

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:	Insurance and Reinsurance Stakeholder Group (IRSG)	
Disclosure 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"> ⇒ <u>Do not change the numbering</u> 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-13-011@eiopa.europa.eu. Our IT tool does not allow processing of any other formats.</p>		
Reference	Comment	Resolution
General Comment	We understand the guidelines as the requirement for NCAs to start reviewing undertakings readiness according to the guidelines from 1/1/2014. We do not understand it as a requirement for undertakings to be able to demonstrate compliance with internal model approval criteria at this date. It should be recognized that undertakings plan a staged progress towards compliance up to formal application date. We would welcome a statement in the guidelines regarding this review process where undertakings and NCA should provide joint	

Comments Template on Consultation Paper on Proposal for Guidelines on Pre-application for Internal Models		Deadline 19 June 2013 12:00 CET
	realistic agenda towards compliance and demonstrate progress over the time, supported by formal NCAs reports summarising their findings and concerns along the review process.	
Introduction. General Comment		
1.1.		
1.2.		
1.3.		
1.4.		
1.5.		
1.6.		
1.7.		
1.8.		
1.9.		
1.10.		
1.11.		
1.12.		
1.13.		

Comments Template on Consultation Paper on Proposal for Guidelines on Pre-application for Internal Models		Deadline 19 June 2013 12:00 CET
1.14.		
1.15.		
1.16.		
Section I. General Comments		
1.17.		
1.18.		
1.19.	Point b) of such guidance requires undertakings to “prepare for the eventuality that its internal model may not be approved and set up processes to calculate the standard formula Solvency Capital Requirement as well as to consider the capital planning implications”. There is no obligation to share standard formula outcomes. However, some supervisors have expressed a preference for SCRs determined using internal models to deviate only to limited extent from SCRs determined using the standard formula. Accordingly, NCAs might also be asked to report on whether they have, or intend to, establish such tolerances.	
1.20.		
Section II. General Comments		
Chapter 1. General Comments		

Comments Template on Consultation Paper on Proposal for Guidelines on Pre-application for Internal Models		Deadline 19 June 2013 12:00 CET
1.21.		
1.22.		
1.23.		
1.24.		
1.25.		
Chapter 2. General Comments	The Guidelines 1.32., 1.33 and 1.34 describe the process for group internal model under Article 231, and do not apply to an internal model that is only used for the consolidated group (Article 230). As the situation of NCAs involved (but not concerned) is similar in both situations, these guidelines should only be directed to NCAs concerned. We propose to change “national competent authorities <u>involved</u> ” to “national competent authorities <u>concerned</u> ”	
1.26.		
1.27.	“Material” is defined in the final bullet point of 1.15. Could Guideline 6 refer instead to this defined term rather than “major”?	
1.28.		
1.29.		
1.30.		
1.31.		
1.32.		

Comments Template on Consultation Paper on Proposal for Guidelines on Pre-application for Internal Models		Deadline 19 June 2013 12:00 CET
1.33.		
1.34.		
Chapter 3. General Comments	<p>A number of guidelines around meeting the Use Test requirements require NCA's to consider a number of factors which themselves are not specific requirements of the Level 1 or 2 Text. In particular, Guideline 11 (Fit to the Business) sets out a number of factors to be considered to determine how well the Model fits the business. Firms should be allowed to provide as much information as necessary to prove the fit of the model to the business subject to materiality and proportionality.</p> <p>Although it is appropriate to expect evidence around the internal model output being used to inform decisions it is clear that the internal model is not the only tool used to make decisions in the business. Other (non-Internal Model) indicators may be more material and appropriate in the decision so the justification of such decisions being aligned with the internal model should not be part of the requirements. Furthermore the retrospective verification of such decisions according to what internal model outputs is also not practical.</p> <p>This issue also relates to the requirement around identifying inconsistencies and considering them to improve the internal model. The internal model should not be used as a "reconciliation" tool.</p>	

Comments Template on Consultation Paper on Proposal for Guidelines on Pre-application for Internal Models		Deadline 19 June 2013 12:00 CET
1.35.	We suggest a possible addition to 1.35(d) «how the model supports <u>strategic and tactical</u> decision-making>>. Possible new 1.35(e) “how the model is reflected in the undertaking’s performance reporting”	
1.36.		
1.37.		
1.38.	We suggest deleting point f. other relevant ones as this doesn’t provide guidance. Re “Fit to the business”. An additional factor could be “The undertaking’s key risks”	
1.39.	An additional paragraph similar to 1.39 could be added: “Through the pre-application process national competent authorities should form a view on how the insurance or reinsurance undertaking ensures understanding of the internal model by its external stakeholders.”	
1.40.		
1.41.		
1.42.		
1.43.	We welcome the comment in the explanatory text that “National competent authorities consider that the internal model is not the only tool used to make decisions in the business, and it is expected that an undertaking has a number of tools used to support decisions made within the business. » However we do not understand what the requirement for identifying inconsistencies and consider	

Comments Template on Consultation Paper on Proposal for Guidelines on Pre-application for Internal Models		Deadline 19 June 2013 12:00 CET
	them to improve the internal model would mean in practice. Different frameworks exist with different objectives, assumptions, models, and the undertakings and the management know them. The internal model cannot be a “reconciliation” tool.	
1.44.	<p>Decision-making processes are using different tools/measures providing different views to fully inform decisions and then cannot rely on a single source/model of information.</p> <p>Then as the business decisions cannot be based only on internal model outputs, either justification or retrospective verification of such decisions according to what internal model outputs are saying is relevant.</p> <p>However, we agree that is essential to perform regular verification–e.g. through the P&L attribution- to ensure the internal model is appropriate to the business profile and therefore to feed decision-making processes</p> <p>If this is what is meant by „retrospective verification“, as reflected in the explanatory text, then we suggest clearly stated it in the Guideline to avoid inadequate interpretation.</p>	
1.45.	We agree that evidence should be provided about the fact that internal model output was used to inform decisions. However, since business decisions are not only based on internal model outputs and sometimes, other indicators may be more material in the decision, justification of such decisions alignment with the internal model should not be part of the requirements.	
1.46.	We agree that evidence should be provided about the fact that internal model	

Comments Template on Consultation Paper on Proposal for Guidelines on Pre-application for Internal Models		Deadline 19 June 2013 12:00 CET
	output was used to inform decisions. However, since business decisions are not only based on internal model outputs and sometimes, other indicators may be more material in the decision, justification of such decisions alignment with the internal model should not be part of the requirements.	
1.47.		
1.48.		
1.49.		
1.50.		
1.51.	This Guideline describes the process for group internal model under Article 231, and does not apply to an internal model that is only used for the consolidated group (Article 230). As the situation of NCAs involved (but not concerned) is similar in both situations, this guideline should only be directed to NCAs concerned. We propose to change “national competent authorities <u>involved</u> ” to “national competent authorities <u>concerned</u> ”	
1.52.	See comment under 1.51	
1.53.	See comment under 1.51	
Chapter 4. General Comments	Internal models typically depend on several hundred-model assumptions. There needs to be a greater emphasis on NCA’s review on material assumptions for the various aspects of the Guidelines in Chapter 5.	

**Comments Template on
Consultation Paper on Proposal for Guidelines on Pre-application for Internal
Models**

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

	<p>The guidelines ask for formal documented feedback between providers of material expert judgement & assumptions, and users. In practice there may be many users of particular assumptions so it may not be feasible to have a formal sign off between all parties. It may be more appropriate for the guidance to include a statement that indicates that a committee with appropriate representation from Users are able to provide sign-off on their behalf.</p> <p>We consider that the requirements under Guidelines 22 and 23 are not enforceable from an operational point of view. We agree it is important to document and validate formally key material assumptions but guidelines 22 and 23 is too demanding and would distract knowledgeable resources from ensuring quality and adequacy of assumptions to an administrative documentation exercise.</p>	
1.54.		
1.55.		
1.56.	Guideline 19: A new paragraph might be added: “National competent authorities should form a view on how the undertaking assesses sovereign credit risk”.	
1.57.	It is important to note that an internal model could have several hundreds model assumptions. We propose to amend the text to focus on material assumptions setting and not all assumptions setting.	
1.58.		

**Comments Template on
Consultation Paper on Proposal for Guidelines on Pre-application for Internal
Models**

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

1.59.	Assumptions should be subject to appropriate senior management validation. However this could and would be perfectly reached through a dedicated Assumption committee or equivalent where CFO, CRO and other senior executives are members and provide sign off with the opportunity of a real challenge that in some extent could not be reached through a full Executive Committee. So in order to focus of what is to be achieved and not on how to achieve it, we propose to delete the text <u>“up to and including the administrative, management or supervisory body.”</u>	
1.60.		
1.61.		
1.62.		
1.63.		
1.64.		
1.65.	This paragraph is quite difficult to read. We appreciate the fact that documentation requirements regarding assumptions are based on materiality of the assumptions. Consistently we recommend to add the text “... disregarding other alternatives when appropriate ”	
1.66.		
1.67.		

Comments Template on Consultation Paper on Proposal for Guidelines on Pre-application for Internal Models		Deadline 19 June 2013 12:00 CET
1.68.		
1.69.		
1.70.		
1.71.		
1.72.		
Chapter 5. General Comments	<p>There are a number of requirements in this chapter that appear to be overly prescriptive and onerous.</p> <p>The Level 2 Requirements states “The methods used to calculate the probability distribution forecast are consistent with the methods used for the valuation of assets and liabilities according to Articles 75 to 86 of Directive 2009/138/EC.”</p> <p>The Guidance around the consistency of methodology covers 3 particular aspects (in depth in the explanatory text):</p> <ul style="list-style-type: none"> • Consistency at various points of the calculation (transformation, t=0, 1 and projections) • Aspects of consistency that need to be considered (Methods, Data and Assumptions) • Consistency Assessment (quantitative assessments in isolation and combination and setting criteria) 	

**Comments Template on
Consultation Paper on Proposal for Guidelines on Pre-application for Internal
Models**

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

Firms should be allowed to provide as much information as necessary to prove the IM methodology is consistent with the valuation of the assets and liabilities subject to materiality and proportionality.

There is also an area of inconsistency between the Level 1 and 2 Text and the Guidance. Consistency Assessment has not been included in previous drafts of the Level 1 and 2 Text as a “Validation Tool”. Clarification is needed around its importance relative to the other validation tools (e.g. stress and scenario testing, Sensitivity testing, P&L Attribution etc.).

1.73.

1.74.

1.75.

1.76.

1.77.

1.78.

1.79.

1.80.

Comments Template on Consultation Paper on Proposal for Guidelines on Pre-application for Internal Models		Deadline 19 June 2013 12:00 CET
Chapter 6. General Comments	The main concept of this chapter is around the richness of the PDF. The guideline leads to NAC's forming a view on how firm's avoid "over-richness" of the PDF whilst ensuring that it appropriately reflects the risk profile. It is unclear when a PDF is not rich enough or unduly rich and what measures (quantitative or qualitative) maybe used.	
1.81.		
1.82.		
1.83.		
1.84.		
1.85.		
1.86.		
1.87.		
1.88.		
1.89.		
1.90.		
Chapter 7. General Comments		
1.91.		

Comments Template on Consultation Paper on Proposal for Guidelines on Pre-application for Internal Models		Deadline 19 June 2013 12:00 CET
1.92.		
1.93.		
1.94.		
1.95.		
1.96.		
1.97.		
1.98.		
1.99.		
1.100.		
1.101.		
Chapter 8. General Comments		
1.102.		
1.103.		
1.104.		
1.105.		
1.106.		

Comments Template on Consultation Paper on Proposal for Guidelines on Pre-application for Internal Models		Deadline 19 June 2013 12:00 CET
1.107.	<p>Guidance 39 is unclear in itself on what is required. The (supporting) explanatory text provides additional information on how P&L attribution should meet Use test (support Decision making, risk management etc.). However, it is unclear how this would directly relate to “model” approval process as the guideline relates to using the results of P&L attribution to meet Use Test.</p> <p>As stated by guideline 40, P&L attribution is a key validation tool and as such is part of the risk management system. Including P&L attribution in the use test introduces a loop and confusion.</p>	
1.108.		
Chapter 9. General Comments		
1.109.		
1.110.		
1.111.		
1.112.		
1.113.		
1.114.		
1.115.		

**Comments Template on
Consultation Paper on Proposal for Guidelines on Pre-application for Internal
Models**

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

1.116.

1.117.

1.118.

1.119.

1.120.

1.121.

1.122.

1.123.

1.124.

1.125.

1.126.

1.127.

1.128.

1.129.

1.130.

1.131.

1.132.

Comments Template on Consultation Paper on Proposal for Guidelines on Pre-application for Internal Models		Deadline 19 June 2013 12:00 CET
1.133.		
1.134.		
1.135.		
1.136.		
1.137.		
1.138.		
1.139.		
1.140.		
1.141.		
Chapter 10. General Comments		
1.142.		
1.143.		
1.144.		
1.145.		
1.146.		
1.147.	This guideline introduces a new requirement for documentation. We	

Comments Template on Consultation Paper on Proposal for Guidelines on Pre-application for Internal Models		Deadline 19 June 2013 12:00 CET
	acknowledged it is important to document shortcomings of the internal model but the detail required under guideline 55 is not consistent with the purpose of having “an overall summary”. Summary is provided in the ORSA report. The guideline is too prescriptive.	
1.148.		
1.149.		
1.150.	This guideline introduces a new requirement for documentation. An internal model is made of several components, which have their own methodology, architecture and governance. The existence of documentation ensuring the capacity for a knowledgeable party to operate and run the components is important. But the concept of a user manual is not adequate. We suggest amending the text “ ...the insurance or reinsurance undertaking puts in place user manuals for operation of the different components of the internal model. ”	
1.151.		
1.152.		
1.153.		
Chapter 11. General Comments		
1.154.		

**Comments Template on
Consultation Paper on Proposal for Guidelines on Pre-application for Internal
Models**

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

1.155.

1.156.

1.157.

1.158.

1.159.

1.160.

1.161.

1.162.

1.163.

1.164.

1.165.

1.166.

1.167.

1.168.

1.169.

1.170.

1.171.

Comments Template on Consultation Paper on Proposal for Guidelines on Pre-application for Internal Models		Deadline 19 June 2013 12:00 CET
1.172.		
1.173.		
1.174.		
1.175.		
1.176.		
Chapter 12. General Comments		
1.177.		
1.178.		
1.179.		
1.180.		
1.181.		
1.182.		
1.183.		
1.184.		
1.185.		
1.186.		

Comments Template on Consultation Paper on Proposal for Guidelines on Pre-application for Internal Models		Deadline 19 June 2013 12:00 CET
1.187.		
1.188.		
1.189.		
1.190.		
1.191.		
1.192.		
1.193.		
1.194.		
1.195.		
1.196.		
1.197.		
1.198.		
1.199.		
Compliance and Reporting Rules		
1.200.		
1.201.		

Comments Template on Consultation Paper on Proposal for Guidelines on Pre-application for Internal Models		Deadline 19 June 2013 12:00 CET
1.202.		
1.203.		
Impact Assessment – General Comments		
2.1.		
2.2.		
2.3.		
2.4.		
2.5.		
2.6.		
2.7.		
2.8.		
2.9.		
2.10.		
2.11.		
2.12.		

**Comments Template on
Consultation Paper on Proposal for Guidelines on Pre-application for Internal
Models**

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

2.13.

2.14.

2.15.

2.16.

2.17.

2.18.

2.19.

2.20.

2.21.

2.22.

2.23.

2.24.

2.25.

2.26.

2.27.

2.28.

2.29.

**Comments Template on
Consultation Paper on Proposal for Guidelines on Pre-application for Internal
Models**

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

2.30.

2.31.

2.32.

2.33.

2.34.

2.35.

2.36.

2.37.

2.38.

2.39.

2.40.

2.41.

2.42.

2.43.

2.44.

2.45.

2.46.

**Comments Template on
Consultation Paper on Proposal for Guidelines on Pre-application for Internal
Models**

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

2.47.

2.48.

2.49.

2.50.

2.51.

2.52.

2.53.

2.54.

2.55.

2.56.

2.57.

2.58.

2.59.

2.60.

2.61.

2.62.

2.63.

**Comments Template on
Consultation Paper on Proposal for Guidelines on Pre-application for Internal
Models**

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

2.64.

2.65.

2.66.

2.67.

2.68.

2.69.

2.70.

2.71.

2.72.

2.73.

2.74.

2.75.

2.76.

2.77.

2.78.

2.79.

2.80.

**Comments Template on
Consultation Paper on Proposal for Guidelines on Pre-application for Internal
Models**

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

2.81.

2.82.

2.83.

2.84.

2.85.

2.86.

2.87.

2.88.

2.89.

2.90.

2.91.

2.92.

2.93.

2.94.

2.95.

2.96.

2.97.

**Comments Template on
Consultation Paper on Proposal for Guidelines on Pre-application for Internal
Models**

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

2.98.

2.99.

2.100.

2.101.

2.102.

2.103.

2.104.

2.105.

2.106.

2.107.

2.108.

2.109.

2.110.

2.111.

2.112.

2.113.

2.114.

**Comments Template on
Consultation Paper on Proposal for Guidelines on Pre-application for Internal
Models**

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

2.115.

2.116.

2.117.

2.118.

2.119.

2.120.

2.121.

2.122.

2.123.

2.124.

2.125.

2.126.

2.127.

2.128.

2.129.

2.130.

2.131.

Comments Template on Consultation Paper on Proposal for Guidelines on Pre-application for Internal Models		Deadline 19 June 2013 12:00 CET
2.132.		
2.133.		
2.134.		
2.135.		