

	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:	Powszechny Zakład Ubezpieczeń Spółka Akcyjna Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
	<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ <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	<p><u>Timeline for the Guidelines Implementation</u></p> <p>The time table for guidelines implementation should to greater degree incorporate proportionality principle and should not force implicitly (indirectly) earlier, de facto implementation of Solvency II requirements like calculation of Pillar II requirements at excessively detailed level generating costs that are not justified by the purpose of guidelines. Requirements of "step-by-step" implementation should not be too burdensome and cannot generate costs not proportionate to the aim of the regulations.</p> <p>Additionally, as we understand, EIOPA intends to publish the guidelines in the areas covered by this</p>	

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	<p>consultation in the autumn of this year. According to Article 16(3) of the EIOPA Regulation NCAs 'shall make every effort to comply' with the guidelines. This means in practice, that NCA and insurance undertakings will have limited time of <u>two months</u>, following issuance of the guidelines (the date of issuance of the guidelines is the date on which the guidelines are published in each of the official EU languages) to confirm whether they comply or intend to comply with the guidelines. It is clear that such confirmation should not be automatic but result from a solid analysis of the proposed requirements vis a vis existing capacities (people, IT, infrastructure, budgets) both in NCA and insurance undertakings. And even if in some cases the answer might be positively confirming readiness to comply in other cases, requiring technical preparation, budgets, project, and people, this will not be possible to implement on proposed date. Hence, taking these arguments into account, we have doubt if it is possible for insurance undertakings to prepare for implement the guidelines from 1 January 2014. In our opinion it would be advisable to spend 2014 for local consultations (i.e. based on intensive, technical dialogue between local regulators and local insurance industry) to better prepare for the implementation of the guidelines. Then, it is more realistic that the guidelines could go live starting January 2015.</p> <p><u>Basis for Guidelines Implementation</u></p> <p>We welcome the view, that EIOPA recognises that in a significant number of member states, the NCA does not have the legal competence to enact the relevant financial legislation and is dependent on the powers bestowed upon it. Additionally, special attention should be paid by NCAs to determine how to comply with EIOPA guidelines by incorporating them into their regulatory or supervisory framework in an appropriate manner, especially if they are less stringent or less precise than local legally binding regulations (e.g. in case of outsourcing; fit & proper requirements). Moreover we support the EIOPA view that the guidelines do not require NCAs to take supervisory action, and <u>in our opinion – it should be clearly stated that no such regulatory actions should be taken</u>, as a result of a failure by undertakings to comply with Solvency II requirements, including the pillar one, two and/or three requirements.</p> <p><u>Role of local NCAs</u></p> <p>In our opinion the role of local NCAs should be significantly stronger. The Solvency II requirements,</p>	

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	<p>especially in the area of internal model, should be based on the specificity of local market and its risks. Local verification of internal models will ensure the application of unified standards of risk assessment on the local market. As the internal models will be used to derive required capital, the local NCA is expected to have a possibility to analyse sufficiency of calculated required capital. The local NCA must have appropriate tools to take supervisory actions in purpose of ensuring the stability of local insurance market. In our opinion such tools should be defined before the introduction of local guidelines.</p> <p><u>Proportionality and Transparency</u></p> <p>A. Documentation Requirements: During the Internal Model pre-application process the main focus should be on appropriateness of applied model rather than on quantity and quality of documentation supporting model implementation process. The NCA should put the main effort on challenging model concept and seek local market standard, not on meeting the formal requirements regarding documentation. The overall effort should then be balanced between quantity of documentation and quality of Internal Model. Otherwise there is a risk that the Internal Model pre-application process shall become the purely bureaucratic process. In our opinion the pre-application is more about making sure that the application is complete than reviewing the model itself. Moreover in our opinion it is of key importance that the local requirements regarding documentation are consistent and unified throughout the whole market especially in the areas which are common to all undertakings. For example in case of Poland the risk connected with the same market-wide stock index is expected to be considered is the same way and, as a result, lead to the same result.</p> <p>B. Transparency: The process of Internal Model pre-application should be transparent for both the NCA and the undertaking taking part in the process. The transparency of process is crucial as the companies must have appropriate knowledge about process flow and requirements. Also the convergence between NCAs from different countries is regarded as critical so the expectations and requirements of NCAs are consistently applied to companies in different countries.</p>	

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	<p><u>Model Changes</u></p> <p>A. Distinction between “major” and “minor” model changes: The qualitative and quantitative criteria of definition of “major” and “minor” model changes must be precise - the clearer principles are expected to be settled by EIOPA. Although this issue has already been raised with EIOPA, it has not been addressed in the proposed guidance. The examples of model changes would be most welcome so the companies could use them as a guidance/benchmark.</p> <p>B. Process of model change approval: The proposal of model changes approval process by NCAs is perceived to be burdensome and may lead to extensive additional work load. The process may increase the risk of not meeting the final reporting deadlines by the undertaking. This is directly connected with the inevitability of precise defining of “major” and “minor” model changes so the process of model changes approval could be applied only to material model changes.</p> <p><u>Assumptions</u></p> <p>A. Expert judgement: The definition of expert judgement is perceived to be very strict – as a result the application of expert judgement is very limited. In our opinion the expert judgement is sometimes the most efficient way to setup assumptions for example when appropriate data are not available.</p> <p>B. Assumptions setting process: Process of calibrating the model assumptions is assessed to be significantly time and resource consuming. The quality of input data required may seem to be unrealistic. Together with limited expert judgement the assumptions calibration process is expected to bring bulk of additional work.</p> <p><u>Cooperation</u></p> <p>The widespread cooperation between insurance group, local undertaking and both NCAs (local NCA and NCA from the insurance group country) is perceived as crucial. Without the proper cooperation there is</p>	

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	<p>a huge potential for doubling regulations and reworking the same cases twice. Due to this fact the NCAs should present the active involvement in communication between each member of the group of interest.</p> <p><u>Potential interpretation issues</u></p> <p>The phrase “national competent authorities should form a view” is present in many of paragraphs. In our opinion general requirements (mutual for each country) for preapplication process should be prepared. Country unit specific deviations from general requirements should be introduced only if supported with sufficient evidence by NCAs.</p> <p><u>Annual Progress report</u></p> <p>In our opinion the annual progress report prepared by local NCA should not be supplemented by any kind of comply or explain procedure (e.g. local peer review report etc.). Such report would require the analysis of compliance of each undertaking with the interim measures requirements. We believe that the compliance should be tested on the basis of final requirements after the official introduction of Solvency II.</p>	
<p>Introduction. General Comment</p>		
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1.5.	<p>According to point 1.5 the NCAs are “expected to engage with undertakings in a close dialogue” during the preparation phase in order to ensure that the undertakings are well prepared for the introduction of Solvency II in the area of Internal Model. In our opinion the “close dialogue” between NCAs and undertakings is the key of the Solvency II implementation process and it should be the basis for the final shape and scope of the local guidelines. As, according to point 1.6, the local guidelines are expected to be introduced by local NCAs on 1st of January 2014, the remaining period (after introduction of Omnibus II in Autumn 2013 it will be ca. 2-3 months) is perceived by us to be too short for setting proper communication process between local NCAs and undertakings. Therefore we would like to recommend to dedicate the year 2014 to local discussions between NCA and undertakings and, as a result, to move the date of introduction of local guidelines to 1st of January 2015.</p> <p>Also please refer to General Comment (section: Timeline for the Guidelines Implementation).</p>	
1.6.	<p>In our opinion the date of introduction of local guidelines (2014.01.01) is too close and there is a risk that either the local NCA will not be able to introduce such guidelines or the NCA will introduce imprecise and vague guidelines which will lead to interpretation and implementation issues. In our opinion it is of high importance that the local guidelines are well defined and unchangeable from the very date of their introduction as the undertakings will have a short time (ca. 1 year) to appropriately and entirely apply the guidelines requirements. Therefore we would like to recommend moving the date of introduction of local guidelines to 1st of January 2015.</p> <p>Also please refer point 1.5 and to General Comment (section: Timeline for the Guidelines Implementation).</p>	
1.7.	<p>In our opinion the annual progress report prepared by local NCA should not be supplemented by any kind of comply or explain procedure (e.g. local peer review report etc.). Such report would require the analysis of compliance of each undertaking with the interim measures requirements. We believe that the compliance should be tested on the basis of final requirements after the official introduction of Solvency II.</p>	

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1.8.	<p>According to point 1.8 the NCAs are expected “to be able to form a view” on how well the undertakings are prepared for the application process regarding Internal Model. In our opinion it should be precisely defined what sort of evidence will be required by NCA to prove that the undertaking is well prepared for the application process. The lack of such definition of evidence may lead to inconsistency between requirements in different countries (convergence issue). Moreover the specific form (report, opinion, assessment) should be defined in which the local NCA will be expected to “form a view”.</p> <p>Also please refer to General Comment (section: Potential Interpretation Issues).</p>	
1.9.	<p>According to point 1.9 the guidelines should help the undertaking “to develop its Internal Model framework and thereby prepare to submit an application to use an Internal Model under Solvency II”.</p> <p>In our opinion the current shape and substance of guidelines is too broad and vague and as a result it cannot be easily used by undertaking in defining the Internal Model framework. We believe that the locally introduced guidelines should be more precise and should give a clear view on how to define the Internal Model framework and what will be required during the application process. To prepare such guidelines the local communication between NCA and undertakings is of key importance. As the deadline for local guidelines is concerned (2014.01.01), in our opinion the remaining period is too short to achieve it. Therefore we would like to recommend moving the date of introduction of local guidelines to 1st of January 2015.</p> <p>Also please refer to point 1.5 and 1.6.</p>	
1.10.	<p>We welcome the idea of communication between NCAs in case of pre-application process for groups. In our opinion such communication is necessary not only in case of groups but also in case of stand-alone undertakings. In other words the cooperation between NCAs should be defined as one of general</p>	

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	<p>requirements in terms of Internal Model application process. Without proper communication there is a risk that the final application requirements will differ between countries which is against the idea of convergence.</p> <p>Also please refer to General Comment (section: Cooperation).</p>	
1.11.		
1.12.		
1.13.		
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1.15.	In our opinion the definition of “material” in the aspect of Internal Model is very vague. There is a risk that judgement of NCA or market might be different than the judgement of single undertaking (e.g. model change which is perceived by NCA as immaterial might be assessed as material by the undertaking and vice versa). We would expect a very precise definition of materiality with the appropriate reference to benchmark (e.g. materiality measured with reference to SCR, Own Funds etc.).	
1.16.	Please refer to point 1.5, 1.6, 1.9 and General Comment (section: Timeline for the Guidelines Implementation).	
Section I. General Comments		
1.17.	Please refer to point 1.5, 1.6, 1.9 and General Comment (section: Timeline for the Guidelines Implementation).	
1.18.		

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1.19.	<p>In terms of building the undertaking's Internal Model framework we believe that the guidelines should present a precise requirements regarding the shape and scope of the framework for example in the area of processes, documentation, methodology etc.</p> <p>Also please refer to point 1.9.</p>	
1.20.	<p>In our opinion the annual progress report prepared by local NCA should not be supplemented by any kind of comply or explain procedure (e.g. local peer review report etc.). Such report would require the analysis of compliance of each undertaking with the interim measures requirements. We believe that the compliance should be tested on the basis of final requirements after the official introduction of Solvency II.</p>	
Section II. General Comments		
Chapter 1. General Comments		
1.21.		
1.22.		
1.23.		
1.24.	<p>According to this point the undertakings are expected to report to NCAs the changes in their Internal Model. We believe that the requirement of reporting model changes should refer only to <u>major (material) model changes</u>. Moreover in our opinion the idea of reporting of model changes require a set-up of formal model changes reporting process with predefined templates in which the undertakings will describe the introduced model changes. Taking into consideration the deadline for introduction of local guidelines (2014.01.01) there is a risk that local NCA will not be able to set up such reporting process.</p>	

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	<p>Therefore we would like to recommend moving the date of introduction of local guidelines to 1st of January 2015.</p> <p>Also please refer to point 1.5 and 1.6.</p>	
1.25.		
<p>Chapter 2. General Comments</p>		
1.26.		
1.27.	<p>The qualitative and quantitative criteria of definition of “major model changes” must be precise - the clearer principles are expected to be settled. Although this issue has already been raised, it has not been addressed in the proposed guidance. The examples of model changes would be most welcome so the companies could use them as a guidance/benchmark.</p>	
1.28.	<p>In our opinion it is not clear whether other qualitative or quantitative indicators, apart from quantitative impact of model change on the Solvency Capital Requirements, should be used to measure an impact of model change. We believe that the selection of indicator should be discussed and agreed with the national competent authorities.</p>	
1.29.	<p>With reference to point 1.27 and point 1.28:</p> <p>There is a lack of appropriate definition of qualitative and quantitative indicators. In our opinion the guidelines should define what sort of indicators is expected to be applied or at least present an example of such indicators with reference to appropriate benchmarks (e.g. SCR, Own Funds, Technical provisions etc.).</p> <p>Moreover, if the NCAs are expected to make sure that the indicators take into consideration the</p>	

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	<p>specificities of the undertaking and its Internal Model then it is necessary for the undertaking to discuss and agree the shape/character of each indicator with the local NCA. Without predefined expectations regarding mentioned indicators such process might be time consuming and increase a risk that within defined timeframe the undertaking won't be ready to enter the Internal Model application process.</p>	
1.30.	<p>It should be clarified whether the insurance and reinsurance undertaking are expected to evaluate only the isolated effects of model changes and the effect of all changes combined or also the effects of multiple changes combined.</p>	
1.31.	<p>Please refer to 1.30.</p>	
1.32.		
1.33.	<p>The same comment as in 1.27 but in accordance to group model changes.</p>	
1.34.	<p>Please refer to 1.33.</p>	
<p>Chapter 3. General Comments</p>	<p>In case of a requirement of “forming a view” it is important to define on what basis the view is going to be formed. In other words if the local NCA is about to form a view on some aspect of Internal Model, the undertakings should have a precise knowledge of what sort of supporting information will be the basis for the NCAs opinion/conclusion.</p> <p>In our opinion there is a lack of information on what sort of evidence will be required by NCA to prove that :</p> <ul style="list-style-type: none"> - the Internal Model is used in undertaking’s risk management system and decision-making process (point 1.37); - the Internal Model appropriately fits undertaking’s business (point 1.38); 	

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	<ul style="list-style-type: none"> - the Internal Model will be used both in decision-making and to calculate the Solvency Capital Requirements (point 1.42); - the Internal Model gives prospective support to decision-making and provides retrospective verification of decision-making (point 1.44); - the internal stakeholders of the undertaking, in particular its administrative, management and supervisory bodies, receive regular Internal Model results (point 1.47); - the Internal Model is at a minimum able to measure the economic capital and to identify the impact on the risk profile of potential decisions for which the model is used (point 1.48); - the undertaking develops a process to monitor its risk profile and how a significant change of the risk profile will trigger a recalculation of the Solvency Capital requirement (point 1.50). 	
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1.37.	Please refer to Chapter 3. General Comments.	
1.38.	Please refer to Chapter 3. General Comments.	
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1.42.	Please refer to Chapter 3. General Comments.	

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1.43.		
1.44.	Please refer to Chapter 3. General Comments.	
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1.47.	Please refer to Chapter 3. General Comments.	
1.48.	Please refer to Chapter 3. General Comments.	
1.49.		
1.50.	Please refer to Chapter 3. General Comments.	
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Chapter 4. General Comments		
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1.55.	According to this point the NCAs are expected to form a view on how the undertaking assesses materiality taking into the quantitative and qualitative indicators. In our opinion the meaning of this point leads to conclusion that without unified and precise definition of materiality there is a risk of lack of convergence on the market in the area of materiality assessment. We believe that the rules for the	

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	<p>assessment of materiality should be precise, not left to be a subject of undertakings' interpretation.</p> <p>Also please refer to point 1.15</p>	
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1.63.	<p>During the Internal Model pre-application process the main focus should be on appropriateness of applied model rather than on quantity and quality of documentation supporting model implementation process. The NCA should put the main effort on challenging model concept and seek local market standard, not on meeting the formal requirements regarding documentation. The overall effort should then be balanced between quantity of documentation and quality of Internal Model. Otherwise there is a risk that the Internal Model pre-application process will become a purely bureaucratic process.</p> <p>Moreover in our opinion it is of key importance that the local requirements regarding documentation are consistent and unified throughout the whole market especially in the areas which are common to all undertakings. For example in case of Poland the risk connected with the same market-wide stock index is expected to be considered in the same way and, as a result, lead to the same result.</p>	

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1.64.	In our opinion use of expert judgment is still very limited by the amount of required documentation and validation requirements.	
1.65.	Please refer to 1.63.	
1.66.	Please refer to 1.63.	
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1.69.	Please refer to 1.64.	
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Chapter 5. General Comments		
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Chapter 6. General Comments		
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Chapter 7. General Comments		
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Chapter 8. General Comments		
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Chapter 9. General Comments		
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1.137.	In our opinion it is unclear what is considered to be “robust validation process”. We would like to emphasise the importance of providing perspicuous definitions. It is desired to avoid using misleading or ambiguous words as “robust” in the Consultation Papers.	
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Chapter 10. General Comments		
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Chapter 11. General Comments		
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1.155.	<p>In our understanding external data should be distinguished between externally provided data (by third party company) and market data provided by national competent authorities.</p> <p>Data provided by a third party are usually appropriately prepared for the recipient. The processing of data is not transparent for the purchaser and it is provider's responsibility to ensure all the requirements inherent in this point of Consultation Paper.</p> <p>In accordance to market data we believe that only if they are modified by the insurance or reinsurance undertaking described requirements should be met.</p>	

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Chapter 12. General Comments		
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1.188.	<p>In our opinion on-site examinations carried out in the undertakings being under supervision of the particular NCA shall be carried out by authorized employees of this NCA. For example in case of Poland by authorized employees of the PFSA. The matter of who is leading the review should not be subject to additional colleges' deliberations and decisions.</p> <p>Even taking into account that the Internal Model pre-application process is voluntary and provisions of the local Insurance Activity Act concerning members of the inspection team do not apply, the guideline does not define what happens if the participants of the joint on-site examination are unable to reach a common view. Such ambiguity could lead to practices that group supervisor conducts examinations in the subsidiaries that do not work as a branch and are outside of its jurisdiction and impose the agenda of the joint on-site examination. As a result, it is possible to narrow the originally determined scope of the examination which is in contradiction to the principle that the local supervisory authority is ultimately responsible for the subsidiary.</p> <p>All above could lead to the situation, that particular undertaking will have to face diarchy. In our opinion it is important to regulate this issue and precise that in case of joint on-site examinations carried out in the undertakings being under supervision of the particular NCA, in case of disagreement, group supervisor and the other NCAs involved should follow the opinion of the local supervisory authority, who is the most competent to make decisions in this regard.</p> <p>Therefore we propose to change the text along the lines specified below:</p> <p><i>Once the national competent authorities participating in the joint on-site examination have been identified, they should discuss and agree the final scope, purpose, structure and allocation of tasks of the examination.</i> If as a result of this discussion the national competent</p>	

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	<p>authorities participating identify differences in their opinions they should follow the opinion of the national competent authority organizing the on-site examination.</p>	
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1.196.	<p>In our opinion the supervisory activities performed by particular NCAs should be primarily consistent between the undertakings operating on each market, in such a way that none of them could gain an artificial competitive advantage simply because of affiliation to an international insurance group. Different NCAs approach certain issues in different way, what could lead to application of different requirements, different treatment of the undertakings operating on a single market and as a result to gaining artificial competitive advantage by some of them.</p> <p>Therefore we propose to change the text along the lines specified below:</p> <p>[...]If, as a result of this sharing, the national competent authorities involved identify substantial differences in the approaches followed, they should discuss and they should agree on a process to develop consistent approaches when they consider appropriate to have this alignment. This process should enhance the cooperation among the supervisory authorities in these areas of the internal model in which the model does not satisfy requirements. Each competent authority involved should be given</p>	

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	credibility with respect to the assessment of whether all risks of the insurance or reinsurance undertaking subject to its supervision are adequately reflected in the internal model.	
1.197.		
1.198.		
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Compliance and Reporting Rules		
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1.202.		
1.203.		
Impact Assessment – General Coments		
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