

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:	MetLife	
Disclosure comments:	of Please indicate if your comments should be treated as confidential:	Public
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Reference	Comment	Resolution
General Comment	<p>MetLife is grateful for the opportunity to respond to EIOPA's Consultation Paper on the Proposal for Guidelines on Pre-application for Internal Models.</p> <p>As one of the largest insurers in the world, with operations in 50 countries, including 17 EU Member States, we have some particular insights on the life insurance sector. We also have many years' experience of the interplay between individual undertakings and National Competent Authorities (NCAs) in Europe and elsewhere.</p> <p>We should stress that, for MetLife, endeavouring to meet EIOPA's Guidelines and be fully prepared for Solvency II is not simply a compliance exercise. It is a way of running and managing our business so that we manage risks effectively and efficiently. That is our ultimate aim, which we are striving to achieve.</p>	

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Within that context, we would like to say from the start that we are firmly committed to the European Single Market. We believe harmonisation across Europe is of paramount importance and we are keen to work with EIOPA and regulators towards that end.

We therefore applaud EIOPA's efforts to encourage preparation for Solvency II among NCAs and undertakings. We agree that the interests of policyholders, insurers and supervisors are best served in this manner and we believe, like EIOPA, that implementation should be consistent across Europe.

We do however, believe that some of the proposals within the Guidelines put an unnecessary strain on our business for reasons we explain below.

Flexibility and proportionality should be encouraged: EIOPA suggest that the Guidelines should be applied in a manner that is both proportionate and practical and allows for some flexibility. We would endorse this, noting that the Guidelines are meant to help prepare for Solvency II and not for its full implementation.

We believe it would be helpful if NCAs focused on undertakings' overall progress during this preparatory phase.

Greater clarity on implementation would prove beneficial: In the absence of clarity around when Solvency II will be in force, our preparatory work in compliance with these Guidelines may persist for longer than initially expected, thus placing extra stress on costs and resources. We recommend avoiding swift or overly onerous demands in the early part of the preparatory phase and recommend instead a phased-in approach allowing undertakings to ensure they are moving in the right direction without placing undue stress on the business.

Pre-application for internal models: We have developed tools and processes and are preparing for full compliance with Solvency II requirements. However, we are concerned that many of the requirements set out in this Consultation Paper place a considerable burden on undertakings. These include, but are not limited to, the requirements around

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	<p>documentation, the use test, model changes and the use of external models.</p> <p>In keeping with EIOPA’s proposals, we would request that NCAs adopt a practical and proportionate approach when assessing these requirements. This could be achieved by imposing the full requirements only after Solvency II is fully implemented.</p> <p>There are, for example, likely to be a large number of model changes during the interim period. We would suggest it is unnecessary to carry out the full governance process for each change. It would instead be reasonable for the board to approve only the more significant changes during this time.</p> <p>It should also be reasonable for documentation during the interim period to be concise and pitched at a level that is practical for users of the internal model. The full, more detailed documentation would then be prepared in time for Solvency II implementation.</p> <p>We believe that complying fully with the proposed guidelines in this consultation paper would be very onerous and costly to the industry. A proportionate approach should be adopted so that the benefits of implementing an internal model are not negated by the additional resources and effort required to comply with the guidelines.</p>	
Introduction. General Comment		
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Section I. General Comments	Whilst the guidelines are to be implemented from 1 January 2014 there is no explicit reference to the extent to which the guidelines have to be met between this date and Solvency II implementation. More clarity and certainty around the level to which the requirements need to be met would be useful to aid in planning as this will naturally have expense and resourcing implications.	
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Section II. General Comments		
Chapter 1. General Comments		
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1.22.	It is important that NCAs provide both positive and negative feedback regarding their review	

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	of internal models that is consistent across firms and applied consistently over time. NCAs should also provide feedback regarding their view that the internal model approach is appropriate and reasonable for each of its intended purpose.	
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1.24.	It should be possible for the insurer to make small changes to the model without informing the NCA in advance. Such small changes should be reported annually to the NCA.	
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Chapter 2. General Comments	The model change policy is to be developed during the pre-application process however we do not believe it is proportionate for any model changes during this period to be implemented following the process laid out in the model change policy. This is because during the pre-application phase there may be numerous model changes implemented as the model is developed and finalised. Following the requirements laid out in the model change policy during this time is overly onerous from both a developmental and resource perspective.	
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Chapter 3. General Comments		
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1.39.	<p>Guidance is unclear on the period of time over which training should have taken place prior to application for model approval.</p> <p>The level of understanding of the internal model should be proportionate and appropriate to the administrative, management or supervisory body or staff using the internal model for decision making purposes. It should not be necessary for the administrative, management or supervisory body or staff to have a detailed understanding of aspects of the internal model where they are not using output to make decisions.</p>	
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1.41.	<p>Measure is unclear on the period over which historical minutes will be examined as part of the internal model approval process. Internal models are only likely to be discussed at senior levels and used in decision making when the model is in its near-final state and produces stable results. Depending on development timelines this may only occur a short time before formal application for approval.</p>	
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1.45.	<p>The documentation should be appropriate for the purpose of supporting decision taking. It is important that documentation is proportionate and is carried out at a level that is of value to the business to help understand why decisions have been taken. It should not be carried out at a level of detail that is fulfilling an academic purpose that is of little value to the business.</p>	
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1.50.	There should be additional guidance regarding how firms should interpret a significant change in risk profile to ensure firms apply this consistently.	
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Chapter 4. General Comments		
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1.55.	NCA should publish their quantitative and qualitative indicators for benchmarking purposes and for assisting firms validate their materiality levels.	
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1.65.	The decision taking process around the selection of assumptions should be proportionate to the importance of each assumption. The objective should be to determine assumptions that are appropriate to the company. It should not be necessary to consider alternative	

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	assumptions in significant detail where the company is satisfied that it has chosen the appropriate assumption.	
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Chapter 5. General Comments		
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Chapter 6. General Comments		
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Chapter 7. General Comments		
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Chapter 8. General		

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Chapter 9. General Comments	It should not be necessary to identify persons responsible for each validation task within a validation policy. It should be sufficient to identify each of the tasks and the department responsible for this activity.	
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1.119.	Insurers should assess the seriousness of the limitations and include plans to address these	

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	where the administrative, management or supervisory body believes it is appropriate to do so.	
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Chapter 10. General Comments	In general the documentation requirements for internal models can be considered to be burdensome. The need for detailed and in-depth documentation should be balanced with the need to produce concise documentation that is not overly lengthy such that the intended audience is able to follow and comprehend the, sometimes very technical, subject matter. Accordingly more focus should be given on ensuring proportionality in assessing the documentation requirements.	
1.142.	(See 1.45) - The documentation should be appropriate for the purpose of supporting decision taking. It is important that documentation is proportionate and is carried out at a level that is of value to the business to help understand why decisions have been taken. It should not be carried out at a level of detail that is fulfilling an academic purpose that is of little value to the business.	
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1.150.	Guideline is unclear if a separate user manual is required or whether other pieces of documentation can be used as part of the manual.	
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Chapter 11. General Comments	Compliance with the requirements (e.g. firms are required to have an understanding of the various aspects of the external models may be very difficult to achieve due to vendor's confidentiality of their external model methodologies.	
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1.156.	Firms should have a detailed understanding of how external model works and how changes to core assumptions in both stress and scenario testing will impact the firm's business. However the detailed knowledge should not need to extend to requiring line by line code or forcing the external model provider to relinquish its commercial secrets.	
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1.163.	Requirement to assess features/models for non-selection is onerous and potentially impractical. There may be lack of appetite across firms to evaluate all possible solutions in existence if there a large number of alternatives available in the marketplace due to resource and cost constraints.	
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1.165.	In documenting external models and data there may be significant obstacles in obtaining required information from vendors (who may just be protecting "trade secrets"). (See 1.45 and 1.142) - The documentation should be appropriate for the purpose of supporting decision taking. It is important that documentation is proportionate and is carried out at a level that is of value to the business to help understand why decisions have been	

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Chapter 12. General Comments		
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