

Comments on Consultation 37-09 Draft advice on the procedure to be followed for the approval of an internal model

Name company: AMICE

Please insert your comments in the table below, and send it to secretariat@ceiops.eu in word format. In order to facilitate processing of your comments, we would appreciate if you could refer to the relevant section and/or paragraph in the Consultation Paper 37-09.

Reference	Comment
General comment	We welcome the introduction of a pre-application phase as this can be beneficial for both undertakings and supervisors. Self-assessment of the company should play an important role within the pre-application phase, possibly supported by views of fully independent third parties.
General comment	The non-inclusion of the operational risk within the internal model should not prevent supervisors to qualify the model still as a full internal model if the undertaking is able to demonstrate that operational risk is not material in its overall business.
General comment	<p>AMICE members support CEA´s proposal concerning the definition of a “reasonable timeline” for the following phases of the approval process:</p> <ul style="list-style-type: none"> pre-application phase transitional plan following a limited approval transitional plan following a partial internal model approval prior model usage (see para 3.22) decision upon the formal completeness of the application (see para 3.28) approval of changes to an approved model change policy (see para 3.66) approval of major changes (see para 3.73) implementation deadline and approval of minor modifications (see para 3.95) later date to be set out in the permission document (see para 3.164) minimum waiting period after rejection (see para 3.172)

Comments on Consultation 37-09 Draft advice on the procedure to be followed for the approval of an internal model	
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General comment	The application of the model change policy should be flexible and adapted to the changing nature of internal models. A maximum scope option covering all areas which are relevant for the internal model, including changes to the organization, changes in the processes or policies, or business strategy, would be very burdensome for insurance companies and the supervisor.
Para 3.8 c)	We believe that the development of a standard format of the undertaking´s self-assessment of internal model readiness would be very useful in the pre-application phase and we urge CEIOPS members to provide such a format.
Para 3.22	AMICE members believe a fairly short time frame should be set for the period between the reception by the supervisor of the application and the communication by the supervisor to the undertaking whether the application is complete or not. (3.22 d) We also believe that the results of the latest ORSA should not interfere within the application process. (3.22 g) We have some doubts on the added value that a description of any “internal model limitations or shortcomings identified during the validation process” can provide to the supervisors when these weaknesses have been already addressed and presumably solved by the undertaking before submitting the application.
Para 3.19 and 3.28	As also expressed in our comments on par. 3.22, AMICE members are of the opinion that there should be a time frame between the moment the application is received and the moment the 6 months period starts.
Para 3.35	We agree with the CEA that an appropriate specific time frame for the “approval of the model change” phase needs to be specified.
Para 3.42, 3.43 3.44 and 3.63	A maximum scope option covering all areas which are relevant for the internal model, including changes to the organization, changes in the processes or policies, or business strategy, would be very burdensome for insurance companies and the supervisor.
Para 3.38-3.48, 3.52 and 3.65	We agree with this paragraph that the policy for changing the full and partial internal model shall include a specification for identifying major and minor changes to the internal model as stated in the Framework Directive. However, AMICE members suggest amending on level 2 the categories defined on level 1 by a more granular breakdown of categories of model change as follows: 1/ First category - minor non-relevant modifications : (i.e non material code re-writing). This type of modification shall <u>neither</u> be <u>reported</u> to the supervisor <u>nor signed-off</u> by the management body.

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	<p>2/ Second category - minor modifications: (i.e change in figures -i.e equity market volatility-). This second category of modifications shall be <u>reported</u> to the supervisor.</p> <p>3/ Third category - major non-structural modifications :(i.e changes in the calculation process of parameters like volatility, or others items depending on financial markets, like liquidity premium, commercial profit sharing rule,...). This third category of modifications shall be <u>reported and approved</u> by the supervisor within 3 months</p> <p>4/ Fourth category - structural modifications: (i.e change in the software used to model Best Estimates). We agree that in this case, a <u>re-approval</u> period is needed.</p> <p>This categorization should not prevent the supervisory authorities to perform an in-depth review of minor changes to the internal model as stated in paragraph 3.55 from CEIOPS paper.</p> <p>A reasonable timeframe for the approval of model changes is needed. Defining a shorter period for validating changes to the internal model would be more reasonable and realistic.</p>
Para 3.57, 3.75, 3.78	In line with our proposal for a more granular breakdown of changes categories, AMICE members believe that undertakings should <u>not be required</u> to systematically report <u>all changes</u> made to the model. In this regard the principle of proportionality should apply.
Para 3.39 and 3.76	Paragraph 3.39 states the ultimate goal is to develop a reliable structure to classify any anticipated types of model changes . However, it is not always possible to anticipate all changes and the <u>model change policy</u> should therefore be supple in this regard. In our opinion <u>minor changes</u> not covered by the scope of the change policy should <u>not need to be approved</u> by the supervisor.
Para 3.89	AMICE members tend to think the main reason for developing a partial internal model would be that the standard formula does not fit the risk profile of some of the modules. We also agree that modelling additional risks or other lines of business may be disproportionate to the nature, scale and complexity of the risks of the undertaking. However, we do not share the opinion that the development of internal models "may encourage" mergers and/or acquisitions.
Para 3.95	AMICE members reject the idea that the assessment may be iterative with feedback to undertakings resulting in modifications to their models. If continuous changes to the model are required, this would imply an open-ended approval process. In this

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	regard " <u>minor and major modifications</u> " should not imply that the 6-month period is suspended. We agree with the CEA that these minor modifications could be included in the conditions for an approval with " <u>terms and conditions</u> ".
Para 3.114, and 3.167	We agree with the CEA that the "approval subject to terms and conditions" and the "plan indicating the necessary steps" need a time frame.
Para 3.115	AMICE members believe that if the internal model is rejected, the undertaking should have the right to appeal the supervisory decision on the application.
Para 3.164	Paragraph 3.164 states the undertaking shall use the internal model to calculate the SCR as soon as it is approved by the supervisory authorities or from a later date as set out in the decision or permission document from the supervisory authorities. We agree with the CEA that this later date needs a timeframe.
Para 3.172	We agree with the CEA that the "'waiting period' before the undertaking can submit a new application needs a timeframe.
Para 3.179-3.181	For the disclosure of negative decisions (or requests for major modifications) about an internal model, we suggest anonymised publication <u>at the European level</u> . Special care has to be taken in small markets where few undertakings would at all be able to develop an internal model, and therefore any information disclosed would not be fully anonymous. We agree with the CEA that companies should have the right to appeal any decision or permission by the supervisory authorities.
Annex C	AMICE members that the categories of changes defined in the Annex should not become the framework for describing different classes of model changes. More flexibility is deemed in this regard.