

**Comments Template on  
CP8 -Draft proposal for Guidelines on ORSA**

**Deadline  
20 January 2012  
12:00 CET**

Name of Company:	RSA Insurance Group	
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"> <li>⇒ Do <b>not</b> change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool</li> <li>⇒ Leave the last column <u>empty</u>.</li> <li>⇒ 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>.</li> <li>⇒ Our IT tool does not allow processing of comments which do not refer to the specific numbers below.</li> </ul> <p><b>Please send the completed template, in Word Format, to <a href="mailto:cp008@eiopa.europa.eu">cp008@eiopa.europa.eu</a>. Our IT tool does not allow processing of any other formats.</b></p> <p>The numbering of the paragraphs refers to Consultation Paper 008.</p>		
<b>Reference</b>	<b>Comment</b>	
General Comment	<p>We strongly support the overall approach taken by EIOPA of emphasising the need for undertakings to tailor their ORSA to their own circumstances. EIOPA should resist pressure to provide more detailed guidance on the form and content of the ORSA report.</p> <p>Paragraphs 4.18 to 4.24 imply a misunderstanding of how solvency needs are related to individual risks. Overall solvency needs have to take account of the totality of risks allowing for the dependencies between these risks. They cannot properly be assessed by considering individual material risks in isolation.</p> <p>There is insufficient integration between the guidelines and the explanatory text. The integration is particularly lacking in the case of Guidelines 7 to 11, where the text in section 4 bears little</p>	

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	<p>relation to the guidelines.</p> <p>A concern of ours is that different regulators will put pressure on undertakings to adopt a particular format for their ORSA report with the result that there are in practice widely differing requirements between different jurisdictions. We strongly support EIOPA’s decision to reject the option of producing a pro forma report and the rationale it has set out in paragraphs 5.39 to 5.42. We would welcome explicit guidance to the effect that regulators should not seek to dictate the detailed content of the ORSA report.</p>	
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3.15.	<p>The heading “Principle of proportionality”, obscures the main purpose of this guideline which is to require undertakings to tailor their ORSA processes to their operational structure and risk management system. A heading such as “Bespoke nature of the ORSA” would better indicate the purpose of this guideline.</p>	

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3.21.	The wording implies that the use of Solvency II valuation bases should be the default approach for the ORSA and creates an unwarranted discouragement for undertakings wishing to adjust valuations on to a more economic basis. To give the correct emphasis, the guideline should be reworded to read: "Undertakings may apply recognition and valuation bases different from the Solvency II basis where the alternative basis reflects better the value to the business of the assets and liabilities."	
3.22.		
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3.24.		
3.25.	This should be reworded to clarify that the assessment should cover the whole of the planning period rather than implying that there should be a separate assessment for each year.	
3.26.	This guideline implies that the requirement in Article 45(1)(b) of the Framework Directive relates to the need to have procedures in place to monitor compliance with the capital requirements. Clearly undertakings have to have such procedures in place, but these do not naturally fit with the overall purpose of the ORSA. On the other hand, it appears natural that the ORSA should consider the extent to which the undertaking's resources are sufficient to cover technical provisions and capital requirements over the planning period. The guideline should clarify how the requirement in Article 45(1)(b) fits into the ORSA.	
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3.37.	This explanation belongs in the internal model documentation, not the ORSA report.	
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3.39.	The content of the guideline does not match the heading.	
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4.6.	This is an important and useful clarification which could usefully be incorporated into the body of the guideline text.	
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4.16.	There is clearly a potential efficiency benefit if the internal ORSA report can also serve as the ORSA supervisory report. To assist companies in designing a report which can satisfy both purposes, it would be helpful if the guidelines were extended to cover the contents of the ORSA supervisory report. Such guidance should cover both the minimum information that undertakings must provide and also some indication of the maximum level of detail that supervisors can routinely require to be included in the ORSA supervisory report.	
4.17.	This paragraph merely repeats requirements from elsewhere and is unnecessary.	
4.18.	The material point here is that the assessment should cover the business planning period and is more relevant to guideline 10 rather than guideline 7.	
4.19.		
4.20.	This shows a misunderstanding of how insurers hold capital to meet risk. The amount of capital required is determined by the totality of the risks faced, allowing for diversification. The materiality of individual risks is irrelevant to this assessment.	
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4.24.	The first three sentences in this paragraph do not seem to bear any relationship to each other. They are three quite distinct points.	
4.25.		
4.26.	This seems illogical and inconsistent with the statement in 4.6 that internal model outputs in the ORSA can differ from the SCR.	
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4.57.	The task of ensuring that the internal model appropriately reflects the risk profile forms part of the ORSA by virtue of Article 45(1)(c)). The task of ensuring broader compliance with the tests and standards is part of the validation process of the internal model. The AMSB and senior management will clearly want comfort from the validation process that internal model input into the ORSA can be relied upon. However, we believe that characterising internal model validation as an integral part of the ORSA is unhelpful as it obscures the principal purpose of the ORSA.	
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4.65.	There is an overlap here with validation. The Guidelines could usefully clarify that the ORSA report could simply cross-refer to the validation report.	
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4.74.	It is unclear what this sentence means.	
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4.91.	This paragraph wrongly talks of diversification effects in terms of SCRs. The solvency needs will not necessarily be on an SCR basis. The proper place for analysis of the diversification effects in the group SCR is in the RSR.	
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5.26.		
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5.28.	The reference should presumably be to the SCR calculation, not the standard formula. The wording of guideline 13 is more correct here. A requirement to explain deviations from the standard formula will be of no intrinsic benefit to undertakings using an internal model.	
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5.42.	We strongly support the approach taken by EIOPA on this issue.	
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Q1.	For the most part the guidelines are clear, but see our comments on specific paragraphs where this is not the case. Paragraphs 4.17ff are particularly lacking in logical structure and clarity. The informal draft issued in December 2010 was clearer.	
Q2.	See specific comments above.	
Q3.	Although it is within the scope of the Article 35 rather than 45, we think the guidelines should also address the contents of the ORSA supervisory report. Please see our comments on para 4.16.	
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