IRSG

INSURANCE AND REINSURANCE STAKEHOLDER GROUP

Advice on EIOPA’s consultation on the Supervisory Statement on ORSA in the context of COVID-19

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European Insurance and Occupational Pensions Authority

ANSWERS ON CLIMATE CHANGE STRESS

link to EIOPA's consultation

Introduction		
#	**Question**	**Answer**
1	The European Insurance and Occupational Pensions Authority (EIOPA) provides this Supervisory Statement on the basis of Article 29(2) of Regulation (EU) No 1094/2010 to promote common supervisory approaches and practices.	-
2	This Supervisory Statement is based on Directive 2009/138/EC (Solvency II) and addressed to the competent authorities, as defined in point (i) of Article 4(2) of Regulation (EU) No 1094/2010.	-
3	The COVID-19 pandemic has been affecting economies and societies leading to state and central banking measures being taken to combat its impact. This situation has resulted in a social and economic crisis, the effects of which are being felt throughout the world's and the EU's economy. The financial stress caused, the consequences of which are expected to extend much further in time, has underlined the need for insurance and reinsurance undertakings to assess the impact of the pandemic on their business from a forward looking perspective. The current pandemic is identified clearly as a new risk which needs to be assessed in the risk analysis of undertakings.	The IRSG recognizes that the promotion of common supervisory approaches is an important piece to ensure harmonization in the implementation of the solvency II regulation. Yet, the goal of common supervisory approaches should not be confounded with a goal of application of identical methodologies and results. Differences in markets, products, insurers and finally business models yield different risk profiles that are indeed best captured and reflected under entity proportionate approaches and risk management. The specificities of each (re)insurance undertaking are uniquely addressed under the ORSA which has been designed for the purpose of being the undertaking's own risk management tool and this is very much welcomed. The expectations under the ORSA are very comprehensive, the IRSG does not see a need to extend them, but rather to make sure that the

		ORSA produced by each (re)insurance undertaking is effectively meeting the expectations set in article 45 of Directive 2009/138/EC and usefully complement pillar 1 numbers in a proportionate manner. Under the matter of the ORSA, the promotion of common supervisory approaches should be focused on the supervision of the internal processes of the (re)insurance undertaking that are necessary prerequisites for the delivery of an ORSA of good quality. Supervisors should supervise the risk management framework and its ability to identify risks and monitor them but should refrain from acting as if they were part of the (re)insurance undertaking's own governance forcing risk appetite and views of the risks. Finally, as an extract of EIOPA guidelines on ORSA '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'.
4	The Own Risk and Solvency Assessment (ORSA) was designed and considered as an important and effective tool for risk management. The performance of an ORSA under the current circumstances is to give insight into the potential impact of the COVID-19 pandemic on the undertaking's risk profile. In addition, it promotes the identification and effective management of the undertakings' risks to ensure they have sufficient capital to absorb possible losses and help steer their business through periods of adversity.	-
5	The aim of this Supervisory Statement is to promote convergence by guiding undertakings through common supervisory expectations on the ORSA in the current situation triggered by the COVID-19 pandemic, taking into account that the	We find that, the (Re)Insurance undertakings do not need to be guided through the impacts of the COVID 19 pandemic, they have all the processes, tools and key risk indicators for that. What is only needed is the supervision that all these elements are indeed in place.

	impact on each individual undertaking can differ depending on its specific risk profile.	The IRSG would also like to underline that Solvency 2 has proved its efficiency, relevance and adequacy through the COVID 19 crisis. The modular approach of the risks under the standard formula as well as the required identification of all the risks drivers under a business model profile are instrumental features that allow to capture whatever type of combination of shocks that might occur on the asset side and the liability side of the economic balance sheet at a point in time as well as on a prospective basis. Under pillar 1, the strength of such an approach is that is does not require to build an endless set of hypothetical scenarios that would act as double counting with the 99.5 VAR calibration of all identified risk drivers. Indeed, the unique combination of risks that COVID 19 has come up with has been encapsulated in the solvency ratios produced since the crisis started. Under pillar 2, and starting from reference dates already encapsulating COVID 19 impacts (on both sides of the balance sheet), central and adverse pathways are extrapolated with the adequate proportionate and entity specific determination.
ORSA AS A MANAGEMENT TOOL		
6	Undertakings should consider the ORSA as one of the fundamental tools in risk management to assess the impact of the COVID-19 pandemic and take the ORSA outcomes into account in the decision making by their administrative, management or supervisory body (AMSB).	The IRSG finds that this requirement set out is already foreseen in the Solvency II framework. For example, there is an ORSA guideline from EIOPA that describes the role of AMSB. Guideline 2 “The AMSB should take an active part in the ORSA, including steering, how the assessment is to be performed and challenging the results”. The specific Covid-19 theme makes no exception to this.
7	The ORSA process and outcomes are expected to be used by the AMSB in any strategic discussion in general and in particular where developments are expected	We find that contract terms is a highly important matter and a review of the policy terms and conditions is needed as per IRSG’s advise issued last October entitled " Shared Resilience

	to materially impact the undertaking. The ORSA outcomes can influence strategic decisions on changes for instance to underwriting and pricing practices, to risk mitigation techniques, to investments strategy, to capital management or on improvements of operational and cyber resilience. Also, a review of the insurance contracts' terms and conditions including clarifications of coverage or exclusion clauses and further communication with policyholders might be needed.	Solutions" where it was pointed out how important that there should be clear communication and policy wording. Anyway we highlight that a review of contracts' terms and conditions is relevant only to the extent the ORSA identifies risks associated with contract coverage. This applies in respect of COVID-19 or non COVID-19 impacts.
TIMING OF THE REGULAR ORSA AND/ OR AD-HOC ORSA		
8	EIOPA acknowledges that the regular ORSA is being submitted on an annual basis with different timings across Europe. In accordance with Article 45 of Solvency II, EIOPA expects undertakings to plan their ORSA process in a manner that allows the ORSA outcomes to be embedded in the strategic planning and/or other strategic decisions. This planning should take into account any ad-hoc strategic planning and/or other strategic decisions being taken as a result of the pandemic situation. This will allow undertakings to define the necessary changes to the business model or risk profile.	This statement is redundant and repeats requirements already existing in the regulation for the ORSA process.
9	Undertakings should assess and decide if an ad-hoc ORSA is needed based on the analysis of any material changes to the risk profile. Material changes to the undertaking's risk profile can be observed, for example, due to: · changes in the undertaking's market or credit risk exposure (including downgrade and/or default scenario); · material changes in underwriting results in lines of business which are more affected by the pandemic; · major amendments to business models, products offered, plans and strategies.	We find that considering examples given, it is important to specify that only <u>material</u> changes in the undertaking's market or credit risk exposure could generate an ad-hoc ORSA.

10	EIOPA believes that the current situation should trigger an ad-hoc/non-regular ORSA if the pandemic impacts materially the risk profile of the undertaking, in particular in those cases where the performance of the regular ORSA has not allowed the undertaking to assess and to take into account the impact of the COVID-19 pandemic.	This statement is redundant and repeats requirements already existing in the regulation for the ORSA process.
11	If there is any indication of a material impact, leading to a significant change in the risk profile, undertakings should perform an ad-hoc /non-regular ORSA to be submitted to the Competent Authority earlier than the regular one if needed. In the course of the evaluation of the need to perform an ad-hoc ORSA, the undertakings might engage in a supervisory dialogue with the relevant Competent Authority.	This statement is redundant and repeats requirements already existing in the regulation for the ORSA process.
12	If the undertaking has taken the decision to develop an ad-hoc ORSA, the undertaking should assess whether the full ORSA is necessary or if the process will focus only on specific areas of the risk profile and its impact, for example on the ongoing compliance with the Solvency Capital Requirement.	This statement is redundant and repeats requirements already existing in the regulation for the ORSA process.
SCENARIOS USED IN THE ORSA		
13	One component of the ORSA process is the forward-looking stress tests (including reverse stressing) and scenario analysis, taking into account the principle of proportionality. The development of the ORSA, either ad-hoc or regular, reflecting the impact of the COVID-19 pandemic, should: · consider the conditions observed at a given moment and any expected stresses for example on capital markets, claims development for both non-life business (e.g. business interruption, travel, event	We find that the risks identified should be considered only to the extent that they are relevant for the overall solvency needs taking into account the undertaking specific risk profile, having regard to Article 45 of the directive. Similarly the assessment of the soundness of the business model should only be relevant in this context where Covid-19 jeopardizes the business model and this has implications for the insurer's assessment of overall solvency needs.

	cancellation, medical malpractice) and life-business (e.g. claims arising from higher mortality, sickness rates), and the impact on operational risks (e.g. digital resilience, business continuity); · include an assessment of the soundness of the business model from a forward-looking perspective.	This statement seems too prescriptive; undertaking should keep their ability to identify the relevant scenarios depending on their risk profile.
14	As part of the assessment of the overall solvency needs (Article 45 (1)(a) of Solvency II) undertakings should consider the future impact of the pandemic, including potential litigation with regard to the coverage provided by insurance policies, the limited and comparable statistical data, the role of state support and other public backstops, the limitation of dividends distribution and other capital support in a group structure. Undertakings should use the latest available information from reliable sources in the different areas to be considered.	The IRSG is of the opinion that again the risks identified should be considered only to the extent that they are material and relevant for the overall solvency needs taking into account the undertaking specific risk profile, having regard to Article 45 of the directive. As an example, future litigations with regards to coverage provided might arise differently which should get more attention on risks identified.
15	Given the unprecedented nature of the current pandemic, a number of major uncertainties remain that are decisive for the future. The degree of uncertainty should be assessed for all relevant aspects, including, but not limited to, the volume of premiums, the development of claims, liquidity aspects and investment income. The identification of the sources and levels of uncertainty considered should be documented.	-
16	Where the undertaking concludes, based on the analysis of its current risk exposure, that it is or could be materially exposed to risks revealed by the pandemic, this should be reflected in the decision of scenarios used and documented in the ORSA process. The undertaking should take into account the uncertainty in the duration and (macroeconomic) impact of the pandemic in its ORSA and, if relevant for its risk profile,	This statement is redundant and repeats requirements already existing in the regulation for the ORSA process.

	consider multiple scenarios to capture this uncertainty in an appropriate manner. In this case the scenarios are expected to include several degrees of severity for the pandemic's impact on the undertaking's solvency and capital needs taking into account its individual situation.	
17	The ORSA process includes an assessment of the undertaking's business exposures related to the risk coverages or guarantees of its insurance products. When performing this analysis, undertakings should include the assessment of possible policyholder actions such as lapses, cancellations, claims and potential litigation over compensation disputes. In case the undertaking anticipates launching new products and/or stopping or substantially changing products, for example regarding their pricing or availability or application procedure, the ORSA should also contain the impact of this new or amended product portfolio on the overall solvency needs as well as on the regulatory solvency.	This statement is redundant and repeats requirements already existing in the regulation for the ORSA process.
18	In order to ensure adequate risk management, undertakings should carry out scenario analysis covering the short and long term. They are expected to examine the effects of the COVID-19 pandemic on their solvency over a period that reflects the undertaking's risk exposure and to take into account second-order effects that may occur in the longer term. EIOPA expects an analysis over a three-year period as a minimum time horizon for the majority of the insurance undertakings.	We see that the statement should not be prescriptive with regards the time horizon of the scenario analysis and recognize that it is important to leave undertakings the flexibility to employ different approaches to capturing potential short term and long term impacts to the extent that they reflect the long term risks faced and are appropriate for its risk profile. Beyond the short term, qualitative approaches may be appropriate and proportionate having regard to the risk profile of the undertaking and the range of uncertainties faced.
19	As part of the assessment of the compliance with the capital requirements and with the requirements regarding technical provisions (Article 45(1)(b) of Solvency II) undertakings should reflect on and assess the scenarios and assumptions for calculating the technical provisions in order to assess the continuous	The IRSG find that the phrase "in the short and long term" at the end of the sentence is unnecessary and confusing. It is sufficient to state that requirements should be complied with on a continuous basis.

	compliance with the regulatory requirements in the short and long term.	
20	Capital requirements and eligible own funds should be recalculated according to each stressed scenario and to the valuation of assets and technical provisions. If, at any point in time, the solvency ratio should come under pressure or fall below the lower solvency limits set by the undertaking, it is important to formulate risk mitigating measures and/or management actions that can improve the solvency position, while taking into consideration the possible limited availability of those measures and/or management actions under a stressed situation. Undertakings are recommended to assess whether their internally set solvency limits are adequate and sufficient taking into account the applied stresses of the COVID-19 pandemic. The analysis should reflect upon: · internal risk appetite; · quantitative or qualitative indicators/measures; · overall risk tolerance limits; · metrics used within the risk management system to measure risks; · stress test framework; · monitoring process.	We don't find appropriate to refer to "internally set solvency limits" in this statement as this concept has no foundation in regulation. The reference to solvency ratio "coming under pressure or falling below the lower solvency limits" sets a supervisory expectation for action based on triggers which have no foundation in the regulation and the reference here should be to the solvency ratio falling below the SCR.
QUESTIONS TO SUPPORT THE IMPACT ASSESSMENT		
3.0	In preparing the Supervisory Statement on ORSA in the context of COVID-19, EIOPA took into consideration the general objectives of the Solvency II Directive, namely: - adequate protection of policyholders and beneficiaries, being the main objective of supervision;	The IRSG is of the opinion that the expectations under the ORSA are very comprehensive, the IRSG does not see a need to extend them, but rather to make sure that the ORSA produced by each (re)insurance undertaking is effectively meeting the expectations set in article 45 of Directive 2009/138/EC and usefully complement pillar 1 numbers in a proportionate manner.

	- financial stability; and - proper functioning of the internal market. The drafting of the Supervisory Statement is also guided by EIOPA's statutory objectives, as reflected in the Regulation of the Authority, notably: - improving the functioning of the internal market, including in particular a sound, effective and consistent level of regulation and supervision, - ensuring the integrity, transparency, efficiency and orderly functioning of financial markets, - preventing regulatory arbitrage and promoting equal conditions of competition, - ensuring the taking of risks related to insurance, reinsurance and occupational pensions activities is appropriately regulated and supervised, and - enhancing customer protection. To analyse the impact of the proposed supervisory convergence measures, the final impact assessment to be developed ex-post this public consultation foresees that a baseline scenario is applied as the basis for comparing supervisory convergence options. This will help to identify the incremental impact of each action considered in this supervisory statement. The aim of the baseline scenario is to explain how the current situation would evolve without additional intervention promoting a level playing field in supervisory expectations regarding ORSA, in particular addressing the current emerging situation caused by Covid-19 pandemic.	Under the matter of the ORSA, the promotion of common supervisory approaches should be focused on the supervision of the internal processes of the (re)insurance undertaking that are necessary prerequisites for the delivery of an ORSA of good quality. Supervisors should supervise the risk management framework and its ability to identify risks and monitor them but should refrain from acting as if they were part of the (re)insurance undertaking's own governance forcing risk appetite and views of the risks.

	EIOPA is aiming a proper balance between flexibility and acknowledgment of the ORSA as an undertaking own exercise and clarification of supervisory expectations, in particular in specific circumstances. The answers of the five last questions in the survey will be taken into account when assessing the impact of the suggested convergence practices.	
Q.3.1	If there is any indication of a material impact, leading to a significant change in the risk profile, undertakings should perform an ad-hoc /non-regular ORSA to be submitted to the Competent Authority earlier than the regular one if needed. In the course of the evaluation of the need to perform an ad-hoc ORSA, the undertakings might engage in a supervisory dialogue with the relevant Competent Authority. EIOPA believes that the current situation should trigger an ad-hoc/non-regular ORSA if the pandemic impacts materially the risk profile of the undertaking, in particular in those cases where the performance of the regular ORSA has not allowed the undertaking to assess and to take into account the impact of the COVID-19 pandemic. Is the suggested convergence approach with regards to ORSA in the context of Covid-19 expected to help undertakings to better incorporate the expected impact of the current situation also in forward looking perspective?	We strongly believe that the ORSA first and foremost needs to reflect the undertaking-specific risk and business profile. Any harmonization would potentially impair the usefulness of the ORSA in business decisions. Also given the already high requirements and related effort to produce the ORSA, we object to any additional element coming on top for the pure sake of comparability of ORSAs, which anyway will not be possible due to different reference dates entities are preparing their ORSAs on. Generally speaking, we believe that the ORSA is not the right tool to derive results of the European insurance market as a whole. Any expectations should be principles-based to ensure the ORSA remains a valuable tool for the entity reflecting the individual risk profile.
Q.3.2	If the undertaking has taken the decision to develop an ad-hoc ORSA, the undertaking should assess whether the full ORSA is necessary or if the process will focus only on specific areas of the risk profile and its impact, for example on the ongoing compliance with the Solvency Capital Requirement. Is the suggested convergence approach expected to limit the burden of preparing a full ad-hoc ORSA especially with	No, we do not expect that the suggested convergence approach will help as already existing requirements are sufficient to reflect COVID-19 related aspects in the ORSA. This also comprises the forward looking assessment. The ORSA should reflect the undertaking-specific risk profile and the decision on producing an ad hoc ORSA should be governed by respective internal standards.

	regards to the ongoing compliance with the SCR when considered as not needed and to support the level playing field a national and European level?	
Q.3.3	In order to ensure adequate risk management, undertakings should carry out scenario analysis covering the short and long term. They are expected to examine the effects of the COVID-19 pandemic on their solvency over a period that reflects the undertaking's risk exposure and to take into account second-order effects that may occur in the longer term. EIOPA expects an analysis over a three-year period as a minimum time horizon for the majority of the insurance undertakings. The undertaking should take into account the uncertainty in the duration and (macroeconomic) impact of the pandemic in its ORSA and, if relevant for its risk profile, consider multiple scenarios to capture this uncertainty in an appropriate manner. In this case the scenarios are expected to include several degrees of severity for the pandemic's impact on the undertaking's solvency and capital needs taking into account its individual situation. Is the suggested approach in relation to the analysis over a minimum of a three-year period expected to bring more convergence in terms of undertaking's effective continuous work on examining the effects of COVID-19, the interaction with the NCAs and level playing field at national and European level?	The IRSG is of the opinion that the statement should not be prescriptive with regards the time horizon of the scenario analysis and recognize that it is important to leave undertakings the flexibility to employ different approaches to capturing potential short term and long term impacts to the extent that they reflect the long term risks faced and are appropriate for its risk profile. Beyond the short term, qualitative approaches may be appropriate and proportionate having regard to the risk profile of the undertaking and the range of uncertainties faced. In order to achieve a reasonable level playing field, the ORSA scenario analysis should in general cover the business planning period of the respective entities. Any projections beyond that time horizon can usually not be based on sound data and need to rely on an increasing amount of assumptions, which impairs the value of such an exercise. On the other side, a projection shorter than the business planning horizon may not cover potential adverse effects in some periods of the planning horizon, depending on the nature of the risks faced. In general, the longer the ORSA horizon (i.e. beyond 3 years) the less valuable the exercise, as other developments occurring over that time horizon might much more affect the company. While we understand the desire to have an as long as possible time horizon it needs to be noted that the value of such an exercise is strongly correlated with the capabilities of projecting the developments. More specifically projecting potential COVID-19 pathways beyond the short term is a theoretical exercise and the benefit of such an hypothetical scenario evaluation is questionable.
Q.3.4	Undertakings are recommended to assess whether their internally set solvency limits	We find that as with other risks and scenarios which form part of the ORSA, undertakings should

	are adequate and sufficient taking into account the applied stresses of the COVID-19 pandemic. The analysis should reflect upon: internal risk appetite; quantitative or qualitative indicators/measures; overall risk tolerance limits; metrics used within the risk management system to measure risks; stress test framework; monitoring process. Is the suggested convergence approach in the assessment of the internally set solvency limits in the context of Covid-19 expected to help undertakings to better incorporate the expected impact of the pandemic in the ORSA?	reflect on all elements of their risk framework in response to applied stresses of the COVID-19 pandemic. The IRSG does not agree that it is appropriate that a Supervisory Statement covering scenario considerations relating to COVID-19 should introduce a concept such as "internally set solvency limits" which does not exist in Solvency 2 and which does not have established and consistent meaning across regulated undertakings. While it makes sense to reflect on the internal risk framework against the background of observed developments and dynamics of the COVID-19 pandemic to ensure proper risk management, it should be highlighted that this does not necessarily lead to adjustments in the internal risk appetite. It can however be used to determine if the implemented ERM was responsive to the COVID-19 crisis. Management actions to improve the solvency situation as mentioned in point 20 of the consultation paper should be developed in case a breach of the SCR or MCR requirements is observed, but not based on the mere breach of internal thresholds in a scenario.
Q.3.5	Is there any other area regarding the supervisory practices and expectations towards undertakings ORSA in the context of the current situation triggered by the COVID-19 pandemic where you believe further supervisory convergence is needed?	-