



EIOPA-BoS-14/259 EN

# **Guidelines on own risk and solvency assessment**

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### **1. Introduction**

- 1.1. According to Article 16 of Regulation (EU) No. 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (hereinafter "EIOPA Regulation")<sup>1</sup>, EIOPA issues these Guidelines addressed to the supervisory authorities on how to proceed with the application of Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of insurance and reinsurance (hereinafter "Solvency II")<sup>2</sup>.
- 1.2. These Guidelines are based on Articles 41, 44, 45 and Article 246 of Solvency II and on Articles 262 and 306 of Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC (hereinafter "Commission Delegated Regulation 2015/35")<sup>3</sup>.
- 1.3. Supervisory authorities are expected to ensure that undertakings take a forward looking view on the risks to which they are exposed.
- 1.4. The Guidelines focus on what is to be achieved by the own risk and solvency assessment (hereinafter "ORSA"), rather than on how it is to be performed. For example, since the assessment of overall solvency needs represents the undertaking's own view of its risk profile, and the capital and other means needed to address these risks, the undertaking should decide for itself how to perform this assessment given the nature, scale and complexity of the risks inherent in its business.
- 1.5. EIOPA acknowledges and supports the developments and achievements on a global scale and national level outside the European Union with regard to setting standards for ORSA with a forward looking perspective. However, EIOPA does not expect that supervisory authorities in third countries apply these Guidelines. Nevertheless, the Guidelines are subject to equivalence analysis. When referring to group structures or group level, the Guidelines apply to European Economic Area (hereinafter "EEA") groups only. The Guidelines apply to branches established within the European Union and belonging to insurance or reinsurance undertakings with their head office situated in their countries and performing business referred to in the first subparagraph of Article 2(1) of Solvency II.
- 1.6. It is crucial that the administrative, management or supervisory body (hereinafter "AMSB") of the undertaking is aware of all material risks the undertaking faces, regardless of whether the risks are captured by the Solvency Capital Requirement (hereinafter "SCR") calculation and whether they are quantifiable or not. It is also vital that the AMSB takes an active role in the ORSA by directing the process and challenging the outcome.

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<sup>1</sup> OJ L 331, 15.12.2010, p. 48–83.

<sup>2</sup> OJ L 335, 17.12.2009, p.1-155.

<sup>3</sup> OJ L 12, 17.01.2015, p. 1.

- 1.7. In case a group wishes to apply for the undertaking of the ORSA pursuant to the third subparagraph of Article 245(4) of Solvency II, this requires a high level of consistency in processes across the group.
- 1.8. These Guidelines apply to both individual undertakings and at the level of the group. Additionally, these Guidelines address issues relevant to the group specificities of the ORSA, in particular on account of specific risks to the group or risks that could be less relevant at individual level than at group level.
- 1.9. The relevant Guidelines for individual undertakings apply mutatis mutandis to the group ORSA. Additionally, groups need to take into consideration the group specific Guidelines.
- 1.10. For the purpose of these Guidelines, the following definitions have been developed:
  - 'group level' means a coherent economic entity (holistic view) comprising all entities that are part of the group as referred to in the EIOPA's Guidelines on the system of governance;
  - 'group ORSA' means the ORSA undertaken at group level;
  - 'single ORSA document' means a single document (supervisory report of the ORSA) which covers ORSA undertaken at the level of the group and at the level of some subsidiaries in the group on the same reference date and period, subject to supervisory approval, as referred to in the third subparagraph of Article 246(4) of Solvency II.
- 1.11. If not defined in these Guidelines, the terms have the meaning defined in the legal acts referred to in the introduction.
- 1.12. The Guidelines shall apply from 1 January 2016.

### **Guideline 1 – General approach**

- 1.13. The undertaking should develop for the ORSA its own processes with appropriate and adequate techniques, tailored to fit into its organisational structure and risk-management system and taking into consideration the nature, scale and complexity of the risks inherent to the business.

### **Guideline 2 – Role of the AMSB: top-down approach**

- 1.14. The AMSB should take an active part in the ORSA, including steering, how the assessment is to be performed and challenging the results.

### **Guideline 3 – Documentation**

- 1.15. The undertaking should have at least the following documentation on the ORSA:
  - a) the policy for the ORSA;
  - b) record of each ORSA;
  - c) an internal report on each ORSA;
  - d) a supervisory report of the ORSA.

## **Guideline 4 – Policy for the ORSA**

- 1.16. The AMSB of the undertaking should approve the policy for the ORSA. This policy should include at least a description of:
- a) the processes and procedures in place to conduct the ORSA;
  - b) the link between the risk profile, the approved risk tolerance limits and the overall solvency needs;
  - c) the methods and methodologies including information on:
    - (i) how and how often stress tests, sensitivity analyses, reverse stress tests or other relevant analyses are to be performed;
    - (ii) data quality standards;
    - (iii) the frequency of the assessment itself and the justification of its adequacy particularly taking into account the undertaking's risk profile and the volatility of its overall solvency needs relative to its capital position;
    - (iv) the timing for the performance of the ORSA and the circumstances which would trigger the need for an ORSA outside of the regular time-scales.

## **Guideline 5 – Record of each ORSA**

- 1.17. The undertaking should evidence and document each ORSA and its outcome.

## **Guideline 6 – Internal reporting on the ORSA**

- 1.18. The undertaking should communicate to all relevant staff at least the results and conclusions of the ORSA, once the process and the results have been approved by the AMSB.

## **Guideline 7 – Assessment of the overall solvency needs**

- 1.19. 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.
- 1.20. Where appropriate, the undertaking should subject the identified material risks to a sufficiently wide range of stress tests or scenario analyses in order to provide an adequate basis for the assessment of the overall solvency needs.

## **Guideline 8 – Forward-looking perspective of the overall solvency needs assessment**

- 1.21. The undertaking should ensure that its assessment of the overall solvency needs is forward-looking, including a medium term or long term perspective as appropriate.

## **Guideline 9 – Valuation and recognition bases of the overall solvency needs**

- 1.22. The undertaking should, if it uses recognition and valuation bases that are different from the Solvency II bases in the assessment of its overall solvency needs, explain how the use of such different recognition and valuation bases ensures better consideration of the specific risk profile, approved risk tolerance limits and business strategy of the undertaking, while complying with the requirement for a sound and prudent management of the business.
- 1.23. The undertaking should quantitatively estimate the impact on the overall solvency needs assessment of the different recognition and valuation bases in those cases where recognition and valuation bases that are different from the Solvency II bases have been used in the assessment of its overall solvency needs.

## **Guideline 10 – Continuous compliance with regulatory capital requirements**

- 1.24. The undertaking should analyse whether it complies on a continuous basis with the Solvency II regulatory capital requirements and as part of this assessment it should include at least:
  - a) the potential future material changes in its risk profile;
  - b) the quantity and quality of its own funds over the whole of its business planning period;
  - c) the composition of own funds across tiers and how this composition may change as a result of redemption, repayment and maturity dates during its business planning period.

## **Guideline 11 – Continuous compliance with technical provisions**

- 1.25. The undertaking should require the actuarial function of the undertaking to:
  - a) provide input as to whether the undertaking would comply continuously with the requirements regarding the calculation of technical provisions;
  - b) identify potential risks arising from the uncertainties connected to this calculation.

## **Guideline 12 – Deviations from assumptions underlying the SCR calculation**

- 1.26. The undertaking should assess whether its risk profile deviates from the assumptions underlying the SCR calculation and whether these deviations are significant. The undertaking may as a first step perform a qualitative analysis and if that indicates that the deviation is not significant, a quantitative assessment is not required.

## **Guideline 13 – Link to the strategic management process and decision-making framework**

- 1.27. The undertaking should take into account the results of the ORSA and the insights gained during the process of this assessment in at least:
- a) its capital management;
  - b) its business planning;
  - c) its product development and design.

## **Guideline 14 – Frequency**

- 1.28. The undertaking should perform the ORSA at least annually.

## **Guideline 15 – Scope of group ORSA**

- 1.29. The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should design the group ORSA to reflect the nature of the group structure and its risk profile. They should cover in the group ORSA the material risks arising from all the entities that are part of the group.

## **Guideline 16 – Reporting to the supervisory authorities**

- 1.30. The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should send to the group supervisor the group supervisory ORSA report. The document sent to the group supervisor with the outcome of the group ORSA should be in the same language as the group Regular Supervisory Reporting.
- 1.31. If a single ORSA document has been performed, the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should ensure that, if requested by a member or a new member of the college, a translation into the official language of that Member State of the part of the ORSA information concerning the related undertaking is provided to the requiring member, in timely manner.

## **Guideline 17 – Group specificities on overall solvency needs**

- 1.32. The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should adequately assess the impact of all group specific risks and interdependencies within the group and the impact of these risks and interdependencies on the overall solvency needs. They should take into consideration the specificities of the group and the fact that some risks may be scaled up at the level of the group.
- 1.33. In accordance with Guideline 5 on the record of each ORSA, the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should include in the record of the group

ORSA at least a description on how the following factors were taken into consideration for the assessment of overall solvency needs:

- a) the identification of the possible sources of capital within the group and identification of potential needs for additional capital;
- b) the assessment of availability, transferability or fungibility of capital;
- c) references to any envisaged transfer of capital within the group, which would have a material impact on any entity of the group, and its consequences;
- d) alignment of individual strategies with the ones established at the level of the group;
- e) specific risks the group could be exposed to.

#### **Guideline 18 - Group specificities on the continuous compliance with regulatory capital requirements**

- 1.34. In accordance with Guideline 5 on the record of each ORSA, the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should include in the record of the group ORSA at least a description on how the following factors were taken into consideration for the assessment of continuous compliance with regulatory requirements:
- a) the identification of the sources of own funds within the group and if there is a need for additional own funds;
  - b) the assessment of availability, transferability or fungibility of own funds;
  - c) references to any planned transfer of own funds within the group, which would have a material impact on any entity of the group, and its consequences;
  - d) alignment of individual strategies with the ones established at the level of the group;
  - e) specific risks the group could be exposed to.

#### **Guideline 19 – Specific requirements for a single ORSA document**

- 1.35. In case of application to undertake the ORSA according to third subparagraph of Article 246(4) of Solvency II , the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should provide to the group supervisor:
- a) a list of the undertakings for which the individual assessments required by Article 45 of Solvency II are covered in the single ORSA document including the reason of the choice made;
  - b) a description of how the governance requirements are met at the level of these undertakings and in particular how the AMSBs of the subsidiaries are involved in the assessment process and approval of the outcome;

- c) a description of how the single ORSA document is organised in order to allow the group supervisor to separate individual assessments for the other supervisors in the college;
- d) where necessary, a specific indication on required translations, with specific attention to timing and content.

## **Guideline 20 – Integration of related third-country insurance and re-insurance undertakings**

1.36. In the assessment of the group overall solvency needs, the participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should include the risks of the business in third countries in a consistent manner as it does for European Economic Area-business with special attention to the assessment of transferability and fungibility of capital.

## **Compliance and Reporting Rules**

- 1.37. This document contains Guidelines issued under Article 16 of the EIOPA Regulation. In accordance with Article 16(3) of the EIOPA Regulation, competent authorities and financial institutions shall make every effort to comply with guidelines and recommendations.
- 1.38. Competent authorities that comply or intend to comply with these Guidelines should incorporate them into their regulatory or supervisory framework in an appropriate manner.
- 1.39. Competent authorities shall confirm to EIOPA whether they comply or intend to comply with these Guidelines, with reasons for non-compliance, within two months after the issuance of the translated versions.
- 1.40. In the absence of a response by this deadline, competent authorities will be considered as non-compliant to the reporting and reported as such.

## **Final Provision on Reviews**

- 1.41. The present Guidelines shall be subject to a review by EIOPA.