

**Comments Template on
Consultation Paper on on the Proposal for Guidelines
on the System of Governance**

**Deadline
19 June 2013
12:00 CET**

Name of Company:	Munich Re	
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"> ⇒ Do not change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool ⇒ Leave the last column <u>empty</u>. ⇒ 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>. ⇒ Our IT tool does not allow processing of comments which do not refer to the specific numbers below. <p>Please send the completed template, in Word Format, to CP-13-008@eiopa.europa.eu. Our IT tool does not allow processing of any other formats.</p> <p>The numbering of the paragraphs refers to this Consultation Paper, the numbering of cells refers to the Technical Annexes II and III.</p>		
Reference	Comment	Resolution
General Comment	<ol style="list-style-type: none"> 1. Our comments refer, as requested by EIOPA, to the Guidelines and not to the Explanatory Text. Although the Explanatory Text is not subject to the public consultation we would like to point out that the Explanatory Text contains requirements that we do not share or agree with. 2. In general, we welcome an early preparation for the application of Solvency II with regard to the governance requirements that are not controversial on political level. 	

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However, any pre-emption of the Trilogue or Level 2 results in the context of the Guidelines should be avoided.

3. Market participants as well as the NCAs should be given sufficient time for preparation and an appropriate implementation of the Guidelines assuring a level playing field. With regard to the finalization of the quantitative requirements envisaged for autumn this year the timeframe for preparation and implementation is very ambitious.
4. Organizational requirements concerning the key functions: Whilst we agree with the necessity that internal audit has to be objective and independent from the operational function, but we do not think this is also a necessity for the other key functions, mainly risk management, actuarial and compliance. These 3 functions are part of the so-called 2nd line of defense and therefore we see no conflict of interests, as long as they are strictly separated from the first line of defense where risk-taking occurs. A combination of 2 or even all 3 of these functions should therefore be possible. In addition, it remains unclear where conflicts of interests could arise between these 3 functions and why these conflicts of interests should be proportionate to the size and complexity of the risks. We therefore think that the interim Guidelines should be phrased in a way that the organizational structure within the 2nd line of defense is kept flexible. In addition, we already see overlaps in the tasks described for the risk management function and for the actuarial function in the interim Guidelines (especially when assessing the Explanatory Text). This could be an indicator where the integration of certain tasks appears reasonable.

**Introduction General
Comment**

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Section I. General Comments		
1.13	Please refer to General Comments No. 2 and 3.	
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Section II. General Comments		
Chapter I General Comments		
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Chapter II General Comments		
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Chapter III General Comments		
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1.40	e.) Specific technical details should not be included to ensure a principle based approach.	
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1.44	<p>c) Risk types such as reputation risk, <u>operational risk</u> and strategic risk are inherently difficult to quantify and hence are not controlled separately with quantitative limits or trigger values. These risks are, however, implicitly managed by a strict application of the risk strategy and further addressed by other risk policies (such as the group-wide New Product Introduction Policies for financial instruments and insurance products), processes (such as the business planning process) and functions (such as the Compliance function) and controls (Internal Control System = ICS).</p> <p>In general, specific technical details and further specifications should not be included to ensure a principle based approach.</p>	
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Chapter IV General Comments		
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1.56	Please note, that policyholders, in accordance to the policy objectives, may select the investments themselves. This Guideline should therefore be clarified or deleted.	
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Chapter V General Comments		
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1.65	As aspects of Capital Management are not an original issue of governance they should be addressed in CP-13/09.	
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Chapter VI General		

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Chapter VII General Comments		
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1.71	<p>We suggest to eliminate paragraph 1.71.b which seems to implicitly establish a reporting line between the person responsible for the internal audit function and the supervisory authority. Under the current legal framework it is the AMSB's obligation to report to the supervisory authority and the Solvency II Directive does not provide for similar direct reporting requirements for any of the four control functions. The Guidelines should not introduce such requirements either, because this could negatively affect the System of Governance. At least the reason for such reports would have to be clearly specified, and the same applies to the conditions which would need to be fulfilled to justify such additional requirements. Supervisory authorities regularly receive the internal audit reports to the AMSB and can, of course, discuss any issues directly with the internal audit function in the course of supervisory reviews.</p> <p>We further suggest to eliminate paragraph 1.71.c) which seems to require a kind of regular rotation of internal audit staff to ensure independence and objectivity of the internal audit function. The size of the internal audit function normally would not allow for a regular rotation and the need to build up special skills and knowledge to cope with the complexity of processes and systems to be audited does not encourage such rotation. Conflicts of interest that may exist in some cases (e.g. due to personal relationships) must be solved individually (e.g. by additional managerial oversight or by hiring outside auditors if other alternatives are not available).</p>	
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Chapter VIII General Comments	We recommend to add a « general tasks » introduction Guideline to assure consistency with the other key functions. For instance, Guideline 17 describes general tasks for the risk management function.	
1.77	We agree that there could be potential conflicts of interests in cases tasks of the first line of defense, e.g. pricing or risk trading activities, are added. It is however unclear what potential conflicts of interests could be in case additional tasks or activities from other key functions of Solvency II are added. This Guideline should therefore be further clarified or deleted.	
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1.81	It should be recognized that also small variations of certain parameters, e.g. implied volatility, could lead to strong variations of technical provisions. This may for example be true for the valuation of options and guarantees in participating life insurance contracts. In these cases the instability is a feature of the underlying product that is valued and not of the valuation model itself. Therefore the Guideline should be rephrased in a way that <u>no undue instability</u> in valuation models should be introduced.	
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1.83	There is no direct link to data quality issues. 1.83 should be included as a separate Guideline.	
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1.87	It is important that proportionality can be exercised also in the report of the actuarial function to avoid additional reporting of topics already reported via other reports, e.g. RSR, ORSA etc.	
Chapter IX General Comments		
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Section III. General Comments		
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Compliance and Reporting Rules General Comments		
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