EIOPA-BoS-14/259

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Final Report on Public Consultation No. 14/017 on Guidelines on own risk and solvency assessment

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1. Executive summary

Introduction

According to Article 16 of Regulation (EU) No 1094/2010 (hereinafter "EIOPA Regulation") EIOPA may issue Guidelines addressed to competent authorities or financial institutions.

EIOPA shall, where appropriate, conduct open public consultations and analyse the potential costs and benefits. In addition, EIOPA shall request the opinion of the Insurance and Reinsurance Stakeholder Group (hereinafter "IRSG") referred to in Article 37 of the EIOPA Regulation.

According to Article 45 of Directive 2009/138/EC[1] (hereinafter "Solvency II") and according to Article 262 and 306 of Commission Delegated Regulation (EU) No 2015/35 ("Commission Delegated Regulation 2015/35")[2], EIOPA has developed guidelines on own risk and solvency assessment.

As a result of the above, on 2 June 2014 EIOPA launched a public consultation on the draft Guidelines on own risk and solvency assessment. The Consultation Paper is also published on EIOPA's website[3].

These Guidelines are addressed to competent authorities to:

- provide for a sound and prudent risk management of undertakings through a better understanding of the undertaking's overall solvency needs and capital allocation as well as the interrelation between risk and capital management in a forward looking perspective;
- provide an additional perspective on solvency assessment by assessing the undertaking's risk profile against the assumptions underlying the calculation of its regulatory capital requirements with a view to checking whether the risk profile is adequately covered by the Solvency Capital Requirement.

Content

This Final Report includes the feedback statement to the Consultation Paper (EIOPA-CP-14/017) and the Guidelines. The Impact Assessment and the resolution of comments are published on EIOPA's website.

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[1] OJ L 335, 17.12.2009, p. 1.
[2] OJ L 12, 17.01.2015, p. 1.
[3] https://eiopa.europa.eu/Pages/Consultations/Public-consultation-on-the-Set-1-of-the-Solvency-II-Guidelines.aspx

Next steps

In accordance with Article 16 of the EIOPA Regulation, within 2 months of the issuance of these Guidelines, each competent authority shall confirm if it complies or intends to comply with these Guidelines. In the event that a competent authority does not comply or does not intend to comply, it shall inform EIOPA, stating the reasons for non-compliance.

EIOPA will publish the fact that a competent authority does not comply or does not intend to comply with these Guidelines. The reasons for non-compliance may also be decided on a case-by-case basis to be published by EIOPA. The competent authority will receive advanced notice of such publication.

EIOPA will, in its annual report, inform the European Parliament, the Council and the European Commission of the Guidelines issued, stating which competent authority has not complied with them, and outlining how EIOPA intends to ensure that concerned competent authorities follow its Guidelines in the future.

2. Feedback statement

Introduction

EIOPA would like to thank the IRSG and all the participants to the public consultation for their comments on the draft Guidelines. The responses received have provided important feedback to EIOPA in preparing a final version of these Guidelines. All of the comments made were given careful consideration by EIOPA. A summary of the main comments received and EIOPA's response to them can be found in the sections below. The full list of all the comments provided and EIOPA's responses to them is published on EIOPA's website.

2.1. Requirements in excess of the requirements of Solvency II and the Commission Delegated Regulation 2015/35

a. Stakeholders maintain the opinion that the documentation, stress/scenario testing, assessment requirements as well as requirements on valuation and recognition based on the assessment of the significance of the deviation as set out in the Guidelines were not prescribed by Union law.

b. This is basically the same problem as with excessive granularity. Several consequences of requirements do not follow explicitly from the requirements themselves or can only be recognized by taking a holistic view, i.e. not all requirements for the ORSA follow from Article 45 of Solvency II or the corresponding articles in the Commission Delegated Regulation 2015/35. Appropriate documentation is a central feature of the general governance requirements which extend to ORSA as part of the risk management system. While undertakings are in principle free to choose their own assessment methods in the ORSA, these methods have to be proportionate and appropriate to the purpose of the ORSA. Undertakings cannot plan for possible future developments unless they analyse possible scenarios and they cannot ensure that they are properly prepared if these scenarios do not include highly unfavourable situations. Under the application of the Solvency II requirements, it makes sense to apply Solvency II recognition and valuation bases to the analysis of the undertaking's capital needs. Undertakings may deviate from these rules where the assessment of the overall solvency needs is concerned, but only if they can demonstrate why this renders more appropriate results, not if they just want to avoid the effort that a more Solvency II consistent approach would require.

2.2. Level of granularity

a. Stakeholders criticise a number of the Guidelines for providing a level of granularity in excess of the requirements of Solvency II and the Commission Delegated Regulation 2015/35.

b. In a principles-based system such as Solvency II, the requirements are generally not very granular; this is exactly the nature of a principles-based approach. Any granularity is only a consideration when the requirements as set out are being interpreted and analysed in order to meet full compliance. Thus, the Guidelines provide more clarity on what is expected when implementing the relevant articles of Solvency II.

2.3. Proportionality

a. There are stakeholders' concerns that small and medium-sized undertaking could be overburdened by the ORSA requirements. Stakeholders stated that the ORSA should be conducted at a level of materiality and proportionality that was comparable to the undertaking's standard formula or internal model and wanted this expressly included in the Guidelines. It was also requested that the Guidelines should explicitly state that simplifications were allowed in the calculation of the best estimate, Solvency Capital Requirement and the economic balance sheet.

b. EIOPA would like to stress that the appropriate performance of the ORSA will enhance the management of the undertaking and should not be considered as a compliance exercise. It is absolutely necessary that all undertakings, and especially their AMSB, understand their risks and the capital needs following from them. EIOPA wants to ensure that the requirements around the ORSA allow for the appropriate application of the principle of proportionality. It is not the intention that the Guidelines are applied in a way that would result in the assessment of overall solvency needs being rendered more complex than the calculation of the SCR according to the standard formula or an internal model for small and medium-sized undertakings that lack complexity in their risk profile. However, as a general statement for all undertakings it would not be true to refer to the standard formula or an internal model as a cut off level for materiality and proportionality. Regarding simplifications, it is of course recognised that simplifications that are allowed concerning Pillar I quantitative requirements also apply – where the conditions for using them are met – in the performance of the ORSA.

2.4. Single ORSA document

a. Stakeholders propose that the criteria to allow the group to perform a single ORSA document should be more detailed.

b. EIOPA agrees that the group should, when requesting the authorization to perform a single ORSA document, provide the group supervisor with relevant information. This information needs to explain for example how the individual assessments of entities that are included in the single ORSA are covered and addressed and how the AMSBs of these respective entities are involved in the process through to the production of the single ORSA document. The Guideline has been redrafted to provide more clarity in this context and also that of college involvement during the authorisation of the single ORSA document.

General nature of participants to the Public Consultation

EIOPA received comments from the IRSG and nineteen responses from other stakeholders to the public consultation. All the comments received have been published on EIOPA's website.

Respondents can be classified into four main categories: European trade, insurance, or actuarial associations; national insurance or actuarial associations; (re)insurance groups or undertakings; and other parties such as consultants and lawyers.

IRSG opinion

The IRSG opinion on the draft set 1 of the Solvency II Guidelines on Pillar 1 and Internal Models, as well as the particular comments on the Guidelines at hand, can be consulted on EIOPA's website[4].

Comments on the Impact Assessment

A separate Consultation Paper was prepared covering the Impact Assessment for the Set 1 of EIOPA Solvency II Guidelines. Where the need for reviewing the Impact Assessment has arisen following comments on the Guidelines, the Impact Assessment Report has been revised accordingly.

The revised Impact Assessment on the Set 1 of EIOPA Solvency II Guidelines can be consulted on EIOPA's website.

[4] https://eiopa.europa.eu/about-eiopa/organisation/stakeholder-groups/opinions-feedback-from-the-eiopa-stakeholder-groups

Annex I: Guidelines

1. Guidelines on own risk and solvency assessment

Introduction

1.1. According to Article 16 of Regulation (EU) No. 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (hereinafter "EIOPA Regulation")[5], EIOPA issues these Guidelines addressed to the supervisory authorities on how to proceed with the application of Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of insurance and reinsurance (hereinafter "Solvency II")[6].

1.2. These Guidelines are based on Articles 41, 44, 45 and Article 246 of Solvency II and on Articles 262 and 306 of Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC (hereinafter "Commission Delegated Regulation 2015/35")[7].

1.3. Supervisory authorities are expected to ensure that undertakings take a forward looking view on the risks to which they are exposed.

1.4. The Guidelines focus on what is to be achieved by the own risk and solvency assessment (hereinafter "ORSA"), rather than on how it is to be performed. For example, since the assessment of overall solvency needs represents the undertaking's own view of its risk profile, and the capital and other means needed to address these risks, the undertaking should decide for itself how to perform this assessment given the nature, scale and complexity of the risks inherent in its business.

1.5. EIOPA acknowledges and supports the developments and achievements on a global scale and national level outside the European Union with regard to setting standards for ORSA with a forward looking perspective. However, EIOPA does not expect that supervisory authorities in third countries apply these Guidelines. Nevertheless, the Guidelines are subject to equivalence analysis. When referring to group structures or group level, the Guidelines apply to European Economic Area (hereinafter "EEA") groups only. The Guidelines apply to branches established within the European Union and belonging to insurance or reinsurance undertakings with their head office situated in their countries and performing business referred to in the first subparagraph of Article 2(1) of Solvency II.

1.6. It is crucial that the administrative, management or supervisory body (hereinafter "AMSB") of the undertaking is aware of all material risks the undertaking faces, regardless of whether the risks are captured by the Solvency Capital Requirement (hereinafter "SCR") calculation and whether they are quantifiable or not. It is also vital that the AMSB takes an active role in the ORSA by directing the process and challenging the outcome.

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[5] OJ L 331, 15.12.2010, p. 48–83.
[6] OJ L 335, 17.12.2009, p.1-155.
[7] OJ L 12, 17.01.2015, p. 1.

1.7. In case a group wishes to apply for the undertaking of the ORSA pursuant to the third subparagraph of Article 245(4) of Solvency II, this requires a high level of consistency in processes across the group.

1.8. These Guidelines apply to both individual undertakings and at the level of the group. Additionally, these Guidelines address issues relevant to the group specificities of the ORSA, in particular on account of specific risks to the group or risks that could be less relevant at individual level than at group level.

1.9. The relevant Guidelines for individual undertakings apply mutatis mutandis to the group ORSA. Additionally, groups need to take into consideration the group specific Guidelines.

1.10. For the purpose of these Guidelines, the following definitions have been developed:

- 'group level' means a coherent economic entity (holistic view) comprising all entities that are part of the group as referred to in the EIOPA's Guidelines on the system of governance;
- 'group ORSA' means the ORSA undertaken at group level;
- 'single ORSA document' means a single document (supervisory report of the ORSA) which covers ORSA undertaken at the level of the group and at the level of some subsidiaries in the group on the same reference date and period, subject to supervisory approval, as referred to in the third subparagraph of Article 246(4) of Solvency II.

1.11. If not defined in these Guidelines, the terms have the meaning defined in the legal acts referred to in the introduction.

1.12. The Guidelines shall apply from 1 January 2016.

Guideline 1 – General approach

1.13. The undertaking should develop for the ORSA its own processes with appropriate and adequate techniques, tailored to fit into its organisational structure and risk-management system and taking into consideration the nature, scale and complexity of the risks inherent to the business.

Guideline 2 – Role of the AMSB: top-down approach

1.14. The AMSB should take an active part in the ORSA, including steering, how the assessment is to be performed and challenging the results.

Guideline 3 – Documentation

1.15. The undertaking should have at least the following documentation on the ORSA:

a) the policy for the ORSA;

b) record of each ORSA;

c) an internal report on each ORSA;

d) a supervisory report of the ORSA.

Guideline 4 – Policy for the ORSA

1.16. The AMSB of the undertaking should approve the policy for the ORSA. This policy should include at least a description of:

a) the processes and procedures in place to conduct the ORSA;

b) the link between the risk profile, the approved risk tolerance limits and the overall solvency needs;

c) the methods and methodologies including information on:

(i) how and how often stress tests, sensitivity analyses, reverse stress tests or other relevant analyses are to be performed;

(ii) data quality standards;

(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;

(iv) the timing for the performance of the ORSA and the circumstances which would trigger the need for an ORSA outside of the regular time-scales.

Guideline 5 – Record of each ORSA

1.17. The undertaking should evidence and document each ORSA and its outcome.

Guideline 6 – Internal reporting on the ORSA

1.18. The undertaking should communicate to all relevant staff at least the results and conclusions of the ORSA, once the process and the results have been approved by the AMSB.

Guideline 7 – Assessment of the overall solvency needs

1.19. The undertaking should provide a quantification of the capital needs and a description of other means needed to address all material risks irrespective of whether the risks are quantifiable or not.

1.20. Where appropriate, the undertaking should subject the identified material risks to a sufficiently wide range of stress tests or scenario analyses in order to provide an adequate basis for the assessment of the overall solvency needs.

Guideline 8 – Forward-looking perspective of the overall solvency needs assessment

1.21. The undertaking should ensure that its assessment of the overall solvency needs is forward-looking, including a medium term or long term perspective as appropriate.

Guideline 9 – Valuation and recognition bases of the overall solvency needs

1.22. The undertaking should, if it uses recognition and valuation bases that are different from the Solvency II bases in the assessment of its overall solvency needs, explain 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.

1.23. The undertaking should quantitatively estimate the impact on the overall solvency needs assessment of the different recognition and valuation bases in those cases where recognition and valuation bases that are different from the Solvency II bases have been used in the assessment of its overall solvency needs.

Guideline 10 – Continuous compliance with regulatory capital requirements

1.24. The undertaking should analyse whether it complies on a continuous basis with the Solvency II regulatory capital requirements and as part of this assessment it should include at least:

a) the potential future material changes in its risk profile;

b) the quantity and quality of its own funds over the whole of its business planning period;

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.

Guideline 11 – Continuous compliance with technical provisions

1.25. The undertaking should require the actuarial function of the undertaking to:

a) provide input as to whether the undertaking would comply continuously with the requirements regarding the calculation of technical provisions;

b) identify potential risks arising from the uncertainties connected to this calculation.

Guideline 12 – Deviations from assumptions underlying the SCR calculation

1.26. The undertaking should assess whether its risk profile deviates from the assumptions underlying the SCR calculation and whether these deviations are significant. The undertaking may as a first step perform a qualitative analysis and if that indicates that the deviation is not significant, a quantitative assessment is not required.

Guideline 13 – Link to the strategic management process and decision-making framework

1.27. The undertaking should take into account the results of the ORSA and the insights gained during the process of this assessment in at least:

a) its capital management;

b) its business planning;

c) its product development and design.

Guideline 14 – Frequency

1.28. The undertaking should perform the ORSA at least annually.

Guideline 15 – Scope of group ORSA

1.29. The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should design the group ORSA to reflect the nature of the group structure and its risk profile. They should cover in the group ORSA the material risks arising from all the entities that are part of the group.

Guideline 16 – Reporting to the supervisory authorities

1.30. The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should send to the group supervisor the group supervisory ORSA report. The document sent to the group supervisor with the outcome of the group ORSA should be in the same language as the group Regular Supervisory Reporting.

1.31. If a single ORSA document has been performed, the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should ensure that, if requested by a member or a new member of the college, a translation into the official language of that Member State of the part of the ORSA information concerning the related undertaking is provided to the requiring member, in timely manner.

Guideline 17 – Group specificities on overall solvency needs

1.32. The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should adequately assess the impact of all group specific risks and interdependencies within the group and the impact of these risks and interdependencies on the overall solvency needs. They should take into consideration the specificities of the group and the fact that some risks may be scaled up at the level of the group.

1.33. In accordance with Guideline 5 on the record of each ORSA, the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should include in the record of the group

ORSA at least a description on how the following factors were taken into consideration for the assessment of overall solvency needs:

a) the identification of the possible sources of capital within the group and identification of potential needs for additional capital;

b) the assessment of availability, transferability or fungibility of capital;

c) references to any envisaged transfer of capital 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;

e) specific risks the group could be exposed to.

Guideline 18 - Group specificities on the continuous compliance with regulatory capital requirements

1.34. In accordance with Guideline 5 on the record of each ORSA, the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should include in the record of the group ORSA at least a description on how the following factors were taken into consideration for the assessment of continuous compliance with regulatory requirements:

a) the identification of the sources of own funds within the group and if there is a need for additional 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;

e) specific risks the group could be exposed to.

Guideline 19 – Specific requirements for a single ORSA document

1.35. In case of application to undertake the ORSA according to third subparagraph of Article 246(4) of Solvency II , the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should provide to the group supervisor:

a) a list of the undertakings for which the individual assessments required by Article 45 of Solvency II are covered in the single ORSA document including the reason of the choice made;

b) a description of how the governance requirements are met at the level of these undertakings and in particular how the AMSBs of the subsidiaries are involved in the assessment process and approval of the outcome;

c) a description of how the single ORSA document is organised in order to allow the group supervisor to separate individual assessments for the other supervisors in the college;

d) where necessary, a specific indication on required translations, with specific attention to timing and content.

Guideline 20 – Integration of related third-country insurance and re-insurance undertakings

1.36. In the assessment of the group overall solvency needs, the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should include the risks of the business in third countries in a consistent manner as it does for European Economic Area-business with special attention to the assessment of transferability and fungibility of capital.

Compliance and Reporting Rules

1.1. This document contains Guidelines issued under Article 16 of the EIOPA Regulation. In accordance with Article 16(3) of the EIOPA Regulation, competent authorities and financial institutions shall make every effort to comply with guidelines and recommendations.

1.2. Competent authorities that comply or intend to comply with these Guidelines should incorporate them into their regulatory or supervisory framework in an appropriate manner.

1.3. Competent authorities shall confirm to EIOPA whether they comply or intend to comply with these Guidelines, with reasons for non-compliance, within two months after the issuance of the translated versions.

1.4. In the absence of a response by this deadline, competent authorities will be considered as non-compliant to the reporting and reported as such.

Final Provision on Reviews

1.5. The present Guidelines shall be subject to a review by EIOPA.

2. Explanatory text on Guidelines on own risk and solvency assessment

Section 1: General considerations

Guideline 1 – General approach

The undertaking should develop for the ORSA its own processes with appropriate and adequate techniques, tailored to fit into its organisational structure and risk-management system and taking into consideration the nature, scale and complexity of the risks inherent to the business.

2.1. Article 45 of Solvency II requires the undertaking to perform a regular ORSA as part of the risk-management system. The main purpose of the ORSA 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 ORSA is not complied with by producing only a report or by filling templates.

2.2. 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.

2.3. 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.

2.4. 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.

2.5. ORSA 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 (hereinafter "MCR") and the SCR.

2.6. 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.

2.7. The ORSA 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 ORSA.

2.8. 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 of Solvency II.

2.9. 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 ORSA by the undertaking and in the level of granularity of the different analyses to be included in the ORSA.

Guideline 2 – Role of the AMSB: top-down approach

The AMSB should take an active part in the ORSA, including steering, how the assessment is to be performed and challenging the results.

2.10. The ORSA is a very important tool for the AMSB 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.

2.11. 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.

2.12. As part of the ORSA 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.

2.13. Taking into account the insights gained from the ORSA, 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 3 – Documentation

The undertaking should have at least the following documentation on the ORSA:

a) the policy for the ORSA;

b) record of each ORSA;

c) an internal report on each ORSA;

d) a supervisory report of the ORSA.

2.14. 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 4 – Policy for the ORSA

The AMSB of the undertaking should approve the policy for the ORSA. This policy should include at least a description of:

a) the processes and procedures in place to conduct the ORSA;

b) the link between the risk profile, the approved risk tolerance limits and the overall solvency needs;

c) the methods and methodologies including information on:

(i) how and how often stress tests, sensitivity analyses, reverse stress tests or other relevant analyses are to be performed;

(ii) data quality standards;

(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;

(iv) the timing for the performance of the ORSA and the circumstances which would trigger the need for an ORSA outside of the regular time-scales.

2.15. The AMSB ensures that the ORSA is appropriately designed and implemented.

2.16. According to Article 41(3) of Solvency II undertakings are required to have a written policy on risk management. As risk management includes the ORSA, undertakings have to develop a policy for ORSA.

Guideline 5 – Record of each ORSA

The undertaking should evidence and document each ORSA and its outcome.

2.17. The undertaking records the performance of each ORSA 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 qualified third party to evaluate the assessments.

2.18. The record of each ORSA is therefore expected to include:

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 ORSA 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;

f) 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;

g) 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;

h) 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;

i) for undertakings that would use an internal model to calculate the SCR, a description of the changes made to the internal model during application process;

j) 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;

k) a description of what internal and external factors were taken into consideration in the forward-looking perspective;

l) details of any planned relevant management actions, including an explanation and a justification for these actions, and their impact on the assessment;

m) a record of the challenge process performed by the AMSB.

Guideline 6 – Internal reporting on the ORSA

The undertaking should communicate to all relevant staff at least the results and conclusions of the ORSA, once the process and the results have been approved by the AMSB.

2.19. 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 staff to take any necessary follow-up actions.

2.20. The internal report developed by the undertaking could be the basis of the supervisory report of the ORSA. 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 supervisory authority.

Section 2: Specific features regarding the performance of the ORSA

Guideline 7 – Assessment of the overall solvency needs

The undertaking should provide a quantification of the capital needs and a description of other means needed to address all material risks irrespective of whether the risks are quantifiable or not.

Where appropriate, the undertaking should subject the identified material risks to a sufficiently wide range of stress tests or scenario analyses in order to provide an adequate basis for the assessment of the overall solvency needs.

2.21. 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. The undertaking is expected, however, to demonstrate the rationale for the assessment.

2.22. When an undertaking belongs to a group, its ORSA has to consider all group risks that may impact materially the individual entity.

2.23. 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 play a role in the ORSA. Where there is no effective risk transfer this has to be taken into account in the assessment of the overall solvency needs.

2.24. After identifying the material 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.

2.25. 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.

2.26. 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.

2.27. 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.

2.28. 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.

2.29. 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;

g) use a valuation basis that is consistent throughout the overall solvency needs assessment.

2.30. 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.

2.31. As internal model users would be required to develop and carry out, on a regular basis, their own stress tests and scenario analyses and other relevant analysis 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 ORSA. The process for setting the stress and scenarios should be consistent with internal model requirements.

2.32. 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.

2.33. 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 ORSA. Nevertheless, specific explanations need to cover the use of a different recognition or valuation basis in the ORSA to that used in the internal model to calculate the SCR.

Guideline 8 – Forward-looking perspective of the overall solvency needs assessment

The undertaking should ensure that its assessment of the overall solvency needs is forward-looking, including a medium term or long term perspective as appropriate.

2.34. 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 ORSA.

2.35. 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 ORSA in order to enable the undertaking to form an opinion on its overall solvency needs and own funds in a forward looking perspective.

2.36. 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.

2.37. If the undertaking generates a new business plan or revises an existing business plan, these changes need to be reflected in the ORSA 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.

2.38. 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 9 – Valuation and recognition bases of the overall solvency needs

The undertaking should, if it uses recognition and valuation bases that are different from the Solvency II bases in the assessment of its overall solvency needs, explain 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.

The undertaking should quantitatively estimate the impact on the overall solvency needs assessment of the different recognition and valuation bases in those cases where recognition and valuation bases that are different from the Solvency II bases have been used in the assessment of its overall solvency needs.

2.39. 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 10 – Continuous compliance with regulatory capital requirements

The undertaking should analyse whether it complies on a continuous basis with the Solvency II regulatory capital requirements and as part of this assessment it should include at least:

a) the potential future material changes in its risk profile;

b) the quantity and quality of its own funds over the whole of its business planning period;

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.

2.40. 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.

2.41. 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.

2.42. 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.

2.43. 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.

2.44. 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 ORSA. The stress testing scope and frequency has to be proportionate.

2.45. 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.

2.46. 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;

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.

2.47. 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 11 – Continuous compliance with technical provisions

The undertaking should require the actuarial function of the undertaking to:

a) provide input as to whether the undertaking would comply continuously with the requirements regarding the calculation of technical provisions;

b) identify potential risks arising from the uncertainties connected to this calculation.

2.48. 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.

2.49. 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 12 – Deviations from assumptions underlying the SCR calculation

The undertaking should assess whether its risk profile deviates from the assumptions underlying the SCR calculation and whether these deviations are significant. The undertaking may as a first step perform a qualitative analysis and if that indicates that the deviation is not significant, a quantitative assessment is not required.

2.50. 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.

2.51. In order to help standard formula users in the assessment, information on the assumptions on which the SCR calculation is based has been made available to undertakings on EIOPA's website[8].

2.52. 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.

2.53. 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 is expected to include:

a) an analysis of the risk profile and an assessment of the reasons why the standard formula is appropriate, including a ranking of risks;

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[8] https://eiopa.europa.eu/Publications/Standards/EIOPA-14-322_Underlying_Assumptions.pdf#search=underlying%20assumptions

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;

f) an explanation why the nature, scale and complexity of the risks justify any simplifications used;

g) an analysis of how the results of the standard formula are used in the decision making process.

2.54. 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 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.

2.55. 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 ORSA 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 ORSA the undertaking may consider any agreed management actions that could influence the risk profile.

Internal model users

2.56. The undertaking ensures that the internal model plays an important role in the ORSA as set out in Article 120 of Solvency II.

Internal model users – overall solvency needs

2.57. According to Article 120 of Solvency II, as part of the use test, internal models would need to play an important role in the ORSA. 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 ORSA 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;

c) the identification of risks other than those covered by the internal model, which may trigger a change to the internal model.

Guideline 13 – Link to the strategic management process and decision-making framework

The undertaking should take into account the results of the ORSA and the insights gained during the process of this assessment in at least:

a) its capital management;

b) its business planning;

c) its product development and design.

2.58. In deciding on the business strategy, the undertaking has to take into account the output from the ORSA.

2.59. 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 ORSA feeds into the management of the business, in particular into the strategic decisions, operational and management processes.

2.60. The ORSA is required to reflect the business strategy. Hence, when performing the ORSA 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 ORSA before such a decision is taken. This does not necessarily imply a full performance of the ORSA: 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.

2.61. 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 14 – Frequency

The undertaking should perform the ORSA at least annually.

2.62. The ORSA has to be performed on a regular basis and in any case immediately after any significant change in the risk profile of the undertaking.

2.63. The undertaking decides when to perform the regular ORSA 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.

2.64. The ORSA performed after any significant change of the risk profile is called a non-regular ORSA. 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.

2.65. 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.

Section 3: Specificities of the group in the ORSA

Guideline 15 – Scope of group ORSA

The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should design the group ORSA to reflect the nature of the group structure and its risk profile. They should cover in the group ORSA the material risks arising from all the entities that are part of the group.

2.66. The group ORSA 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.

2.67. The participating insurance or reinsurance undertaking or insurance holding company responsible for the group ORSA ensures all necessary information to carry out the group ORSA and that the results are reliable.

2.68. The group ORSA adequately captures the material risks arising from all the entities that are part of the group: insurance and reinsurance undertakings and all other entities that are part of the group.

(Re)insurance undertakings

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

Third-country entities

2.70. Although third-country undertakings are not required to produce an ORSA, the risks arising from them that are material at the level of the group have to be included in the group ORSA.

2.71. 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

2.72. The group ORSA 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 of Solvency II.

Non-regulated entities

2.73. While non-regulated entities are not subject to solo supervision and are not expected to perform an ORSA at the individual level, the risks arising from these entities have to be included in the scope of group ORSA, if they fall within the scope of group supervision.

2.74. 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 aim, 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 ORSA 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 16 – Reporting to the supervisory authorities

The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should send to the group supervisor the group supervisory ORSA report. The document sent to the group supervisor with the outcome of the group ORSA should be in the same language as the group Regular Supervisory Reporting.

If a single ORSA document has been performed, the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should ensure that, if requested by a member or a new member of the college, a translation into the official language of that Member State of the part of the ORSA information concerning the related undertaking is provided to the requiring member, in timely manner.

2.75. The following table summarises the reporting requirements linked to the group ORSA:

		Article 254(2), Article 35(2) (a)(i) of Solvency II and Article 304 of the Commission Delegated Regulation 2015/35	Article 254(2) and Article 35(2) (a)(ii) of Solvency II
Group ORSA (not including the assessment at individual level of the subsidiaries)	Participating undertaking	Group ORSA supervisory report reported to the group supervisor	Group ORSA supervisory report reported to the group supervisor whenever an ORSA is performed
Individual ORSA (at subsidiaries´ individual level)	Subsidiary	Solo supervisory report includes cross references to the group ORSA (supervisory report)	Solo supervisory report includes cross references to the group ORSA (supervisory report).
Single ORSA document covering all the assessments (Article 246(4) 3rd subparagraph option)	Participating undertaking	Single ORSA document submitted to all supervisory authorities concerned whenever a regular ORSA is performed	Single ORSA document submitted to all supervisory authorities concerned whenever a non-regular ORSA is performed

2.76. It is not necessary that all individual undertakings within the group are in the scope of the single ORSA document. However, in case of application to undertake the ORSA according to the third subparagraph of Article 246(4) of Solvency II, all assessments of individual undertakings covered by the scope of the application are covered by the single ORSA document. All relevant members in the college given the scope of the application (supervisory authorities concerned) will be involved in the decision as set out in the Guideline.

2.77. The main findings regarding the ORSA will be discussed in the college of supervisors.

2.78. If a single ORSA has been performed the supervisor authority that is interested for a translation into the official language of that member state of the part of the ORSA information concerning the related undertaking will, when possible, present the request to the group supervisor and to the college, at the moment of the single ORSA authorisation (or at the moment the member joins the college) or with a reasonable period of time prior to the submission of the next ORSA.

Guideline 17 – Group specificities on overall solvency needs

The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should adequately assess the impact of all group specific risks and interdependencies within the group and the impact of these risks and interdependencies on the overall solvency needs. They should take into consideration the specificities of the group and the fact that some risks may be scaled up at the level of the group.

In accordance with Guideline 5 on the record of each ORSA, the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should include in the record of the group ORSA at least a description on how the following factors were taken into consideration for the assessment of overall solvency needs:

a) the identification of the possible sources of capital within the group and identification of potential needs for additional capital;

b) the assessment of availability, transferability or fungibility of capital;

c) references to any envisaged transfer of capital 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;

e) specific risks the group could be exposed to.

2.79. The group ORSA identifies the impact on the group solvency 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.

2.80. The group ORSA describes the interrelationships between the risks of the participating insurance or reinsurance undertaking or the insurance holding company and of the individual undertakings.

2.81. 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 concentrations, notably in relation to:

(i) participations;

(ii) intra-group reinsurance or internal reinsurance;

(iii) intra-group loans;

(iv) intra-group outsourcing;

c) operational risks arising from the complexity of the group structure; d) risks arising from the complexity of the group structure.

2.82. A group specific component of the group ORSA 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. This assessment can be a part of any of the three assessments required in Article 45 (1) (a), (b) and (c) of Solvency II. It can also be presented in a separate part of the group ORSA report.

Guideline 18 - Group specificities on the continuous compliance with regulatory capital requirements

In accordance with Guideline 5 on the record of each ORSA, the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should include in the record of the group ORSA at least a description on how the following factors were taken into consideration for the assessment of continuous compliance with regulatory requirements:

a) the identification of the sources of own funds within the group and if there is a need for additional 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;

e) specific risks the group could be exposed to.

2.83. From a quantitative perspective, it is expected that the group ORSA policy outlines different stress tests and scenario analyses or any other relevant analysis.

Guideline 19 – Specific requirements for a single ORSA document

In case of application to undertake the ORSA according to third subparagraph of Article 246(4) of Solvency II , the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should provide to the group supervisor:

a) a list of the undertakings for which the individual assessments required by Article 45 of Solvency II are covered in the single ORSA document including the reason of the choice made;

b) a description of how the governance requirements are met at the level of these undertakings and in particular how the AMSBs of the subsidiaries are involved in the assessment process and approval of the outcome;

c) a description of how the single ORSA document is organised in order to allow the group supervisor to separate individual assessments for the other supervisors in the college;

d) where necessary, a specific indication on required translations, with specific attention to timing and content.

2.84. The single ORSA 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 ORSA at individual level. This means that the single document for ORSA also has to document the assessments undertaken by insurance and reinsurance subsidiary undertakings at the individual level according to Article 45 of Solvency II.

2.85. If a group plans to submit a single group report for the ORSA, 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 ORSA 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 ORSA satisfies the requirements of both the group supervisor as well as the individual supervisors concerned.