	Noted. This is not the chosen option.		
		In the case that the feasibility test is not met, the undertaking should have the option to propose coefficients for integration (although changing coefficients seems unlikely to make the approach feasible).			
296. Munich Re	3.76.	In the case of not fulfilling the feasibility test the undertaking should have the option to propose coefficients for integration.	Not agreed.		
297. UNESPA – Association of Spanish Insurers	3.76.	Under Option 1, it must be clarified the obtaining process of the coefficients to aggregate the risks if the correlation matrix of the standard formula fails the test.	Noted. This is not the chosen option.		
		UNESPA is concerned about the convergence among supervision authorities, because if the methodologies for integration of the partial internal model into the standard formula are not developed in Level 2 implementation measures, It will not be possible to get a common and consistent methodology at European Level.			

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			If option 1 is implemented and fails feasibility test, It should be clear that obtaining the factors by supervisors should be accompanied by a study that justified qualitatively and quantitatively the feasibility and the appropriateness of these factors.	
			Finally, UNESPA considers it is more reasonable the own entity obtains the coefficients, since it knows properly its own business and risks.	
298.	CEA	3.77.	Same comment as 3.76.	See answer to that comment.
299.	UNESPA – Association of Spanish Insurers	3.77.	See comments for 3.76.	See answer to that comment.
300.	AFS	3.78.	The simplest method of integrating the partial internal model is when all the business is modelled in it and it follows the categories and structure of the standard formula. We expect that many of the Friendly Societies who use a partial internal model may follow this route. The final text on integration needs to allow for the scale and relatively low complexity of the business of many Friendly Societies.	Noted.
301.	CEA	3.79.	We do not think that assuming zero diversification is generally more appropriate than the given standard correlations. This should not be common practice.	Noted.

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302.	CRO Forum	3.79.	If the application of the standard formula correlation matrix is possible but not appropriate, supervisory authorities will decide which coefficients the undertaking shall apply. These may vary from simply assuming no diversification benefits between the partial internal model's results and results from the standard formula (in most cases simply summing the results, i.e. assuming a linear correlation equal to one), to prescribing a different coefficient. We do not think that assuming zero diversification is generally more appropriate than the given standard correlations. This should not be common practice.	Noted.
303.	FFSA	3.79.	Policy options regarding the integration of partial internal models - Option 1 Appropriateness test Same comment as 3.76	See answer to that comment.
304.	Groupe Consultatif	3.79.	If the application of the standard formula correlation matrix is possible but not appropriate, supervisory authorities will decide which coefficients the undertaking shall apply. These may vary from simply assuming no diversification benefits between the partial internal model's results and results from the standard formula (in most cases simply summing the results, i.e. assuming a linear correlation equal to one), to prescribing a different coefficient. We do not think that assuming zero diversification is	Noted.

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		generally more appropriate than the given standard correlations. This should not be common practice.			
305. KPMG ELLP	3.79.	We do not believe that assuming zero diversification is likely to be more appropriate than the standard correlations, so assume that this would rarely arise in practice.	Noted.		
306. CEA	3.80.	See comments to 3.62 and 3.63.	See answer to those comments.		
		Policy options regarding the integration of partial internal models - Option 1 Decision tree. Using this decision tree does not encourage innovation and the development of partial internal models as the supervisors will have the sole decision on the correlation coefficients to be used. This approach may lead to regulatory arbitrage when it is easier for supervisors to assume that correlation coefficients should be equal to one (if there is a lack of adequate resources or knowledge, for example). Hence, some undertakings may be forced to hold inappropriate level of capital. If this approach were to be adopted (something we are strongly against) undertakings should have the option to appeal the supervisory authority's decision.			
307. CRO Forum	3.80.	We disagree with option 1, given our comments on 3.76 and 3.79. This option does not contribute to a better reflection of the risk profile in the SCR.	Noted. This is not the chosen option.		
308. FFSA	3.80.	Policy options regarding the integration of partial internal models - Option 1 Decision tree	Noted. This is not the chosen option.		

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		Using this decision tree does not encourage innovation and the development of partial internal models as the supervisors will have the sole decision on the correlation coefficients to be used. This approach may lead to regulatory arbitrage when it is easier for supervisors to assume that correlation coefficients should be equal to one (if there is a lack of adequate resources or knowledge, for example). Hence, some undertakings may be forced to hold inappropriate level of capital.	
		Undertakings should have the option to appeal the supervisory authority's decision.	
		Undertakings should be able to use correlation coefficients which reflect their risk profile.	
309. Groupe Consultatif	3.80.	We disagree with option 1, given our comments on 3.76 and 3.79. This option does not contribute to a better reflection of the risk profile in the SCR.	Noted. This is not the chosen option.
310. CEA	3.81.	See comments to 3.62 and 3.63.	See answer to those comments.
311. CRO Forum	3.81.	We agree that flexibility is needed, but rather for the undertaking when integrating the partial internal model than for the supervisor.	Not agreed.
312. Deloitte	3.81.	It is not clear what is meant by 'risk ranking ability'. If this refers to some other CEIOPS document, please set out the reference.	It refers to paragraph 4 of article 121 of the Level 1 text.
313. FFSA	3.81.	Policy options regarding the integration of partial internal models - Option 1	Noted. This is not the chosen option.
		The outcome is unclear when the standard correlation	

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			matrix is neither feasible nor appropriate.	
			CEIOPS is suggesting some factors to be taken into account. This does not ensure that a harmonised approach amongst supervisors, or reduce the possibility of regulatory arbitrage.	
314.	Groupe Consultatif	3.81.	We agree that flexibility is needed, but more for the undertaking when integrating the partial internal model than for the supervisor.	Not agreed.
315.	KPMG ELLP	3.81.	We agree that flexibility is needed. However this paragraph (as with 3.79) appears to suggest that this lies with the supervisor. We believe that flexibility should exist on the parts of both the (re)insurance undertaking and the supervisor.	
316.	KPMG ELLP	3.82.	Throughout this section, the onus is on proving that the standard approach is inappropriate, rather than demonstrating that an alternative approach is better. We prefer the latter phraseology. In this paragraph, for example, we would prefer the second bullet point to be rephrased as 'there is strong evidence that an alternative approach is appropriate'	Noted.
317.	Lloyd's	3.83.	It would be clearer if this read "If the direct application, the undertakings shall ATTEMPT to use one of the integration techniques", and if a sentence was added afterwards saying "If none of the techniques is both feasible and appropriate, then supervisors may permit undertakings to propose alternative techniques as set out in 3.102 below."	Not agreed.
318.	UNESPA – Association of Spanish Insurers	3.83.	UNESPA believes that CEIOPS should anticipate the integration methods list during the development of Level 2	Not agreed.

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		implementation measures.	
		Due the problems arisen with the consistence and appropriateness of the correlation matrix of the standard formula, CEIOPS should consider the validity of its applicability.	Agreed. Please refer to answer to comment 6.
		Moreover, in order to give a more accurate opinion about the collection of the integration techniques, CEIOPS should provide some alternatives and methodologies to encourage the insurance market to start to work on them.	
		UNESPA is afraid of some problems of convergence among	Noted.
		supervisors may arise if both techniques and methodologies to obtain them are not proposed during the development of Level 2 implemention measures. It is essential that all the companies have access to the same methodologies and techniques in order to ensure a competitive market all around Europe.	
319. KPMG ELLP	3.84.	We welcome the inclusion of a list of approved techniques in level 3 ,as it may allow (re)insurance undertakings to save development time by selecting a technique. However, it must be flexible and updated regularly.	Noted.
		We also have some concerns about the timing of production of the initial approved list, given that the level 3 measures will not be finalised until close to Solvency II implementation, which leaves (re)insurance undertakings with only a very small amount of time to follow the	Please refer to answer to comment 6 and 9. CEIOPS will update the list

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		approach outlined in this paper and seek supervisory approval for a partial internal model. Perhaps, in this context, the level 3 list could be developed over time and a modification to the proposed approach put in place for 2012/13 partial internal model applications.	regularly. Please refer to paragraphs 3.95 to 3.101 and to paragraphs 3.165 to 3.17.
320. CEA	3.85.	See comments to 3.62 and 3.63. All techniques would have to be reviewed before choosing a technique. This is not in line with the proportionality	See answer to those comments. Not agreed.This is only an overall review.
		principle.	overall review.
321. CRO Forum	3.85.	All techniques have to be reviewed before choosing a technique. This prescriptive approach is not in line with a principles and proportionality based approach.	Not agreed. This is only anoverall review.
322. Groupe Consultatif	3.85.	Under this proposal, all techniques have to be reviewed before choosing a technique. This is not in line with proportionality principle.	Not agreed. This is only an overall review.
323. KPMG ELLP	3.85.	The requirement that ALL of the level 3 techniques are considered and advantages and disadvantages of each considered could be onerous. We do not believe this is proportionate, and it may be helpful if CEIOPS clarifies the extent of analysis it considers necessary in step a).	Not agreed.This is only an overall review.
324. Munich Re	3.85.	All techniques have to be reviewed before choosing a technique. This is not in line with proportionality principle.	Not agreed.This is only an overall review.
325. CEA	3.86.	See comments to 3.62 and 3.63.	See answer to those comments.
		If this approach were to be adopted (which the CEA does not support) one has to question why the alternative methods supervisors may require the undertaking to test were not already disclosed in the level 3 list of integration	Not agreed. The alternative methods are in the Level 3 list.

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		techniques? Having an incomplete list risks companies using suboptimal approaches and a lack of harmonisation across the EU resulting in the potential for regulatory arbitrage.				
326. CRO Forum	3.86.	It is strange that CEIOPS seems to make use of the elimination principle: If it can not be proven the method is incorrect, it shall be used. By proving that listed integration techniques are NOT appropriate, one is allowed to use alternatives. This seems quite burdensome. Undertaking has to identify a short list of appropriate integration techniques, but evidence that techniques are inappropriate will probably be very difficult and a uniform application of option 2 (i.e. capacity of the supervisory to ask the undertaking to test alternative integration techniques) very difficult to reach. The burden of proof should lie with the supervisory authority for imposing an integration technique not chosen by the undertaking.	Not agreed. This is only an overall review. The undertaking then shall choose a short list of one or more techniques and perform a more in depth analysis of those. Please refer to answer to comment 6. Not agreed.			
327. FFSA	3.86.	Policy options regarding the integration of partial internal models - Option 2 CEIOPS claims that supervisory authorities may require the undertaking to test alternative methods and provide strong evidence that such methods are inappropriate in order to prevent cherry-picking. FFSA wonders why these methods will not already be disclosed in the level 3 [list of methods – implementation	Yes those methods will already disclosed in Level 3.			

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		measures/guidance] This would ensure a harmonised approach among supervisory authorities and avoid regulatory arbitrage.	
328. Groupe Consultatif	3.86.	It is strange that CEIOPS seems to promote choice by elimination: If it cannot be proven that the method is incorrect, it shall be used. By proving that the listed integration techniques are NOT appropriate, one is allowed to use alternatives. This seems quite burdensome.	Please refer to answer to comment 326.
		We rather think that the company should select one method and show that it is feasible and appropriate.	
		The supervisory authority should give reasons for choosing an integration technique not chosen by the undertaking.	
329. KPMG ELLP	3.86.	Again, this approach seems burdensome, in that a (re)insurance undertaking has to demonstrate why none of the level 3 approaches is appropriate before supervisory authorities will consider alternative approaches.	Please refer to answer to comment 326.
330. Munich Re	3.86.	The supervisory authority should give reasons for choosing an integration technique not chosen by the undertaking.	Noted.
331. Groupe Consultatif	3.87.	We support requirements as mentioned under a and b. We consider the questions under c and d may be appropriate when the partial internal model is part of a larger internal model, but not when it concerns integration in the standard model which is likely not to be used to capital allocation etc.	Noted.
332. KPMG ELLP	3.89.	This test should be about proving a technique is appropriate not that it is inappropriate	Noted.
333. CEA	3.90.	As we describe in 3.62 undertakings should be allowed to select the integration approach subject to them being able	Please refer the answer to that comment.

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		to show that it is appropriate.	
334. CRO Forum	3.90.	It is strange that CEIOPS seems to make use of the elimination principle: If it can not be proven the method is incorrect, it shall be used. By proving that listed integration techniques are NOT appropriate, one is allowed to use alternatives. This seems quite burdensome.	Please refer to answer to comment 326.
		Undertaking has to identify a short list of appropriate integration techniques, but evidence that techniques are inappropriate will probably be very difficult and a uniform application of option 2 (i.e. capacity of the supervisory to ask the undertaking to test alternative integration techniques) very difficult to reach.	
		The burden of proof should lie with the supervisory authority for imposing an integration technique not chosen by the undertaking.	
335. DIMA	3.90.	"the supervisory authority may require the undertaking to test any of the other techniques": is the idea of "any" exclusive, that is one (and only one) other integration technique or can there be a multiple number of other integration techniques, up to all the other integration techniques? This should be clarified.	This will depend on this specific circunstance. In principle yes but in the practice is not ypaccly expect Certainly it will not be expected for the undertaking to test all the other remaining techniques.
336. Groupe Consultatif	3.90.	It is strange that CEIOPS seems to promote choice by elimination: If it cannot be proven that the method is incorrect, it shall be used. By proving that the listed integration techniques are NOT appropriate, one is allowed to use alternatives. This is burdensome and not necessary if the undertaking selects one integration technique and	Please refer to answer to comment 326.

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		shows it is appropriate.	
		The supervisory authority should give reasons for choosing an integration technique not chosen by the undertaking.	
337. Munich Re	3.90.	The supervisory authority should give reasons for choosing an integration technique not chosen by the undertaking.	Not agreed.
338.		Confidential comment deleted.	
339. CRO Forum	3.92.	We understand the approach taken. However, again it may be more efficient and effective to allow demonstrating that a particular integration technique is most "fit for use" Supervisor may of course want to challenge that, but this avoids the elimination approach (see 3.86).	Noted.
340. Groupe Consultatif	3.92.	We understand the approach taken. However, again it may be more efficient and effective to allow an undertaking to demonstrate that a particular integration technique is most "fit for use". The supervisor may of course want to challenge the selection, but this avoids the choice by elimination approach (see 3.86).	
341. CRO Forum	3.94.	We do not consider retention of list for level 2 purposes be inline with the spirit of the SII directive which advocates a principles based implementation measure.	Please refer to answer to comment 11.
342. Groupe Consultatif	3.94.	We would welcome such a list, but rather as non-binding guidance than as binding list of options. Possibly, the actuarial profession may contribute to creation of such a list.	Noted. Please refer to answer to comments 6 and 18.
		It would be an advantage for the undertakings considering a partial model if this list was produced relatively quickly."	

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343.	CEA	3.95.	See comments to 3.62 and 3.63.	Please refer to the answerto
			Undertakings would never have any certainty that their model will be accepted by the supervisory authority over several periods.	those comments.
			If this approach were to be adopted (which the CEA does not support) the CEA would disagree with the following statement "may include removing techniques from the list". This implies that undertaking will have to build up a new "aggregation technique" if the removed technique is currently used by the undertaking, although it is still appropriate for use. This is unduly burdensome and onerous.	CEIOPS understands CEA's concern. Paragraph 3.95 and 3.165 were changed to clarif what occurs in this situation. Agreed. Paragraphs 3.95 an
			A review 'from time to time' is vague and should be replaced by: at least an annual review, since this is also the required frequency for the use of (partial) internal models.	3.165 changed accordingly.
344.	CRO Forum	3.95.	We disagree with the following statement "may include removing techniques from the list". This implies that undertaking will have to build up a new "aggregation technique" if the removed technique is currently used by the undertaking, although it is still appropriate for use. This is unduly burdensome and onerous.	Please refer to answer to comment 3.43.
			A review 'from time to time' is vague and should be replaced by: at least an annual review, since this is also the required frequency for the use of (partial) internal	

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	<u> </u>	models.	
345. FFSA	3.95.	Policy options regarding the integration of partial internal models - Option 2	Please refer to answer to comment 3.43.
		FFSA disagrees with the following statement "may include removing techniques from the list". This implies that undertaking will have to build up a new "aggregation technique" if the removed technique is currently used by the undertaking, although it is still appropriate for use. This is unduly burdensome and onerous.	
346. Groupe Consultatif	3.95.	A review 'from time to time' is unclear and should be replaced by: at least an annual review, since this is also the required frequency for the use of (partial) internal models.	Please refer to answer to comment 3.43.
347. Lloyd's	3.95.	If CEIOPS is to remove any technique from the list it should first obtain the agreement of the supervisor of any undertaking that is using the methods, and it should give reasons why the technique is to be removed.	Please refer to answer to comment 3.43.
348. KPMG ELLP	3.95.	It is important that (re)insurance undertakings can develop and propose their own techniques. Supervisors need to be able to provide a robust challenge to these techniques and approve them if appropriate.	Noted
349. UNESPA – Association of Spanish Insurers	3.95.	It is not reasonable to remove integration methods that are feasible and appropriate for the insurance companies.	Please refer to answer to comment 3.43.
		We think CEIOPS should take care to maintain the cost of adaptation to Solvency II for the companies as low as possible.	

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			If an insurance company has demonstrated that its integration technique guarantees that the calculation of the SCR meets the standards and the whole formula reflects properly its risk profile, the supervisor should not be force to change it.	
350.	DIMA	3.97.	Questions could be asked on the motivation to add new integration techniques. Should we consider all the techniques mentioned by actuarial or academic studies? Who will be in charge of following the evolution of the techniques within CEIOPS?	Noted.
351.	Lloyd's	3.97.	It should be made clear that test (c) is by far the most important of these, and that not all of them need to be met.	Noted.
352.	Lloyd's	3.98.	Delete "the" and "technique" to obtain " to choose an appropriate technique for integration and then apply it"	Agreed. Changed accordingly.
353.	KPMG ELLP	3.100.	Agreed – it should be up to (re)insurance undertakings to justify their approach.	Noted.
354.	Lloyd's	3.101.	How can CEIPOS show at this stage that that the list will be up to date, able to be updated quickly and flexible?	Please refer to paragraphs o under this current section of this consultation paper.
355.	CEA	3.102.	Undertakings should be allowed to use other aggregation techniques that are not listed in level 3 guidance as long as they prove that it is more appropriate than any of the listed methods. It should not be considered as the last available option when none of the techniques provided is feasible or appropriate.	Not agreed.
356.	FFSA	3.102.	Policy options regarding the integration of partial internal	Not agreed.

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		models - Option 2	
		Undertakings should be allowed to use other aggregation techniques that are not listed in level 3 guidance as long as they prove that it is more appropriate than any of the listed methods. It should not be considered as the last available option when none of the techniques provided is feasible or appropriate.	
357. CEA	3.104.	The CEA disagrees with option 2, given our comments 3.86, 3.90, and 3.95 and given the fact that this option will be extremely (and unnecessarily) burdensome for the undertakings. Last but not least, there is the danger of systemic risk when using the list of integration techniques as mentioned.	Please refer to answer to comments 6 and 9.
358. Groupe Consultatif	3.104.	We disagree with option 2, given our comments 3.86, 3.90, 3.92 and 3.94 and given the fact that this option will be unnecessarily burdensome for the undertakings. Last but not least, there is the danger of systemic risk when using the list of integration techniques as mentioned.	Please refer to answer to comments 6 and 9.
359. KPMG ELLP	3.107.	A list of approved techniques is beneficial for many firms.	Noted.
360. CEA	3.108.	See comments to 3.62 and 3.63.	Please refer to the answer to those comments.
		If this approach were to be adopted (which the CEA does not support) the CEA would disagree with (Point c) "Require the undertaking to submit a transitional plan to extend the scope of the model to the level where it could be easily integrated with the standard formula" because a transitional plan should not be requested when supervisors do not possess sufficient or suitable resources. This would be unduly burdensome and onerous for undertakings and	Not agreed.

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			could result in a lack of harmonization between countries depending upon the level of knowledge and expertise within supervisory authorities. In order to avoid regulatory arbitrage, any decision from supervisory authorities should be based on expert judgment. Undertakings should not suffer from any lack of adequate resources or knowledge of the supervisory authorities. They should be able to appeal the supervisory authority's decisions when no expert judgment is provided.	
361.	FFSA	3.108.	Policy options regarding the integration of partial internal models - Option 3	Please refer to the answer to 360.
			FFSA disagrees with (Point c) "Require the undertaking to submit a transitional plan to extend the scope of the model to the level where it could be easily integrated with the standard formula"	
			Transitional plan should not be requested when supervisors do not possess sufficient or suitable resources. This is unduly burdensome and onerous for undertakings.	
			In order to avoid regulatory arbitrage, any decision from supervisory authorities should be based on expert judgement.	
			As undertakings should not suffer from any lack of adequate resources or knowledge of the supervisory authorities, they should be able to appeal the supervisory authority's decisions when no expert judgement is provided.	
362.	GROUPAMA	3.108.	We recommend the option 3: undertakings should be allowed to suggest their own methodology before using a	Not agreed.

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		"standard" methodology which by definition is not made to fit the undertaking PIM structure.	
363. CRO Forum	3.112.	We support option 3.	Noted.
364. Groupe Consultatif	3.112.	We support option 3.	Noted.
365. CEA	3.119.	Assuming zero diversification is certainly not a general good reflection of the risk profile.	Noted.
366. CRO Forum	3.119.	We agree and stress that assuming zero diversification is certainly not a general good reflection of the risk profile.	Noted.
367. Groupe Consultatif	3.119.	We agree and stress that assuming zero diversification is generally not appropriate.	Noted.
368. CEA	3.121.	We note that an uneven playing field is guaranteed if each supervisor independently may prescribe parameters for the aggregation.	Noted.
369. CRO Forum	3.121.	We note that no level playing field is guaranteed if each supervisor independently may prescribe parameters for the aggregation.	Noted.
370. Groupe Consultatif	3.121.	We note that it will be difficult to ensure a harmonised approach across Member States and within each Member State if each supervisor may independently prescribe parameters for the aggregation.	Noted.
371. CRO Forum	3.129.	This is more an argument supporting option 3 rather than option 2.	Not agreed.
372. Groupe Consultatif	3.129.	This is more an argument supporting option 3 rather than option 2.	Not agreed.

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373.	Groupe Consultatif	3.133.	We agree that option 3 will lead to an outcome-focused consistency and this should be preferred to process-focused consistency achieved by option 1 and option 2. We have the impression that CEIOPS prefers option 2 to overcome (perceived) internal supervisory problems related to option 3, but do not agree that such considerations should be decisive in choosing between option 2 and option 3.	Noted.	
374.	AFS	3.134.	We agree that for Friendly Societies option 2 is likely to be attractive, but would wish to see sufficient flexibility in the list of prescribed techniques (as envisaged in 3.165 to 3.167) to appropriately address the particular risks in Friendly Societies businesses making due allowance for the limited scale and complexity of most Friendly Societies	Noted.	
375.	AMICE	3.134.	We can confirm the assumption of CEIOPS and agree that Option 3 is preferred by our members, as it provides the highest degree of modeling freedom. Our members believe that this would be the most effective way to adequately capture undertaking's risk profile and to reduce systemic risk.	Noted.	
376.	Association of British Insurers	3.134.	"Industry will likely prefer Option 3 as it provides the highest degree of modelling freedom and they believe that this would be the most effective way to adequately capture undertaking's risk profile and to reduce systemic risk."	Noted.	
			We welcome CEIOPS recognition of the merits of Option 3, as described in para 3.134 to 3.139.		
377.	Unum	3.134.	We welcome CEIOPS recognition of the merits of Option 3, as described in para 3.134 to 3.139.	Noted.	
378.	CEA	3.134.	Of the options put forward the industry indeed prefers	Noted.	

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		option 3. However, as we describe in 3.62 none of the options are appropriate. Further, we do not think SME's will prefer option 2, given the high burden this will lead to.	
379. CRO Forum	3.134.	"Industry will likely prefer Option 3 as it provides the highest degree of modelling freedom and they believe that this would be the most effective way to adequately capture undertaking's risk profile and to reduce systemic risk."	Noted.
		We welcome CEIOPS recognition of the merits of Option 3, as described in para 3.134 to 3.139. However, it is unclear why CEIOPS has opted for Option 2.	
380. Groupe Consultatif	3.134.	We believe that industry will prefer option 3. We do not think SME's will prefer option 2, given the high burden this will lead to. We do think a list could be helpful for option 3.	Noted.
		The option 2 requires a dynamic management of the list of techniques consistent with the standard formula. The level III measures will be very important because the use of unsuitable techniques may have impact on the systemic risk.	
381. Institut des actuaires (France)	3.134.	The option 2 requires a dynamic management of the list of techniques consistent with the standard formula. The level III measures will be very important because the use of unsuitable techniques may have impact on the systemic risk.	Noted.
382. Just Retirement Limited	3.134.	3. We agree with this description of the merits of option 3, where firms have developed a complex Partial Internal Model – we agree it is the approach most likely to	Noted.

		Sun	nmary of Comments on Consultation Paper 65 - CEIC CP-65/09 CP No. 65 - L2 Advice on Partial Internal Models	OPS- CEIOPS-SEC-167-10 January 2010
			reduce systemic risk, capture an undertakings risk profile and promote good risk management and model use.	
383.	Groupe Consultatif	3.135.	It probably is not true to state that option 2 more or less by definition has lower modelling costs than option 3. However, costs related to approval of option 3 techniques might be higher than for option 2 (if a new or complex method is selected under option 3 when a similar method might be required under option 2) Please note that option 2 and option 3 are equally expensive if the undertaking concludes that for a PIM step 1 on the Decision tree on partial models' integration (see 3.143) results in the choice being the Standard Formula correlation matrix.	Noted.
384.	Unum	3.142.	We disagree with the selection of Option 2 and consider Option 3 to be a more appropriate approach to developing partial internal models. Where the standard formula correlation matrix is neither feasible nor appropriate for the integration of the partial internal model into the standard formula, firms should be able to provide their own aggregation method subject to supervisory approval. We would therefore support option 3: integration of the partial internal model using structures and parameters provided by the undertaking or (if these are approved by supervisors) techniques provided by supervisors. As firms will have developed the partial models they will be better placed to design the most appropriate approach to integrate their model into the standard formula. This should depend on the level of business already covered by an internal model. If the majority of the business for the majority of the products use an internal model and only a small amount of business cannot be	Not agreed. Please refer to answer to comments 4, 6,9 and 11.

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			modelled then the firm should be allowed to integrate the un-modelled business into its internal model. However if a firm has only a relatively small portion of its business using an internal model then the aggregation may be better suited to follow option 2.	
385.			Confidential comment deleted.	
386.	CRO Forum	3.142.	The recommendation of Option 2 by CEIOPS seems to be too strict. When the concept of feasibility and appropriateness test is fixed in CP65, then Option 3 could be a valid solution.	Noted.
387.	Groupe Consultatif	3.142.	The recommendation of option 2 by CEIOPS seems to be too strict. When the concepts of the feasibility and appropriateness tests are set and described appropriately by the Level 2 measures, option 3 could be a valid solution.	Noted.
388.	Lloyd's	3.142.	We find it odd that the undertaking is free to use (with appropriate validation, etc) the integration technique it believes to be most appropriate between risks and business units within its partial internal model but should be constrained from doing so (with appropriate validation, etc) at the boundaries of its partial internal model. We believe that Option 3 will lead to a more accurate SCR than Option 2 and, hence, support Option 3. Moreover Option 2 should not be applied until the list of methods to be produced in Level 3 can be shown to be suitable according to CEIOPS criteria set out in 3.101 and to meet the requirements of undertakings and supervisors.	The modelling freedom allowed by the level 1 Text is different for both cases. Please refer to answer to comments 4, 6,9 and 11.
389.	KPMG ELLP	3.142.	Of the three options proposed, we believe Option 3 fits better with the level 1 text, allowing greater freedom for (re)insurance undertakings without significantly increasing	Noted.

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			supervisory burden. We note that CEIOPS preference is for Option 2. If Option 2 is the final advice, then we would ask that our comments in 3.84 are borne in mind regarding a simplified process	
390.	Munich Re	3.142.	for the early period after Solvency II comes into force. The recommendation of Option 2 by CEIOPS seems to be too strict. When the concept of feasibility and appropriateness test is fixed in CP65, then Option 3 could be a valid solution.	Noted.
391.	AB Lietuvos draudimas	3.143.	The text assumes option 2 is followed. It is unclear why this is superior to option 3. The Level 3 text will be published at a late stage in the development process, there will also be a lot of work for CEIOPS to do, but in any event there will undoubtedly be gaps so some firms will still have to go through the loop of establishing their own techniques in addition to evaluating the whole of the level 3 text options.	Noted. Please refer to answer to comments 4, 6, 9 and 11.
392.	AMICE	3.143.	AMICE disagrees with this decision tree, especially with the default approach (i.e. starting with correlation coefficients of the standard approach). We believe that undertakingown correlations should constitute the default approach.	Not agreed.
393.	Association of British Insurers	3.143.	We disagree with the selection of Option 2 and consider Option 3 to be a more appropriate approach to developing partial internal models. Firms should be able to provide their own aggregation method subject to supervisory approval. We would therefore support option 3: integration of the partial internal model using structures and parameters provided by the undertaking. As firms will have developed the partial models themselves they will be better placed to design the most appropriate approach to	Noted. Please refer to answer to comments 4, 6, 9 and 11.

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		integrate their model into the standard formula. In this respect we would highlight the results of the impact assessment provided in the Annex C as they conclude that option 3 "may allow undertakings to capture more appropriately their risk profile than with the other options, ultimately leading to a more adequate calculation of the SCR. Under this assumption option 3 will increase the likelihood of a level playing field being achieved" (C.62). As demonstrated by this impact assessment, option 3 would therefore better fulfil the key principles of Solvency II: better understanding and assessment of the risks, enhanced level playing field with a "permanent neutral impact on policyholders" (C.56) as opposed to options 1 and 2.	
		In addition, we are concerned that option 2 will create uncertainty as to which aggregation options will or will not be listed. This might delay the development of internal models until this list is made available.	
394. CEA	3.143.	The CEA disagrees with this decision tree. As described in 3.62 and 3.63 above the default approach should not be the standard formula correlation matrix as this will hinder the development of effective risk management systems	Noted. Please refer to answer to comments 4, 6, 9 and 11.
395. CRO Forum	3.143.	The advice in the para sets out Option 2 as the proposed method for developing partial internal models. We disagree with the selection of Option 2 because: The steps proposed in option 2 results in a partial internal model that is dependent on Level 3 guidance. Based on the timeline sent to CEIOPS by the Commission	Noted. Please refer to answer to comments 4, 6, 9 and 11.

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			in June 2009, the final advice on Level 3 is expected to be published in December 2011. This will not give firms sufficient time to incorporate the Level 3 guidance into their partial internal model designs in time to enter the model approval process.	
			For instance, an insurance undertaking can implement an internally designed aggregation technique for their partial internal models only to realise that they are unable to "disprove" one of the 30-odd aggregation techniques finalised at Level 3, 9 months before Solvency II date. In such a situation entities will not have sufficient time to update their model and apply for approval (a 6 month process) to ensure they meet the 31st Oct 2012 deadline.	
			☐ The consideration of the workflow for Option 3 to be in line with the Solvency II Internal Model Approval Process described in CP37.	
			Moreover, we believe that Option 1 is not in line with the spirit of Solvency II directive and we strongly oppose any consideration of that option as a viable integration solution.	
			We disagree with the selection of Option 2 and consider Option 3 to be a more appropriate approach to developing partial internal models. (See para 3.134 for comments).	
396.	EMB Consultancy LLP	3.143.	The proposed approach seems reasonably clear and practical.	Noted.
397.	FFSA	3.143.	Decision tree on partial internal models' integration FFSA disagrees with this decision tree, manly with the	Noted. Please refer to answer to comments 4, 6, 9 and 11.

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		default approach (correlation coefficient of the standard approach). As mentioned above, undertakings should be able to use correlation coefficients which better reflect their risk profile.				
398. German Insurance Association – Gesamtverband der D	3.143.	The GDV disagrees with this decision tree. As described in 3.62 and 3.63 above the default approach should not be the standard formula correlation matrix as this will hinder the develop of effective risk management systems	Noted. Please refer to answer to comments 4, 6, 9 and 11.			
399. Groupe Consultatif	3.143.	We disagree with the suggested approach. We do think that a list of possible integration techniques could be useful, but the suggested approach in 3.155 will lead to overly burdensome requirements for selecting an appropriate integration technique. See 3.134, we support the aforementioned option 3.	Noted. Please refer to answer to comments 4, 6, 9, 11 and 18.			
400. Just Retirement Limited	3.143.	Partial Internal Models will cover a wide variety of potential approaches and techniques, ranging from the modelling of a specific risk module within one entity, to an almost complete Internal Model, but with some risk modules or business units omitted due to the materiality of their risks.	Noted. Please refer to answer to comments 4, 6, 9 and 11.			
		Where Partial Internal Models are closer to the standard formula we believe that Option 2 would be an appropriate approach.				
		However, where Partial Internal Models are close to a full Internal Model we would suggest that option 3 is more appropriate – firms in this situation should be able to provide their own aggregation method, subject to supervisory approval. In this instance, as firms have developed a complex, albeit partial, internal model, they				

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			will be better placed to design an appropriate integration approach. For these firms, we believe option 3 it is the approach most likely to reduce systemic risk, capture an undertakings risk profile and promote good risk management and model use.	
			We would suggest thresholds / criteria be considered to determine which of these approaches will be more appropriate for specific firms – alternatively, this could be left as a principles based approach for supervisory review and determination, with consistency of decision making monitored centrally.	
			We do not believe that Option 2 will encourage firms to invest in the transition from a Standard Formula approach to increasing levels of model sophistication.	
401.	Legal & General Group	3.143.	The decision tree on the integration within a Partial Internal Model is too prescriptive. It would be more logical and in keeping with the approach to Internal Models to consider the methodology for integration of partial internals as part of the approval process. Firms should be given the option to design their partial internal models in the way which best meets the objectives of the model (including passing the use test) and the regulator should be free to approve or reject the design, without the constraints of the decision tree. One reason for this is that the standard formula correlation matrix might be feasible, and appropriate, yet make it less usable by the business because the standard formula is not identical to the way that the firm calculates its economic capital. This might particularly be the case where a group has a large entity which has an approved internal model and a small entity which is on the standard formula (e.g. for reasons of	Noted. Please refer to answer to comments 4, 6, 9 and 11.

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		proportionality).	
402. Lucida plc	3.143.	We disagree with the recommendation that Option 2 be adopted. Option 3 will allow us to capture our risk profile more appropriately which is surely the aim of internal models.	Noted. Please refer to answer to comments 4, 6, 9 and 11.
403.		Confidential comment deleted.	
404. PricewaterhouseCoopers LLP	3.143.	The decision tree is a very clear exposition of the process being proposed.	Noted.
405. RSA Insurance Group	3.143.	The text assumes option 2 is followed. It is unclear why this is superior to option 3. The Level 3 text will be published at a late stage in the development process, there will also be a lot of work for CEIOPS to do, but in any event there will undoubtedly be gaps so some firms will still have to go through the loop of establishing their own techniques in addition to evaluating the whole of the level 3 text options.	Noted. Please refer to answer to comments 4, 6, 9 and 11.
406. AB Lietuvos draudimas	3.144.	This is sensible as it puts firms using PIM on a level footing with others using a full SF.	Not agreed. The modelling freedom allowed by the level 1 Text is different for both cases. Please refer to answer to comments 4, 6, 9 and 11.
407. CEA	3.144.	See comments to 3.62 and 3.63 above.	See answer to those comments.
408. German Insurance Association – Gesamtverband der D	3.144.	See comments to 3.62 and 3.63 above.	See answer to those comments.
409. Just Retirement Limited	3.144.	See 3.143 above	See answer to that comments.

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410. KPMG ELLP	3.144.	The key test is whether there is an appropriate alternative method that provides a better match to the (re)insurance undertaking's risk profile. In many cases the technique is not the hard part, it is the parameterisation.	Noted.
411. RSA Insurance Group	3.144.	This is sensible as it puts firms using PIM on a level footing with others using a full SF.	Not agreed. The modelling freedom allowed by the level 1 Text is different for both cases. Please refer to answer to comments 4, 6, 9 and 11.
412. CRO Forum	3.145.	We would like to have so more details on feasibility test (see 3.67)	See anser to that comment.
413. Lloyd's	3.145.	The feasibility test applies at each of steps 1, 2 and 3. It would be clearer to take this definition of the feasibility test out from within the Step 1 section of the Advice and present it before step 1, under the diagram.	Noted.
414. UNESPA – Association of Spanish Insurers	3.145.	See comments for 3.66 above.	See answer to those comments.
415. AB Lietuvos draudimas	3.146.	This is sensible as it puts firms using PIM on a level footing with others using a full SF.	Not agreed. The modelling freedom allowed by the level 1 Text is different for both cases. Please refer to answer to comments 4, 6, 9 and 11.
416. Unum	3.146.	"CEIOPS requires that firms provide "strong evidence" to the relevant supervisory authority that this integration technique is inappropriate to be allowed to move to the next stage of selecting an integration technique." Para 3.150 defines "strong evidence" as "significant evidence".	

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		The description of what constitutes as "strong" or "significant" is unclear. We consider use of historical correlation data that contradicts the correlation matrix proposed for standard formula correlation as "sufficient evidence" to demonstrate that an integration technique is inappropriate.	Please refer to answer to comment 6.
417. Association of British Insurers	3.146.	We disagree with this reversed burden of proof for the company. The appropriateness tests suggest that the Standard Model Correlation Matrix will always describe the integration the best unless the contrary is proven. See comments to 3.62	See answer to that comment.
		Confirmation is needed that where a partial model addresses some or all of the known weaknesses associated with the standard formula (as described in CP74) that using the standard approach correlation matrix is likely to be deemed inappropriate.	Please refer to answer to comment 6.
		"CEIOPS requires that undertakings provide "strong evidence" to the relevant supervisory authority that this integration technique is inappropriate to be allowed to move to the next stage of selecting an integration technique."	
		Para 3.150 defines "strong evidence" as "significant evidence".	
		The description of what constitutes as "strong" or "significant" is unclear. We consider use of historical correlation data that contradicts the correlation matrix proposed for standard formula correlation as "sufficient evidence" to demonstrate that an integration technique is inappropriate.	

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418. CE	3.146.	We disagree with this reversed burden of proof for the company. The appropriateness tests suggests that the Standard Model Correlation Matrix will always describe the integration the best unless the contrary is proofed. See comments to 3.62 and 3.63.	See answer to those comments.
		Confirmation is needed that where a partial model addresses some or all of the known weaknesses associated with the standard formula (as described in CP74) that using the standard approach correlation matrix is likely to be deemed inappropriate.	Please refer to answer to comment 6.
		The statements made in CP74 (Standard Formula correlations, section 3.1.3) are potentially relevant here. CP74 acknowledges and describes the weaknesses associated with a correlation matrix aggregation approach and. It also explains that the correlation matrix used in the standard formula has been adjusted (i.e. increased) to reflect this.	
		Where a partial internal model addresses some of the weaknesses of the correlation matrix approach (e.g. non-linearity, skewness and fat tails) confirmation that this is likely to comprise 'strong evidence' that the standard formula correlation matrix approach is inappropriate should be included in the advice.	
		We believe the above should be confirmed in the advice (notwithstanding the fact that the advice does describe	

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		issues such as Risk Profile and Data as potential areas which have characteristics which differ from those assumed in the standard formula approach).			
419. CRO Forum	3.146.	The description of what constitutes as "strong" or "significant" is unclear.	Please refer to answer to comment 6.		
		Keeping in mind the difficulty to calibrate VAR dependencies, it seems nearly impossible in most of the cases to demonstrate that the appropriateness test would not be passed. Therefore, we consider use of historical correlation data that contradicts the correlation matrix proposed for standard formula correlation as "sufficient evidence" to demonstrate that an integration technique is inappropriate.	See answer to that comment.		
		We disagree with this reversed burden of proof for the company. The appropriateness tests suggest that the Standard Model Correlation Matrix will always describe the integration the best unless the contrary is proofed. See 3.62.			
420. German Insurance Association – Gesamtverband der D	3.146.	We disagree with this reversed burden of proof for the company. The appropriateness tests suggests that the Standard Model Correlation Matrix will always describe the integration the best unless the contrary is proofed. See comments to 3.62 and 3.63.	Please refer to answer to comment 419.		
		Confirmation is needed that where a partial model addresses some or all of the known weaknesses associated with the standard formula (as described in CP74) that using the standard approach correlation matrix is likely to			

			ary of Comments on Consultation Paper 65 - CEIC CP-65/09 CP No. 65 - L2 Advice on Partial Internal Models	OPS- CEIOPS-SEC-167-10 January 2010
			be deemed inappropriate. The statements made in CP74 (Standard Formula correlations, section 3.1.3) are potentially relevant here. CP74 acknowledges and describes the weaknesses associated with a correlation matrix aggregation approach and. It also explains that the correlation matrix used in the standard formula has been adjusted (i.e. increased) to	
			reflect this. Where a partial internal model addresses some of the weaknesses of the correlation matrix approach (e.g. nonlinearity, skewness and fat tails) confirmation that this is likely to comprise 'strong evidence' that the standard formula correlation matrix approach is inappropriate should be included in the advice.	
			We believe the above should be confirmed in the advice (notwithstanding the fact that the advice does describe issues such as Risk Profile and Data as potential areas which have characteristics which differ from those assumed in the standard formula approach).	
421.	Groupe Consultatif	3.146.	We disagree with this reversed burden of proof for the company. The appropriateness test suggests that the Standard Model Correlation Matrix will always be the optimal integration approach unless the contrary is proved. See 3.62.	Not agreed. It is not our intention to make such suggestion. CEIOPS reminds however the requirement of Article 113 nr. 1 paragraph c)

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			of the Level 1 text, which states that the internal model design must be consistent with the principles set out in Subsection 1 so as to allow the partial internal model to be fully integrated into the Solvency Capital Requirement standard formula. And taking into account this remark it make sense to propose the standard formula correlation matrix in the first step of the process.
422. Lloyd's	3.146.	The appropriateness test applies at each of steps 1, 2 and 3. It would be clearer to take this definition of the appropriateness test (3.146 to 3.152) out from within the Step 1 section of the Advice and present it before step 1, under the diagram, after the definition of the feasibility test (see comments on 3.145).	Not agreed.
423. Just Retirement Limited	3.146.	The nature of "strong evidence" should be clarified. Our view is that this "strong evidence" ought to include historical business, industry or economic data which is more relevant to the undertaking than the standard formula correlation matrix.	Noted.
424. KPMG ELLP	3.146.	See previous comments regarding the evidencing of the technique's appropriateness.	See answer to those comments.
425. Legal & General Group	3.146.	"strong" evidence would be appropriate for a "reasonable "regulator but may be interpreted ina way that means that no evidence is considered strong.	Not agrred.

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426. RSA Insurance Group	3.146.	This is sensible as it puts firms using PIM on a level footing with others using a full SF.	Noted.
427.		Confidential comment deleted.	
428. UNESPA – Association of Spanish Insurers	3.146.	CEIOPS is requested to confirm that it would be inappropriate to use the standard formula correlation matrix when will exist strong evidences about the weaknesses associated with its use.	Please refer to paragraph 3.148 d) of this consulttion paper.
429. CEA	3.147.	See comments to 3.62 and 3.63. The wording in:" The general principles for assessing inappropriateness are that the resulting SCR more appropriately reflects the risk profile of the undertaking" should be changed to: " The general principles for assessing appropriateness"	Paragraphs 3.147 and 3.69 changed.
430. CRO Forum	3.147.	The difficulty with proving inappropriateness is clear from this section. It would be better to demonstrate that the Alternative integration technique "more appropriately reflects the risk profile of the undertaking"	Please refer to answer to comment 429.
431. EMB Consultancy LLP	3.147.	We are concerned that 3.147(b) does not take account of the provisions in the framework directive for undertakings to use a different risk measure and time horizon than VaR at 99.5% over one year (Article 122(1)) as referenced in paragraph 3.9. We believe the wording here should be amended to avoid inconsistency and to recognise that the standard risk measure and time horizon may not be appropriate in all cases; where an undertaking does use a different time horizon and risk measure for the SCR it	Not agreed. This question is adressed paragraphs 3.228 and 3.229 of this consultation paper.

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		should be on that basis that the appropriateness test is performed.		
432. FFSA	3.147.	FFSA believes that the wording:" The general principles for assessing inappropriateness are that the resulting SCR more appropriately reflects the risk profile of the undertaking"	Please refer to answer to comment 429.	
		must be changed into :" The general principles for assessing appropriateness"		
433. German Insurance Association – Gesamtverband der D	3.147.	See comments to 3.62 and 3.63. The wording in:" The general principles for assessing inappropriateness are that the resulting SCR more appropriately reflects the risk profile of the undertaking" should be changed to: "The general principles for assessing appropriateness	Please refer to answer to comment 429.	
434. Groupe Consultatif	3.147.	See 3.69.	See answer to that commnt.	
435. Lloyd's	3.147.	These are the general principles for assessing appropriateness, not inappropriateness. We suggest that the first sentence is amended to start: The general principles for assessing appropriateness are		
		that the resulting SCR"		
436. AB Lietuvos draudimas	3.148.	In practice this may well mean that the SF factors are used in most cases as it is difficult to show strong evidence against a-d. This is not necessarily a bad feature.	Noted.	
437. CEA	3.148.	See comments to 3.62 and 3.63.	See answer to those comments.	

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			The equivalence and data requirements should be combined.	Please refer to the answer to that comment.
			In line with our comments to 3.146, the CEA notes that where the acknowledged weaknesses associated with the standard formula correlation matrix approach have largely been addressed that using the standard formula correlation matrix would not result in "equivalence of the SCR" because of the adjustments made to this correlation matrix. Also, given the paucity of data points for extreme events there will never be sufficient data to provide "strong evidence" for a particular relationship, especially if this is strictly applied. The key requirement should be that an appropriate 99.5th percentile 1 year VaR is produced. The CEA suggests that 3.148 c. is dropped and that 3.148 a is amended to: " the resulting SCR is not equivalent to VaR over one	Noted.CEIOPS consider that 2 paragraphs should be kept separate even though recognize that point a, b and c are linked.
			year. This may include the use of data that shows that use of the standard formula aggregation approach and assumptions (i.e. the standard formula correlation matrix) is unlikely to lead to SCR equivalence, e.g. because the partial model addresses some or all of the weaknesses inherent in the standard formula and as such makes the adjustments included in the standard formula correlation matrix inappropriate."	
438.	CRO Forum	3.148.	Better that the approval request of the alternative	Noted. It does include, please

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		CP No. 65 - L2 Advice on Partial Internal Models integration technique includes the equivalence of the SCR and the Risk profile requirements.	refer to paragraph 3.172.
439. EMB Consultancy LLP	3.148.	For a) the same comments about alternative risk measures and time horizons as given in response to 3.147 apply.	Please refer to the answer to that comment.
440. German Insurance Association – Gesamtverband der D	3.148.	See comments to 3.62 and 3.63. The equivalence and data requirements should be combined.	Please refer to the answer to comment 437.
		In line with our comments to 3.146, the GDV notes that where the acknowledged weaknesses associated with the standard formula correlation matrix approach have largely been addressed that using the standard formula correlation matrix would not result in "equivalence of the SCR" because of the adjustments made to this correlation matrix. Also, given the paucity of data points for extreme events there will never be sufficient data to provide "strong evidence" for a particular relationship, especially if this is strictly applied. The key requirement should be that an appropriate 99.5th percentile 1 year VaR is produced. The GDV suggests that 3.148 c. is dropped and that 3.148 a is amended to:	
		" the resulting SCR is not equivalent to VaR over one year. This may include the use of data that shows that use of the standard formula aggregation approach and	

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		assumptions (i.e. the standard formula correlation matrix) is unlikely to lead to SCR equivalence, e.g. because the partial model addresses some or all of the weaknesses inherent in the standard formula and as such makes the adjustments included in the standard formula correlation matrix inappropriate."	
441. Groupe Consultatif	3.148.	See 3.70.	See answer to that comment.
442. Lloyd's	3.148.	The first two sentences of bullet (a) relate to failing the appropriateness test because the SCR resulting from using a particular integration technique is not equivalent to VaR 99.5% over one year. The final sentence ("The capital charges at a more granular level (e.g. risk module level) shall also correspond to VaR 99.5% over one year") does not fit the context of the rest of the paragraph and its meaning is not clear. Is it meant to say that the appropriateness test is also failed if, although the aggregated SCR is equivalent to VaR 99.5% over one year, the components of the SCR at a more granular level are not? Please clarify.	Yes that is the correct interpretation.
443. KPMG ELLP	3.148.	We believe that a) and b) are the key requirements	Noted.
444. Lucida plc	3.148.	See 3.70 above.	See answer to that comment.
445. RSA Insurance Group	3.148.	In practice this may well mean that the SF factors are used in most cases as it is difficult to show strong evidence against a-d. This is not necessarily a bad feature.	Noted.
446. UNESPA – Association of Spanish Insurers	3.148.	The standard formula correlation matrix should not be imposed over others techniques of aggregation.	Not agreed.

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		We insist in our disagreement to the excessive and unjustified importance that CEIOPS gives to the correlation matrix of the standard formula over other integration techniques. Therefore, we believe that all mention to correlation matrix should be avoided.	
447. ACA	3.149.	We welcome the flexibility of this approach.	Noted.
448. CEA	3.149.	See comments to 3.62, 3.63, 3.148 and 3.146. It is recommended that the text is changed as follows: " to meet the above criteria perfectly. Therefore, Ceiops considers that the standard formula correlation matrix should be considered inappropriate where there are strong grounds for expecting that it will produce results different to a 1 year 99.5th percentile VaR result."	Not agreed.
449. CRO Forum	3.149.	The fact that using the standard correlation matrix is likely not to be a 100% satisfactory integration technique is certainly not a reason to only have it rejected if strong evidence is presented.	Noted.
450.		Confidential comment deleted.	
451. German Insurance Association – Gesamtverband der D	3.149.	See comments to 3.62, 3.63, 3.148 and 3.146. It is recommended that the text is changed as follows: " to meet the above criteria perfectly. Therefore, CEIOPS	Please refer to answer to comment 448.

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		considers that the standard formula correlation matrix should be considered inappropriate where there are strong grounds for expecting that it will produce results different to a 1 year 99.5th percentile VaR result."	
452. Groupe Consultatif	3.149.	See 3.71.	See answer to that comment.
453.		Confidential comment deleted.	
454. CEA	3.150.	See comments to 3.62 and 3.63 above. It is surprising that Ceiops seems to make use of the elimination principle: If it cannot be proven that the method is incorrect, it shall be used. Normally one would require demonstration of a "fit for use" test. We believe that 'strong evidence' is a too high barrier for using an alternative integration technique. In addition, it is unclear what 'significant' implies here? It could happen that there is a different opinion between supervisor and the undertaking. However, a rule-based approach won't solve this.	Please refer to the answer to those comments.
455. CRO Forum	3.150.	It is strange that CEIOPS seems to make use of the elimination principle: If it can not be proven the method is incorrect, it shall be used. Normally one would require demonstrating a "fit for use" test.	Noted.
456. German Insurance Association – Gesamtverband der D	3.150.	See comments to 3.62 and 3.63 above. It is surprising that CEIOPS seems to make use of the elimination principle: If it cannot be proven that the method is incorrect, it shall be used. Normally one would require demonstration of a "fit for use" test. We believe	Please refer to the answer to those comments.

	Sur	nmary of Comments on Consultation Paper 65 - CEIC CP-65/09 CP No. 65 - L2 Advice on Partial Internal Models	OPS- CEIOPS-SEC-167-10 January 2010
		that 'strong evidence' is a too high barrier for using an alternative integration technique. In addition, it is unclear what 'significant' implies here? It could happen that there is a different opinion between supervisor and the undertaking. However, a rule-based approach won't solve this.	
457. Groupe Consultatif	3.150.	See 3.72.	See answer to that comment.
458. Lloyd's	3.150.	The equivalence between "strong" and "significant" is readily apparent, and "significant" in this context has no more formal meaning than "strong". Hence, the paragraph is redundant and should be deleted.	
459. KPMG ELLP	3.150.	'strong evidence' is hard to produce for 'tail events' as 1 in 200 year events are not that common (by definition). A (re)insurance undertaking should be able to parameterise the integration method using expert judgement where appropriately backed by evidence	Paragraph deleted.
460. Lucida plc	3.150.	It seems odd to talk about "strong evidence" throughout a document and then define it as "significant evidence". Perhaps each instance of "strong evidence" could be replaced with "significant evidence" and then this paragraph would be unnecessary.	Paragraph deleted.
461. CEA	3.151.	For comments on Advice on Tests and Standards for Internal Models approval, please refer to our previous response on this paper (CP56)	Please refer to answer to comment 285.
		We note that the appropriateness test should indeed be validated, but that the 'Ceiops Advice on Tests and Standards for internal models approval' is applicable to the full internal model rather than to each and every subpiece	

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			of this model.			
462.	German Insurance Association – Gesamtverband der D	3.151.	For comments on Advice on Tests and Standards for Internal Models approval, please refer to our previous response on this paper (CP56)	Please refer to answer to comment 285.		
			We note that the appropriateness test should indeed be validated, but that the 'CEIOPS Advice on Tests and Standards for internal models approval' is applicable to the full internal model rather than to each and every subpiece of this model.			
463.	Groupe Consultatif	3.151.	See 3.73.	See answer to that comment.		
464.	CEA	3.152.	See comments to 3.62 and 3.63.	See answer to those comments.		
465.	CRO Forum	3.152.	We would prefer: "If alternative integration technique is not approved then standard formula's integration technique should be used."	Noted.		
466.	German Insurance Association – Gesamtverband der D	3.152.	See comments to 3.62 and 3.63.	See answer to those comments.		
467.	Groupe Consultatif	3.152.	See 3.74.	See answer to that comment.		
468.	Lucida plc	3.152.	This appears to be a softening of 3.144 – if there is no strong evidence, and if it is feasible, an undertaking shall use the standard formula's integration technique. Use of the word "may" here seems inappropriate.			

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		If it is not feasible, then 3.153 applies regardless of the supervisor's belief.	
		We would recommend removing paragraph 3.152 as we do not see what purpose it serves given paragraphs 3.144 and 3.153.	
469. AB Lietuvos draudimas	3.153.	It is difficult to see the benefit of CEIOPS producing a Level 3 list of aggregation techniques. It would be more efficient that firms use the SF matrix or, if inappropriate, an aggregation method they have produced themselves which is then approved by the local regulator. As these are approved they could be added to level 3 methods. This alleviates the need for CEIOPS to undertake the work required to produce several different methods inadvance. Thus it would be more efficient if step 2 was completely removed from this process.	Noted.
470. Association of British Insurers	3.153.	Refer to our comments under 3.143	See answer to that comment.
471. CEA	3.153.	See comments to 3.62 and 3.63.	See answer to those comments.
		Harmonised supervisory practices should be insured as much as possible	Not agreed.
		The CEA believes that the following wording " If the direct application of the standard formula correlation matrix is not possible or if the supervisory authority is satisfied that there is strong evidence that it is inappropriate", leaves too much room for interpretation to supervisors when	

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		assessing inappropriateness.	
		In order to ensure a harmonised approach, Ceiops should disclose a process to be followed by supervisors in this regard.	
		Supervisor's decision must be based on expert judgement.	
472. CRO Forum	3.153.	We would prefer: "If alternative integration technique is not approved then standard formula's integration technique should be used."	Noted.
		In all cases, to be practicable (undertaking will not have to go down a long list of methods with the two stage selection process) and adaptable (can be adapted to example described in annex A and any other specific situation) we think level 3 list should be a limited list of high level methods.	
473. FFSA	3.153.	Decision tree on partial internal models' integration – Step 2 FFSA believes that the following wording " If the direct application of the standard formula correlation matrix is not possible or if the supervisory authority is satisfied that there is strong evidence that it is inappropriate", leaves too much room for supervisors for assessing inappropriateness.	Not agreed.
		In order to ensure a harmonised approach, CEIOPS should disclose a process to be followed by the supervisors in	

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		order to ensure that there is no regulatory arbitrage.	
		Supervisors decision must be based on expert judgement.	
474. German Insura Association – Gesamtverband		See comments to 3.62 and 3.63. Harmonised supervisory practices should be insured as much as possible	Please refer to answer to comment 471.
		The GDV believes that the following wording " If the direct application of the standard formula correlation matrix is not possible or if the supervisory authority is satisfied that there is strong evidence that it is inappropriate", leaves too much room for interpretation to supervisors when assessing inappropriateness.	
		In order to ensure a harmonised approach, CEIOPS should disclose a process to be followed by supervisors in this regard.	
		Supervisor's decision must be based on expert judgement.	
475. RSA Insurance	Group 3.153.	It is difficult to see the benefit of CEIOPS producing a Level 3 list of aggregation techniques. It would be more efficient that firms use the SF matrix or, if inappropriate, an aggregation method they have produced themselves which is then approved by the local regulator. As these are approved they could be added to level 3 methods. This	

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			alleviates the need for CEIOPS to undertake the work required to produce several different methods inadvance.			
			Thus it would be more efficient if step 2 was completely removed from this process.			
476.	UNESPA – Association of Spanish Insurers	3.153.	In order to ensure a harmonised approach, CEIOPS should disclose a process to be followed by all supervisors in this regard, containing information about the integration techniques on options 1, 2 and 3.	Please refer to answer to comment 471.		
			Finally, we remain our comment in section 3.83, where we expressed it is needed a complete list of integration techniques on Level 2.			
477.	CEA	3.154.	See comment to 3.104.	See answer to that comment.		
478.	German Insurance Association – Gesamtverband der D	3.154.	See comment to 3.104	See answer to that comment.		
479.	Groupe Consultatif	3.154.	See 3.94 and 3.104.	See answer to those comments.		
480.	Lloyd's	3.154.	Better to say "not feasible", rather than "not possible", to clarify the link back to the feasibility test. We suggest amending the first sentence to start: If the direct application of the standard formula correlation matrix is not feasible or if	Not agreed.		

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			It would be clearer if this read "If the direct application, the undertakings shall ATTEMPT to use one of the integration techniques", and if a sentence was added afterwards saying "If none of the techniques is both feasible and appropriate, then supervisors may permit undertakings to propose alternative techniques as set out in 3.172 below."	
481.	Lucida plc	3.154.	We think that the inclusion of a third stage would be more efficient, as outlined in our response to 3.155	Please refer to the answer to that comment.
482.	PricewaterhouseCoopers LLP	3.154.	The choice of techniques is deferred to Level 3 text to allow a more flexible method of adding and removing methods. While this seems very sensible there does need to be open debate with industry over removals (which might have been approved for existing partial models) and additions (so there is proper consideration of new methods without inducing a long time frame before a new method is added to the list.	Noted.
483.	AB Lietuvos draudimas	3.155.	This is not considered to be good use of a firms time in building internal models. It would be better for the firm to produce their own aggregation technique in the event they do not believe the SF is appropriate.	Not agreed.
484.	AMICE	3.155.	AMICE believes that this approach is burdensome and could lead to undue costs especially for small and medium-sized insurers. The strategy to adopt an internal model is linked to implementation costs and it is unduly required to request each technique to be checked. In our opinion, step b) (taken alone) may provide a reasonable solution to overcome this difficulty.	Noted. Point a) will be only a high level review.
485.	CEA	3.155.	See comments to 3.62 and 3.63.	Noted. Point a) will be only a

			ary of Comments on Consultation Paper 65 - CEIO CP-65/09 CP No. 65 - L2 Advice on Partial Internal Models	PS- CEIOPS-SEC-167-10 January 2010
			Requirement to review each one of the aggregation techniques may be too burdensome depending on how it is interpreted Ceiops considers that undertakings shall: "review the full Level 3 list of aggregation techniques to ensure they are familiar with each of them at a high level, and consider the advantages and disadvantages of each" The CEA believes that this is highly burdensome and could lead to unduly costs, if this is interpreted to require that when considering the advantages and disadvantage of each technique, the undertakings should provide written qualitative and quantitative evidence. It is surprising that Ceiops seems to make use of the elimination principle: If it cannot be proven the method is incorrect, it shall be used. By proving that listed	high level review.
			incorrect, it shall be used. By proving that listed integration techniques are NOT appropriate, one is allowed to use alternatives. This seems quite burdensome and not in agreement with 3.85. We rather think that the company should select one method and show that it is feasible and appropriate (in sharp contrast to evaluating an entire list of methods).	
486.	FFSA	3.155.	Criteria for choosing from the list provided in level 3 – step a	Noted. Point a) will be only a high level review.

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		CEIOPS considers that undertakings shall: "review the full Level 3 list of aggregation techniques to ensure they are familiar with each of them at a high level, and consider the advantages and disadvantages of each;"	
		When considering the advantages and disadvantage of each technique, shall undertakings provide quantitative information?	
		FFSA believes that this is highly burdensome and could lead to unduly costs.	
487. German Insurance Association – Gesamtverband der D	3.155.	See comments to 3.62 and 3.63.	Noted. Point a) will be only a high level review.
Gesumeversum der B		Requirement to review each one of the aggregation techniques may be too burdensome depending on how it is interpreted	
		CEIOPS considers that undertakings shall: "review the full Level 3 list of aggregation techniques to ensure they are familiar with each of them at a high level, and consider the advantages and disadvantages of each"	
		The GDV believes that this is highly burdensome and could lead to unduly costs, if this is interpreted to require that when considering the advantages and disadvantage of each technique, the undertakings should provide written qualitative and quantitative evidence.	
		It is surprising that CEIOPS seems to make use of the elimination principle: If it cannot be proven the method is	

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		incorrect, it shall be used. By proving that listed integration techniques are NOT appropriate, one is allowed to use alternatives. This seems quite burdensome and not in agreement with 3.85.	
		We rather think that the company should select one method and show that it is feasible and appropriate (in sharp contrast to evaluating an entire list of methods).	
488. Groupe Consultatif	3.155.	See 3.86.	See anwer to that comment.
489. Lucida plc	3.155.	We think that the initial stage would be to consider the feasibility of a technique, as if a technique is not feasible then further consideration of it should not be necessary.	Noted. Point a) will be only a high level review.
490. RSA Insurance Group	3.155.	This is not considered to be good use of a firms time in building internal models. It would be better for the firm to produce their own aggregation technique in the event they do not believe the SF is appropriate.	Noted.
491.		Confidential comment deleted.	
492. UNESPA – Association of Spanish Insurers	3.155.	Requirement to review each one of the aggregation techniques may be too costly	Noted. Point a) will be only a high level review.
		UNESPA agrees with the CEIOPS position. To advance towards internal models (full or partial) implies a considerable effort. However, a correct risk aggregation is essential to know the charge of capital, its diversification and to proceed to its optimization.	
		Therefore, the effort that CEIOPS requires the companies should be carry out at least once a year, but over a collection of techniques that previously seem to fit the scope of the model and its architecture.	

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493.	Lucida plc	3.156.	We presume that the intention is for the list and reasoning to be provided to the Supervisor in all circumstances, rather than in the circumstance where none is appropriate. If this is the intention then it might aid clarity if the order of the second and third sentence is swapped around.	Noted.
494.	AMICE	3.157.	The reference to a short-list should be avoided. We suggest deleting the first sentence of this paragraph "Assumingshort listed".	Not agreed.
495.	CEA	3.157.	See comments to 3.62 and 3.63. Requirement to perform an in-depth review of each one of the identified aggregation techniques may be too burdensome depending on how it is interpreted In particular the requirement to assess whether: "the	See answer to those commen Noted.
			resulting SCR reflect the risk profile of the undertaking, including whether the resulting calibration reflects the Solvency II standard for the SCR;" may require undertakings to implement each of the selected techniques in order to achieve this assessment.	
			The CEA disagrees with this approach as it is highly burdensome and leads to unduly costs. Requirement to perform an in-depth review of each one of the identified aggregation techniques may be too burdensome depending on how it is interpreted. In particular the requirement to assess whether: "the	

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		resulting SCR reflect the risk profile of the undertaking, including whether the resulting calibration reflects the Solvency II standard for the SCR;" may require undertakings to implement each of the selected techniques in order to achieve this assessment.		
496. CRO Forum	3.157.	We support requirements as mentioned under a and b. We consider the questions under c and d appropriate when the partial internal model is part of a larger internal model, but not when it concerns integration in the standard model which is likely not to be used to capital allocation etc.	Noted.	
497. FFSA	3.157.	Criteria for choosing from the list provided in level 3 – step b	Noted.	
		CEIOPS expects that undertakings would assess the techniques under the following headings:		
		"Does the resulting SCR reflect the risk profile of the undertaking, including whether the resulting calibration reflects the Solvency II standard for the SCR;"		
		FFSA believes that this requires undertakings to apply each of the selected techniques in order to achieve this assessment.		
		FFSA disagrees with this approach as it is highly burdensome and leads to unduly costs. In addition, undertakings may not have the necessary resources (human) to perform such an assessment.		
498. German Insurance Association – Gesamtverband der D	3.157.	See comments to 3.62 and 3.63. Requirement to perform an in-depth review of each one of the identified aggregation techniques may be too	Noted.	

			ary of Comments on Consultation Paper 65 - CEIC CP-65/09 CP No. 65 - L2 Advice on Partial Internal Models	PS- CEIOPS-SEC-167-10 January 2010
			burdensome depending on how it is interpreted	
			In particular the requirement to assess whether: "the resulting SCR reflect the risk profile of the undertaking, including whether the resulting calibration reflects the Solvency II standard for the SCR;" may require undertakings to implement each of the selected techniques in order to achieve this assessment.	
			The GDV disagrees with this approach as it is highly burdensome and leads to unduly costs.	
			Requirement to perform an in-depth review of each one of the identified aggregation techniques may be too burdensome depending on how it is interpreted	
			In particular the requirement to assess whether: "the resulting SCR reflect the risk profile of the undertaking, including whether the resulting calibration reflects the Solvency II standard for the SCR;" may require undertakings to implement each of the selected techniques in order to achieve this assessment.	
499.	Groupe Consultatif	3.157.	See 3.87.	See answer to that comment.
500.	PricewaterhouseCoopers LLP	3.157.	The use of more complex techniques will depend more heavily on expert judgement. This may include judgements that are harder to subject to the tests laid out in CP56 as they are essentially grappling with a practical problem of	Noted.

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		integration rather than a technical, more theoretical, issue. Some allowance should be made that the supervisor should not require justifications beyond the question in issue.	
501.		Confidential comment deleted.	
502. Lloyd's	3.158.	The final sentence should refer to "rationale", not "rational". Amend as follows: The undertaking needs to document the process and rationale behind their choice.	Agreed. Change accordingly.
503. Groupe Consultatif	3.159.	See 3.87.	See answer to that comment
504. KPMG ELLP	3.159.	See previous comments regarding the 'proof of appropriateness' and not inappropriateness.	See answer to those questions.
505. DIMA	3.160.	"the supervisory authority may require the undertaking to test any of the other techniques": is the idea of "any" exclusive, that is one (and only one) other integration technique or can there be a multiple number of other integration techniques, up to all the other integration techniques? This should be clarified.	Please refer to answer to comment 335.
506.		Confidential comment deleted.	
507. CEA	3.161.	See comments to 3.62 and 3.63.	Please refer to answer to comment 421.
		The requirement as per 3.164 and Article 104 (4) should be to produce a 1 year 99.5th percentile VaR capital result. Replicating the properties of the correlation matrix approach used by the standard formula will not necessarily achieve this. This would also ensure consistency with the statement made in 3.164.	

			eary of Comments on Consultation Paper 65 - CEIC CP-65/09 CP No. 65 - L2 Advice on Partial Internal Models	OPS- CEIOPS-SEC-167-10 January 2010
			As described in our response to 3.148 and acknowledged by Ceiops in 3.73 and 3.74 of CP74, the standard formula correlation matrix aggregation approach has a number of well known flaws, which has resulted in Ceiops adjusting the correlation matrix used in the standard formula. Requiring companies to replicate the properties of the standard formula correlation matrix approach when they have addressed some or all of the deficiencies in the standard formulae will result in an answer different, and probably in excess of, a 1 year 99.5th VaR result and therefore not be in line with Article 104. The CEA recommends that the first sentence is replaced with: "These techniques shall seek to ensure that a 1 year 99.5th percentile capital value is achieved when the standard formula integration approach is either not feasible or not appropriate."	
508.	German Insurance Association – Gesamtverband der D	3.161.	See comments to 3.62 and 3.63. The requirement as per 3.164 and Article 104 (4) should be to produce a 1 year 99.5th percentile VaR capital result. Replicating the properties of the correlation matrix approach used by the standard formula will not necessarily achieve this. This would also ensure consistency with the statement made in 3.164. As described in our response to 3.148 and acknowledged by CEIOPS in 3.73 and 3.74 of CP74, the standard formula	Please refer to answer to comment 421.

		ary of Comments on Consultation Paper 65 - CEIC CP-65/09 CP No. 65 - L2 Advice on Partial Internal Models	OPS- CEIOPS-SEC-167-10 January 2010
		correlation matrix aggregation approach has a number of well known flaws, which has resulted in CEIOPS adjusting the correlation matrix used in the standard formula. Requiring companies to replicate the properties of the standard formula correlation matrix approach when they have addressed some or all of the deficiencies in the standard formulae will result in an answer different, and probably in excess of, a 1 year 99.5th VaR result and therefore not be in line with Article 104. The GDV recommends that the first sentence is replaced with: "These techniques shall seek to ensure that a 1 year 99.5th percentile capital value is achieved when the standard formula integration approach is either not	
509. Lloyd's	3.161.	feasible or not appropriate." The last sentence is out of context with the rest of the paragraph and with the heading it is under ("Characteristics of the techniques"). It would be better made in a separate paragraph before Step 1.	Noted.
510.		Confidential comment deleted.	
511. PricewaterhouseCoopers LLP	3.161.	We applaud the recognition that the correlation factors within the partial model are not the same as the Standard Formula SCR correlations.	Noted.
512. UNESPA – Association of Spanish Insurers	3.161.	Integration techniques in option 2 do not have to reproduce the properties of correlation matrix of standard formula.	Please refer to answer to comment 421.

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		CEIOPS has acknowledged the standard formula correlation matrix aggregation approach has inconsistencies and weaknesses. Therefore, it is inconsistent the requirement to the companies of replication the properties of the standard formula correlation matrix if this does not work properly.	
513. CEA	3.162.	See comments to 3.86.	Please refer to answer to that comment.
514. CRO Forum	3.162.	We understand the approach taken. However, again it may be more efficient and effective to allow demonstrating that a particular integration technique is most "fit for use" Supervisor may of course want to challenge that, but this avoids the elimination approach (see 3.86).	Noted.
515. German Insurance Association – Gesamtverband der D	3.162.	See comments to 3.86	Please refer to answer to that comment.
516. Groupe Consultatif	3.162.	See 3.86.	Please refer to answer to that comment.
517. AB Lietuvos draudimas	3.164.	This appears to be a significant task for potentially little gain to the industry. Perhaps a better solution is for firms to propose techniques when the SF is deemed inappropriate. When these are approved the technique is then publicised.	Not agreed.
518. CEA	3.164.	See comments to 3.62 and 3.63.	
		Ceiops should be required to provide a full and complete	Not agreed. This is clearly not

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		list of possible aggregation techniques. It should also be made clear that such a list should restrict the aggregation techniques that can be used in full internal models. There is a danger that Ceiops may use a restricted list and that this is also used for full internal model approval. The CEA recommends that the text is changed as follows: "This Option gives Ceiops Section 4 of the Level 1 Text. The list should be full and complete and for the avoidance of doubt should not restrict the aggregation approaches that could be used in full internal models."	the intention as stated in the last sentence of paragraph 3.161.
519. EMB Consultancy LLP	3.164.	We are pleased to see CEIOPS committing to maintaining the Level 3 list of integration techniques, as this is a key part of the proposals. We would like to see CEIOPS making a commitment to the industry as to how this list may be challenged and updated; at the moment it appears to be at CEIOPS' discretion.	Please refer to anser to comments 4 and 6.
520. German Insurance Association – Gesamtverband der D	3.164.	See comments to 3.62 and 3.63. CEIOPS should be required to provide a full and complete list of possible aggregation techniques. It should also be made clear that such a list should restrict the aggregation techniques that can be used in full internal models. There is a danger that CEIOPS may use a restricted list and that this is also used for full internal model approval.	Please refer to answer to comment 518.

			ary of Comments on Consultation Paper 65 - CEIC CP-65/09 CP No. 65 - L2 Advice on Partial Internal Models	PS- CEIOPS-SEC-167-10 January 2010
			The GDV recommends that the text is changed as follows: "This Option gives CEIOPS Section 4 of the Level 1 Text. The list should be full and complete and for the avoidance of doubt should not restrict the aggregation approaches that could be used in full internal models."	
521.	RSA Insurance Group	3.164.	This appears to be a significant task for potentially little gain to the industry. Perhaps a better solution is for firms to propose techniques when the SF is deemed inappropriate. When these are approved the technique is then publicised.	Not agreed.
522.	UNESPA – Association of Spanish Insurers	3.164.	CEIOPS should provide a complete list of integration techniques. Also, it should be made clear that this list do not have to restrict the integration techniques available to be used in full internal models.	Please refer to answer to comment 421.
			It is obvious that partial internal models are designed with methodologies, assumptions and calculation processes analogous to those used in the development of partial internal models.	
			Therefore, it is logical that risk aggregation techniques used in full internal models are incorporated into partial internal model.	
523.			Confidential comment deleted.	
524.	CEA	3.165.	See comments to 3.62 and 3.63.	

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			A proper governance structure and process is required to ensure that the list is kept up to date. It is stated that the list will be updated by Ceiops "from time to time". This ad-hoc approach risks the list becoming out of date and preventing companies from using the latest techniques. There should be proper governance, i.e. clear responsibility and formal review process. The CEA recommends that the last sentence is changed to: "Ceiops will assign responsibility for keeping the list updated to a named individual who will ensure that the list is reviewed annual to ensure that it is full and complete".	Please refer to anser to comments 4 and 6.
525.	CNP Assurances	3.165.	We disagree with the fact that the supervisor is allowed to remove techniques from the list; what happens if the removed technique was the one used by an undertaking?	Please refer to answer to comments 343.
526.	DIMA	3.165.	What happens for undertakings which are using a technique which is removed from the list? Are they required to change their technique immediately? We suggest that there should be a period for the undertaking to evolve and compare the solutions with the new techniques and perhaps make the partial internal model evolve due to the change of the integration technique.	Please refer to answer to comments 343.
527.	FFSA	3.165.	Criteria and process for adding techniques to the list CEIOPS states that: "CEIOPS will review the list from time	Please refer to anwser to comments 343.

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		to time and will make amendments in line with current best practice and research. This may include removing techniques from the list."	
		FFSA requires more clarification on the following wording "from time to time". FFSA believes that CEIOPS should disclose an annual report about his findings.	
		In addition, FFSA disagrees with the following "This may include removing techniques from the list" This implies that undertaking will have to build up a new "aggregation technique" if the removed technique is currently used by the undertaking, although it is still appropriate for use. This is unduly burdensome and onerous.	
528. German Insurance Association – Gesamtverband der D	3.165.	See comments to 3.62 and 3.63.	Please refer to answer to comments 343.
		A proper governance structure and process is required to ensure that the list is kept up to date.	
		It is stated that the list will be updated by CEIOPS "from time to time". This ad-hoc approach risks the list becoming out of date and preventing companies from using the latest techniques. There should be proper governance, i.e. clear responsibility and formal review process.	
		The GDV recommends that the last sentence is changed to: "CEIOPS will assign responsibility for keeping the list updated to a named individual who will ensure that the list is reviewed annual to ensure that it is full and complete".	

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529. Lloyd's	3.165.	If CEIOPS is to remove any technique from the list it should first obtain the agreement of the supervisor of any undertaking that is using the methods, and it should give reasons why the technique is to be removed.	Please refer to anwser to comments 343.
530. KPMG ELLP	3.165.	Any published list needs to be rapidly updated It is not clear who would approve these techniques – local supervisors or CEIOPS. If CEIOPS will be the approver, then it is not clear how this process will work. There needs to be a process whereby any delays in approval of a technique cannot prevent (re)insurance undertakings from implementing a partial internal model where they can demonstrate that the approach they wish to adopt is appropriate and better reflects their risk profile.	Please refer to anwser to comments 343.
531. UNESPA – Association of Spanish Insurers	3.165.	It is needed to ensure that the list is updated regularly. The success of having a complete list, full of feasible and appropriate integration techniques, depends on the strong compromise given by the supervisors to keep it updated with the best practices developed by the companies.	Noted .
532. CEA	3.166.	The reference X.XX needs amending.	Noted .
533. German Insurance Association – Gesamtverband der D	3.166.	The reference X.XX needs amending.	Noted .
534. PricewaterhouseCoopers LLP	3.166.	The choice of techniques is deferred to Level 3 text to allow a more flexible method of adding and removing	Please refer to answer to comments 343.

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		methods. While this seems very sensible there does need to be open debate with industry over removals (which might have been approved for existing partial models) and additions (so there is proper consideration of new methods without inducing a long time frame before a new method is added to the list.	
535. Lloyd's	3.167.	It should be made clear that test (c) is by far the most important of these, and that not all of them need to be met.	Noted.
536. PricewaterhouseCoopers LLP	3.167.	The use of more complex techniques will depend more heavily on expert judgement. This may include judgements that are harder to subject to the tests laid out in CP56 as they are essentially grappling with a practical problem of integration rather than a technical, more theoretical, issue. Some allowance should be made so that the supervisor should not require justifications beyond the question in issue.	Noted.
537. Lloyd's	3.168.	Delete "the" and "technique" to obtain " to choose an appropriate technique for integration and then apply it"	Agreed:changed accordingly.
538. Pacific Life Re	3.168.	We would hope that the Level 3 guidance will contain a technique relating to the integration of partial internal models with individual risk sub-modules not included in the partial internal model.	Noted.
		Pacific Life Re are of the view that in many instances it is inappropriate to aggregate risks at the risk module level and would like the flexibility to allow for differing correlations between all risk sub-modules, regardless of whether the risk module is part of the Partial Internal model.	

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		For example, if the life risk module were to be included in the Partial Internal model but the market risk module were excluded then we would hope that Level 3 guidance will contain an integration technique that allows a different correlation between credit spreads and mortality risk as compared to credit spreads and lapse risk.	
		The lack of such an integration technique would in our opinion lead to an over-simplified approach and would not allow sufficient granularity when considering the interaction between different risks.	
539. ACA	3.169.	This list should also be kept up to date on a regular basis.	Please refer to answer to comments 343.
540. AMICE	3.169.	For each integration technique, CEIOPS will set out in the Level 3 the name of the technique, a brief outline describing the technique including the main data requirements, the areas needing expert judgment, the calculation method, references to any academic / actuarial literature that describes the technique, with pointers to the relevant sections of the literature, the advantages of the technique, the disadvantages of the technique, the circumstances when the technique is inappropriate;	Unclear.
		AMICE members suggest adding to the list the impact of the chosen technique.	
541. CEA	3.169.	See comments to 3.62 and 3.63. If this approach were to be adopted (which the CEA	Noted.
		disagrees with) providing such information to companies would be helpful.	

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542.			Confidential comment deleted.	
543.	German Insurance Association – Gesamtverband der D	3.169.	See comments to 3.62 and 3.63. If this approach were to be adopted (which the GDV disagrees with) providing such information to companies would be helpful.	Noted.
544.			Confidential comment deleted.	
545.	UNESPA – Association of Spanish Insurers	3.169.	As already mentioned in paragraph 3.83 UNESPA believes it is necessary not to wait to Level 3 to provide a list of integration techniques to be used by the companies.	Noted.
546.	Lloyd's	3.170.	"Cons" and "drawbacks" are tautologous – suggest dropping "and drawbacks". Also the intention of the paragraph is obscured by the ordering of the sentences. We suggest the following replacement:	Wrong paragraph reference.
			The techniques listed at Level 3 will be mathematical models, each with pros and cons. CEIOPS' responsibility for maintaining this list does not diminish the responsibility of undertakings to assess the appropriateness of the particular technique chosen and to justify this in the application to use an internal model. The ongoing appropriateness will also form part of the validation standards required for the internal model.	
547.	CEA	3.172.	See comments to 3.62 and 3.63.	See answer to those comments.

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548.	EMB Consultancy LLP	3.172.	We are pleased to see the option for undertakings to use their own integration techniques. Though in the impact assessment it mentions that the industry is likely to want to see own integration techniques given preference, we recognise the advantage of a standard list being considered first. We would like to stress that a sufficiently full, varied, and up to date list is critical to this process.	Noted.
			By having to consider the standard list first, we hope that pressure will be exerted by the industry to keep the standard list up to date and appropriate, and on the other hand the standard list would provide access to latest market techniques for more resource-constrained or inert undertakings.	
549.	FFSA	3.172.	Decision tree on partial internal models' integration – Step 3 FFSA disagrees with the following: "When none of the techniques provided in the Level 3 guidance is feasible or if the undertaking is unable to select an appropriate technique from the list after following the process described above, undertakings may use, subject to supervisory approval, other integration techniques"	Noted.
			Undertakings should be allowed to use other aggregation techniques that are not listed in level 3 guidance as long as they prove that it is more appropriate than any of the listed methods. It should not be considered as the last available option when none of the techniques provided is feasible or appropriate.	
550.	German Insurance Association –	3.172.	See comments to 3.62 and 3.63.	See answer to those comments.

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	Gesamtverband der D		Trivo. 03 - L2 Advice on Fartial Internal Models	
551.	KPMG ELLP	3.172.	The first word should be 'if' not 'when'	Agreed. Changed accordingly
552.	AMICE	3.173.	CEIOPS states that supervisory authorities always retain the power	Please refer to answer to comment 4.
			$\hfill\Box$ to disagree with undertaking's integration technique and to reject the model;	
			\square to approve it with terms and conditions;	
			to require the undertaking to submit a transitional plan to extend the scope of the model to the level where it can be integrated in a straightforward manner with the standard formula or so that another integration technique might be used.	
			Some AMICE members fear that the rejection of their proposed integration technique could happen on a less-than-objective basis and/or in function of the supervisor's own experience or comfort with internal models as such. We expect that CEIOPS/EIOPA will work on level 3 to address this potential for an unlevel playing field.	
553.	CEA	3.173.	It should be clearly defined, in which cases the supervisors may a) disagree with integration technique b) approve it with terms and conditions c) require submission of a transition plan. It is important to have objective criteria to avoid arbitrariness and unequal application between member states.	Noted.

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554. German Insurance Association – Gesamtverband der D	3.173.	It should be clearly defined, in which cases the supervisors may a) disagree with integration technique b) approve it with terms and conditions c) require submission of a transition plan. It is important to have objective criteria to avoid arbitrariness and unequal application between member states.	Noted.
555. CEA	3.174.	See comments to 3.62 and 3.63. It is not clear what provisions are being referenced? The previous paragraph describes what powers supervisory authorities have rather than requirements for an integration method? It is essential that these provisions are stated and without knowing them the CEA cannot form an opinion as to their suitability. Objectivity and comparability of supervisory decisions are strongly needed in this process.	The provisions are the ones expressed in paragraph 3.172. Sentence changed accordingly.
556. German Insurance Association – Gesamtverband der D	3.174.	See comments to 3.62 and 3.63. It is not clear what provisions are being referenced? The previous paragraph describes what powers supervisory authorities have rather than requirements for an integration method? It is essential that these provisions are stated and without	The provisions are the ones expressed in paragraph 3.172. Sentence changed accordingly.

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		knowing them the GDV cannot form an opinion as to their suitability.	
		Objectivity and comparability of supervisory decisions are strongly needed in this process.	
557. Lloyd's	3.175.	The requirement for the prescribed integration technique to be consistent with Subsection 1 of Section 4 of Chapter 4 of the level 1 text may be impossible to meet in practice. If each of the standard formula's correlation matrix, the Level 3 aggregation techniques and the alternative technique proposed by the undertaking have been rejected as inappropriate because of inconsistency with this requirement, how likely is it that the supervisory authority will be able to prescribe a technique which is consistent with it?	Noted.
558. Unum	3.176.	We believe that as long as the undertaking risk profile does not change, undertakings must be allowed to use their aggregation technique without being required to justify them regularly. The model change process should be applicable here.	Not agreed.
559. Association of British Insurers	3.176.	We believe that as long as the undertaking risk profile does not change, undertakings must be allowed to use their aggregation technique without being required to justify them regularly. The model change process should be applicable here. Please refer to our comments on CP37 regarding model change policy	Not agreed.
560. CEA	3.176.	We believe that as long as the undertaking risk profile does not change, undertakings must be allowed to use their aggregation technique without being required to	Not agreed.

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		justify them regularly. The model change process should be applicable here. Please refer to our comments on CP37 regarding model change policy.		
561. FFSA	3.176.	Examples of techniques to integrate partial internal models	Not agreed.	
		FFSA disagrees with the following statement "In order to strike a balance, undertakings shall demonstrate the appropriateness at least annually"		
		FFSA believes this statement may cause a large resource restraint on the undertakings.		
		As long as the undertaking risk profile does not change, undertakings must be allowed to use their aggregation technique.		
562. Lloyd's	3.176.	The words "to analyse" should be added to the second sentence, such that it reads "If undertakings are required to analyse the appropriateness too often"	Agreed. Changed accordingly.	
563. EMB Consultancy LLP	3.177.	The techniques considered in this section and following paragraphs are quite simple and the treatment very loose and high level. We would like to see much more rigorous explanations and more detailed methodological descriptions in the final list.	Noted.	
		As mentioned elsewhere in this response this level 3 list is envisaged to be a crucial part of the process so it is critical that CEIOPS provides an appropriate level of coverage and detail.		
564. Groupe Consultatif	3.177.	Why only "some of" aggregation techniques may be included at level 3 Advice and not all of the techniques presented?	Please refer to answer to comments 4 and 6.	
565. Lloyd's	3.177.	The list of techniques is crucial and we do not consider that	Noted. Not agreed with last	

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		this level of indication is sufficiently thought through or detailed for us to be able to feel confident that Option 2 will work. Until the list can be demonstrated to have met the requirements, Option 3 should be applied.	sentence.		
566. Institut des actuaires (France)	3.177.	Why only "some of" aggregation techniques may be included at level 3 Advice and not all of the techniques presented?	Please refer to answer to comments 4 and 6.		
567. UNESPA – Association of Spanish Insurers	3.177.	UNESPA believes integration methodologies shown in section 3.78 must go beyond and not to be "not binding examples".	Noted.		
		Integration techniques to partial models in the standard formula are of critical relevance to achieve a quantification of the SCR model robust and capable of providing results equivalent to a 1 year 99,5th percentile VaR, which reproduces the risk profile of the entity and that able overcome the Use Test.			
		While these examples do not turn into something with a more formal nature, UNESPA is not ready to give an opinion on aggregation methods or techniques proposed in the following sections.			
568. Groupe Consultatif	3.178.	It would be to set minimum criteria to justify the appropriateness of the technique used to integrate partial internals models into the standard formula, because it is clear that the results are very sensible to this.	Noted.		
569. Institut des actuaires	3.178.	It would be to set minimum criteria to justify the	Noted.		

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	(France)		appropriateness of the technique used to integrate partial internals models into the standard formula, because it is clear that the results are very sensible to this.		
570.	KPMG ELLP	3.179.	We do not believe the two world approach will be appropriate for most cases, but agree that it is prudent and easy to implement.	Noted.	
571.	Groupe Consultatif	3.181.	The two world scenario approach is effectively not risk sensitive, and it does not take account of the diversification benefits. That's why it may not be retained for the aggregation in the sense that it is not very coherent and appropriate with the purposes and the principles of Solvency II. Furthermore, the fact that it discourages the development of partial internal models is not a good thing for the small entities which wants to improve their risk management.	Noted.	
572.	Institut des actuaires (France)	3.181.	The two world scenario approach is effectively not risk sensitive, and it does not take account of the diversification benefits. That's why it may not be retained for the aggregation in the sense that it is not very coherent and appropriate with the purposes and the principles of Solvency II. Furthermore, the fact that is discourages the development of partial internal models is not a good thing for the small entities which wants to improve their risk management.	Noted.	
573.	KPMG ELLP	3.181.	These are significant disadvantages and they will make this overly prudent for most situations.	Noted.	
574.	AFS	3.182.	We expect for many Friendly Societies the two world approach may be the method used to integrate the partial internal model as it may be disproportionate to the scale and nature of their liabilities to develop other techniques;	Noted.	

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		however the lack of diversification benefits may for some firms make other approaches preferable.			
575. KPMG ELLP	3.182.	We believe this approach should only be used in extreme circumstances.	Noted.		
576. CNP Assurances	3.183.	We understand that this technique can be used for risks internally modelled for the whole business of an undertaking; even if providing undertakings with aggregation techniques will be part of Level 3 measures, we would like CEIOPS to precise how this method could be adapted in the case of risks internally modelled for a limited scope.	Noted. Please refer to answer to questions 4 and 6.		
577. CEA	3.185.	It is unclear whether undertakings will have to report the SCR by sub-module of risk. This might not be simple to achieve mainly when sub-modules of risks are modelled jointly.	Noted.		
578. Deloitte	3.185.	We feel the reference to the number 2.58 should really be a reference to the probability point (99.5) in the normal distribution rather than forcing companies to use an approximation. When building spreadsheets/models, if a hardcoded approximation is needed it will limit the flexibility for easily exploring other confidence levels.	Noted.		
579. FFSA	3.185.	It is unclear whether undertakings will have to report the SCR by sub-module of risk. This might not be simple to achieve mainly when sub-modules of risks are modelled jointly.	Noted. Please refer to answer to questions 4 and 6.		
580. Lloyd's	3.186.	" it could just a 2 step approach" should be replaced with " it could just be a 2 step approach"	Agreed. Changed accordingly.		

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581.	Lloyd's	3.189.	In the first bullet, " may not be always" should be replaced with " may not always be"	Agreed. Changed accordingly.
582.	Lloyd's	3.193.	In the third bullet, "extend" should be replaced with "extent". In the fifth bullet, " may not be always" should be replaced with " may not always be "	Agreed. Changed accordingly.
583.	Lloyd's	3.196.	In the final bullet, " model risks whose that behaves" should be replaced by " model risks that behave". Does semitrical mean symmetrical? We believe that this method is likely to be required in many cases where there is a sophisticated model but one or more business units have not yet been included, so that there is a partial model and it needs to integrate extra business units. Accordingly we would like to see more detail on this method.	Please refer to answer to
584.	Just Retirement Limited	3.196.	We believe that many undertakings will be considering the use of a simulation approach, as it has significant technical advantages in addressing the shortcomings of correlation matrices and accurately modelling the co-dependency and co-impact of risks.	Noted.
			In our view CEIOPS should encourage the use of simulation in preference to other techniques where this is proportionate, not unduly burdensome and where the technical advantages are material.	
585.	Lloyd's	3.198.	It need not be burdensome or expensive if it simply means including a business unit on the standard formula into a good quality internal model.	Noted.
586.	CEA	3.199.	The conditions should also include where such a result better captures the risk profile of the company	Noted. This implicit for all examples.

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		The CEA recommends an additional bullet point: "Where such an approach results in the company's risk profile being more accurately captured."			
587. Deloitte	3.201.	We would include here the comment "incentivises the development of partial internal models and better risk management" as it allows the most flexible approach for firms.	Agreed. Changed accordingly.		
588. CRO Forum	3.207.	When using standard formula integration techniques prescribed by the supervisor the use test is not applicable. We welcome this notice very positively as it would otherwise possibly impact all uses of the partial internal model.	Noted.		
589. Groupe Consultatif	3.207.	We agree strongly with this.	Noted.		
590. KPMG ELLP	3.207.	We welcome that the use test should not apply to an integration technique prescribed by the supervisory authority.	Noted.		
		An area that may need to be considered at some stage is what the situation would be regarding the use test if a (re)insurance undertaking had an approved partial internal model, but had developed a full internal model that it was using within the business, but had not yet received approval to use.			
591. Munich Re	3.207.	When using standard formula integration techniques prescribed by the supervisor the use test is not applicable. Remark: very positive as it would otherwise possibly impact all uses of the partial internal model.	Noted.		

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592. CRO Forum	3.208.	We note that this para withdraws 3.207 as CEIOPS expects undertakings to take into account the integration technique prescribed by supervisory during decision making process. This is still a use test requirement.	Not agreed : this provison is about regulatory capital
		The supervisor should not expect the undertaking to explain the differences between their integration technique used for internal purposes to the standard formula techniques.	
593. Deloitte	3.208.	We note that it is in general undesirable if the applied integration technique for the SCR differs from the integration technique used for steering purposes.	Noted.
594. Groupe Consultatif	3.208.	This undermines the statement in 3.207 somewhat, as CEIOPS expects undertakings to take into account the integration technique in its decision making process. This is still a use test requirement.	Please refer to answer to comment 592.
		The supervisor should not expect the undertaking to explain the differences between their integration technique used for internal purposes to the standard formula techniques.	
595. Lloyd's	3.208.	"How this different results" should be replaced with "how these different results".	Agreed. Changed accordingly.
596. KPMG ELLP	3.208.	We do not understand, given the comment in 3.207, why the supervisory authority should expect a (re)insurance undertaking to explain differences between the integration technique they use for internal purposes and the one imposed by the supervisory authority.	Please refer to answer to comment 592.
597. Munich Re	3.208.	Withdraws 3.207 as CEIOPS expects undertakings to take into account the integration technique prescribed by	Please refer to answer to comment 592.

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		CP No. 65 - L2 Advice on Partial Internal Models supervisory during decision making process. This is still a use test requirement.	
		The supervisor should not expect the undertaking to explain the differences between their integration technique used for internal purposes to the standard formula techniques.	
598. CRO Forum	3.209.	We welcome the notice that extending scope is not part of the foundation principle.	Noted.
599. Groupe Consultatif	3.209.	We agree with this.	Noted.
600. IUA	3.209.	We are supportive of the interpretation that the foundation principle of an internal model to result in pressure to improve the quality of the model, when applied to partial models, does not apply to extending the scope of that model and only to improving the model within the scope of that approved.	Noted.
601. Munich Re	3.209.	Positive: Extending scope is not part of the foundation principle.	Noted.
602. CRO Forum	3.214.	We note that the integration technique test is not applied to Principle 4.	Noted.
603. Groupe Consultatif	3.214.	We agree with this.	Noted.
604. Munich Re	3.214.	Integration technique test is not applied to Principle 4.	Noted.
605. CRO Forum	3.215.	We note that the integration technique test is not applied to Principle 5.	Noted.
606. Groupe Consultatif	3.215.	We agree with this.	Noted.
607. Munich Re	3.215.	Integration technique test is not applied to Principle 5.	Noted.

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608. CRO Forum	3.217.	We note that the integration technique test is not applied to Principle 7.	Noted.
609. Groupe Consultatif	3.217.	We agree with this. In CP 56, where these principles are first proposed, there are also principles 8 and 9. We think these should be included in this paper.	Not agreed. No adapatations need.
610. Munich Re	3.217.	Integration technique test is not applied to Principle 7.	Noted.
611. KPMG ELLP	3.218.	We agree that ensuring that the design of the partial internal model reflects the risk profile of the (re)insurance undertaking more appropriately than the standard formula is a key responsibility.	Noted.
612. CRO Forum	3.220.	The definition of the appropriate scope of the partial internal model should be within the undertaking. The supervisory body should be responsible for approval of the scope.	Noted.
613. Groupe Consultatif	3.220.	The definition of the appropriate scope of the partial internal model should be made within the undertaking. The supervisory body should be responsible for approval of the scope.	Noted.
614. Munich Re	3.220.	The definition of the appropriate scope of the partial internal model should be within the undertaking. The supervisory body should be responsible for approval of the scope.	Noted.
615. CRO Forum	3.225.	We understand this paragraph in a way such that the "one and only one modelling framework" does not preclude a variety of additional model applications for different purposes with strong links to the "one and only one modelling framework". These additional components may,	Noted.

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		for instance, provide a higher granularity than the solvency model for steering purposes in a way consistent to the overarching solvency model.	
616. Groupe Consultatif	3.225.	We understand this paragraph in a way such that the "one and only one modelling framework" does not preclude a variety of additional model applications for different purposes with strong links to the "one and only one modelling framework". These additional components may, for instance, provide a higher granularity than the solvency model or including different metrics such as earnings for steering purposes in a way consistent with the overarching solvency model. We would support such a distinction and believe that it is necessary.	Noted.
617. KPMG ELLP	3.225.	We understand the last sentence to mean that different components can be built into the model, perhaps covering different granularity for example, provided they all fit within the "one modelling framework". It is not clear whether the supervisory authorities will be more interested in the approval of this "one framework" or the underlying tools and components.	Noted.
618. Munich Re	3.225.	We understand this paragraph in a way such that the "one and only one modelling framework" does not preclude a variety of additional model applications for different purposes with strong links to the "one and only one modelling framework". These additional components may, for instance, provide a higher granularity than the solvency model for steering purposes in a way consistent to the overarching solvency model.	Noted.
619. CEA	3.226.	A probability distribution output may be seen as a favourable output. However, other forms of output may be	Please refer to CEIOPS' Advice for Level 2 Implementing

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			feasible (e.g. outcomes of different scenarios) and should not be precluded from the outset.	Measures on Solvency II on:Test and Standards for Internal model Approval	
620.	CRO Forum	3.226.	A probability distribution output may be seen as a favourable output. However, other forms of output may be feasible (e.g. outcomes of different scenarios) and should not be precluded from the outset.	Please refer to answer to comment 619.	
621.	Groupe Consultatif	3.226.	A probability distribution output may be seen as a favourable output. However, other forms of output may be feasible (e.g. outcomes of different scenarios) and should not be precluded from the outset.	Please refer to answer to comment 619.	
622.	Munich Re	3.226.	A probability distribution output may be seen as a favourable output. However, other forms of output may be feasible (e.g. outcomes of different scenarios) and should not be precluded from the outset.	Please refer to answer to comment 619.	
623.	Association of British Insurers	3.236.	We believe the wording should be made consistent with what is proposed in CP 56 (para 9.57).	Agreed. Paragraph changed s to be made consistent.	
624.	CEA	3.236.	The level of knowledge expected should depend upon oversight responsibilities as specified in 9.57 of CP56.	Please refer to answer to comment 623.	
			The requirement for the company's board, senior management and internal audit to understand relevant aspects of the internal model including the integration with the standard formula could be unrealistic and unreasonable if applied too strictly. The wording used in 9.57 of CP56 is more appropriate as it links understanding to the oversight responsibilities.		
			The CEA recommends that the wording is made consistent		

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		understanding required is linked to the oversight responsibilities.	
625. AMICE	3.243.	CEIOPS informs that the Principles regarding the use test described in CP 56 apply equally to full and partial internal models. However, there are adjustments required for partial internal models and for the application of the use test to an integration technique between a partial internal model and the standard formula, where the integration technique is developed by the undertaking.	Not agreed. Please refer to answer to comment 9.
		AMICE members feel that it should be explained more clearly whether the same adjustments will be required for the standard formula when the subset of parameters has been replaced by entity-specific parameters.	
626. CEA	3.243.	Applicability of use test – previous CEA comments	Please refer to answer to those
		The paper states that Use Test applies equally to full and partial internal models, with some adjustments and exceptions which are described. Our previous comments on the Use Test are therefore applicable, and summarised here:	comments.
		'Use' should be on the basis of the internal model and components of it and can be based on any relevant risk metrics, since companies may well chose to steer on 1-20 Earnings volatility, rather than the 1-200 capital. 'Wide use' – applications of the model should not be	

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		prescriptive and it should be clear that it is not required that the model be used at every level of the organisation. However, it should be clear that it should be used beyond risk management and that the applications should be sufficiently broad that it will result in the business challenging the model. Frequency of the full calculation of the SCR must consider materiality. Also, additional guidance should be provided on the circumstances where a supervisory may deem it				
		necessary to do a full run of the model more frequently than annually.				
627. CRO Forum	3.243.	The paper states that Use Test applies equally to full and partial internal models, with some adjustments and exceptions which are described. Our previous comments on the Use Test are therefore applicable, and summarised here:	Please refer to answer to those comments.			
		1. 'Use' should be on the basis of the internal model and components of it and can be based on any relevant risk metrics, since companies may well chose to steer on 1-20 Earnings volatility, rather than the 1-200 capital.				
		2. 'Wide use' – applications of the model should not be prescriptive and it should be clear that it is not required that the model be used at every level of the organisation. However, it should be clear that it should be used beyond risk management and that the applications should be sufficiently broad that it will result in the business challenging the model.				

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	t c	3. Frequency of the full calculation of the SCR must consider materiality. Also, additional guidance should be provided on the circumstances where a supervisory may deem it necessary to do a full run of the model more requently than annually.	
	r ii f s t t v r r r	We support the basic assumption that the partial internal model and the dependency structure within this partial internal model should fully comply to the Use Test principles as documented in CEIOPS 'Advice on Tests and Standards for internal models approval' (CP56). However, the way to integrate the partial internal model into the standard model can only be subject to the use test when the partial internal model is part of a larger internal model, but not when it concerns integration in the standard model which is likely not to be used for business decisions. We remark that the tests that should be passed are with respect to use for business decisions. We do support the view that any integration techniques covered under the Level 3 Aggregation Techniques should not be subject to the use test, especially not when imposed by the supervisor,	
628. German Insurance Association – Gesamtverband der D		Applicability of use test – previous GDV comments The paper states that Use Test applies equally to full and partial internal models, with some adjustments and exceptions which are described. Our previous comments on the Use Test are therefore applicable, and summarised here:	Please refer to answer to those comments.

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		'Use' should be on the basis of the internal model and components of it and can be based on any relevant risk metrics, since companies may well chose to steer on 1-20 Earnings volatility, rather than the 1-200 capital.	
		'Wide use' – applications of the model should not be prescriptive and it should be clear that it is not required that the model be used at every level of the organisation. However, it should be clear that it should be used beyond risk management and that the applications should be sufficiently broad that it will result in the business challenging the model.	
		Frequency of the full calculation of the SCR must consider materiality. Also, additional guidance should be provided on the circumstances where a supervisory may deem it necessary to do a full run of the model more frequently than annually.	
629. Groupe Consultatif	3.243.	We support the basic assumption that the partial internal model and the dependency structure within this partial internal model should fully comply with the Use Test principles as documented in CEIOPS 'Advice on Tests and Standards for internal models approval' (CP56). However, the way to integrate the partial internal model into the standard model can only be subject to the use test when the partial internal model is part of a larger internal model,	Noted.

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		but not when it concerns integration in the standard model which is likely not to be used for business decisions. We believe that the tests that should be passed are with respect to feasibility and appropriateness and not with respect to use for business decisions. We support the view that any integration techniques covered under the Level 3 Aggregation Techniques should not be subject to the use test, especially not when imposed by the supervisor.	
630. KPMG ELLP	3.243.	This section focuses on the integration technique. However, consideration needs to be applied to the use test (and other tests) for the 'partial internal model' – e.g. should the numbers generated by the partial internal model be used in decision making.	Noted.
631.		Confidential comment deleted.	
632.			
633. AMICE	3.244.	CEIOPS writes that for an integration technique between the partial internal model and the standard formula that is prescribed by the supervisory authority, the use test – concerning the integration technique – does not apply. The adaptation applies to the use-test principles and the undertaking has to act in the prescribed way.	Unclear.
		It would be appreciated to specify whether undertakings would be allowed to apply their own integration technique once a correlation structure has been prescribed by the supervisor.	
634. CRO Forum	3.244.	Here, it is unclear what is meant by an integration technique 'prescribed by the supervisory authority'. Of course this is the integration technique prescribed in step 4 ('Simple sum or other') of advice 3.143. We think that	Yes they do.

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		this should also hold for the steps 1 and 2, which are effectively also prescribed by the supervisor.	
635. EMB Consultancy LLP	3.244.	We agree that the use test should not be applied to the integration between the internal model and standard formula.	Noted.
636. Groupe Consultatif	3.244.	Here it is unclear what is meant by an integration technique 'prescribed by the supervisory authority'. Of course this is the integration technique prescribed in step 4 ('Simple sum or other') mentioned in 3.143. However, we think that this should also hold for the steps 1 and 2, which are effectively also prescribed by the supervisor.	Yes they do.
		We support the idea that the dependency structure applied to integrate the partial internal model within the standard model should meet the Use Test Foundation Principle, i.e. pressure to improve this. As opposed to the advice in 3.244 we suggest that this does not only hold for the 'alternative techniques proposed by undertakings' (step 3), but also for the 'Level 3 Aggregation Techniques' (step 2). We feel that the Use Test Foundation Principle should not apply to the 'Standard Formula Correlation Matrix' (Step 1) and the 'Simple sum or other'(Step 4) integration techniques.	Yes that is what is intended.
637. KPMG ELLP	3.244.	It is not clear what this paragraph is trying to achieve.	Noted.
638. CEA	3.245.	The requirement to base decisions on two techniques of integration is burdensome and unnecessary. The requirement to base decisions on two techniques of integration is burdensome as it requires significantly more time and/or resources to produce the required results, and can be counter-productive as focus may be placed on	Noted.

			ary of Comments on Consultation Paper 65 - CEIO CP-65/09 CP No. 65 - L2 Advice on Partial Internal Models	PS- CEIOPS-SEC-167-10 January 2010
			'reconciling' differences rather than making decisions based on the key output. The important thing is that the decision makers are generally aware of the impact of using the different integration approaches, which does not require parallel calculations in all instances.	
			We suggest rewording to: '3.245. Notwithstanding with the referred adaptation, Ceiops expects that decision makers shall be aware of the likely impact on results of using the integration technique selected from Ceiops' prescribed list and the one the undertaking may use for its steering purposes. Ceiops expect that it is documented how the different integration	
639.	German Insurance	3.245.	approaches affect results and that the reasons are documented why the undertaking uses a different integration technique.' The requirement to base decisions on two techniques of	Please refer to answer to
	Association – Gesamtverband der D		integration is burdensome and unnecessary. The requirement to base decisions on two techniques of integration is burdensome as it requires significantly more time and/or resources to produce the required results, and can be counter-productive as focus may be placed on 'reconciling' differences rather than making decisions based on the key output. The important thing is that the decision makers are generally aware of the impact of using the different integration approaches, which does not require parallel calculations in all instances.	comment 638.

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			We suggest rewording to:	
			'3.245. Notwithstanding with the referred adaptation, CEIOPS expects that decision makers shall be aware of the likely impact on results of using the integration technique selected from CEIOPS' prescribed list and the one the undertaking may use for its steering purposes. CEIOPS expect that it is documented how the different integration approaches affect results and that the reasons are documented why the undertaking uses a different integration technique.'	
640.	Groupe Consultatif	3.245.	'CEIOPS expects that the undertaking has to take also the results of the integration technique that is prescribed by the supervisory authority into account during their decision making process.' We strongly oppose the suggestion that the supervisor	Please refer to answer to comment 592.
			may prescribe what the undertaking should take into account during the business decision making process.	
641.	KPMG ELLP	3.245.	It is not clear what this paragraph is trying to achieve.	Noted.
642.	AB Lietuvos draudimas	3.246.	3.246 – 3.252 are sensible interpretations of the use test principles for internal models	Noted.
643.	Legal & General Group	3.246.	We support the statement that the foundation principle is not a requirement to extend the scope of a partial internal model. However, the possible restriction on methods for integrating partial internal models might put pressure on firms to move entirely to a full internal group model, in order to integrate capital by a more sensible method. This is not desirable.	Noted.

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644.	PricewaterhouseCoopers LLP	3.246.	We strongly support the emphasis properly placed on the need for a transitional plan to a full model being a question of "may" and not "shall". We believe that the longer term maintenance of a partial model could be entirely good risk management and save both the (re)insurer and the supervisor wasting time on a needless extension.	Noted.	
645.	RSA Insurance Group	3.246.	3.246 – 3.252 are sensible interpretations of the use test principles for internal models	Noted.	
646.	CEA	3.247.	See comments on 3.236. Clarification should be given on the extent to which the management body should understand the partial internal model	Noted.	
			As described in previous CEA comments on CP56, more guidance should be given of the requirement to demonstrate understanding of the internal model.		
			Top level management (e.g. CEO) should not have to understand the structure and / or details of the internal model. Rather this responsibility should be given to suitably qualified and mandated senior managers who should understand the drivers of the models relevant for their decisions, as well as the limitations of the model outputs for different decisions. The understanding of the model structure, dynamics and inputs (e.g. integration into standard formula) should be delegated further to qualified staff. However, administrative and management bodies need to ensure that the delegated tasks and processes are		
			working properly, so that they can take final responsibility for the results and decisions based upon those results. Every senior manager and Board member should at least		
			be responsible for the model applications within his/ her own area of responsibility.		

			ary of Comments on Consultation Paper 65 - CEIC CP-65/09 CP No. 65 - L2 Advice on Partial Internal Models	OPS- CEIOPS-SEC-167-10 January 2010
			This should be changed to: 21. '3.247. The administrative or management body shall demonstrate that they understand the key outputs internal model and related business implications. Suitably qualified and mandated senior managers should demonstrate that they understand the internal model, including the logic behind the internal model, including for partial internal models the way the model is integrated into the standard formula. Every senior manager and Board member should at least be responsible for the model applications within his/ her own area of responsibility'	Not agreed.
647.	German Insurance Association – Gesamtverband der D	3.247.	See comments on 3.236. Clarification should be given on the extent to which the management body should understand the partial internal model As described in previous GDV comments on CP56, more guidance should be given of the requirement to demonstrate understanding of the internal model. Top level management (e.g. CEO) should not have to understand the structure and / or details of the internal model. Rather this responsibility should be given to suitably qualified and mandated senior managers who should understand the drivers of the models relevant for their decisions, as well as the limitations of the model outputs for different decisions. The understanding of the model structure, dynamics and inputs (e.g. integration into standard formula) should be delegated further to qualified staff. However, administrative and management bodies	Please refer to answer comment 647.

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		need to ensure that the delegated tasks and processes are working properly, so that they can take final responsibility for the results and decisions based upon those results. Every senior manager and Board member should at least be responsible for the model applications within his/ her own area of responsibility.	
		This should be changed to :	
		'3.247. The administrative or management body shall demonstrate that they understand the key outputs internal model and related business implications. Suitably qualified and mandated senior managers should demonstrate that they understand the internal model, including the logic behind the internal model, including for partial internal models the way the model is integrated into the standard formula. Every senior manager and Board member should at least be responsible for the model applications within his/ her own area of responsibility'	
648. Groupe Consultatif	3.247.	We disagree that all senior management should be able to demonstrate an understanding of the technique used to integrate the partial model. This shall in most cases be a rather technical/ statistical issue. This principle should therefore only apply to senior management in the risk management of actuarial functions, unless the partial internal model is part of a larger internal model.	Not agreed.
649. Legal & General Group	3.247.	This statement is not consistent with the approach set out in paragraph 3.143. In other words, firms don't have full flexibility to integrate capital consistently with their own	Not agreed.

		cP-65/09 CP No. 65 - L2 Advice on Partial Internal Models preferred approach, yet senior management are expected to understand the logic of the method imposed on them.	DPS- CEIOPS-SEC-167-10 January 2010
650. CEA	3.248.	"Fit for purpose" rather than "fit with business model" As described in previous CEA comments on CP56, rather than having a "fit with the business model", the focus here should be "fit for purpose" of the different uses. This seems a much more relevant criteria and it would make some of the listed aspects less narrow. Obviously, if there are material changes in the business model, the partial internal model would need to reflect those in order to support decisions in an appropriate manner (fit for purpose). A shift of focus to "fit for purpose" would also result in less narrow specification of this principle. For further comments please see comments on CP56 Advice on Tests and Standards for Internal Models, reference 3.106 We suggest rewording to 'fit for purpose'.	Not agreed.
651. German Insurance Association – Gesamtverband der D	3.248.	"Fit for purpose" rather than "fit with business model" As described in previous GDV comments on CP56, rather than having a "fit with the business model", the focus here should be "fit for purpose" of the different uses. This seems a much more relevant criteria and it would make	Not agreed.

		Sur	nmary of Comments on Consultation Paper 65 - CEIC CP-65/09 CP No. 65 - L2 Advice on Partial Internal Models	OPS- CEIOPS-SEC-167-10 January 2010
			some of the listed aspects less narrow. Obviously, if there are material changes in the business model, the partial internal model would need to reflect those in order to support decisions in an appropriate manner (fit for purpose).	
			A shift of focus to "fit for purpose" would also result in less narrow specification of this principle.	
			For further comments please see comments on CP56 Advice on Tests and Standards for Internal Models, reference 3.106	
			We suggest rewording to 'fit for purpose'	
652.	Groupe Consultatif	3.248.	We believe that this principle should not apply to the integration technique unless the partial internal model is part of a larger internal model.	Not agreed.
653.	KPMG ELLP	3.248.		
654.	AMICE	3.249.	Should be principle 4 instead?	Agreed: Changed accordingly.
655.	CEA	3.249.	The advice should clarify whether this principle applies to only the risks modelled It is unclear whether this principle applies only to the modelled risks (which is unlikely) or the combination of modelled and unmodelled risks.	It applies only to the part within the limited scope of the partial internal model.

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		This should be clarified. For further comments please see comments on CP56 Advice on Tests and Standards for Internal Models, reference 3.107	
656. German Insurance Association – Gesamtverband der D	3.249.	The advice should clarify whether this principle applies to only the risks modelled It is unclear whether this principle applies only to the modelled risks (which is unlikely) or the combination of modelled and unmodelled risks. This should be clarified. For further comments please see comments on CP56 Advice on Tests and Standards for Internal Models, reference 3.107	Please refer to answer to comment 655.
657. Groupe Consultatif	3.249.	We agree. This is principle 4 not 3.	Please refer to answer to comment 654.
658. UNESPA – Association of Spanish Insurers	3.249	It should be explained more accurately whether the principles applies to only the risks modelled (partial internal model), or the whole model (risks under standard formula with partial internal model already integrated in	Please refer to answer to comment 655.

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		the previous one).			
659. AMICE	3.250.	Should be principle 3 instead?	Agreed: Changed accordingly.		
660. CEA	3.250.	Clarification should be provided on the definition of 'decision-makers' As explained in 3.247 above, qualified and mandated senior managers should understand the model. Many decision-makers will only need to understand the inputs and outputs of the model entire SCR calculation, and not necessarily the details of what the partial internal model covers and what it does not cover. We suggest rewording to '3.250.When considering Principle 6, decision-makers in particular, for partial internal models they need to be aware of what the internal model covers and how this links to their decisions.'	Decisons makers in this context are not necesaarily senior management. Decison makers are those who make decisons.		
661. German Insurance Association – Gesamtverband der D	3.250.	1. Clarification should be provided on the definition of 'decision-makers' As explained in 3.247 above, qualified and mandated senior managers should understand the model. Many decision-makers will only need to understand the inputs and outputs of the model entire SCR calculation, and not necessarily the details of what the partial internal model covers and what it does not cover.	Please refer to answer to comment 660		

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		'3.250. When considering Principle 6, decision-makers in particular, for partial internal models they need to be aware of what the internal model covers and how this links to their decisions.'			
662. Groupe Consultatif 663. KPMG ELLP	3.250. 3.250.	We agree. This is principle 3 not 6. It is not clear whether the outputs from the partial internal model should be used in decision making. Our view is that	Please refer to comment 659. Unclear.		
664. PricewaterhouseCoopers LLP	3.250.	it should, for the same rationale as a full internal model. We support the integration technique being deemed to be outside Principle 6.	Noted.		
665. UNESPA – Association of Spanish Insurers	3.250	Clarification should be provided on the definition of 'decision-makers'	Please refer to answer to comment 661.		
		Senior Management, as explained in 3.247 above, should understand the model at high level.			
		However, Decision-makers (the Top Management) will only need to understand the inputs and the outputs of the model, and also should know what risks are analysed by the model, and how affect this to the decision-making.			

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666. AMICE	3.251.	Should be principle 7 instead?	Agreed: Changed accordingly.
667. Groupe Consultatif	3.251.	We agree. This is principle 7 not 8.	Please refer to answer to comment 667.
668. PricewaterhouseCoopers LLP	3.251.	We support the integration technique being deemed to be outside Principle 8.	
669. AMICE	3.252.	Should be principle 5 instead?	Agreed: Changed accordingly.
670. CEA	3.252.	As described in previous CEA comments on CP56 Advice on Tests and Standards for Internal Models, we believe this principle to be redundant with principle 6. Indeed, rather than the internal model "design", the related "communication and reporting processes" seem to be key in order to facilitate the analysis of business decisions.	Noted.
		For further comments and suggested changes please see comments on CP56 Advice on Tests and Standards for Internal Models, reference 3.107.	
		It is unclear whether undertakings will have to report the SCR by sub-module of risk. This might not be simple to achieve mainly when sub-modules of risks are modelled jointly.	
671. FFSA	3.252.	It is unclear whether undertakings will have to report the SCR by sub-module of risk. This might not be simple to achieve mainly when sub-modules of risks are modelled jointly.	Unlear.
672. German Insurance Association –	3.252.	16. As described in previous GDV comments on CP56 Advice on Tests and Standards for Internal Models, we	Noted.

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	Gesamtverband der D		believe this principle to be redundant with principle 6. Indeed, rather than the internal model "design", the related "communication and reporting processes" seem to be key in order to facilitate the analysis of business decisions.	
			For further comments and suggested changes please see comments on CP56 Advice on Tests and Standards for Internal Models, reference 3.107.	
			It is unclear whether undertakings will have to report the SCR by sub-module of risk. This might not be simple to achieve mainly when sub-modules of risks are modelled jointly.	
673.	Groupe Consultatif	3.252.	We agree. This is principle 5 not 9. Principle 6 does not appear in CEIOPS' advice, we think it should.	Correction made to the principle number. No adaptations to principle 6 is needed. This is now clarified in the paragraph 3.217.
674.	Legal & General Group	3.252.	As commented above, Principle 9 should apply to the integration technique, and firms should be given greater freedom to design this in the way deemed most suitable for their business models, and to apply for approval for this aspect of their partial internal model in the same way that they apply for approval for other parts of the model, free from the constraints of a decision tree. CEIOPS have not provided justification for why principle 9 does not apply.	Noted.
675.	PricewaterhouseCoopers LLP	3.252.	We support the integration technique being deemed to be outside Principle 9.	Noted.

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676. UNESPA – Association of Spanish Insurers	3.252	The principle is redundant with principle 6.	Noted.
		Principle 6 states that the model has to support the decision-making of the entity. Principle 9, which addressed this point, defends that its design has to be orientated to obtain information that helps to analyse the business and the decision-making.	
677. CRO Forum	3.253.	This principle shall be applied to the whole spectrum between full standard model and internal model, including all stages in between (USP and internal model).	Not agreed. Please refer to answer to comment 9.
678. Groupe Consultatif	3.253.	This principle shall be applied to the whole spectrum between standard model and full internal model, including all stages in between (USP and partial internal model).	Not agreed. Please refer to answer to comment 9.
679. KPMG ELLP	3.253.	Agreed	Noted.
680. CEA	3.254.	The definition of the appropriate scope of the partial internal model should be within the undertaking. The supervisory body should be responsible for approval of the scope.	This is the supervisory body of the undertaking not the supervisory authority.
681. CRO Forum	3.254.	The definition of the appropriate scope of the partial internal model should be within the undertaking. The supervisory body should be responsible for approval of the scope.	Please refer to answer to comment 680.
682. German Insurance Association – Gesamtverband der D	3.254.	The definition of the appropriate scope of the partial internal model should be within the undertaking. The supervisory body should be responsible for approval of the scope.	Please refer to answer to comment 680.

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683.	Groupe Consultatif	3.254.	The definition of the appropriate scope of the partial internal model should come from within the undertaking. The supervisory body should be responsible for approval of the scope.	Please refer to answer to comment 680.		
684.	Munich Re	3.254.	The definition of the appropriate scope of the partial internal model should be within the undertaking. The supervisory body should be responsible for approval of the scope.	Please refer to answer to comment 680.		
685.	CRO Forum	3.255.	We understand this paragraph in a way such that the "one and only one modelling framework" does not preclude a variety of additional model applications for different purposes with strong links to the "one and only one modelling framework". These additional components may, for instance, provide a higher granularity than the solvency model for steering purposes in a way consistent to the overarching solvency model.	Noted.		
686.	Groupe Consultatif	3.255.	We understand this paragraph in a way such that the "one and only one modelling framework" does not preclude a variety of additional model applications for different purposes with strong links to the "one and only one modelling framework". These additional components may, for instance, provide a higher granularity than the solvency model or other metrics such as earnings for steering purposes in a way consistent to the overarching solvency model. We would support this understanding.	Noted.		
687.	Munich Re	3.255.	We understand this paragraph in a way such that the "one and only one modelling framework" does not preclude a variety of additional model applications for different	Noted.		

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		purposes with strong links to the "one and only one modelling framework". These additional components may, for instance, provide a higher granularity than the solvency model for steering purposes in a way consistent to the overarching solvency model.	
688. CRO Forum	3.256.	A probability distribution output may be seen as a favourable output. However, other forms of output may be feasible (e.g. outcomes of different scenarios) and should not be precluded from the outset.	Please refer to answer to comment 619.
689. Groupe Consultatif	3.256.	A probability distribution output may be seen as a favourable output. However, other forms of output may be feasible (e.g. outcomes of different scenarios) and should not be precluded from the outset.	Please refer to answer to comment 619.
690. Munich Re	3.256.	A probability distribution output may be seen as a favourable output. However, other forms of output may be feasible (e.g. outcomes of different scenarios) and should not be precluded from the outset.	Please refer to answer to comment 619.
691. KPMG ELLP	3.257.	Agreed	Noted.
692. CEA	3.259.	Please see previous CEA comments on the profit and loss attribution in CP56 Advice on Tests and Standards for Internal Models (reference 7.1-7.21) We agree that no adaptations are necessary for partial	Noted.
693. German Insurance	3.259.	internal models. Please see previous GDV comments on the profit and loss	Noted.
Association – Gesamtverband der D		attribution in CP56 Advice on Tests and Standards for Internal Models (reference 7.1-7.21)	

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		We agree that no adaptations are necessary for partial internal models.		
694. KPMG ELLP	3.259.	Agreed	Noted.	
695. CEA	3.260.	The definition of major business unit should be amended (see comment for 3.20)	See answer to that comment.	
696. German Insurance Association – Gesamtverband der D	3.260.	The definition of major business unit should be amended (see comment for 3.20)	See answer to that comment.	
697. CEA	3.261.	Please see previous CEA comments on the validation policy in CP56 Advice on Tests and Standards for Internal Models (reference 8.155-8.163)	Noted.	
698. German Insurance Association – Gesamtverband der D	3.261.	Please see previous GDV comments on the validation policy in CP56 Advice on Tests and Standards for Internal Models (reference 8.155-8.163)	Noted.	
699. KPMG ELLP	3.261.	This approach makes sense	Noted.	
700. CEA	3.262.	Sensitivity testing should not be required as they may be unjustifiably burdensome in particular when PIM are comprehensively enough documented.	Not agreed.	

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701. FFSA	3.262.	Sensitivity testing	Not agreed.		
		FFSA disagrees with the following statement:" When testing the robustness of the partial internal model namely through sensitivity testing, the analysis shall also include the integration technique used to integrate the partial internal model's results into the standard forumla's results."			
		Implementing sensitivity testing may be highly burdensome for undertakings, mainly when undertakings provided full documentation on the selected aggregation techniques. This statement must be removed.			
702. German Insurance Association – Gesamtverband der D	3.262.	Sensitivity testing should not be required as they may be unjustifiably burdensome in particular when PIM are comprehensively enough documented.	Not agreed.		
703. PricewaterhouseCoopers LLP	3.262.	We agree the validation should include a firm lead integration technique but should not include a supervisory driven technique.	Not agreed.		
704. KPMG ELLP	3.264.	It should be clarified that the documentation standards only apply to the approved partial internal model	Not agreed.		
705. Groupe Consultatif	3.268.	The PIM should not be taken to supplant or replace the ORSA. If risks like underwriting cycles are identified as not being included in the standard formula then the standard formula may need revision and it should not trigger all undertakings developing separate models in these cases.	Not agreed. All material quantifiable risk need to be taken into consideration in the SCR calculation.		
706. Munich Re	3.268.	The PIM should not be taken to supersede the ORSA. If	Please refer to answer to		

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			risks like underwriting cycles are identified to not be included in the standard formula rather the standard formula needs revision and it should not trigger all undertakings developing separate models in these cases.	comment 706.	
707.	Groupe Consultatif	3.270.	Companies do not want to go down this route only to have it challenged legally. Legal opinion should be sought before this is recommended as an option.	Noted.	
708.	KPMG ELLP	3.271.	Agreed – (re)insurance undertakings should be able to model their business with an appropriate process for their risk profile.	Noted.	
709.	AMICE	3.275.	CEIOPS' paper states that a partial internal model may cover specific risks which may arise at solo or group level and which are not explicitly considered by the Standard Formula. We suggest that CEIOPS provide some examples of risks that might not be adequately captured in the standard formula and which should be the best way to approach them. Strategic and Reputational risks are good examples of risks which would be best covered by a qualitative approach. More analysis is needed on how to approach commodity and contagion risk.	Not agreed.	
710.	Association of British Insurers	3.275.	We welcome the flexibility allowed by CEIOPS for the consideration of risks not covered by the standard formula. However, whilst we agree the standard formula is a simplified approach which might not capture all of an undertaking's risks, we believe that the requirement for the internal model to incorporate any additional specific risks as part of Pillar I calculation should only apply to material quantifiable risks and recognise the fact that such risks may involve a degree of expert judgement (i.e. they may not meet the high data-quality requirements set out	Noted.	

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		by CEIOPS). Other non material, non quantifiable risks should be dealt with under Pillar II.				
		We believe firms should be able to use the standard formula for individual risk modules / sub modules where the results have only a small effect on the overall SCR and there are proportionality grounds supporting the use of the standard formula as a simplified method.				
		If a group uses the internal model for a major business unit and the standard SCR for a small entity how are these aggregated? Annex B suggests a deduction and aggregation method but we do not believe this is necessarily appropriate.	Please refer to answer to comment 728.			
711. Unum	3.275.	We propose that any additional risks that have not been covered by standard formula should be considered as part of the Pillar II risk assessment. This approach will ensure that the risk is appropriately addressed by the management and allow for the Pillar I balance sheet to be consistent with the Solvency II directive.	Please refer to answer to comment 705.			
712.		Confidential comment deleted.				
713. CEA	3.275.	More clarity is required on how supervisory authorities will assess whether risks as quantifiable or not.	Noted.			
714. CRO Forum	3.275.	The advice proposes to include all quantifiable risks which have not been explicitly considered by the Standard Formula to be accounted for in the SCR.	Noted.			
		We agree with the advice in principle; however we would emphasise that only the material quantifiable risks, not considered by the Standard Formula, are included in the				

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		SCR. Moreover, we would like to clarify that the Directive [Art 101] explicitly mentions that the SCR "shall cover at least the following risks". Therefore the issue of specific risks arising at solo or group level is a wider point, not specific to PIMs.			
715. DIMA	3.275.	The first option proposed could be much too restrictive, particularly if risks are not considered in the standard formula, and could only lead to losing any diversification benefit since the correlation matrix is not defined.	Noted.		
716. FFSA	3.275.	Risks not covered in the standard formula On which basis will supervisory authorities assess risks as quantifiable? In order to avoid different supervisors forcing different risks to be included, these risks can be considered as part of the ORSA process of each undertaking.	Please refer to answer to comment 705.		
717. German Insurance Association – Gesamtverband der D	3.275.	More clarity is required on how supervisory authorities will assess whether risks as quantifiable or not. The PIM should not be taken to supersede the ORSA. If risks like underwriting cycles are identified to not be included in the standard formula rather the standard formula needs revision and it should not trigger all undertakings developing separate models in these cases.	Please refer to answer to comment 705.		
718. Groupe Consultatif	3.275.	We agree. The PIM should not be taken to supplant or replace the ORSA. If risks like underwriting cycles are identified as not being included in the standard formula then the standard formula may need revision and it should	Please refer to answer to comment 705.		

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		not trigger all undertakings developing separate models in these cases		
719. Just Retirement Limited	3.275.	We agree with what appears to be the reasoning behind this paragraph, i.e. that where risks are quantifiable, they need to be taken into account regardless of whether the Standard Formula or Internal Model is used.		
		We would strongly disagree if this paragraph inferred that there are types of risk which should be considered if an Internal Model is used but disregarded if the Standard Formula is used – otherwise, there will be a perverse disincentive for establishing an Internal Model. We would therefore suggest that this wording is clarified in the final level 2 text to exclude this interpretation.	That is not correct intrepertation.	
		Any additional risks which cannot be appropriately quantified should be considered as part of a Pillar II assessment of risk.		
720. KPMG ELLP	3.275.	Developing a partial internal model should also be an option.	Noted.	
721. Lucida plc	3.275.	An undertaking may use the Standard Formula, Partial Internal Models, or a Full Internal Model. 3.275 states that quantifiable risks not covered by the Standard Formula shall be taken into account in the SCR. The options that follow are listed as being options for the partial internal model. These options would also seem appropriate to use if a firm was otherwise using the Standard Formula.	Noted.	
722. Munich Re	3.275.	The PIM should not be taken to supersede the ORSA. If risks like underwriting cycles are identified to not be included in the standard formula rather the standard formula needs revision and it should not trigger all	Please refer to answer to comment 705.	

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		undertakings developing separate models in these cases.		
723.		Confidential comment deleted.		
724. UNESPA – Association o Spanish Insurers	3.275	CEIOPS should provide more information on the treatment of those risks not considered in the standard formula.	Not agrred. Please refer to answer to comment 4.	
		Some guidelines should be given and even set up two groups: one for those risks that could receive a quantitative treatment and other where to specify those to may follow a qualitative treatment.		
		Nevertheless, it should remain free to the companies to develop methodologies for assessing these risks, but some guidelines would be welcome.		
725. CEA	3.276.	It needs to be clarified whether these are the only 3 options available or whether other unspecified options may be available.	Other unspecified options ma be available. Paragraph chan to clarify this situation. Pleas	
		Further guidance is needed on the methods allowed to allow for a 'risk not covered by the standard formula'. By saying 'for example' the actual advice seems to imply there may be other options, but 3.276 states 'all 3 Options should be allowed' which seems to imply no other options are allowed.	also refer section 3.5.2 of the CEIOPS' Advice for Level 2 Implementing Measures on Solvency II: Assessment of Group Solvency.	
		Clarification is needed on this point. The CEA's believes that it should be up to the undertaking to decide and explain which way the missing risk can best be included. In		

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		practice the most appropriate solution will vary depending upon on the situation. The undertaking should show that the selected solution is appropriate.		
726. German Insurance Association – Gesamtverband der D	3.276.	It needs to be clarified whether these are the only 3 options available or whether other unspecified options may be available.	Please refer to answer to comment 725.	
		Further guidance is needed on the methods allowed to allow for a 'risk not covered by the standard formula'. By saying 'for example' the actual advice seems to imply there may be other options, but 3.276 states 'all 3 Options should be allowed' which seems to imply no other options are allowed.		
		Clarification is needed on this point. The GDV's believes that it should be up to the undertaking to decide and explain which way the missing risk can best be included. In practice the most appropriate solution will vary depending upon on the situation. The undertaking should show that the selected solution is appropriate.		
727. Groupe Consultatif	3.276.	We believe it should be up to the undertaking to decide and explain which way the missing risk can best be included in the standard model. We do think that it depends on the situation which option is best. The undertaking should show that the selected solution is appropriate.	Noted.	
728. Legal & General Group	Annex C	We strongly disagree with this. Requiring a firm to use the	This example is only to show	

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			aggregation and deduction approach because one entity (which might be small) uses the standard formula removes a significant incentive to produce a group internal model – what is the point of going to the expense and administrative burden if no diversification benefits can be recognised. This is totally disproportionate.	that the standard formula correlation could not be used directly in this case. CEIOPS is not precribing this method, the process for integrating the partial internal model results' into the standard formula results' should be the one expressed in section 3.5.		
729.	CEA	Annex C	The Impact Assessment should be amended to include testing of the approach that would result in greatest improvement in the effectiveness of risk management using partial models. Namely, companies having the right in the first instance to select what integration approach they use to aggregate internal and standard formula components with this then being subject to supervisory review. This should be tested along with the stated options.	Not agreed.		
730.	Groupe Consultatif	C.10.	How is measured when the requirement VAR 99,5% over one year is fulfilled or not? What is the objective criterium for this?	Noted.		
731.	Deloitte	C.12.	See 3.72	See answer to that comment.		
732.	CEA	C.35.	See comments to 3.95.	See answer to that comment.		
733.	Association of British Insurers	C.56.	See comments under 3.143	See answer to that comment.		
734.	CEA	C.59.	See comments to 3.62 and 3.63.	Noted.		

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			By definition Option 3 gives more scope for having a more adequate calculation of the SCR because there is a wider universe of approaches to choose from. The extent to which this is the case depends upon how extensive Ceiops' list is. The CEA thinks that Option 3 should be chosen, but believes that undertakings should, as a first step within option 3, be allowed to use their own integration approaches with this being subject to supervisory review.	
735.	UNESPA – Association of Spanish Insurers	C.59.	Option 3 is the most appropriate to calculate the SCR because it leaves the freedom to use any kind of integration method. Advantages offered by Option 2 are proportional to the numbers of methods allowed by the supervision authority.	Noted.
			This section states that Option 2 is the most adequate. However, it has to take into account that if none of the alternatives in this option could replicate the risk profile of the entity, It would be necessary to use techniques developed by the own company. This situation may produce a loss of time and resources, having proven techniques previously proposed by the supervisor.	
736.	CEA	C.60.	See comments to 3.62 and 3.63.	Noted.

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		The CEA does not agree that Option 2 is likely to result in lower costs for undertakings. Under both methods companies will be expected to review the various options and decide which is the most appropriate. Also, the majority of the costs are likely to relate to implementing the chosen approach and meeting supervisory approval requirements, which will be the same	
737. UNESPA – Association of Spanish Insurers	C.67.	under Options 2 and 3. UNESPA believes that using the correlation matrix of standard formula is the most important way of increasing the systemic risk, due its lack of consistence and weakness. This reason should be also taken into account to avoid the first step in each of 3 Options.	Noted.
738. Association of British Insurers	C.70.	A danger associated with option 2 is that CEIOPS do not actively update the list and do not explore new techniques. The existence of a list could have a detrimental effect on innovation, which could also apply to full internal models as the list may become a de-facto list of acceptable aggregation methods.	Noted.
739. CEA	C.70.	See comments to 3.62 and 3.63. A danger associated with option 2 is that Ceiops do not actively update the list and do not explore new techniques. The existence of a list could have a detrimental effect on	Noted.

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		innovation, which could also apply to full internal models as the list may become a de-facto list of acceptable aggregation methods.			
740. UNESPA – Association of Spanish Insurers	C.70.	The risk associated to Option 2 is that CEIOPS assumes no responsibility to update the list with the latest techniques and the best practices.	Noted.		
741. CEA	C.74.	See comments to 3.62 and 3.63.	Noted.		
		There are a limited number of different integration approaches that can be used. If under Option 2 Ceiops are actively updating the list to take account of new developments there should in practice be little difference in the work required between options 2 and 3.			
742. CEA	C.77.	For the reasons given in our response to C.60 the CEA does not agree that Option 2 will result in lower costs.	Noted.		
743. Just Retirement Limited	C.81.	We agree that Option 2 diminishes the importance of the use test, as shown by the adjustments required.	Noted.		
744. CEA	C.97.	The CEA thinks that Option 3 should be chosen, but believes that undertakings should, as a first step within Ceiops option 3, be allowed to use their own integration approaches with this being subject to supervisory review.	Noted.		