

<b>Comments Template on CP8 -Draft proposal for Guidelines on ORSA</b>		<b>Deadline 20 January 2012 12:00 CET</b>
Name of Company:	Association of British Insurers (ABI)	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> <li>⇒ Do <b>not</b> change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool</li> <li>⇒ Leave the last column <u>empty</u>.</li> <li>⇒ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a paragraph or a cell, keep the row <u>empty</u>.</li> <li>⇒ Our IT tool does not allow processing of comments which do not refer to the specific numbers below.</li> </ul> <p><b>Please send the completed template, in Word Format, to <a href="mailto:cp008@eiopa.europa.eu">cp008@eiopa.europa.eu</a>. Our IT tool does not allow processing of any other formats.</b></p> <p>The numbering of the paragraphs refers to Consultation Paper 008.</p>		
<b>Reference</b>	<b>Comment</b>	
General Comment	<p><b>The UK Insurance Industry</b></p> <p>The UK insurance industry is the third largest in the world and the largest in Europe. It is a vital part of the UK economy, managing investments amounting to 26% of the UK's total net worth and contributing £10.4 billion in taxes to the Government. Employing over 290,000 people in the UK alone, the insurance industry is also one of this country's major exporters, with 28% of its net premium income coming from overseas business.</p> <p>Insurance helps individuals and businesses protect themselves against the everyday risks they face, enabling people to own homes, travel overseas, provide for a financially secure future and run businesses. Insurance underpins a healthy and</p>	

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	<p>prosperous society, enabling businesses and individuals to thrive, safe in the knowledge that problems can be handled and risks carefully managed.</p> <p>Every day, our members pay out £147 million in benefits to pensioners and long-term savers as well as £60 million in general insurance claims.</p> <p><b>The ABI</b></p> <p>The ABI is the voice of insurance, representing the general insurance, protection, investment and long-term savings industry. It was formed in 1985 to represent the whole of the industry and today has over 300 members, accounting for some 90% of premiums in the UK.</p> <p>The ABI's role is to:</p> <ul style="list-style-type: none"> <li>- Be the voice of the UK insurance industry, leading debate and speaking up for insurers.</li> <li>- Represent the UK insurance industry to government, regulators and policy makers in the UK, EU and internationally, driving effective public policy and regulation.</li> <li>- Advocate high standards of customer service within the industry and provide useful information to the public about insurance.</li> <li>- Promote the benefits of insurance to the government, regulators, policy makers and the public.</li> </ul> <p><b>General comments on the ORSA consultation</b></p> <p>We strongly support the overall approach taken by EIOPA of emphasising the need for undertakings to tailor their ORSA to their own circumstances. EIOPA should resist pressure to provide significantly more detailed guidance on the form and content of the ORSA report. That said, there are some areas highlighted in our response where we feel that certain additions to the text would be useful.</p>	

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	<p>Paragraphs 4.18 to 4.24 may provide some practical implementation challenges for insurers as currently drafted. For example, overall solvency needs have to take account of the totality of risks, allowing for dependencies between these risks; insurers do not usually assess individual material risks in isolation. It would also be helpful if this guidance material was clarified as it seems to infer that off-balance sheet items and non-insurance activities should be considered (akin to a Recovery and Resolution Plan) but then discusses recognition and valuation bases with diversification effects (4.24) which seems a conflation of requirements.</p> <p>There is insufficient integration and consistency between some of the guidelines and their explanatory text. This is particularly evident in the case of Guidelines 7 to 11, where the text in Chapter Four often appears to bear little or no relation to the guidelines.</p> <p>Our understanding is that the internal report on ORSA – if appropriately compiled – could also cover a certain amount of the material required to form an adequate record of each ORSA process and also be shared with the supervisor, thus eliminating the potential for unnecessary duplication of documentation; whether or not to do this is a decision best left to insurers. This is logical as supervisors will find it difficult to assess how an insurer is using its ORSA if a significantly different report is required to be produced for passing to regulators, as it will not – by definition – be the report being used for analysis and decision-making within the insurer.</p> <p>It would be useful if the paper could provide some more information on the roles and responsibilities of individual supervisors within the College of Supervisors. A clearer understanding as to how the College would likely operate would certainly help firms in their preparation for developing their ORSA processes.</p>	
3.1.		
3.2.	<p>We strongly support EIOPA's sentiment that the guidelines should focus on <i>what the ORSA should achieve</i> rather than <i>how it is to be performed</i>.</p>	

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3.3.		
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3.6.	As well as identifying all the <i>material</i> risks that they face, firms might also undertake scenario testing to establish and aid understanding of credible tail risks, which may be hard to quantify.	
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3.17.	<p>We welcome the potential distinctions made in this report between the ORSA supervisory report and ORSA internal report, while noting (in paragraph 4.16) that the internal report may be submitted for supervisory purposes if it contains appropriate detail. This allows firms more flexibility in developing an internal report that meets the needs of the Administrative, Management or Supervisory Board (AMSB). Further guidance on the requirements for the supervisory report may be helpful as long as such guidance does not amount to the specification of a template.</p> <p>Our understanding is that the internal report on ORSA – if appropriately compiled – could also cover a certain amount of the material required to form an adequate record of each ORSA process and also be shared with the supervisor, thus eliminating the potential for unnecessary duplication of documentation; whether or not to do this is a</p>	

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	The ORSA policy should be principles-based and should not be expected to extensively list specific operational information or describe processes in significant levels of detail. Data quality requirements are dealt with elsewhere.	
3.18.	It would be clearer in point (b) to substitute 'risk appetite' for 'risk tolerance limits'.	
3.19.		
3.20.		
3.21.	This guideline implies that the use of Solvency II valuation bases should be the default approach for the ORSA and that any deviation should be justified. This amounts to an incentive to shift firms towards use of the Solvency II valuation bases. To give a more appropriate emphasis, the guideline could be reworded to read: 'Undertakings may apply recognition and valuation bases different from the Solvency II basis, where the alternative basis reflects better the value to the business of the assets and liabilities'.	
3.22.	In-line with the principles of materiality and proportionality, we suggest that this guideline should clarify that a quantitative assessment of different recognition and valuation bases should only be required if they impact overall solvency needs.	
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3.37.	This explanation would fit better in the internal model documentation, rather than the ORSA report. It should not be a requirement for the ORSA to replicate such information when cross-references to internal model documentation would suffice in the vast majority of cases.	
3.38.		
3.39.	The content of the guideline does not match the heading. We found this unclear as to how exactly it is intended to link to strategic decision making. We think that further clarification/re-wording is needed.  The word 'relevant' should be inserted before 'solo undertaking'.	
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4.6.	This is an important and useful clarification. We strongly suggest that it is incorporated into the Guideline text.	
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4.8.		
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4.13.	The subject matter of Guideline 4 is the ORSA policy and we agree that a written ORSA policy is desirable. However, we feel it is potentially confusing to explicitly link Guideline 4 with Article 45 as there is no mention in any section of this Level 1 Article of an ORSA policy. Similarly, whilst Article 41(3) requires a written policy on risk management, the specific policies mentioned in Article 44(2) as required to form part of the overall risk management policy do not include an ORSA policy.	
4.14.	It would be clearer in point (b) to substitute 'risk appetite' for 'risk tolerance limits'.	
4.15.		
4.16.	There is clearly a potential efficiency benefit if the internal ORSA report can also serve as the ORSA supervisory report. It could be helpful if the guidelines were extended to usefully cover the minimum amount of information that undertakings would be required to provide to supervisors, whilst recognising that more information than this may be provided, either at the behest of the insurer or the regulator.	
4.17.		
4.18.	The first part of this sentence does not add a lot of value. The material point here is that the assessment should cover the business planning period. This could be articulated more clearly and would be more relevant to Guideline 10 than Guideline 7.	
4.19.		
4.20.	The amount of capital required is determined by the <i>totality</i> of the risks faced, allowing for diversification and the correlation between separate risks; not individual risks on their own.	
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4.24.	The first three sentences in this paragraph do not seem to bear any relationship to	

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	each other. They are three quite distinct points and don't fit well in the same paragraph.	
4.25.		
4.26.	This seems illogical and inconsistent with the statement in paragraph 4.6 that internal model outputs in the ORSA can differ from the SCR.	
4.27.		
4.28.		
4.29.	We suggest that 'include' is replaced with 'consider'.	
4.30.		
4.31.	This paragraph is helpful. However, we suggest that in subparagraph (g), 'methodology' should be added after the reference to 'valuation basis'. This will clarify that the <i>methodology</i> should be consistent, although actual numbers may differ as a result of varying parameters.	
4.32.	Management actions should be fit for purpose. In respect of financial effects, it would be helpful here to require only the indicative impact that they would be expected to have, given that the prospective nature of such actions would – by definition – render them as estimates.	
4.33.		
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4.39.	It is not clear what sub-paragraph (b) means. Clarity could be improved through the introduction of a brief worked example.	
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4.50.	Paragraphs 4.50 to 4.54 relate to Standard Formula users. There should be a heading above paragraph 4.50 to this effect. This would be consistent with the approach adopted for Internal Model users (i.e. the heading above paragraph 4.55).	
4.51.		
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4.53.		
4.54.	We suggest that a more qualitative approach to explaining why the assessments suggest different capital needs but are both appropriate to the risk profile, would suffice in certain situations (i.e. an appropriate application of the principles of proportionality and materiality).	
4.55.		
4.56.		
4.57.	Ensuring that the internal model appropriately reflects the risk profile forms part of the ORSA by virtue of Article 45(1)(c). Ensuring broader compliance with the tests and standards is part of the validation process of the internal model. The AMSB and senior management will clearly want comfort from the validation process that internal model input into the ORSA can be relied upon. However, the guidance should make quite clear that the validation of an internal model is not a requirement contained within the ORSA per se, but a benefit of the process. This should be made clearer in the drafting.	
4.58.	The demonstration that the ORSA continues to be appropriate for an insurer's risk profile should be part of the Use Test; if this is the intent then the explanatory text should explicitly state this. There should not be a requirement to undergo some different method of compliance each year, which would add additional and onerous requirements on internal model firms.	

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4.59.		
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4.61.	Sub-paragraph (b) is omitted.	
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4.65.	<p>The guidelines could usefully clarify that the ORSA report could simply cross-refer to the internal model validation report.</p> <p>As per our comments to 4.58, the demonstration that the ORSA continues to be appropriate for an insurer's risk profile should be part of the Use Test; if this is the intent then the explanatory text should explicitly state this. There should not be a requirement to undergo some different method of compliance each year, which would add additional and onerous requirements on internal model firms.</p>	
4.66.		
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4.74.	It is unclear what this sentence means. Clarification is needed here.	
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4.79.	An example would aid understanding here, such as 'firms should reflect any parental	

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	guarantees or other items that impact the group ORSA'.	
4.80.		
4.81.	It is not made clear in this paragraph whether or not regulated non-(re)insurance undertakings are required to perform an ORSA (as opposed to paragraphs 4.79 and 4.83, which state explicitly that the entities concerned do not need to perform an ORSA). A simple drafting change would address this ambiguity.	
4.82.		
4.83.		
4.84.		
4.85.	We think the table regarding the group-wide ORSA is unclear. The last sub-section of the table ('Subsidiary not included in group-wide ORSA') implies that groups have the option to submit a partial group-wide ORSA which would include some subsidiaries and leave the others out as separate solos. Is this the intended interpretation?	
4.86.		
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4.89.		
4.90.	The reference to 3.14 appears to be incorrect.	
4.91.	Is it right to assume that the solvency needs will necessarily be on an SCR basis? This is what this paragraph appears to suggest.	
4.92.	There seems little benefit in allocating diversification benefits to each entity in the Group – the key is to understand the factors that give rise to the diversification benefits in the first place.	
4.93.		
4.94.	The ORSA policy should certainly indicate that stress tests and scenario analyses form part of the process. However, we question the need for the policy to provide specific details of the tests as these are likely to change year-on-year according to circumstances (not least, in relation to prevailing market conditions).	
4.95.		

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4.99.	In sub-paragraph (b), the final sentence repeats the previous one and should be deleted. In addition, 'of such third country towards' should be replaced with 'in such third country'. In the final sentence of sub-paragraph (c) 'carry' should be replaced with 'be carried'.	
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5.28.	The reference in this paragraph should presumably be to the SCR calculation. The wording of Guideline 13 is more appropriate here. A requirement to explain deviations from the standard formula will be of little meaningful benefit to undertakings using an internal model.	
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5.36.	The words 'on risk management' should be inserted after 'a written policy'.	
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5.42.	We strongly support the emphasis placed on firms developing their own reporting template. Although we expect that some industry harmonisation will occur over time, we agree that providing an example report or template would not be helpful, as it would almost certainly create a standard industry format, which would not be in the	

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	spirit of an own assessment.	
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Q1.	<p>The guidelines are generally useful in reinforcing what is expected to be achieved by the ORSA. In particular, the clarifications since the pre-consultation on group requirements, and requirements for internal model firms, are mostly helpful.</p> <p>However, some statements are too general to be helpful and the drafting should be tightened up in places. Examples are quoted in the responses to questions 2 and 3.</p>	
Q2.	<p>With Guideline 16 ('Scope of the group ORSA'), it would be useful to have a statement noting which entities are required to perform an ORSA, and which are not required to perform on ORSA. For example, are regulated non-(re)insurance EEA entities required to perform an ORSA (such as where insurers have an asset management subsidiary that are not subject to Solvency 2 regulations but are regulated in the EEA)? Examples such as this would ensure greater clarity in the interpretation of the guidelines.</p> <p>The text should clearly refer to the ORSA process or alternatively the ORSA report on the ORSA process. When the text refers to risks or the impact of these on overall solvency needs, it should qualify these as material risks.</p>	
Q3.	As the levels of materiality between organisations in different countries will vary, we would appreciate a better understanding of how the College of Supervisors will	

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	operate. More clarity is needed on the relationship between the group supervisor and solo entity supervisors. The operation of the College is unclear in terms of the respective roles and responsibilities of each supervisor and their access to information.	
Q4.		
Q5.	<p>The benefits may only appear long after Solvency II comes into effect, as there is still uncertainty with material aspects of Solvency II such as matching premium, contract boundaries, EPIFP, etc. The focus of debate has therefore been – most recently – on Pillar 1 issues, rather than Pillar 2. Benefits from Pillar 2 may only be seen once firms fully grasp the implications of Solvency II on their own balance sheet and on the industry.</p> <p>In general, though, the guidelines should lead to greater awareness within organisations of the interrelationship between the risk profile of a business and the consequent capital and risk mitigants appropriate for that profile. The guidelines will also help to ensure that capital information – and the way that information changes under stressed conditions – forms part of the continuous risk management process and that the ORSA is a natural progression.</p>	
Q6.		
Q7.		
Q8.		
Q9.	<p>This may be efficiently achieved as an annex to the ORSA supervisory report.</p> <p>The responsibility for compliance with the guidelines ultimately sits with group and solo Administrative, Management or Supervisory Boards. It is likely that boards will take note of input from control functions within the organization. Reporting on compliance could take the form of a statement within the ORSA supervisory report (i.e. in an annex).</p> <p>Paragraph 4.16 also suggests a way in which compliance with the guidelines could be efficiently achieved: by reducing duplication between an undertaking's internal report on ORSA and their ORSA supervisory report.</p>	