



Comments Template on CP8 -Draft proposal for Guidelines on ORSA		Deadline 20 January 2012 12:00 CET
Name of Company:		
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">⇒ Do not change the numbering 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, <u>in Word Format</u>, to cp008@eiopa.europa.eu. Our IT tool does not allow processing of any other formats.</p> <p>The numbering of the paragraphs refers to Consultation Paper 008.</p>		



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Reference	Comment	
General Comment	<p>When considering ORSA requirements for Captives, it is important to understand their structure. Captives are themselves one of the instruments used by the industrial, commercial or financial companies in their risk management processes. They have one Insured which is their parent and normally issue a small number of policies with a restricted number of lines of business. They can insure risks which may not be insurable in the external insurance market (e.g. large deductibles) and provide valuable risk management data to the Parent. The risk management controls of the Parent company (such as business continuity management, anti-money laundering etc.) apply also to the Captive (as a subsidiary company).</p> <p>The ORSA should not be confused with an Internal Model. It is a management tool and not a tool to regulate capital. Taking into consideration the captive structure, the type of risks and the volume of risks, it is important that the principle of proportionality is applied to Captive ORSAs.</p> <p>If the proportionality principle applies on what is to be achieved rather than how it is to be performed, is the required level of detail and amount of documentation the same for all companies? As captives have very few employees – and often outsource their day-to-day management – the production of all the expected documentation as described in these guidelines will be very burdensome and could indeed increase the operating costs of a captive. We suggest that templates be agreed for the ORSA documentation (the templates can be proposed by ECIROA), in order to:</p>	

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	<ul style="list-style-type: none">- make clear how the regulator will apply the proportionality principle,- reduce operating costs for captives. <p>In the process of developing a proportionate ORSA for captives, it is very important to consider how much information is necessary to get a full picture of the risks of the company in question. For smaller, simpler companies the AMSB and the supervisory body will very easily have access to more information and there will be more transparency than it would ever be possible to obtain for a complex undertaking.</p> <p>We propose that there is an agreed ORSA framework for Captives, which will allow the AMSB and the Supervisor to fully understand the risks and how they are managed whilst not being too burdensome for these small undertakings.</p> <p>We believe that the following risk categories should be sufficient for Captives: -</p> <ol style="list-style-type: none">1. Underwriting risks2. Reinsurance risks3. Market risks4. Asset/Liability management5. Investment risks6. Liquidity risks7. Concentration risks8. Operational risks	



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	<p>ECIROA has produced Captive Best Practice Guidelines which will enable them to proportionately meet Pillar 2 requirements. Captives already document many of their risk management processes which can be used in their Governance process and may be incorporated into their ORSA.</p> <p>We propose the following methodology to implement Captives' ORSA:</p> <ul style="list-style-type: none"> - Step 1: risk mapping (risk identification, assessment of material risks and comparison of their risk profile with the assumptions underlying the SCR). Input to perform these processes: risk register, and pillar 1 calculation. Output: risks not properly calibrated with assumptions underlying the SCR. - Step 2: stress-testing (recalibration and/or stress-tests scenarios in line with time horizon of the business plan). Input: stress-tests scenarios, pillar 1 calculation, and business plan of the captive. Output: overall solvency assessment over the business plan period, corrective capital management proposals if needed. - Step 3: decision-making (process review by the board, discussion about corrective proposals, implementation of the approved action plan). Input: results from steps 1 and 2. Output: record of the ORSA process, ORSA internal and supervisory reports, action plans. <p>We further propose that an annual ORSA should be sufficient other than in the case of significant changes when a more frequent ORSA could be provided.</p> <p>With regard to the Captive Business Plan, this should also be simplified. It should be</p>	

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	<p>sufficient for 3 – 5 years Profit and Loss and Balance Sheet projections to be provided. This could be by the use of scenarios or on a stochastic basis or a combination of both (dependent upon the size of the captive and the number and type of risks underwritten).</p> <p> ECIROA Best Practice Version 1.doc</p> <p><i>Please note that where a comment has not been made on a particular paragraph, this does not indicate that we agree with the paragraph.</i></p>	
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3.15.	These guidelines do not explain how the proportionality principle will be applied by the regulator – how it will apply to each guideline.	
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3.17.	For smaller undertakings, can the ORSA process record be used as an ORSA supervisory report? The process record of a Captive's ORSA will be very simple, therefore it could be used as an internal report – could it also be used as a supervisory report (regarding the principle of proportionality)?	
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3.20.	As there is usually no staff in captive companies, and the only managers are the board members (who take an active role on the ORSA process), is the internal report on ORSA necessary for captives? In this case, it is redundant with the record of each ORSA process.	
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4.14.	The ORSA process for Captives should include the following, subject to the principle of proportionality: a) Agreed b) Not required c) Agreed but only those risks above the risk tolerance d) Agreed e) Not required – the ORSA is not a way to calculate regulatory capital	

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	f) Agreed g) Agreed h) Agreed i) Agreed j) Agreed k) Agreed	
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4.19.	The capital of the undertaking should be a protection against all risks. All major risks should be mitigated.	
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4.33.	Please see general comments above. 3-5 years should be sufficient for captives.	
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5.10.	We agree that the focus of the guidance should be on what needs to be achieved by the ORSA rather than how it is to be performed.	
5.11.	We also agree that more details on the application of the proportionality principle are needed. Please refer to the suggested ORSA framework in general comments above and ECIROA Captive Best Practice guidelines.	
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5.19.	Captives play an important role in the economic environment, allowing multi-national industrial, commercial and financial undertakings to manage and mitigate their risks. It is important that ORSA requirements are proportionate for Captives, reflecting their simple structure and that compliance with the ORSA process does not create unnecessary additional costs.	
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5.23.	The proposed guidelines should not create material new requirements for captives, provided the proportionality process is applied appropriately. Captives already document many of their policies and processes which are presented to their Supervisors.	
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5.25.	We believe it is sufficient for EIOPA to provide guidelines for the ORSA. This will allow flexibility for the principle of proportionality to be applied for Captives and other small undertakings.	
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5.30.	The cost impact upon Captives is an important consideration. Whilst there is no doubt that the ORSA process can only be of benefit to Captives, the proportionality principle must be appropriately applied to avoid a non-proportionate increase in costs. The majority of Captives outsource their administration to professional captive management companies and therefore the administration related to the documentation of the ORSA process will in all probability also be outsourced (whilst the responsibility will remain with the Captive Board). It is therefore important to ensure that only the documentation which is appropriate to the nature, scale and complexity of the Captive is required to be provided.	
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5.38.	Please see General Comments and 5.25 above.	
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5.42.	Please see General Comments and 5.25 above.	
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5.47.	We agree that there needs to be a common understanding of ORSA requirements between Undertakings and Supervisors and this is why more details on the application of the proportionality principle are needed.	
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Q1.	The guidelines are helpful but more guidance on the application of the proportionality principle is needed.	
Q2.	See Q1	
Q3.	See Q1	
Q4.	There will be practical (cost) issues for Captives if the proportionality principle is not applied appropriately to them. Please see our proposal in General Comments above.	
Q5.		
Q6.	Please see 5.30 above.	
Q7.	We agree with Option 1.	
Q8.	(a) We fully support the introduction of proportionate requirements for small undertakings but we believe that more guidance is needed regarding how the proportionality principle should be applied.	
Q9.	We do not understand the relevance of this question. Why is it necessary to report compliance with the guidelines?	