

Comment Template

Exposure Draft of ESAP3 – Actuarial practice in relation to the ORSA process under Solvency II

1. Do you think that the ED achieves the goal of the drafting team in reaching a balance between the desire for high-quality actuarial work and ensuring the guidance is neither inefficient nor unduly burdensome?

Yes subject to the comments below

No

If not then please indicate your concerns:

Response/Comments

- Will the actuary always have the power or decision making capacity to implement ESAP3 within the ORSA process? Will a conflict exist for an actuary who is part of the ORSA process but is not in a position to influence the way the process is conducted? How can such an actuary be expected to fulfill the requirements of ESAP3? The ESAP should address these issues. The Transmittal Letter accompanying the ED does touch on these points but visibility on the content of such a letter may be lost over time.
2. Do you think that the guidance in the ED achieves the right level of detail (not too detailed, not too general)?

Yes

No

If not then please indicate the topic(s) where the standard should be more/less detailed:

Response/Comments

The guidance is sufficiently detailed and achieves the right balance. Some specific comments / observations / points of note are outlined here.

Section 3.1.3

In considering the structure and process of the ORSA, the actuary should ensure or contribute to ensuring, whichever is appropriate, that the business-planning period takes account of ...

Comment

The business planning period maybe outside of the control or remit of the actuary working on the ORSA within an organisation. While the points raised in Section 3.1.3 of ESAP 3 are valid the actuary involved in the ORSA may not always be able to influence the business planning process.

Section 3.2.1

The actuary should consider how the ORSA time horizon and risk measure is consistent with that used in the SCR to ensure multi-year projections are coherent

Comment

Should the SCR time horizon not be independent from the time horizon of the business plan/ORSA.

Section 3.2.1

“The actuary must assess the significance with which the risk profile of the undertaking or group concerned deviates from the assumptions underlying the Solvency Capital Requirement.”

Comment

Why is “must” used here when “should” is used throughout the rest of the ESAP? Why would responsibility for carrying out this assessment necessarily fall to the actuary?

Presumably, in any event, this requirement would apply only in the case of Standard Formula companies - ?

Section 3.3.1

The actuary should seek to ensure or contribute to ensuring, whichever is appropriate, that the AMSB takes an active part in the ORSA process by, for example, steering how the assessment is to be performed and challenging its results.

Comment

Will the actuary have the control or the ability to ensure this happens?

Section 3.4.1

‘the need for the ORSA process to be aligned with the business-planning process including the consistency of the risk profiles considered’

‘the need for the scenarios that are developed, applied and updated to be appropriately adverse but realistic;

Comment

The language used in this section potentially indicates that the business planning process and ORSA process are two separate, distinct and independent processes. The business planning process should be seen as part of the overall ORSA process.

Should more extreme scenarios not also be considered within the ORSA? Are extreme scenarios not key to the ORSA process?

3. Is any of the proposed guidance inappropriate for inclusion in ESAP3? If so, please indicate which one(s) and explain why the particular topic(s) should not be included.

We do not see anything within the guidance as inappropriate. Clarity on some of the points above would be of value.

4. What other topics should be included in ESAP3? Please indicate which one(s) and explain why you wish guidance in the area(s).

5. Any additional comments

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IMPORTANT:

Please check if the relevant check boxes are ticked appropriately and save the file renamed with the name of your organization (i.e. CommentTemplate_ED_ESAP3_[name of your organization].Doc). E-mail the file as an attachment to mlucas@actuary.eu, with “Comments to the ED of ESAP3 by [name of your organization]” in the e-mail subject.