



BoS-13/25
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Explanatory Text

**On the Proposal for Guidelines on
Forward Looking assessment of the
undertaking's own risks (based on the
ORSA principles)**

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1. Introduction

- 1.1. The boxes included in this document reproduce the Guidelines that have been published by EIOPA in the Consultation Paper EIOPA-CP-13/09.
- 1.2. This document only aims to facilitate the reading of the Consultation Paper EIOPA-CP-13/09 and is not subject to public consultation.

2. Section I: General Provisions

Guideline 1- General provisions

As part of the preparation for the implementation of Solvency II, national competent authorities should take the appropriate steps in order to put in place from 1 January 2014 the present Guidelines on the forward looking assessment of the undertaking's own risks (based on the ORSA principles).

National competent authorities should ensure that insurance and reinsurance undertakings and groups take the appropriate steps to

- a. build a process to develop a forward looking assessment of their own risks; and**
- b. build qualitative information supporting the forward looking assessment of the undertaking's own risks that will allow national competent authorities to review and evaluate the quality of the information.**

Guideline 2 - Progress report to EIOPA

National competent authorities should send to EIOPA a progress report on the application of these Guidelines by the end of February following each relevant year, the first being by 28 February 2015 based on the period 1 January 2014 to 31 December 2014.

Guideline 3: Threshold for the forward looking assessment of the undertaking's own risks

In accordance with Article 45 of Solvency II, national competent authorities should ensure that the undertaking or the group performs an assessment of its overall solvency needs, starting in 2014.

National competent authorities should require that undertakings representing at least 80% of the market share as defined in Guideline 5 to 7 in the "Guidelines on submission of information to national competent authorities" perform an assessment if the undertaking would comply on a continuous basis with the Solvency II regulatory capital requirements and the requirements on the Solvency II technical provisions starting in 2014.

National competent authorities should require that groups submitting annual quantitative information as defined in Guideline 9 in the "Guidelines on submission of information to national competent authorities" perform an assessment if the group would comply on a continuous basis with the Solvency II regulatory capital requirements and the requirements on the Solvency II technical provisions starting in 2014.

National competent authorities should allow that undertakings and groups which are in the pre-application process for an internal model make use of this model for the purpose of the assessment, provided that the undertaking concerned also performs the assessment for preparing for the eventuality that the application to use the internal model under Solvency II would be rejected by the national competent authority.

Where an undertaking which is not in the pre-application process for an internal model falling with the threshold referred to in the paragraph 2, and a group falling with the threshold referred to in paragraph 3, for the calculation of the Solvency II regulatory capital requirements, and provided that the technical specifications for the calculation of the Solvency II regulatory capital requirements have been provided, the national competent authority should require the undertaking or the group to perform an assessment of the significance of the deviation of its risk profile from the assumptions underlying the Solvency II Solvency Capital Requirement calculation, starting in 2014.

3. Section II: General considerations

- 3.1. Article 45 of Solvency II requires the undertaking to perform a regular forward looking assessment of the undertaking's own risks as part of the risk-management system. The main purpose of the forward looking assessment of the undertaking's own risks is to ensure that the undertaking engages in the process of assessing all the risks inherent to its business and determines the corresponding capital needs. To achieve this, an undertaking needs adequate and robust processes to assess, monitor and measure its risks and overall solvency needs, and also to ensure that the output from the assessment forms an important part of the decision making processes of the undertaking. Conducting an assessment of the overall solvency needs properly involves input from across the whole undertaking. The forward looking assessment of the undertaking's own risks is not complied with by producing only a report or by filling templates.
- 3.2. The design of the overall solvency needs assessment reflects the way the undertaking proposes to manage the risks that it faces through capital needs or other risk mitigation techniques. This takes into consideration the risk profile, the approved risk tolerance limits and the business strategy. The determination of the overall solvency needs is expected to contribute to assessments of whether to retain or transfer risks, of how best to optimise the undertaking's capital management and of how to establish the appropriate premium levels. It is also expected to provide input into other strategic decisions.
- 3.3. An undertaking cannot simply rely on the regulatory capital requirements to be adequate for its business and risk profile. An essential part of risk management is the undertaking performing its own assessment of the own

funds (including amount, quality, etc.) it needs to hold in view of the particular risk exposure and business objectives. Since the risks the undertaking is exposed to translate into solvency needs, looking at risk and capital management separately is not appropriate.

- 3.4. As the overall solvency needs assessment is the undertaking's own analysis, undertakings have flexibility in this assessment. However, supervisory expectations are more specific with regard to the continuous compliance with the regulatory capital and technical provisions and the assessment of any deviation between the undertaking's risk profile and the assumptions underlying the SCR calculation. Accordingly, an undertaking during the preparatory period has to take into account the technical specifications for the calculation of the regulatory capital requirements and the technical provisions to be provided.
- 3.5. During the preparatory period until the full implementation of Solvency II, the forward looking assessment of the undertaking's own risks will also allow the undertaking to determine the adequacy of its regulatory capital position. The undertaking is required to ensure that it can meet the regulatory capital requirements in the form of the minimum capital requirement (MCR) and the solvency capital requirement (SCR) once Solvency II quantitative requirements are to be applied. During the preparatory period the undertaking has to assess whether it will be able to meet the future capital requirements through the forward looking assessment of the undertaking's own risks.
- 3.6. The undertaking is also expected to consider whether the SCR, calculated with the standard formula or an internal model, would be appropriate according to the undertaking's risk profile.
- 3.7. The forward looking assessment of the undertaking's own risks may call for the performance of tasks that the undertaking has already performed in a different context in which case no duplication of tasks is required but the result reached is to be taken into account in the forward looking assessment of the undertaking's own risks.

Guideline 4 –Proportionality

In accordance with Article 45 of Solvency II, national competent authorities should ensure that the undertaking develops its own processes for the forward looking assessment of the undertaking's own risks, tailored to fit into its organisational structure and risk-management system with appropriate and adequate techniques, taking into consideration the nature, scale and complexity of the risks inherent to the business.

- 3.8. An undertaking's assessment of its overall solvency needs does not necessarily call for the use of a complex approach. The methods employed

may range from simple stress tests to more or less sophisticated economic capital models. Where such economic capital models are being used, they do not need to meet the requirements for the use of internal models for the calculation of the SCR in accordance with Articles 112 to 126.

- 3.9. Proportionality is to be reflected not only in the level of complexity of the methods used but also in the frequency of the performance of the forward looking assessment of the undertaking's own risks assessment by the undertaking and in the level of granularity of the different analyses to be included in the forward looking assessment of the undertaking's own risks.

Guideline 5 – Role of the administrative, management or supervisory body: top-down approach

In accordance with Article 45 of Solvency II, national competent authorities should ensure that the administrative, management or supervisory body of the undertaking takes an active part in the forward looking assessment of the undertaking's own risks, including steering, how the assessment is to be performed and challenging the results.

- 3.10. The forward looking assessment of the undertaking's own risks is a very important tool for the AMSB of the undertaking providing it with a comprehensive picture of the risks the undertaking is exposed to or could face in the future. It has to enable the AMSB to understand these risks and how they translate into capital needs or alternatively require risk mitigation techniques.
- 3.11. The AMSB challenges the identification and assessment of risks, and any factors to be taken into account. It also gives instructions on management actions to be taken if certain risks were to materialise.
- 3.12. As part of the forward looking assessment of the undertaking's own risks the AMSB challenges the assumptions behind the calculation of the SCR to ensure they are appropriate in view of the assessment of the undertaking's risks.
- 3.13. Taking into account the insights gained from the forward looking assessment of the undertaking's own risks, the AMSB approves the long and short term capital planning, whilst considering the business and risk strategies it has decided upon for the undertaking. This plan includes alternatives to ensure that capital requirements can be met even under unexpectedly adverse circumstances.

Guideline 6 – Documentation

In accordance with Article 45 of Solvency II, national competent authorities should ensure that the undertaking has at least the following documentation on the forward looking assessment of the undertaking's own risks:

- a) The policy for the forward looking assessment of the undertaking's own risks;**
- b) record of each forward looking assessment of the undertaking's own risks;**
- c) an internal report on each forward looking assessment of the undertaking's own risks; and**
 - a supervisory report of the forward looking assessment of the undertaking's own risks.**

3.14. Documenting information does not necessarily require that new or fully separate reports or documents are drafted; it can be sufficient to refer to existing documents where these contain the relevant information and just record additional information if and insofar as this is necessary to present the full picture.

Guideline 7 – Policy for the forward looking assessment of the undertaking's own risks

In accordance with Articles 41 and 45 of Solvency II, national competent authorities should ensure that the administrative, management or supervisory body of the undertaking approves the policy for the forward looking assessment of the undertaking's own risks. This policy should include at least:

- a) a description of the processes and procedures in place to conduct the forward looking assessment of the undertaking's own risks;**
- b) a consideration of the link between the risk profile, the approved risk tolerance limits and the overall solvency needs; and**
- c) information on:**
 - (i) how and how often stress tests, sensitivity analyses and reverse stress tests are to be performed;**
 - (ii) data quality standards; and**
 - (iii) the frequency of the assessment itself and the justification of its adequacy particularly taking into account the undertaking's risk profile and the volatility of its overall solvency needs relative to its capital position as**

well as the timing for the performance of the forward looking assessment of the undertaking's own risks and the circumstances which would trigger the need for a forward looking assessment of the undertaking's own risks outside of the regular time-scales.

- 3.15. The AMSB ensures that the forward looking assessment of the undertaking's own risks is appropriately designed and implemented.
- 3.16. According to Article 41(3) undertakings are required to have a written policy on risk management. As risk management includes the forward looking assessment of the undertaking's own risks, undertakings have to develop a policy for forward looking assessment of the undertaking's own risks.

Guideline 8 – Record of each forward looking assessment of the undertaking's own risks

In accordance with Article 45 of Solvency II, national competent authorities should ensure that the undertaking appropriately evidences and internally documents each forward looking assessment of the undertaking's own risks and its outcome.

- 3.17. The undertaking records the performance of each forward looking assessment of the undertaking's own risks and the assessment of any deviations in its risk profile from the assumptions underlying the SCR calculation to a level of detail that enables a third party to evaluate the assessments.
- 3.18. The record of each forward looking assessment of the undertaking's own risks includes:
- a) The individual risk analysis, including a description and explanation of the risks considered;
 - b) The links between the risk assessment and the capital allocation process and an explanation of how the approved risk tolerance limits were taken into account;
 - c) An explanation of how risks not covered with own funds are managed;
 - d) A technical specification of the approach used for the forward looking assessment of the undertaking's own risks assessment, including a detailed description of the key structure, together with a list and justification of the assumptions underlying the approach used, the process used for setting dependencies, if any, and the rationale for the confidence level chosen, if any, a description of stress tests and scenario analyses employed and the way their results were taken into account, and an explanation of how parameter and data uncertainty were assessed;

- e) An amount or range of values for the overall solvency needs over a one-year-period, as well as for a longer period and a description of how the undertaking expects to address the needs;
- f) Action plans arising from the assessment and the rationales for them. This requires the documentation to cover any strategies for raising additional own funds where necessary and the proposed timing for actions to improve the undertaking's financial condition;
- g) Details on the conclusions and the rationale for them from the assessment of the continuous compliance with the requirements of regulatory capital and technical provisions;
- h) For undertakings that would use an internal model to calculate the SCR, a description of the changes made to the internal model under pre-application process during this process if any;
- i) The identification and explanation of the differences between the undertaking's risk profile and the assumptions underlying the calculation of the SCR. Where the deviations are considered to be significant resulting in either an under or an overestimation of the SCR, the internal documentation addresses how the undertaking has reacted or will react;
- j) A description of what internal and external factors were taken into consideration in the forward-looking perspective;
- k) Details of any planned relevant management actions, including an explanation and a justification for these actions, and their impact on the assessment; and
- l) A record of the challenge process performed by the AMSB.

Guideline 9 – Internal report on the forward looking assessment of the undertaking's own risks

In accordance with Article 45 of Solvency II, national competent authorities should ensure that the administrative, management or supervisory body (AMSB) communicates to all relevant staff at least the results and conclusions regarding the forward looking assessment of the undertaking's own risks, once the process and the results have been approved by the AMSB.

- 3.19. The information communicated to the AMSB has to be sufficiently detailed to enable it to use it in its strategic decision-making process and the information communicated to relevant staff has to be sufficiently detailed to enable those staff to take any necessary follow-up actions.
- 3.20. The internal report developed by the undertaking could be the basis of the supervisory report of forward looking assessment of the undertaking's own risks. If the undertaking considers that the internal report has an

appropriate level of detail also for supervisory purposes then the same report may be submitted to the national supervisory authority.

Guideline 10 – Supervisory Report of the forward looking assessment of the undertaking’s own risks

In accordance with Article 45 of Solvency II, national competent authorities should ensure that the undertaking submits the supervisory report of the forward looking assessment of the undertaking’s own risks within 2 weeks of concluding the assessments. The supervisory report should present at least the following:

- a) the qualitative and quantitative results of the forward looking assessment and the conclusions drawn by the undertaking from those results;**
- b) the methods and main assumptions used; and**
- c) where applicable according to the thresholds introduced, a comparison between the overall solvency needs, the regulatory capital requirements and the undertaking’s own funds.**

- 3.21. The undertaking is expected to submit the outcome of the forward looking assessment of the undertaking’s own risks to the supervisory authority within two weeks after the AMSB has reviewed and approved the outcome of the forward looking assessment of the undertaking’s own risks.
- 3.22. The assessment of the overall solvency needs includes the quantification for different risk categories or, where appropriate, risks, as well as a quantification of the overall solvency needs for a one-year and a medium term horizon. For the assessment of the continuous compliance the quantification for example covers expected future SCR, MCR and own funds levels. And for the assessment of the significance of the deviation of the risk profile the report needs to comprise the quantification of any significant deviation.
- 3.23. Qualitative information on the forward looking assessment of the undertaking’s own risks includes for instance the description of the risks the undertaking is or could be exposed to, explanations why certain risks were considered to be material or not, management actions or risk mitigation taken into account, proposed risk management measures for risks not to be covered by capital, weaknesses or problems identified, scenarios that the undertaking is sensitive to, the result of internal stress tests and the strategic decisions considered through the forward looking assessment of the undertaking’s own risks.
- 3.24. Conclusions of the undertaking about the forward looking assessment of the undertaking’s own risks include what the undertaking plans to do on account of the findings during the forward looking assessment of the undertaking’s own risks and the timelines for proposed actions. It may also involve explaining why the undertaking concludes that no actions are

required if it is not unreasonable to expect that something may have to be done about certain findings.

- 3.25. When setting out its main assumptions the undertaking not only needs to address internal and external factors it has taken into account as affecting its overall solvency needs and regulatory capital requirements and how and why it did so but also to explain for example why it deems the deviation of its profile from the assumptions underlying the SCR calculation to be non-significant
- 3.26. For the comparison of the undertaking's own funds with its overall solvency needs the undertaking may consider other elements than those accepted as available own funds according to Solvency II principles as own funds. In this case an explanation why the undertaking deems this to be justified is expected to be included in the report.

4. Section III: Specific features regarding the performance of the forward looking assessment of the undertaking's own risks

Guideline 11 – Valuation and recognition of the overall solvency needs

In accordance with Article 45 of Solvency II, national competent authorities should ensure that the undertaking, if it uses recognition and valuation bases that are different from the Solvency II bases in the assessment of its overall solvency needs, explains how the use of such different recognition and valuation bases ensures better consideration of the specific risk profile, approved risk tolerance limits and business strategy of the undertaking, while complying with the requirement for a sound and prudent management of the business.

National competent authorities should ensure that the undertaking quantitatively estimates the impact on the overall solvency needs assessment of the different recognition and valuation bases.

- 3.27. The quantitative estimate of the impact includes all balance sheet effects. The diversification effects between risks (correlations) are also considered in this assessment. In this the undertaking is not bound to use the correlations included in the standard formula, but may employ others considered to be more suitable to its specific business and its risk profile.

Guideline 12 – Assessment of the overall solvency needs

In accordance with Article 45 of Solvency II, national competent authorities should ensure that the undertaking assesses its overall solvency needs and then expresses the overall solvency needs in quantitative terms and complements the quantification by a qualitative description of the material risks.

Where appropriate, national competent authorities should ensure that the undertaking subjects the identified material risks to a sufficiently

wide range of stress test or scenario analyses in order to provide an adequate basis for the assessment of the overall solvency needs.

- 3.28. In its assessment of the overall solvency needs an undertaking could decide not to use capital as a buffer for all its quantifiable risks but to manage and mitigate those risks by other means. The assessment covers all material risks, including non-quantifiable risks like reputational risk or strategic risk, amongst others. The assessment could take several forms. It could be pure quantification based on quantitative methodologies or an estimated value or range of values which are based on particular assumptions or scenarios, or it could be more or less judgemental. It is, however, required that the undertaking demonstrates the rationale for the assessment.
- 3.29. When an insurance undertaking belongs to a group, its forward looking assessment of the undertaking's own risks has to consider all group risks that may impact materially the individual entity.
- 3.30. As the risk profile is influenced by the risk mitigation techniques used by the undertaking, the assessment of the impact and the effectiveness of reinsurance and other risk mitigation techniques plays a role in the forward looking assessment of the undertaking's own risks. Where there is no effective risk transfer this has to be taken into account in the assessment of the overall solvency needs.
- 3.31. After identifying all the risks it is exposed to, the undertaking takes a decision on whether they will be covered with capital or managed with risk mitigation tools or both.
- 3.32. If the risks are to be covered by capital, there is a need to estimate the risks and identify the level of materiality. For material risks, the undertaking has to determine the capital required and explain how they will be managed.
- 3.33. If the risks are managed with risk mitigation techniques, the undertaking explains which risks are going to be managed by which technique and the underlying reasons.
- 3.34. The assessment needs to cover whether the undertaking currently has sufficient financial resources and realistic plans for how to raise additional capital if and when required, for example on account of the business strategy or business plan. In assessing the sufficiency of its financial resources the undertaking has to take into account the quality and volatility of its own funds with particular regard to their loss-absorbing capacity under different scenarios.
- 3.35. Conducting an assessment of the overall solvency needs properly involves input from across the whole undertaking. One difference from the SCR calculation is that for the overall solvency needs assessment the undertaking considers all material risks, including long term risks, it could

face within the timeframe in the medium term or ,where relevant, in the long term. Although the SCR only takes quantifiable risks into account, the undertaking is expected to identify and assess the extent to which non-quantifiable risks are part of its risk profile and to ensure that they are properly managed.

- 3.36. The assessment of the overall solvency needs is expected to at least:
- a) Reflect the material risks arising from all assets and liabilities, including intra-group and off-balance sheet arrangements;
 - b) Reflect the undertaking's management practices, systems and controls including the use of risk mitigation techniques;
 - c) Assess the quality of processes and inputs, in particular the adequacy of the undertaking's system of governance, taking into consideration risks that may arise from inadequacies or deficiencies;
 - d) Connect business planning to solvency needs;
 - e) Include explicit identification of possible future scenarios;
 - f) Address potential external stress; and
 - g) Use a valuation basis that is consistent throughout the overall solvency needs assessment.
- 3.37. When assessing the overall solvency needs, an undertaking also takes into account management actions that may be adopted in adverse circumstances. When relying on such prospective management actions, an undertaking assesses the implications of taking these actions, including their financial effect, and takes into consideration any preconditions that might affect the efficacy of the management actions as risk mitigators. The assessment also addresses how any management actions would be enacted in times of financial stress.
- 3.38. As internal model users would be required to develop and carry out, on a regular basis, their own stress tests and scenario analyses as part of the complying with the validation standards set out in Article 124 of Solvency II, they may need to develop further stresses and scenarios for the forward looking assessment of the undertaking's own risks. The process for setting the stress and scenarios should be consistent with internal model requirements.
- 3.39. Where the undertaking uses the standard formula as a baseline for its assessment of its overall solvency needs, it is expected to demonstrate that this is appropriate to the risks inherent in its business and reflects its risk profile.
- 3.40. In the case of internal model users, the explanations and justifications that would be required for the use of an internal model can be used, if appropriate in the context of the forward looking assessment of the

undertaking's own risks. Nevertheless specific explanations need to cover the use of a different recognition or valuation basis in the forward looking assessment of the undertaking's own risks to that used in the internal model to calculate the SCR.

Guideline 13 – Forward-looking perspective of the overall solvency needs

In accordance with Article 45 of Solvency II, national competent authorities should ensure that the undertaking's assessment of the overall solvency needs is forward-looking, including a medium term or long term perspective as appropriate.

- 3.41. The analysis of the undertaking's ability to continue as a going concern and the financial resources needed to do so over a time horizon of more than one year is an important part of the forward looking assessment of the undertaking's own risks.
- 3.42. Unless an undertaking is in a winding-up situation, it has to consider how it can ensure that it can continue as a going concern. In order to do this successfully, it does not only have to assess its current risks but also the risks it will or could face in the long term. That means that, depending on the complexity of the undertaking's business, it may be appropriate to perform long term projections of the business, which are in any case a key part of any undertaking's financial planning. This might include business plans and projections of the economic balance sheet as well as variation analysis to reconcile these two items. These projections are required to feed into the forward looking assessment of the undertaking's own risks in order to enable the undertaking to form an opinion on its overall solvency needs and own funds in a forward looking perspective.
- 3.43. The undertaking needs to project its capital needs at least over its business planning period, taking into account medium and long term risk, as appropriate. This projection is to be made taking into consideration any likely changes to the risk profile and business strategy over the projection period and the sensitivity of the assumptions used.
- 3.44. The length of the business planning period may differ between undertakings. However, if the undertaking generates a new business plan or revises an existing business plan, these changes need to be reflected in the forward looking assessment of the undertaking's own risks taking into account the new risk profile, the business volume and the business mix that is expected. In order to provide a proper basis for decision-making and to identify material risks and the consequences for the overall solvency needs by changes to the business plan, a range of possible scenarios have to be tested.

3.45. An undertaking also identifies and takes into account external factors that could have an adverse impact on its overall solvency needs or on its own funds. Such external factors could include changes in the economic conditions, the legal framework, the fiscal environment, the insurance market, technical developments that have an impact on underwriting risk, or any other probable relevant event. The undertaking will need to consider as part of its capital management plans and capital projections how it might respond to unexpected changes in external factors.

Guideline 14 – Regulatory capital requirements

In accordance with Article 45 of Solvency II and in accordance with Guideline 3 on the threshold for the forward looking assessment of the undertaking's own risks, national competent authorities should ensure that as part of the forward looking assessment of the undertaking's own risks the assessment if the undertaking would comply on a continuous basis with the Solvency II regulatory capital requirements includes at least:

- a) the potential future material changes in the risk profile;**
- b) the quantity and quality of its own funds over the whole of its business planning period; and**
- c) the composition of own funds across tiers and how this composition may change as a result of redemption, repayment and maturity dates during its business planning period.**

3.46. For the assessment of the compliance on a continuous basis with the regulatory capital and technical provisions requirements, the recognition and valuation bases have to be in line with the relevant principles provided by Solvency II.

3.47. Changes in an undertaking's risk profile may affect the future MCR and SCR calculations and this needs to be taken into consideration in the capital management process.

3.48. The assessment also needs to consider the changes to the own funds position that might occur in stressed situations. The undertaking is expected to carry out stress tests and scenario analyses to assess the resilience of the business.

3.49. Capital planning includes projections of capital requirements and own funds over the planning period (and may include the need to raise new own funds). It is up to each undertaking to decide for itself the reasonable methods, assumptions, parameters, dependencies or levels of confidence to be used in the projections.

3.50. As part of the business and capital planning processes, an undertaking will need to regularly carry out stress tests, reverse stress-tests, as well as scenario analyses to feed into its forward looking assessment of the

undertaking's own risks. The stress testing scope and frequency has to be proportionate.

- 3.51. When considering the quantity, quality and composition of its own funds, the undertaking has to consider the following: the mix between basic own funds and ancillary own funds, and also between tiers, the relative quality of the own funds and their loss absorbing capacity.
- 3.52. When considering future own fund requirements the undertaking has to consider:
- a) Capital management including at least issuance, redemption or repayment of capital instruments, dividends and other distributions of income or capital, and calls on ancillary own fund items. This has to include both projected changes and contingency plans in the result of a stressed situation;
 - b) The interaction between the capital management and its risk profile and its expected and stressed evolution;
 - c) If required, its ability to raise own funds of an appropriate quality and in an appropriate timescale. This has to have regard to: its access to capital markets; the state of the markets; its dependence on a particular investor base, investors or other members of its group; and the impact of other undertakings seeking to raise own funds at the same time; and
 - d) How the average duration of own fund items (contractual, maturity or call dates), relates to the average duration of its insurance liabilities and future own funds needs.
- 3.53. The undertaking also assesses and identifies relevant compensating measures and offsetting actions it could realistically take to restore or improve capital adequacy or its cash flow position after some future stress events.

Guideline 15 – Technical provisions

In accordance with Article 45 of Solvency II and in accordance with Guideline 3 on the threshold for the forward looking assessment of the undertaking's own risks, national competent authorities should ensure that as part of the forward looking assessment of the undertaking's own risks the actuarial function of the undertaking provides input if the undertaking would comply continuously with the requirements regarding the calculation of technical provisions and the risks arising from this calculation.

- 3.54. Assessing whether the requirements relating to technical provisions are being complied with continuously requires processes and procedures

relating to a regular review of the calculation of the technical provisions to be in place.

- 3.55. The input regarding the compliance with requirements and the risks arising from the calculation of technical provisions has to be in line with the information contained in the annual report of the actuarial function.

Guideline 16 – Deviations from assumptions underlying the SCR calculation

In accordance with Article 45 of Solvency II and in accordance with Guideline 3 on the threshold for the forward looking assessment of the undertaking's own risks, national competent authorities should ensure that the undertaking assesses whether its risk profile deviates from the assumptions underlying the Solvency II Solvency Capital Requirement calculation and whether these deviations are material.

- 3.56. The assessment of the significance with which the risk profile of the undertaking deviates from the assumptions underlying the SCR calculation ensures that the undertaking understands the assumptions underlying its SCR calculation and considers whether those assumptions are appropriate. To do this, the undertaking will have to compare those assumptions with its own understanding of its risk profile. This process needs to prevent an undertaking from simply relying upon regulatory capital requirements as being adequate for its business.
- 3.57. In order to help standard formula users in the assessment, information on the assumptions on which the SCR calculation is based will be made available to undertakings.
- 3.58. , The undertaking has to assess the significance of deviations of its specific risk profile from the relevant assumptions underlying the (sub) modules of the SCR calculation the correlations between the (sub) modules and the building blocks of the (sub) modules.
- 3.59. Due consideration needs to be given to the following differences between the undertaking's risk profile and the assumptions underlying the SCR calculation: differences due to risks that are not considered in the standard formula and differences due to risks that are either under or overestimated by the standard formula compared to the risk profile. The assessment process includes:
- a) An analysis of the risk profile and an assessment of the reasons why the standard formula is appropriate, including a ranking of risks;
 - b) An analysis of the sensitivity of the standard formula to changes in the risk profile, including the influence of reinsurance arrangements, diversification effects and the effects of other risk mitigation techniques;

- c) An assessment of the sensitivities of the SCR to the main parameters, including undertaking-specific parameters;
 - d) An elaboration on the appropriateness of the parameters of the standard formula or of undertaking-specific parameters;
 - e) An explanation why the nature, scale and complexity of the risks justify any simplifications used; and
 - f) An analysis of how the results of the standard formula are used in the decision making process.
- 3.60. If the outcome of this qualitative and quantitative assessment is that there are significant deviations between the risk profile of the undertaking and the SCR calculation, the undertaking would be expected to consider during the preparatory period how this could be addressed. It could decide to align its risk profile with the standard formula, to apply for undertaking-specific parameters, where this is allowed, or to develop a (partial) internal model. Alternatively, the undertaking could decide to de-risk.
- 3.61. It is unlikely that the undertaking can determine whether the risk profile deviates significantly from the assumptions underlying the SCR by comparing the amount of the overall solvency needs as identified through the forward looking assessment of the undertaking's own risks with the SCR. Since overall solvency needs and SCR can be calculated on different bases and may include different items, the amounts produced will not be readily comparable. There are a number of reasons that could account for the differences that have nothing to do with deviations of the risk profile, such as:
- a) The undertaking may operate at a different confidence level or risk measure for business purposes compared to the assumptions on which the SCR calculation is based. For instance, it may choose to hold own funds for rating purposes, which represents a higher confidence level than that used to calibrate the SCR.
 - b) The undertaking may use a time horizon for its business planning purposes that differs from the time horizon underlying the SCR.
 - c) In the forward looking assessment of the undertaking's own risks the undertaking may consider any agreed management actions that could influence the risk profile.

Internal model users

- 3.62. During the pre-application process the undertaking prepares to ensure that the internal model plays an important role in the forward looking assessment of the undertaking's own risks as set out in Article 120 of Solvency II.

Internal model users – Overall Solvency Needs

- 3.63. According to Article 120 of Solvency II, as part of the use test, internal models would need to play an important role in the forward looking assessment of the undertaking's own risks. This does not necessarily mean that the assessment of the overall solvency needs would be accomplished solely by running the internal model. In this context, the forward looking assessment of the undertaking's own risks includes the assessment of:
- a) the impact of the excluded material risks or major lines of business would have on the solvency position in the case of partial internal model;
 - b) the interrelationship between risks which are in and outside the scope of the model; and
 - c) the identification of risks other than those covered by the internal model, which may trigger a change to the internal model.

Guideline 17 – Link to the strategic management process and decision-making framework

In accordance with Article 45 of Solvency II, national competent authorities should ensure that the undertaking takes into account the results of the forward looking assessment of the undertaking's own risks and the insights gained during the process of this assessment in at least:

- a) its capital management;**
- b) its business planning; and**
- c) its product development and design.**

- 3.64. In deciding on the business strategy, the undertaking has to take into account the output from the forward looking assessment of the undertaking's own risks.
- 3.65. As an integral part of the business strategy, an undertaking needs to have in place its own strategies for managing its overall solvency needs and regulatory capital requirements and integrating this with the management of all material risks to which it is exposed. Hence the forward looking assessment of the undertaking's own risks feeds into the management of the business, in particular into the strategic decisions, operational and management processes.
- 3.66. The forward looking assessment of the undertaking's own risks is required to reflect the business strategy. Hence, when performing the forward looking assessment of the undertaking's own risks the undertaking takes into account the business strategy and any strategic decisions influencing the risk situation and regulatory capital requirement as well as overall solvency needs. On the other hand, the AMSB needs to be aware of the

implications that strategic decisions have on the risk profile and regulatory capital requirements and overall solvency needs of the undertaking and to consider whether these effects are desirable, affordable and feasible given the quantity and quality of its own funds. Any strategic or other major decisions that may materially affect the risk or own funds' position of the undertaking need to be considered through the forward looking assessment of the undertaking's own risks before such a decision is taken. This does not necessarily imply a full performance of the forward looking assessment of the undertaking's own risks: the undertaking considers how the output of the last assessment of the overall solvency needs would change if certain decisions were taken and how these decisions would affect the regulatory capital requirements.

- 3.67. Where the undertaking is relying on management processes, in particular systems and controls, in order to mitigate risks, it considers the effectiveness of those systems and controls in a stress situation.

Guideline 18 – Frequency

In accordance with Articles 45 and 246 of Solvency II, national competent authorities should ensure that the undertaking performs the forward looking assessment of the undertaking's own risks at least annually.

- 3.68. The forward looking assessment of the undertaking's own risks has to be performed on a regular basis and in any case immediately after any significant change in the risk profile of the undertaking.
- 3.69. The undertaking decides when to perform the regular forward looking assessment of the undertaking's own risks which, as a rule, needs to use the same reference date as the SCR calculation but different reference dates could be acceptable if there has been no material change in the risk profile between them.
- 3.70. The forward looking assessment of the undertaking's own risks performed after any significant change of the risk profile is called a non-regular forward looking assessment of the undertaking's own risks. In this regard undertakings are expected to use their experience from stress tests and scenario analyses to determine whether changes in external factors could impact the undertaking's risk profile significantly.
- 3.71. Such changes may follow from internal decisions and external factors. Examples are: the start-up of new lines of business; major amendments to approved risk tolerance limits or reinsurance arrangements, internal model changes, portfolio transfers or major changes to the mix of assets.

5. Section IV: Specificities of the group forward looking assessment of the undertaking's own risks (based on the ORSA principles)

Guideline 19 – Scope of group forward looking assessment of the undertaking's own risks

In accordance with Articles 45 and 246 of Solvency II, national competent authorities should ensure that the entity responsible for fulfilling the governance requirements at group level designs the group forward looking assessment of the undertaking's own risks to reflect the nature of the group structure and its risk profile. All of the entities that fall within the scope of group supervision should be included within the scope of the group forward looking assessment of the undertaking's own risks. This should include insurance, reinsurance, non-insurance and non-reinsurance undertakings, and both regulated and non-regulated entities, situated in the EEA and outside the EEA.

3.72. The group forward looking assessment of the undertaking's own risks adequately captures all specificities of the group, including at least:

- a) risks specific to the group for example stemming from non-regulated entities, interdependencies within the group and their impact on the group's risk profile;
- b) risks that might not be taken into account at individual level, but that have to be taken into consideration at group level for example contagion risks;
- c) any differences between undertakings of the group, such as business strategy, business planning period and risk profile;
- d) national specificities, their effects and how they are reflected at the group level.

3.73. The participating insurance or reinsurance undertaking or insurance holding company responsible for the group forward looking assessment of the undertaking's own risks needs to ensure that all necessary information to carry out the group forward looking assessment of the undertaking's own risks and that the results are reliable.

(Re)insurance undertakings

3.74. The reference to (re)insurance undertakings covers all entities taking-up insurance or reinsurance activities including captive (re)insurance undertakings.

Third-country entities

3.75. Although third-country undertakings are not required to produce a solo forward looking assessment of the undertaking's own risks, they have to be included in the group forward looking assessment of the undertaking's own risks if they fall within the scope of group supervision.

3.76. Groups need to take account of any restrictions or challenges to the assessment at group level that may arise from third-country undertakings. For example, this might include any impediments to accessing information and restrictions on the timeliness of information to be provided by the undertakings.

Regulated non-(re)insurance undertakings

3.77. The group forward looking assessment of the undertaking's own risks assesses all material risks arising from regulated non-insurance or reinsurance entities within the group, since these entities contribute to the group solvency in proportion to the share held by the participating undertaking in accordance with Article 221.

Non-regulated entities

3.78. While non-regulated entities are not subject to solo supervision and are not expected to perform a forward looking assessment of the undertaking's own risks at the individual level, they have to be included in the scope of group forward looking assessment of the undertaking's own risks, if they fall within the scope of group supervision.

3.79. The nature of the assessment with respect to non-regulated entities will depend on the nature, size and complexity of each non-regulated entity and its role within the group. Some non-regulated entities may play a very important role in setting the strategy and hence in defining the risk profile at the group level that is implemented throughout the group. On the other hand, non-regulated entities, such as insurance holding companies, may be just instruments that are used for a particular for example to acquire holdings in subsidiaries as set out in Article 212(1)(f) of Solvency II and have no influence in setting the business strategy. The group forward looking assessment of the undertaking's own risks will have to be sufficiently dynamic to capture the different nature of the material risks from all non-regulated entities within the scope of the group.

Guideline 20 – Reporting to the supervisory authorities

In accordance with Articles 45 and 246 of Solvency II and in case the entity responsible for fulfilling the governance requirement applies for a single document of the forward looking assessment of the undertaking's own risks:

- a) The group supervisor should form a view whether to allow the group to perform a single forward looking assessment of the undertaking's own risks document, if there is no other decision process in force in the college, and if no member that would otherwise receive an individual forward looking**

assessment of the undertaking's own risks document disagrees; and

- b) where one or more of the subsidiaries has its head office in a Member State whose official languages are different from the languages in which the single forward looking assessment of the undertaking's own risks document is reported, the supervisory authority concerned should consult with the group supervisor, the college of supervisors and the group itself before requiring the undertaking to translate the part of the forward looking assessment of the undertaking's own risks document that concerns the subsidiary into an official language of the Member State in which the subsidiary has its head office.**

3.80. The following table summarises the reporting requirements linked to the group forward looking assessment of the undertaking's own risks:

		Article 254(2), Article 35(2) (a)(i) and draft Article 294 SRS1	Article 254(2) and Article 35(2) (a)(ii)
Group forward looking assessment of the undertaking's own risks (not including the assessment at individual level of the subsidiaries)	Participating undertaking	Group forward looking assessment of the undertaking's own risks supervisory report reported to the group supervisor	Group forward looking assessment of the undertaking's own risks supervisory report reported to the group supervisor whenever a forward looking assessment of the undertaking's own risks is performed
	Subsidiary	Solo supervisory report includes cross references to the group forward looking assessment of the undertaking's own risks (supervisory report)	Solo supervisory report includes cross references to the group forward looking assessment of the undertaking's own risks (supervisory report).
Individual forward looking assessment of the undertaking's own risks (at subsidiaries' individual level)			
Single forward looking assessment of the undertaking's own risks document covering all the assessments (article 246(4) 3rd subparagraph option)	Participating undertaking	Single supervisory report of forward looking assessment of the undertaking's own risks submitted to all supervisory authorities concerned whenever a regular forward looking assessment of the undertaking's own risks is performed	Single supervisory report of forward looking assessment of the undertaking's own risks submitted to all supervisory authorities concerned whenever a non-regular forward looking assessment of the undertaking's own risks is performed

- 3.81. It is not necessary that all individual undertakings within the group are in the scope of the single forward looking assessment of the undertaking's own risks document. However, if the group applies for a single forward looking assessment of the undertaking's own risks document all relevant members in the college given the scope of the application should be involved in the decision as set out in the guideline.
- 3.82. After a demand to perform a single forward looking assessment of the undertaking's own risks document from the group, if there is no other decision process in force in the college, and if any member that would otherwise receive an individual forward looking assessment of the undertaking's own risks document disagrees, the group supervisor could authorize the group to perform a single forward looking assessment of the undertaking's own risks document excluding those undertakings above mentioned which should present its own individual forward looking assessment to the respective national supervisor.
- 3.83. Specifically, the following two situations could arise:
- a) The participating undertaking does not apply for a single forward looking assessment of the undertaking's own risks document. In this case, the participating insurance or reinsurance undertaking or the insurance holding company performs the forward looking assessment of the undertaking's own risks at the level of the group and the individual undertaking performs its individual forward looking assessment of the undertaking's own risks .
 - b) The participating insurance or reinsurance undertaking or the insurance holding company opts for a single document for forward looking assessment of the undertaking's own risks. In this case a single supervisory report has to be provided. Nevertheless, compliance with Article 45 of Solvency II needs to be ensured by the subsidiaries concerned. It is required that the document has to be submitted to all supervisory authorities concerned. This applies to the regular report of the forward looking assessment of the undertaking's own risks and to reports following predefined events.
- 3.84. The main findings regarding the forward looking assessment of the undertaking's own risks will be discussed in the College of Supervisors.

Guideline 21 – Assessment of the impact of group specific risks on overall solvency needs

In accordance with Articles 45 and 246 of Solvency II, national competent authorities should ensure that the entity responsible for fulfilling the governance requirements at group level in the group forward looking assessment of the undertaking's own risks adequately identifies, measures, monitors, manages and reports the impact of all group specific risks and interdependencies within the group as well as,

and the impact of these risks and interdependencies on the overall solvency needs, taking into consideration the specificities of the group and the fact that some risks may be scaled up at the level of the group.

- 3.85. The group forward looking assessment of the undertaking's own risks identifies the impact on the group solvency and related undertakings arising from all material risks that the group is facing. In addition to the risks considered in the SCR calculation, all material risks including group specific risks, and particularly risks that are not quantifiable, have to be taken into consideration.
- 3.86. The group forward looking assessment of the undertaking's own risks describes the interrelationships between the risks of the participating insurance or reinsurance undertaking or the insurance holding company and of the individual undertakings.
- 3.87. The group forward looking assessment of the undertaking's own risks also assesses the materiality of risks that arise at the level of the group and are specific for groups and thus cannot be identified at the individual level. Hence, those group specific risks are not taken into account in the consolidation or aggregation process depending on the calculation method used.
- 3.88. The group specific risks include for example:
- a) contagion risk, for example spill-over effect of risks that have manifested in other parts of the group;
 - b) risks arising from intra-group transactions and risk concentration, notably in relation to:
 - (i) participations;
 - (ii) intra-group reinsurance or internal reinsurance;
 - (iii) intra-group loans;
 - (iv) intra-group outsourcing; and
 - c) operational risks arising from the complexity of the group structure.
 - d) risks arising from the complexity of the group structure.
- 3.89. In addition to the information required in [1.23 Guideline 7] at the group level, the group forward looking assessment of the undertaking's own risks document includes:
- a) a description of the materiality of each related entity at the group level, particularly the contribution of each related entity to the overall group risk profile;
 - b) the outcome of the comparison between the group overall solvency needs and the sum of the solo overall solvency needs; and

- c) the assessment of any diversification effects assumed at the group level.
- 3.90. A group specific component of the group forward looking assessment of the undertaking's own risks is the analysis of diversification effects assumed at group level. This includes the analysis of the reasonableness of the diversification effects assumed at the group level compared to the risk profile of the group and the overall solvency needs of the group.

Guideline 22 - General rule for group forward looking assessment of the undertaking's own risks

In accordance with Articles 45 and 246 of Solvency II and in accordance with Guideline 7 on policy for the forward looking assessment of the undertaking's own risks, national competent authorities should ensure that the entity responsible for fulfilling the governance requirements at group level includes in the record of the group forward looking assessment of the undertaking's own risks at least a description on how the following factors were taken into consideration:

- a) The identification of the sources of own funds within the group if there is a need for additional new own funds;**
- b) the assessment of availability, transferability or fungibility of own funds;**
- c) references to any planned transfer of own funds within the group, which would have a material impact on any entity of the group, and its consequences;**
- d) alignment of individual strategies with the ones established at the level of the group; and**
- e) specific risks the group could be exposed to.**

- 3.91. From a quantitative perspective, it is expected that the group forward looking assessment of the undertaking's own risks policy outlines different stress tests and scenario analyses.

Guideline 23 - Specific requirements for a single forward looking assessment of the undertaking's own risks

In accordance with Articles 45 and 246 of Solvency II, national competent authorities should ensure that the entity responsible for fulfilling the governance requirements at group level, when applying to submit a single forward looking assessment of the undertaking's own risks document, provides an explanation of how the subsidiaries are covered and how the AMSBs of the subsidiaries are involved in the assessment process and approval of the outcome.

- 3.92. The single forward looking assessment of the undertaking's own risks document needs to reflect the nature, scale and complexity of the

group and the risks within it. The single document focuses on the material parts of the group, but according to Article 246(4) of Solvency II it does not exempt subsidiaries from the obligations relating to the forward looking assessment of the undertaking's own risks at individual level. This means that the single document for forward looking assessment of the undertaking's own risks also has to document the assessments undertaken by insurance and reinsurance subsidiary undertakings at the individual level according to Article 45 of Solvency II.

- 3.93. If a group plans to submit a single group report for the forward looking assessment of the undertaking's own risks, the AMSB of the entity responsible for fulfilling the group requirements needs to take into consideration the following criteria when assessing the appropriateness of submitting a single group document:
- a) the results of each subsidiary concerned are individually identifiable in the structure foreseen for the single document for forward looking assessment of the undertaking's own risks to enable a proper supervisory review process to be carried out at the individual level by the individual supervisors concerned;
 - b) the single report of the forward looking assessment of the undertaking's own risks satisfies the requirements of both the group supervisor as well as the individual supervisors concerned.

Guideline 24 – Internal model users

In accordance with Articles 45 and 246 of Solvency II, national competent authorities should ensure that, in the case of an internal model pre-application, the entity responsible for fulfilling the governance requirements at group level, calculates the group Solvency Capital Requirement under Article 230 or under Article 231 of Solvency II. National competent authorities should ensure that in the group forward looking assessment of the undertaking's own risks the entity responsible for fulfilling the governance requirements at group level reports the related undertakings within the scope of the group, which would not use the internal model for the group to calculate their Solvency Capital Requirement and the reasons for this.

Guideline 25 – Integration of related third-country insurance and re-insurance undertakings

In accordance with Articles 45 and 246 of Solvency II, national competent authorities should ensure that the entity responsible for fulfilling the governance requirements at group level assesses in the group forward looking assessment of the undertaking's own risks the risks of the business in third countries in the same manner as it does for EEA-business with special attention to the assessment of

transferability and fungibility of capital.
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3.94. The business of these third-country undertakings is assessed taking into account the following:

- a) Both where the solvency regime of a third country has been deemed to be equivalent to the one set by Solvency II and where it has not , the group should carry out the assessment of the overall solvency needs set out in Article 45(1)(a) in the same manner as for EEA undertakings. The integration of the risks of third-country undertakings with the risks of EEA undertakings in the group should guarantee that similar risks are homogeneously assessed from an economic point of view;
- b) Both where the solvency regime of a third country has been deemed to be equivalent to in the one set by Solvency II and where it has not , the group needs to assess particularly the transferability and fungibility of the third-country undertaking own funds. The assessment explicitly identifies the regulation of the third country that may hinder or impede the full fungibility and transferability of the own funds of the subsidiaries of such third country towards any other undertaking of the group;
- c) If a third-country entity is included in the group solvency assessment using local rules and the deduction and aggregation method (in case of equivalence), the assessment of the significance with which the risk profile of the subsidiary of that third country deviates from the assumptions underlying the solvency capital requirement, as set out in Article 45(1)(c) of Solvency II, shall refer to the capital requirements as laid down in the regulations of that third country. This assessment has to be carried out both at a holistic level and at a more granular level, for which the group assesses the specific deviations of each material element of the calculation of the capital requirement.

3.95. The group forward looking assessment of the undertaking's own risks includes a separate and adequate disclosure of any material information concerning third-country undertakings.