

SUPERVISORY STATEMENT ON ORSA IN THE CONTEXT OF COVID-19 – IMPACT ASSESSMENT

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European Insurance and
Occupational Pensions Authority

1. Introduction

1.1. According to Article 29(2) of the EIOPA Regulation¹, the Authority conducts, where appropriate, analysis of costs and benefits in the process of issuing opinions or tools and instruments promoting supervisory convergence. The analysis of costs and benefits is undertaken according to an Impact Assessment methodology.

1.2. In the preparation of 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; financial stability; and the proper functioning of the internal market.

1.3. The drafting of the Statement was 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.

1.4. 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 to support the decision-making of their administrative, management or supervisory body (AMSB). 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.

¹ Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC; *OJ L 331, 15.12.2010, p. 48–83.*

- 1.5. The aim of the Supervisory Statement is to promote supervisory convergence, focusing on the supervision of the internal processes of undertakings necessary for a good quality ORSA, and guiding undertakings through supervisory expectations under the current situation triggered by the Covid-19 pandemic, taking into account that the impact on each individual undertaking can differ depending on its specific risk profile.
- 1.6. The trigger for drafting the supervisory statement was clearly the Covid-19 pandemic, however, it is expected that the statement is also applied in other similar situations.
- 1.7. The Supervisory statement on ORSA in the context of Covid-19 was consulted publically between 22 December 2020 and 15 March 2021 where EIOPA's Insurance and Reinsurance Stakeholder Group (IRSG) commented on the document. This Impact Assessment is developed ex-post, using also the input given by stakeholders.
- 1.8. To analyse the impact of the proposed supervisory convergence measures, the impact assessment foresees that a baseline scenario is applied as the basis for comparing supervisory convergence options. This helps to identify the incremental impact of each action considered in the supervisory statement. The aim of the baseline scenario is to explain how the current situation would evolve without additional intervention concerning a level playing field in the area of ORSA in the context of Covid-19.

2. Supervisory statement on ORSA in the context of Covid-19– problem definition

- 2.1. The financial stress caused by the recent Covid-19 pandemic, the consequences of which are expected to extend much further in time, has underlined the need for insurance and reinsurance undertakings (collectively “undertakings”) to assess the impact of the pandemic on their business from a forward looking perspective. The current pandemic’s impact on existing risks should be assessed together with identification of any additional risks that undertakings may have become exposed to.
- 2.2. In order to be able to fit to the new reality undertakings should first get an understanding whether the Covid-19 pandemic triggers a significant change in the risk profile, which necessitates an ad-hoc ORSA. As a second step the scenarios used for the ORSA need to be adapted to take into account potential long-term effects of the Covid-19 pandemic. This would naturally lead to review their internal risk limits and target solvency ratio in light of the Covid-19 pandemic.
- 2.3. In the impact assessment of the supervisory statement on ORSA in the context of Covid-19, EIOPA has duly analysed the costs and benefits of the main supervisory expectations included in the paper. These options are listed in the tables below.

Timing of the regular ORSA and/or ad-hoc ORSA

Policy issue 1	Options
1. In case of any indication of a material impact, leading to a significant change in the risk profile, undertakings to perform an ORSA.	<p>1.1 No further guidance</p> <p>1.2 In the course of the evaluation of the need to perform an ad-hoc ORSA, the undertakings should engage in a supervisory dialogue with the relevant Competent Authority. 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. The ad-hoc/ non-regular ORSA to be submitted to the Competent Authority earlier than the regular one if needed. Furthermore undertakings should assess whether the full ORSA is necessary or if the</p>

	process will focus only on specific areas of the risk profile and its impact.
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Analysis of the impacts of the review of adequacy of the measure proposed with regards to the timing of the regular ORSA and/ or ad-hoc ORSA

2.4. EIOPA focused on addressing the input from stakeholders to the targeted question from the public consultation of the supervisory statement on the proposed measures with regards to the timing of the regular ORSA and/ or ad-hoc ORSA.

Policy issue 1: In case of any indication of a material impact, leading to a significant change in the risk profile, undertakings to perform an ORSA.		
Option 1.1: No further guidance		
Costs	Policyholders	The maintenance of the practice that in some cases the material impact on the risk profile of the undertaking does not trigger ad-hoc/ non-regular ORSA can endanger policyholder protection.
	Industry	The maintenance of the practice that in some cases the material impact on the risk profile of the undertaking does not trigger ad-hoc/ non-regular ORSA may obscure a situation where undertakings are close to lower solvency ratios.
	Supervisors	The maintenance of the practice that in some cases the material impact on the risk profile of the undertaking does not trigger ad-hoc/ non-regular ORSA and a supervisory dialogue can endanger policyholder protection, the main objective of supervisors.
	Other	N/A
Benefits	Policyholders	No material benefit is expected
	Industry	No material benefit is expected.
	Supervisors	No material benefit is expected.
	Other	N/A
Option 1.2: In the course of the evaluation of the need to perform an ad-hoc ORSA, the undertakings should engage in a supervisory dialogue with the relevant Competent Authority. 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. The ad-hoc/ non-regular ORSA to be submitted to the Competent Authority earlier than the regular one if needed. Furthermore undertakings 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.		
Costs	Policyholders	No material costs are expected.
	Industry	Some initial costs might be expected for some undertakings to adapt their systems in a way that ORSA can be prepared outside the regular timing in case this was not the case in the past.
	Supervisors	No costs are expected, as supervisors should be able to receive the information on change of the risk profile within the ORSA not following any annual reporting matrix.

	Other	N/A
Benefits	Policyholders	Policyholders' protection would increase by reflecting the material change of the risk profile immediately within an ad-hoc/ non-regular ORSA.
	Industry	This measure could help the undertaking to detect the risk of lower solvency ratios in case the significant change of the risk profile was detected/ reported as early as possible.
	Supervisors	Supervisors would be able to enter in a dialogue with the concerned undertaking as early as possible which would give them more options to react and thereafter more chances to support the undertaking in the situation of material change of the risk profile.
	Other	N/A

2.5. With regards to option 1.1 some additional costs and lack of cost reductions are expected, as it keeps the status quo. Option 1.2 is considered to bring potentially additional costs (especially for undertakings which have not established a process for ad-hoc/ non-regular ORSA), which are expected to adapt their systems in a way that more credible results based on SII figures could be extracted ad-hoc, not depending on quarterly/ annual reporting.

2.6. As far as impacts of possible changes are concerned, option 1.2 mainly implies IT rearrangements for systems and governance around the calculations. In addition, the initial costs for implementation of the proposals are foreseen to be incremental and *una tantum*.

2.7. According to the time horizon, the aforementioned costs are likely to impact mainly in the short-term the implementation in the IT systems.

2.8. In terms of expected benefits, option 1.2 is expected to have the value-added brought by reflecting the material change of the risk profile in an ad-hoc/ non-regular ORSA increasing the policyholder protection and the chances for avoiding any lowering the solvency ratio of the undertaking. For supervisors, the reflection of the material change of undertaking's risk profile brings timely entering into a dialogue with the undertaking concerned and therefore more options to react on the change.

2.9. Therefore, the approach chosen is to include further guidance as per option 1.2. with regards to the reflection of the material change of the risk profile of the undertaking within ad-hoc/ non-regular ORSA.

Evidence

2.10. The analysis is based on the work done in the context of drafting the supervisory statement:

- Work carried out by EIOPA;
- Stakeholders' feedback during the public consultation of the Supervisory statement on ORSA in the context of Covid-19.

Comparison of options

2.11. The preferred policy option for this policy issue is Option 1.2. as it is seen as a supervisory convergence issue where the legal framework is considered adequate.

2.12. The assessment of each option has taken into account the need for a risk-based and proportionate approach and the need to keep the flexibility of supervisory judgment while recognising that work under supervisory convergence is needed.

2.13. In the assessment of the options, also the efficiency is considered regarding the way in which resources are used to achieve the objectives.

2.14. The assessment of the effectiveness and efficiency are presented in the table below.

Policy issue 1: In case of any indication of a material impact, leading to a significant change in the risk profile, undertakings to perform an ORSA.			
	Effectiveness (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks	Objective 3: Improving transparency and better comparability
Option 1.1: No further guidance	0	0	0
Option 1.2: Creating level playing field	++	0	++
	Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks	Objective 3: Improving transparency and better comparability

Option 1.1: No further guidance	0	0	0
Option 1.2: Creating level playing field	++	0	++

Scenarios used in the ORSA

Policy issue 2	Options
1. In order to ensure adequate risk management, undertakings to carry out scenario analysis as a part of their ORSA (Art. 306 Delegated Regulation).	<p>1.1 No further guidance</p> <p>1.2 Undertakings 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. Analysis to be considered over a three-year period as a minimum time horizon for the majority of the insurance undertakings. The uncertainty in the duration and (macroeconomic) impact of the pandemic to be considered in the ORSA and, if relevant for the risk profile, multiple scenarios to capture this uncertainty in an appropriate manner. The scenarios to include several degrees of severity for the pandemic's impact on the undertaking's solvency and capital needs taking into account the individual situation.</p>

Analysis of the impacts of the review of the proposed measures' adequacy with regards to the scenarios used in the ORSA

2.15. EIOPA focused on addressing the input from stakeholders to the targeted question from the public consultation of the supervisory statement on the measures foreseen with regards to the scenarios used in the ORSA

Policy issue 2: In order to ensure adequate risk management, undertakings to carry out scenario analysis as a part of their ORSA (Art.306 Delegated Regulation).		
Option 1.1: No further guidance		
Costs	Policyholders	The maintenance of the practice that in some cases there is no adequate risk management, incl. that no adequate scenario analysis is run over relevant to the business period as a part of the ORSA can endanger policyholder protection.
	Industry	The maintenance of the practice that in some cases the material impact on the risk profile of the undertaking does not trigger an adaptation of

		the scenario analysis run over a relevant business period as a part of the ORSA may obscure the risk of lower solvency ratios.
	Supervisors	The maintenance of the practice that in some cases there is no adequate risk management, incl. that no scenario analysis is run over relevant to the business period as a part of the ORSA can endanger policyholder protection, the main objective of supervisors.
	Other	N/A
Benefits	Policyholders	No material benefit is expected
	Industry	No material benefit is expected.
	Supervisors	No material benefit is expected.
	Other	N/A
Option 1.2: Undertakings 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. Analysis to be considered over a three-year period as a minimum time horizon for the majority of the insurance undertakings. The uncertainty in the duration and (macroeconomic) impact of the pandemic to be considered in the ORSA and, if relevant for the risk profile, multiple scenarios to capture this uncertainty in an appropriate manner. The scenarios to include several degrees of severity for the pandemic's impact on the undertaking's solvency and capital needs taking into account the individual situation.		
Costs	Policyholders	Indirect costs from the additional costs imposed on industry.
	Industry	Additional cost on developing scenario analysis reflecting a longer time horizon and the second-order effect of the current situation.
	Supervisors	No costs are expected, as supervisors should be able to receive the information on change of the risk profile within the ORSA including scenario analysis within the relevant business period for the undertaking.
	Other	N/A
Benefits	Policyholders	Indirect benefits from more relevant risk management.
	Industry	This approach would be very helpful in streamlining procedures for the ORSA in situations similar to the one caused by the impact of Covid-19 that need to be stressed within a period relevant for the specific business. It also promotes the use of the proportionality principle.
	Supervisors	Supervisors would be able limit the burden from asking additional assessment aligned with the period for the specific business on a later stage when reviewing the ORSA. This should allow supervisors to focus on possible upcoming supervisory issues well in advance.
	Other	N/A

2.16. With regards to option 1.1 some additional costs and no cost reductions are expected as it keeps the status quo. It does not reduce unnecessary costs industry and supervisors currently have. Option 1.2 is also not considered of bringing any additional costs, especially for supervisors which should be ready to receive detailed scenario analysis as part of the ORSA.

2.17. In terms of expected benefits, option 1.2 is expected to bring the value-added brought by streamlining undertakings' procedures for the ORSA in situations similar to the one caused by the impact of Covid-19. For the supervisors, the detailed description of the attributes to the scenario analysis and the time horizon defined, limit the burden from asking additional assessment aligned with the period for the specific business on a later stage when reviewing the ORSA. This should allow supervisors to focus on possible upcoming supervisory issues well in advance.

2.18. Therefore, the approach chosen is to include further guidance as per option 1.2. with regards to ensuring adequate risk management for undertakings by carrying out scenario analysis examining the effects of the current pandemic (or any similar situations in future).

Evidence

2.19. The analysis is based on the work done in the context of drafting the supervisory statement:

- Work carried out by EIOPA;
- Stakeholders' feedback during the public consultation of the Supervisory statement on ORSA in the context of Covid-19.

Comparison of options

2.20. The preferred policy option for this policy issue is Option 1.2., as it is seen as a supervisory convergence issue where the legal framework is considered adequate.

2.21. The assessment of each option has taken into account the need for a risk-based and proportionate approach and the need to keep the flexibility of supervisory judgment while recognising that work under supervisory convergence is needed.

2.22. In the assessment of the options, also the efficiency is considered regarding the way in which resources are used to achieve the objectives.

2.23. The assessment of the effectiveness and efficiency are presented in the table below.

Policy issue: 2. In order to ensure adequate risk management, undertakings to carry out scenario analysis as a part of their ORSA (Art. 306 Delegated Regulation).			
	Effectiveness (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Improving proportionality, in particular by limiting the burden for (re)insurance	Objective 3: Improving transparency and better comparability

		undertakings with simple and low risks	
Option 1.1: No further guidance	0	0	+
Option 1.2: Creating level playing field	++	++	++
	Efficiency (0/+/++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks	Objective 3: Improving transparency and better comparability
Option 1.1: No further guidance	0	0	0
Option 1.2: Creating level playing field	++	++	++

Assessments performed within the ORSA

Policy issue 3	Options
1. Consideration of proportionality principle and the materiality of the outcomes resulting from the assessments performed within the ORSA.	<p>1.1 No further guidance</p> <p>1.2 Undertakings to further 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: 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.</p>

Analysis of impacts of the review of adequacy of the measure proposed with regards to the assessments performed in the ORSA

2.24. EIOPA focused on addressing the input from stakeholders to the targeted question from the public consultation of the supervisory statement on the measures foreseen with regards to the scenarios used in the ORSA

Policy issue 3: Consideration of proportionality principle and the materiality of the outcomes resulting from the assessments performed within the ORSA		
Option 1.1: No further guidance		
Costs	Policyholders	Indirect costs from the costs imposed on industry.
	Industry	Implicit costs if the outcomes resulting from the assessments of the ORSA in the context of Covid-19 pandemic are not well reflected, leading to possible negative impact on the risk profile of the undertaking.
	Supervisors	Implicit costs if the outcomes resulting from the assessments of the ORSA in the context of Covid-19 pandemic are not well reflected leading to possible negative impact on the risk profile of the undertaking impacting the protection of policyholders.
	Other	N/A
Benefits	Policyholders	No material benefit is expected.
	Industry	No material benefit is expected.
	Supervisors	No material benefit is expected.
	Other	N/A
Option 1.2: Undertakings to further 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: 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.		
Costs	Policyholders	No material costs are expected.
	Industry	Additional efforts may be needed in case further developments of the undertaking's systems are necessary to accommodate the above mentioned points.
	Supervisors	Additional efforts may be needed in case further developments of the supervisor's systems are required in order to be able to analyse the above mentioned points, including the results of the analysis delivered by the undertaking concerned.
	Other	N/A
Benefits	Policyholders	Better policyholder protection is expected as a benefit: as undertakings would take into account additional points for the applied stresses of the COVID-19 pandemic, which would allow them to foresee negative impacts on policyholders' side.
	Industry	The proposed measure would bring important insights to undertakings warning systems with regards to strong/ long-term negative impact of specific circumstances like Covid-19 pandemic, which could provide an indication about the adequacy of the stresses applied.

	Supervisors	Supervisors would be able to assess the effect of the specific circumstances around the particular undertaking.
	Other	N/A

2.25. With regards to option 1.1 neither additional material costs nor cost reductions are expected as it keeps the status quo. Option 1.2 may bring additional costs only in cases where undertakings or supervisors need to develop IT systems in order to be able to accommodate the additional analysis carried out in the context of Covid-19.

2.26. In terms of expected benefits, option 1.2 is anticipated to bring value-added by providing insights into the potential impact of the specific situation caused by Covid-19 pandemic for particular undertakings by stressing specific parameters that are relevant for the circumstances. This option would also help foreseeing negative impacts on policyholders' side. It will also allow supervisors to assess the effects of the specific circumstances around particular undertaking.

2.27. Therefore, the approach chosen is to include further guidance as per option 1.2. With regards to the assessments performed in the ORSA

Evidence

2.28. The analysis is based on the work done in the context of drafting the supervisory statement:

- Work carried out by EIOPA;
- Stakeholders' feedback during the public consultation of the Supervisory statement on ORSA in the context of Covid-19.

Comparison of options

2.29. The preferred policy option for this policy issue is Option 1.2., as it is seen as a supervisory convergence issue where the legal framework is considered adequate.

2.30. The assessment of each option has taken into account the need for a risk-based and proportionate approach and the need to keep the flexibility of supervisory judgment while recognising that work promoting supervisory convergence is needed.

2.31. In the assessment of the options, also the efficiency is considered regarding the way in which resources are used to achieve the objectives.

2.32. The assessment of the effectiveness and efficiency are presented in the table below.

Policy issue: 3. Consideration of proportionality principle and the materiality of the outcomes resulting from the assessments performed within the ORSA

	Effectiveness (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks	Objective 3: Improving transparency and better comparability
Option 1.1: No further guidance	0	0	0
Option 1.2: Creating level playing field	++	+	++
	Efficiency (0/+ /++)		
Options	Objective 1: Effective and efficient supervision of (re)insurance undertakings and groups	Objective 2: Improving proportionality, in particular by limiting the burden for (re)insurance undertakings with simple and low risks	Objective 3: Improving transparency and better comparability
Option 1.1: No further guidance	0	0	0
Option 1.2: Creating level playing field	++	+	++

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