

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

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

Name of Company:	AFM	
Disclosure of comments:	Please indicate if your comments should be treated as confidential: No	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, in Word Format, 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>		
Reference	Comment	
General Comment	<ol style="list-style-type: none"> 1. This response to the consultation paper is on behalf of the Association of Financial Mutuals. 2. The Association of Financial Mutuals (AFM) was established on 1 January 2010, as a result of a merger between the Association of Mutual Insurers and the Association of Friendly Societies. 3. AFM currently has 57 members and represents mutual insurers and friendly societies in the UK. Between them, these organisations manage the savings, protection and healthcare needs of 20 million people, and have total funds under management of over £85 billion. 	

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	<p>4. The AFM is supportive of the issuance of guidelines focusing on what is to be achieved by the ORSA and by doing so seeking to enhance harmonisation and thereby reduce the possibility of differences of approach between home nation supervisors in the application of the ORSA requirements.</p> <p>5. We are also supportive of the principle expressed that the process is an Own Risk Solvency Assessment with the emphasis being on the word Own and that therefore it should be proportionate to the nature, scale and complexity of the firm’s perceived risks. The majority of the AFM’s members would fall into the definition of SMEs and in this context we are at pains to stress that due to their size and scarcity of resources (being mutuals the ability to raise capital is greatly impaired) it is of paramount importance that the principle of proportionality is maintained.</p> <p>6. In this regard we remain concerned that without greater definition and transparency being given to what is meant by the term proportionality and how it applies in the context of the ORSA process, gives rise to the potential for diversity in approach between home nation regulators which could be particularly prejudicial to the interests of SMEs. We would therefore encourage EIOPA to give greater transparency to its expectations in this regard and/ or to work with national regulators to summarise the good practices that have emerged from supervisory review.</p>	
3.1.		
3.2.	This approach is fully supported but in line with the points made under General Comments above it is believed that greater definition needs to be given to what is meant by proportionality in the context of how the ORSA process is to be performed.	
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3.5.	In line with the comments made in response to paragraph 3.2 there is insufficient information given to how proportionality should apply.	
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3.15.	This is insufficient as it does not address how the concept of proportionality will or should be applied by the home state regulator and therefore places the firm in a position of having to make its own judgements of what will be considered satisfactory by the regulator in terms of the process undertaken. The majority of the AFM's members are SMEs and are concerned that the absence of guidance from EIOPA in this regard will lead to an inconsistent approach across the EU home nations and the potential for the approach to be determined by larger entities that have greater resources available to them.	
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4.5.		
4.6.	See comments above under 3.15.	
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4.14.	In this paragraph, greater definition needs to be given to what level of understanding a third party can be assumed to have in order to evaluate the assessments. We would assume that the intention is that the third party will have significant financial services experience but this needs to be clarified.	
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4.50.	In the UK, insurers have already been required to elect whether they will be utilising the standard formula or alternatively will be seeking internal model approval. Since the date by which this decision had to be made, there have been significant changes to the standard formula and negotiations are still ongoing in several areas. During this period, those insurers that elected to	

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	use the standard formula have been striving to keep abreast of developments in order to assess whether their evaluation of the risk profile of the company equates with the standard formula. As a consequence it is considered that it would be of value to publish the current position of the assumptions underlying the formula as soon as possible but acknowledging that this is subject to change as negotiations continue. This will then at the very least give those insurers that have elected to use the standard formula a point of reference by which to reassess their positions and enter into dialogue with their home nation regulator if considered necessary.	
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5.42.	We would agree with the statement that a qualitative assessment should be carried out first.	
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Q1.	Yes although some of the detail will only become apparent when supervisors start to interpret the guidelines in their own way and force firms to follow their interpretation.	
Q2.		
Q3.		
Q4.	The ORSA report will need to include all aspects of the ORSA process. We believe that this will be best attempted as a series of reports on each element of the process with a summary of a few pages tying the results together. We do not believe that firms should spend a lot of time coming up with special 100 page reports for the supervisor on their ORSA process.	
Q5.		
Q6.		
Q7.		
Q8.	We believe that stronger guidelines backing the statements that the ORSA need not be a detailed internal model in itself would be helpful. We note that principle 1 on proportionality is helpful but would suggest that some of the remainder of the guidelines do not make clear the proportionality requirement within themselves. A clearer statement saying that proportionality applies to all the guidelines in themselves may be of help.	
Q9.	UK firms will need to report on compliance with risk management within their published accounts. We believe the detailed report should be between the supervisor and the firm.	