Comments Template on Consultation Paper on Proposal for Guidelines on Pre-application for Internal Models		Deadline 19 June 2013 12:00 CET
Name of Company:	Groupe Consultatif Actuariel Européen	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public

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Reference	Comment	Resolution
General Comment	At insurers, actuaries have been and will continue to be, intensively involved in model-building and in participating in the dialogues with NCAs over model approval. Likewise actuaries work for NCAs and work on the processing of Pre-Applications and will remain involved until and including the model approval decision by NCA. Groupe Consultatif therefore has many observations on CP-13/011. Overall, Groupe Consultatif welcomes the guidelines and the clear and well written consultation paper. Groupe Consultatif believes that guidelines are necessary to promote convergence and consistency of practices among and within NCAs. However, as is noted the detailed feedback below, Groupe Consultatif fears that there remains substantial scope for interpretation in some areas and that, absent any changes, the goal of consistency may not be achieved.	

	The goal of the guidelines must also be to promote the use of well-constructed and governed internal models which better reflect the (re)insurance undertakings' risk profiles, but recognises that all models are imperfect. As is also highlighted in the feedback below, the Groupe Consultatif fears that this goal may not be attained if an unattainably high standard is set, in particular around certain areas of documentation and validation, where "form" and "process" may come at the expense of "substance" (ie analysis and understanding of what the model is and is not telling us). There is inevitably a tension between the higher level of prescription which would aid consistency and the proportionality necessary to promote the development and use of models and the Groupe Consultatif stands ready to assist EIOPA in ensuring that it strikes the right balance. Finally, given that the application and approval process cannot be legally introduced until Solvency II takes effect and many undertakings wish to secure model approval from the start of Solvency II, it is understandable that such an extensive pre-application process has been designed. However, it is unclear how the pre-application and application process will fit together and whether EIOPA foresees the balance changing in the years following Solvency II coming into effect.	
Introduction. General Comment		
1.1.		
1.2.	Paragraph 1.2: "The present Guidelines apply to the pre-application process for internal models, where national competent authorities are expected to form a view on how prepared an insurance or reinsurance undertaking is to submit an application for the use of an internal model for the calculation of the Solvency Capital Requirement under Solvency II and to meet the internal models requirements set out in the Directive, in particular in Articles 112, 113, 115, 116, and 120 to 126." The paragraph does not explain on what level of detail the supervisor should give this view, and what is actually enough to end the pre-application phase. Some countries have already adopted rules where the pre-application will in practice end when the model is deemed "reliable", which could be highly subjective and may lead to an extended process of review. Reference should also be made in this paragraph to Article 231.	

1.3.		
1.4.		
1.5.		
1.6.		
1.7.		
1.8.		
1.9.	It is not clarified how a firm or a group would exit pre-application and enter the application for approval, or how the supervisor would act in this case, even though stated in here that the guidelines "also extend the pre-application process for an undertaking aiming at submitting an application for decision on the use of an internal model from the first day on which Solvency II is applicable." More generally, the intended meaning of the last sentence of 1.9 is unclear.	
1.10.		
1.11.	We consider it important to stress that the group supvervisor should communicate – as far as possible – the results and assessments that national competent authorities reach within the colleges. Add "Communication between the group supervisor and the ultimate parent undertaking of a group should cover the assessment of the colleges. In particular this should cover the national competent authorities concerned."	
1.12.		
1.13.	This remains very general and does not prevent the NCAs from asking detailed questions about minor risks. We would like to see that EIOPA makes this clearer.	
1.14.		
1.15.	We welcome the perspective provided in bullet point 5 regarding the 'richness of the probability distribution forecast'. This is a helpful clarification. A statement as to what is material and what is not, is very welcome here. When materiality remains general, this can still result in very detailed questions about minor results.	

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1.16.	1. We note the intention to implement the guideline from 1 January 2014. Despite this being on a preparatory basis we note that this is a challenging timeframe for undertakings (and NCAs) as this is the first time some of this information has been issued publically and NCAs will require time to consider how, and indeed, whether (as envisaged by paragraphs 2.4 - 2.6 of the cover note), to implement the guidelines in their territory. This will create an additional communication delay and a further content uncertainty for undertakings. Clearly, this will impact on their ability, and the time needed, to respond to the requirements fully. 2. Additional clarity must be given as to the expectations of EIOPA and NCAs as at 1 January 2014. The cover letter implies that the requirements will be gradually phased in over the 'preparatory phase' and refers to specific and general phasing-in requirements. However, the consultation papers have a stronger statement that the requirements hold from 1 January 2014.	
Section I. General Comments		
1.17.		
1.18.		
1.19.		
1.20.		
Section II. General Comments		
Chapter 1. General Comments		
1.21.	This guideline increases our concern that very stringent requirements are applied to minor risks and models.	
1.22.		
1.23.		

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1.24.	Often model changes will refer to feedback provided by the NCA; in this case the undertaking should refer to this feedback in their notification of changes. Add: "Where applicable, undertakings should refer to feedback of national competent authorities".	
1.25.	The NCA should assess, whether the model change alters the degree of compliance of the undertaking to the relevant requirements, and should communicate their assessment to the undertaking Add: " The national competent authority should assess whether the model change requires the update of any feedback given to the undertaking." It is not clear what kind of classification is meant (in relation b). Will such a process remain a necessary part of pre-application when the application process is in operation? If so, then this could be unduly burdensome.	
Chapter 2. General Comments	While acknowledging the importance of strong governance for approved internal models and the need to protect against the possibility of abusing an approved internal model status, it is important to recognise that the purpose of the model change framework should also be to encourage the company to improve its internal model on an on-going basis and keep the internal model up to date. In order to achieve this, the approval and reporting requirements to the authorities must also reflect the purpose and ensure that they are not unduly burdensome.	
1.26.	As we commented on previous draft guidance: 1.the updating of parameters according to agreed formulae/rules should not be treated as a model changes. 2. It is difficult to see how changes that are external to the undertaking and beyond its control can follow the same pre-approval process and waiting for approval to be implemented, for example legal environment changes. It would be helpful to understand how a change in the of broad system of governance of the undertaking could or should lead to a change in the model/calculated SCR. The list should perhaps more clearly include obvious changes to the external risk environment e.g. the entry into or exit from currency peg/common currency.	
1.27.	It would be helpful to ensure that any supervisory approval process around major changes to the model do not undermine the model's usefulness to the business or the business' ability to react swiftly to changes in the risk environment. Issue: It is the responsibility of undertakings to define major and minor changes, with both qualitative and quantitative criteria. This may lead to inconsistencies across Europe for both the calibration of major and minor changes and also in the time and cost of the approval	

	process. Proposal: EIOPA to provide more guidance for the quantitative threshold for a major change as well as the time period in which changes are recognised. Further guidance on qualitative changes would be useful, i.e. examples by type of change that would qualify as a major change.	
1.28.	The change of SCR due to change of exposure should be treated differently to the change of SCR due to model technical specification. In many cases a change in SCR due to a change in exposure (which also preserves the materiality of each risk) should not be treated as a model change. More generally, a distinction must be drawn between voluntary (eg driven by changes in methodology, data source, risks entered into) and involuntary changes in SCR (eg driven by movements in markets, changes in best estimate liability). The latter cannot be pre-approved.	
1.29.		
1.30.	Issue: A combination of changes over time may satisfy the criteria for a major change but not in isolation. The easiest example is with reference to changes in parameters where a "major" reduction in the risk profile over a year may be constituted of four "minor" reductions for each of the quarters. Proposal: In line with comments above, parameter changes to be excluded from the change criteria. EIOPA could also clarify the time horizon on which changes should be aggregated.	
1.31.		
1.32.	What is meant by "one model change policy" here? Is this intended to refer to the need for a consistent policy applied across a group?	
1.33.	Issue: A major change at a Solo level triggering a major change at a Group level may invoke a very onerous and complex change process including; 1. Spurious changes from a Group and other Solo perspective requiring disproportionate reporting and time constraints at Group and other Solo level, e.g. a personnel change at the Solo level. 2. Delays in implementing non-major model changes at Group and other solo levels. 3. Further delays in the process and cost are likely if all Solo NCAs are required to also	

	approve the major change along with the lead NCA. 4. Ultimately, significant time delays and additional cost may be anticipated or different versions of common model components maybe in force in different Solo entities 5. The above may be exacerbated if parameter updates are included as model changes. Note: Text does not explicitly require a major change at solo level to trigger a major change at Group level Proposal: EIOPA to consider appropriateness of allowing flexibility within the Group model change framework. Specifically, model components or criteria specific to a Solo entity which trigger a local major change should not necessarily trigger a Group major change. This does not preclude local NCAs in implementing a process outside the formal change process to monitor Solo internal models.	
1.34.	We welcome the change to the text from earlier draft guidance to recognise that major solo changes may not be major group changes.	
Chapter 3. General Comments	The uses of an internal model can be different from company to company, from class of business to class of business, from sector to sector and from country to country. It is challenging for the national competent authorities to be consistent in their view of the use test but at same time take differences, such as different legal regulation, into account. It would perhaps be useful for EIOPA to issue a list of core uses required where a company would need to explain why the model is not being used in this area One model can be good in one area but not useful for others. It is challenging to consider only one model in all decision making process. To achieve this, the ONE model would have to be very complex, and difficult to recalibrate and understand. The documentation practices may be differs from company to company. What is sufficient to document a use area? This needs to be clarified.	
1.35.	As we commented before some areas of use such as capital allocation will be challenging to use the same model, for example, physical allocation of capital. The physical allocation of capital is driven by local, standalone, regulatory capital requirements. This will be true for all entities and groups prior to Solvency II coming into force and so affects "use" prior to that date. For groups with BUs outside the EEA this may not be consistent with the Solvency II contribution to the group SCR (holding capital higher in the group, wherever permitted by local regulations, promotes fungibility.) It is important to distinguish between the modeling	

	of risk factors over the one year horizon – the view of these should be consistent across processes and decision-making – and the metrics chosen to reflect value and drive decisions – here EIOPA should not be prescribing "own funds" as a measure of value or, in advance of Solvency II and outside the EEA, even a measure of capital that is relevant locally.	
1.36.	Agreed. Regulators should have sufficient capacity to request information regarding how specific decisions have been taken by the insurer / reinsurer and the support provided for these decisions by the internal model. Regulators should form these requests from the risk profile of the firm, materiality of decisions and experience of market practice. The guidance should make this authority clear.	
1.37.	As we commented before, it should be clarified how the use test applies to the SCR if a company calculates capital for internal purpose on a different basis from the SCR, which is acknowledged as a possibility in the calibration approximation guidelines	
1.38.	Guideline 11 implies that the model used to calculate the SCR should support all decision making. This is both impractical and dangerous. To build a model capable of supporting all decision-making would require a complexity that would incredibly difficult to understand and maintain. Stronger risk management systems permit, and indeed encourage, the construction of bespoke models tailored to the evaluation of the risks associated with particular decision. In this vein, it is worth noting that increasing granularity decreases the materiality of any single decision. As we commented before a would be helpful to clarify, what is meant by the granularity of risk management system and is this the same thing as the risk management system referred to in the Directive. Is fit to the business only required for the current risk profile? If not, the guidelines should clarify the requirement on adapting to the change of risk profile in business.	
1.39.	The "administrative, management or supervisory body" may refer to different parts of organisation in different nations. The guideline should apply different requirements of understanding of the internal model to the Boards which have different functions (executive or supervisory). Can national competent authorities take those differences into consideration when they interview the Board members? A detailed technical understanding should not be expected of Board members. Instead the Board should have responsibility for and a familiarity with the controls and processes put in place to assure that the model remains fit for the purposes to which it is being put and the MI presented in support of	

	decision making is accurate and appropriate. Further it seems unreasonable to expect the same level of understanding across all AMSB members. In this vein, it would be helpful to clarify whether, the requirements can be met by specialist of dedicated sub committees of the Board (e.g. a Risk Committee or Audit Committee), where these sub committees are comprised solely of Board members. Often the people in these ambiguous positions are going to be actuaries. Please refer also to comment 1.156.	
1.40.		
1.41.		
1.42.	It is clear that hundreds of decisions are made every second of every day within large insurance undertakings. More guidance may be necessary for NCAs and firms to understand the types of decisions being targeted.	
1.43.	It is unclear what is meant by "inconsistencies" in this context.	
1.44.	As we commented before, what does "retrospective verification of decision making" mean and how is it achieved? The model's purpose is to provide a probabilistic assessment of the risks to which the organisation is exposed and their impact on own funds. This can be used to trial "what-ifs" and alternative strategies, but it is hard to see how it can meaningfully be applied to verify a decision. If the meaning was that the model is used to estimate, say, the the impact on the SCR of a switch of €1bn from equities into government bonds and then to verify, after the switch is made, that the impact on the SCR was in line with what had been estimated then this is a relatively meaningless check as the same model and inputs are being used.	
1.45.	The sentence could be read such that the output of the internal model is aligned to the decision. As we think that normally the decision should reflect the output of the model, and not vice versa, we suggest to reformulate this statement. Replace " and how the output is aligned with the decision" with "and whether the decision is arrived at considering the output of the internal model"	
1.46.	Reasoning similar to 1.45; the decision should be based on the output, not vice versa.	

	Replace "where the output ... with the decision" with "where the decision is not consistent with the output of the internal model"	
1.47.		
1.48.	Please define what the "Economic capital" means. Is this capital used for standard formula/SCR, or can it be capital calculated for internal purposes? The internal model is for calculating the Solvency II capital requirement. The model does not necessarily provide an assessment of economic capital or information on the expected return.	
1.49.		
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1.51.		
1.52.	The wording here would seem to imply that the group model governance takes precedence over local model governance for group internal models used at a solo entity level, while not diminishing the need for solo entities to understand the relevant parts of the model and satisfy themselves that they remain appropriate ie that, provided that the solo entity does not believe that the group model/approach is inappropriate then it is fine to use it rather than feeling compelled to argue for the best possible model for local needs If confirmed, this is helpful in resolving the governance issue where "group" believes one thing about a risk and the local entity believes another. Solvency 1 still applies during the interim period. What happens if a Group applies in its governance a global solvency requirement (according to S2 and this guideline 18) which is lower than the S2 requirement?	
1.53.		
Chapter 4. General Comments	Although we agree that documentation and validation are very important, we also have the feeling that the requirements are too demanding and lead to very time consuming and costly work. More specifically, it can reduce the quality of the model as too much effort is asked from experts and other knowledgeable resources in respect of these tasks that might be better applied in analysing the results of implications from the modelling. Actuaries in many companies reporting EC and MCEV (or operating in regimes similar to Solvency II) have found themselves in a continual cycle of results production, validation and documentation	

	with no time for analysis thereby negating any benefits to the companies that adopting the models may have offered. We are keen to see Solvency II avoid repeating this mistake. Important in modelling for non-market risks is the fact that the available data are sometimes very limited and pragmatic solutions need to be found.	
1.54.		
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1.56.		
1.57.	Referring to the general comments chapter 4: often many assumptions are needed for modelling insurance risk. The level of validation and documentation should depend on the materiality of these assumptions	
1.58.		
1.59.	This is fine if the administrative, management or supervisory body is entitled to rely on the advice of others including the independent model reviewer.	
1.60.		
1.61.	It is unclear where the boundaries of the definition "users" of expert judgement are believed to lie.	
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Chapter 5. General Comments	We are supportive of the overall aim of achieving methodological consistency, but actuaries working in this area have found that this is not easy to achieve in practice.	
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1.74.		
1.75.		
1.76.	The Consistency Assessment included in these guidelines has not been included in previous drafts. Clarification is needed around its potential inclusion in the validation tools and if it is to be included in the validation tools guidance around its importance relative to the other validation tools needs to be provided. It would be useful if the guidelines defined what a "regular basis" is. We would propose defining a regular basis as "at a minimum annually or more frequently as required".	
1.77.		
1.78.	Materiality should be a determinant of the need for documentation. We would reiterate past comments that the valuation of assets and liabilities will typically be through risk neutral models calibrated using market derived parameters whereas the probability distribution forecast will be made using a real world model calibrated from historical data analysis and forward looking expert judgement. It is unclear against this context what "consistency" between the two approaches means.	
1.79.	Comments as for 1.78.	
1.80.	We agree that any inconsistencies should be justified, however additional guidance on how undertakings should justify inconsistencies should be provided.	
Chapter 6. General Comments	It is generally impossible to prove a distribution used is the perfect one. Sometimes this distribution is based on expert judgement or even pure pragmatism, this is because of the	

	limited number of observations available in an often complex world. Sometimes distributions are chosen "on the safe side". In our opinion in these situations this pragmatic solution should not be rendered unworkable under too detailed requirements of a compliance nature. In addition, the main concept in this chapter is the richness of the Probability Distribution Forecast, which has limited emphasis in the Statistical quality standards outlined in Article 121 of Sol II directive and previous draft consultation papers. This appears to be a shift in focus relative to the Guidelines on other areas of Statistical quality standards, and at the very least an explicit definition of the term "richness of probability distribution forecast" should be given, so as to avoid differences of interpretation.	
1.81.	Technically any finite number of simulations will not generate an exhaustive probability distribution forecast. Furthermore, the use of the word "exhaustive" in this paragraph differs from the material approach outlined in article 121 paragraphs 4 of Solvency II directive. Additionally the ORSA should have a qualitative description of risks not covered in the SCR, which conflicts with the word "exhaustive". We propose that the word "exhaustive" be replaced with the word "material".	
1.82.		
1.83.		
1.84.	A probability distribution does not always need to be "rich", which suggests complicated. Sometimes, a "robust" probability distribution is more realistic.	
1.85.		
1.86.		
1.87.		
1.88.	The model should be fit for purpose and not fittest for purpose and so current actuarial science and market practice is a reference point, but not a minimum condition. By referencing market practice EIOPA and NCAs should take care not to stifle innovation and	

	increase systemic risk through encouraging herding. Finally, the practical implications in terms of cost and complexity/loss of understandability should be weighed against marginal technical improvements. We recommend dropping "as a necessary but not sufficient condition" in b)	
1.89.		
1.90.		
Chapter 7. General Comments		
1.91.	The requirement for a "detailed understanding" is open to interpretation and potentially abuse by NCAs.	
1.92.	b) How can one demonstrate that approximations will not materially understate a result without performing the full calculation as a reference point? It would be useful to receive guidance on EIOPA's views as to whether demonstrable conservatism in approximations is an acceptable offset for a lack of detailed justification. It is also worth noting that the phrase „not materially understate" has a specific meaning to external auditors and it is unclear whether EIOPA intended this phrase to have that meaning.	
1.93.		
1.94.	This guideline is very ambiguous. The text does not follow the heading "Reference risk measure as an intermediate result" so either the heading should be changed or the paragraph should be reworded. Furthermore, meeting the guideline may not be possible if the risk profile is expected to change over the year (different products being sold or even an anticipated asset switch or disposal of a business).	
1.95.	Is it strictly true to say that the underlying variable used to calculate the SCR is basic own funds? Is it not possible that some components of basic own funds are not modelled as being stressed eg staff pension schemes? The following statement is included in this paragraph "until t =1", we would suggest that this is reworded to "up to and including t = 1"	

	In subsection (b) it states "there should be no significant variation of this material difference". Additional clarification needs to be given in relation to what a "significant variation" is and if the variation is based on an absolute amount or a percentage. For the purpose of calculating the SCR, the variation of the variable from which the SCR is derived should be controlled especially in scenarios that define the SCR.The main focus should thus lie with extreme losses.Replace "even under extreme losses" with "especially under extreme losses".	
1.96.	The following statement is included in this paragraph "until t =1", we would suggest that this is reworded to "up to and including t = 1"	
1.97.		
1.98.		
1.99.	Firms that consider events that will occur over a period of many years, for example: the strengthening of longevity assumptions, are unlikely to have to provide a full response (through management actions) within the first twelve months. A strong example here is a reduction in bonus rates where a one year anomaly is unlikely to result in a reduction in the long-term expected bonus rates. It is inconsistent for firms to quantify all of the adverse consequences measured until runoff, but only allow for the management actions that would reasonably be expected over a twelve month period. The two time periods should be held consistently.	
1.100.	Whilst we agree with the sentiment of this statement, the reason for including this in the Management Actions section is unclear. If this guidance is issued with a specific intention in mind, the paragraph should be expanded to explain EIOPA's intent and required insight.	
1.101.		
Chapter 8. General Comments	- In the level 1 text, article 123, it says that the P&L attribution should be done for each major business unit. Some guidance and examples on what is considered a major business unit would be useful. - Overall there is little detail on what is expected in P&L attribution, for example the level of granularity.	
1.102.	The definition of profit and loss here is not clear. A more detailed plain English definition	

	would be helpful.	
1.103.	This requirement should only be required if the firm opts for 1.102 (b) but should not be a requirement if the firm opts to use basic own funds for the internal model. A proviso similar to that in paragraph 1.104 should be added.	
1.104.	We welcome the clarification that a wider range of definition of profit than just basic own funds can be used.	
1.105.		
1.106.		
1.107.		
1.108.	The interpretation in isolation of guidelines 39 and 40 is not clear. The explanatory text clarifies these guidelines. Therefore, we suggest that more of the explanatory text is included within these guidelines.	
Chapter 9. General Comments	We believe that the EIOPA guidelines remain somewhat confused over validation and independent validation/review. In our view, good model building requires the builders to validate that the model being built meets the objectives set out and the Solvency II requirements i.e the majority of validation will not be independent of model build. An independent review of this validation has value in providing assurance, but this independent review should not need to re-perform all of the validation work, as this would add significant unnecessary cost. The form of and mechanisms for the feedback of the NCAs after the validation of the internal model also needs to be clarified (timetable, process,…)	
1.109.	(a): It would be useful for the NCAs (National Competent Authorities) to give information on what the triggers for additional validation should be – e.g. a change in the SCR of 10%, a change in the SCR of 25%? (c): Is "persons" asking for names of individuals or role titles?	
1.110.	"…resulting conclusions and consequences from the analysis of the validation." If the	

	consequences referred to are potential actions taken as a result of the reported validation conclusions, there would not be any such consequences to report at the same time as the conclusion itself is reported. "Resulting conclusions" is therefore sufficient here. If the intention is that the validation report should cover also conclusions and potential consequences from earlier validations, such as model development in an area, it could be written more clearly.	
1.111.	Does the sign-off-requirement refer to the data sets or to the validation report? If data sets, it should not be required specifically, as naturally the validating persons must have access to the data needed according to what is planned to be validated. If referring to the validation report, it should be written in a separate paragraph.	
1.112.	"clearly sets out the specific purpose of the validation for each part of the internal model." It is not clear what is expected here, as presumably the overall goal with the validation is to secure that the model is fit for its purposes. Why should validation of any part have any other specific purpose? (However methods/tools, data and criteria will differ for model parts.)	
1.113.		
1.114.	The sentiment expressed in this point is very important, much more important than designing complicated tests and searching for data to test e.g. single parameters which isolated have nearly no relevance. However, the statement is somewhat vague and unclear. What does "validation in its entirity" mean?	
1.115.	Also the NCA might focus its efforts by reference to materiality. Guidance on materiality thresholds would be helpful.	
1.116.		
1.117.		
1.118.	Not clear on the difference between this paragraph and the following, 1.119. Futher clarity required.	
1.119.	See 1.118.	
1.120.	We suggest that the word „known" be included as follows: *"The validation process explicitly states **known** circumstances under which the validation is ineffective."*	

1.121.		
1.122.		
1.123.	Guideline 45 explicitly mentioned internal communication. No explict mention is made of external communication requirements linked to validation. We recommend that if internal communication is mentioned that reference is also made to external communication.	
1.124.		
1.125.	Refer to our general comments above about the differences between validation and independent validation.	
1.126.	We suggest that the following text "undertaking establishes sets out how the results" be rewitten as „undertaking establishes how the results".	
1.127.	If Best Estimate Liabilites and Risk Margin are in scope for the internal model, then should this be the responsibility of the Actuarial Function? Should everything in terms of validation fall under the responsibility of the Risk Management Function? We would welcome additional guidance in this area and would be happy to work with EIOPA in developing any such guidance.	
1.128.		
1.129.		
1.130.	Refer to our general comments above about the differences between validation and independent validation. Moreover, the definition and requirement for independence seems to vary widely across Europe. A clear definition on independence would be welcome, including how this varies between a group and an entity within a group.	
1.131.		
1.132.		
1.133.	Does such a single validation policy need to be approved by the administrative, management and supervisory bodies of the related undertakings as well as that of the group?	

1.134.		
1.135.		
1.136.		
1.137.	As a general observation, it is unclear why validation tools are being identified as something distinct and separate from other aspects of validation. It is not clear to us that this is a helpful distinction. The requirement of "documenting the process to choose appropriate set of validation tools" should be written and understood as requiring that the process to select tools is visible afterwards, e.g. through reading the validating report and its references it can be seen what tools have been applied, and the analysis can be fully accessed if needed. The details should not be prescribed beforehand, due to limiting the innovativeness and dynamics/agility of the validation process. Some tools should potentially be prescribed as compulsory each year, but room should be given for new tailored/trial tests. a) It is completely unnecessary to document whether a tool is simple or complex. b) It is unnecessary to write whether a tool is qualitative or quantitative (which tool does not include a qualitative element considering that conclusions have to be drawn?) c) Knowledge required is unnecessary to specify per tool. d) Independence is unnecessary to specify per tool. e) How does the information required relate to internal vs. external validation (aren't the requirements the same either way)? f) It should not be required that validation tools vary depending on the state of model development – this may or may not be true and can only be assessed on a case by case basis. Also, "Every key assumption" – we would welcome guidelines on what qualifies as "key".	
1.138.	Stress and scenario testing may be useful in applying a "smell" or "sniff" test to the stochastically generated results of a model by illustrating the type of scenario giving rise to an SCR-sized loss. However, stress and scenario tests are typically performed on the same	

	models as are used to generate the SCR and this will naturally limit the extent of the validation which can be achieved through stress and scenario testing.	
1.139.		
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1.141.	"allows it to validate the model under a wide range of circumstances that have occurred or could potentially occur in the future" could be misread to mean that the firm must show that data sets chosen for validation can be used to verify that the model works correctly under all circumstances. Choosing any historical dataset for validating the model does not in itself make the model better, even though it can facilitate discussions about it. It is often not possible to draw a specific conclusion based on discussion about rare events. However it can be shown what kind of events the model does or does not cover, which must be allowed without subsequent requirements to cover all events. It can never be ensured that a data set covers circumstances that could potentially occur in the future. It is excessive to require the firm to write out what choices of data and methods etc. are based on expert judgement in the validation. Basically the whole validation process is based on expert judgement. That the firm explains the process to the NCA does not mean that every detail should be documented – it is much too restricting for a dynamic, effective and innovative validation process to prescribe exactly what data (or method) is to be used for validation of each part. It must be allowed to evolve over time, even yearly, as long the trace of the process can be followed (what data was used each year, how was it applied, ..).	
Chapter 10. General Comments	The requirements in terms of documentation or validation continue to appear demanding and we do not feel that a proportionate balance (of effort to benefit) has been struck. A pragmatic balance must be found between high standards and feasibility. Risk management is key; the choice of the approach should be driven by the risk profile of the company and not by the ability to bear costs. It would be helpful to receive more guidance on the scope of the internal model requiring documentation meeting the standards set out on this draft consultation paper.	

	We recommend careful analysis of the level or requirements. If they are too high, it would discourage companies from developing an internal model. It is important to remember that one of the main goals of companies who want to develop an internal model is to better manage their risks. If the requirements are too high, on one hand, companies would lose the competitive advantage that the investment in an internal model should provide due to the high level of costs and loss of agility, on the other hand, they could decide not to apply for an approval which could lead to a gap between the way the company is managed (reflected in its internal model) and the approach used in submissions to the supervisor and external disclosures.	
1.142.		
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1.144.	Typo: We suggest that "produces a documentation" be rewritten as „produces documentation".	
1.145.	1.145 states that *"National competent authorities **should form this view <u>also</u> in case a methodology** or any other technique used by the insurance or reinsurance undertaking in the internal model is documented by an external party."* The wording in bold is somewhat unclear. It appears to be a typo. We suggest re-phrasing for clarity.	
1.146.	We do not see the need for explicitly keeping track of the entire history of the methodology nor the methodologies considered but not used. In our view, the respective documentation should mirror the status at the time. Implicitly the history of developments can then be gained from the subsequent documents. Moreover, the developments can be tracked using the documented model changes and control procedures required for those.	
1.147.	The documentation should not contain judgements of the quality of model components but rather describe the methods used. However, the assessment of model strengths and weaknesses should be part of the model validation and documented therein. Guideline 55- Circumstances under which the Internal Model does not work effectively: We	

	can provide under which *assumptions* (not clear what is meant by circumstances) the model is not appropriate. But even in the case there should be a materiality level before starting to change the model. Further the requirement to document the risks not covered by the model must surely be limited to those risks to which the insurer is exposed or is likely to be exposed over the following 12 months. For such a single document to be a summary, it is clear that only the most material items under each of a)-g) can be covered. Bullet (f) refers to *"limitations of information technology used in the internal model"*. Is "information technology" referring to hardware and/or software?	
1.148.	It should not be required that the internal model development plan is in the same document as the summary of shortcomings; this is such a detail which the company should be allowed to structure as they see fit. Furthermore, it seems impractical and potentially at odds with both proportionality and transparency to require that all shortcomings are described in a single document – we would suggest that the requirements be altered to cover the most material shortcomings.	
1.149.	We agree that it is essential that descriptions of the internal model, and of results produced using the model, are presented in a manner appropriate for the audience. Firms should not, however, be expected to maintain multiple levels of documentation subject to specific documentation standards. If EIOPA persists with this prescription then we would welcome further guidance on what is required in terms of different levels of documentation for different target audiences.	
1.150.	While there is no explicit mention that the user manual needs to be a single document, it would help to clarify and confirm that this is not the case. Depending on the scope of the internal model and the production process followed, various user manuals for distinct steps may be more appropriate and less burdensome to maintain than a single consolidate user manual (provided all sub-user manuals are adequately indexed). It should be the responsibility of the undertaking to define the optimal structure of the user manual set-up.	

	More generally, we feel that the format of detailed user instructions for operation of the internal model should not be subject to specific standards and requirements.	
1.151.	Recording historic model outputs in a robust way is a relatively new challenge for companies currently (e.g. backed up data bases, locked down access) there is potentially a significant amount of data to be stored. Further guidance on what the NCAs would be assessing would be valuable.	
1.152.	Often the internal model will not be restricted to specific hardware platforms. The assessment should be restricted to the requirements of Artcile 232 TSIM21(1)(d) Drop "hardware systems"	
1.153.	Drop "hardware systems"	
Chapter 11. General Comments	Generally the requirements for external models are the same as for the internal model (proprietary). External reviews could be used and incorporated in own validation process but not replace it. The same with other standards (documentation). It is worth noting that external models and data do not need to be complicated (for instance they are not always academic models that few people would understand). When specific data need to be adjusted and when the insurer cannot assess its own parameters on too small portfolios, insurers should be authorised to use external assumptions computed in a process validated by Intitutes of Actuaries, for example in respect of mortality tables. Models designed specifically to fit particular risks or situations should be welcomed, and to promote innovation, these models need to be developed beyond the existing models recognised by the market. On the other hand, a minimum of consistency between insurers should facilitate an homogeneous supervision.	
1.154.		
1.155.	"Missing external data" is open to interpretation and so will it possible to gain a clarfiying definition?	
1.156.	It is unclear if the group internal model used for solo entities would be seen as an external model. If it is then this may add undue burden and duplication of effort or result in sole	

	calculations being performed on a standard formula basis. It is not clear from the guideline what is expected so that the undertaking *"demonstrates that all parties involved in the use of the external model have a sufficiently detailed understanding of parts of the external model relevant to them"*? Guidance should be focused on demonstrating suitable processes to ensure all parties have sufficient information and training available on parts of the external model relevant to them. What is extent of "parties" being referred to i.e. risk function, boards at local/group level?	
1.157.		
1.158.	It would be helpful if EIOPA could comment on how Guideline 62 is applied when an entity uses input from elsewhere in the group in its own internal model. This may be significant where the substantial parts of the group are non EEA.	
1.159.	When a model of an external provider is used, it is inevitable that this model is the key to the risk calculation process. Therefore the calculation is by definition very reliant on the external provider of the model. We feel it therefore more appropriate that the undertaking makes sure that the continuity of the provider is well established. This is quite something else than not being overly reliant on the one provider. If EIOPA retains this requirement then it would be helpful to have more guidance on what is expected to be documented in respect of "*how the undertaking puts in place plans to mitigate against any failures of the provider."*? Would this issue be better considered under an undertakings risk register?	
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	Comments Template on Consultation Paper on Proposal for Guidelines on Pre-application for Internal Models	Deadline 19 June 2013 12:00 CET
1.164.	Would external peer review processes be allowed as part of the validation process in full? (see Role of service providers GL67 – 1.172).	
1.165.		
1.166.	Why was the word "materially" in a) was deleted compared to earlier draft guidance? a) The aspects of the external model and external data that are [materially] relevant for its risk profile.	
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1.172.	Would external peer review processes be allowed as part of the validation process in full? (also in Validation 1.164?). Is there a distinction between as external 3rd party provider and an internal group provider?	
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Chapter 12. General Comments		
1.177.	It is not quite clear, whether the scope of the model refers to the scope as used for the calculation of the SCR of the consolidated group, or the application of the internal model for the purpose of calculating the SCR of individual solo undertakings. Furthermore, it is not clear what are differences between bullets (a) and (b): *(a) the significance of related undertakings within the group with respect to the risk*	

	profile of the group; *(b) the risk profile of related undertakings within the group compared to the overall group risk profile;* Bullet (d) Wording somewhat unclear. Suggest re-phrasing for clarity?	
1.178.	a) It is unclear what role and authority the group supervisor and other NCAs involved have in determining how a group allocates its own funds. Counterbalancing a)-d) is the need to consider the practicalities and costs of meeting the Solvency II standards for a larger number of entities within a group and the possible reduced quality of the modelling within the original in-scope entities as a result of the diluted focus.	
1.179.	Allocation of tasks should allow for appropriate knowledge and ensure consistency in approaches of checking a particular area. In particular the work plan should include consistent approach to be agreed for on-site and off-site activities. It would be inefficient that supervisors do not follow the same approach when verifying the pre-application documentation in different countries. E.g. the same part of the documentation could meet the standards of the supervisor in one country and not in another country (or validation or any other standard).	
1.180.	We feel that this work plan should also be communicated to the supervised insurance undertaking.	
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	Comments Template on Consultation Paper on Proposal for Guidelines on Pre-application for Internal Models	Deadline 19 June 2013 12:00 CET
1.186.	We feel that this plan should also be communicated to the supervised insurance undertaking.	
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1.191.	We feel that it should also be mentioned that the conclusion of relevant NCA should be communicated as soon as possible to the insurance undertaking.	
1.192.		
1.193.	*"When they consider appropriate, the group supervisor or the national competent authority organising the onsite examination should also inform the undertaking of the outcome of the joint onsite examination."* What are the circumstances which will be considered "appropriate"? The explanatory text refers to the form of the communication but not the circumstances under which this would occur. Additional guidance would be helpful otherwise there is potential for difference in approaches.	
1.194.	We believe the approaches in off-site activities should be agreed between the supervisors in advance not ex post or during the actual process as this involved the risk of significant inefficiency when some tasks are done unnecessarily or done with delays.	
1.195.		
1.196.	It is unclear how such agreement will be reached. Is this something that the group supervisor can dictate to the other national competent authorities (if compromise or consensus cannot be achieved)? For development of Internal Models, there should be a reporting requirement whereby	

	material differences in approach are reported to / collated by EIOPA. EIOPA could then use the data to: identify potentially systemic issues; identify if any best practice approaches to resolving a complexity exist which could then be suggested as solutions to member states; and to also consider if further guidance is required to facilitate sufficient harmonisation across the member states.	
1.197.	NCAs **should** share their approach but **consider** sharing tools/techniques. Suggest wording for tools/techniques be changed from **consider sharing** to **should share** to both enhance consistency and improve quality of NCA review	
1.198.	In addition, the possibility to consult third country NCAs can be useful when the respective third country undertakings uses the group internal model (possibly with small alterations) to calculate the local regulatory capital requirement. We thus suggest adding a corresponding statement.	
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Compliance and Reporting Rules		
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Impact Assessment – General Coments		
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2.27.	The last sentence in 2.27(c) should be dropped, as in fact a direct endorsement by the management board is not required (compare 3.315 of the explanatory text) and can be left to the discretion of the undertaking. In addition the most important parts of above information are typically part of the ORSA.	
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2.67.	Add "and shared with the group as far as possible", compare 1.182	
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2.73.	We consider the costs/ benefits to consumers as rather indirect and would thus rather state "No direct costs/ benefits"	
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2.78.	We consider the costs/ benefits to consumers as rather indirect and would thus rather state "No direct costs /benefits"	
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