

Recommendation No 1/2021
of the financial market supervision units of Národná banka
Slovenska
of 22 March 2021
on own risk and solvency assessment

Národná banka Slovenska, through its financial market supervision units, having regard to the Guidelines¹ of the European Insurance and Occupational Pensions Authority (EIOPA), Sections 23, 25 and 26 of Act No 39/2015 on insurance (and amending certain laws) (hereinafter ‘the Insurance Act’) and Articles 262 and 306 of Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (hereinafter ‘the Delegated Regulation’), and in accordance with Section 2(9) of Act 747/2004 on financial market supervision (and amending certain laws), as amended, has adopted this Recommendation:

Article I

Introduction

- (1) Insurance and reinsurance undertakings (hereinafter ‘(re)insurance undertakings’) are expected to take a forward-looking view on the risks to which they are exposed.
- (2) This Recommendation focuses on what is to be achieved by the own risk and solvency assessment (hereinafter ‘ORSA’), rather than on how it is to be performed. Since the assessment of overall solvency needs represents the (re)insurance 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.
- (3) This Recommendation applies to (re)insurance undertakings established in Slovakia and to branches of foreign (re)insurance undertakings. For the purposes of this Recommendation, the term ‘(re)insurance undertakings’ is understood to include also branches of foreign (re)insurance undertakings.
- (4) It is crucial that the management board of the (re)insurance undertaking is aware of all material risks the undertaking faces, regardless of whether the risks are captured by the Solvency Capital Requirement (SCR) calculation and whether they are quantifiable or not. It is also vital that the management board take an active role in the ORSA by directing the process and challenging the outcome.
- (5) This Recommendation also applies at the group level pursuant to Sections 81 to 123 of the Insurance Act. This Recommendation’s guidelines for individual (re)insurance undertakings also apply, as appropriate, at the group level. Additionally, the guidelines address issues relevant to the group specificities of the

¹ EIOPA’s Guidelines on own risk and solvency assessment of 14 September 2015 (EIOPA-BoS-14/259 EN).

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.

- (6) For the production of a single ORSA document in accordance with Section 108(6) of the Insurance Act, a high level of consistency in processes across the group is required.
- (7) For the purposes of this Recommendation, the following definitions apply:
- a) 'ORSA' means 'own risk and solvency assessment';
 - b) 'group level' means a coherent economic entity comprising all entities that are part of the group as referred to in Section 82 of the Insurance Act;
 - c) 'group ORSA' means an ORSA undertaken at group level;
 - d) 'single ORSA document' means, in respect of the ORSAs which an ultimate parent undertaking at Union level undertakes at the level of the group and at the level of any subsidiary in the group at the same time (in accordance with Section 26 of the Insurance Act and subject to the agreement of the group supervisor), the single document covering all the assessments which the undertaking produces for the group supervisor in accordance with Section 108(6) of the Insurance Act.

Article II

Guidelines

Guideline 1 – General approach

(1) The (re)insurance 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 management board

(1) The management board 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) The (re)insurance undertaking should have at least the following documentation on the ORSA:

- a) the policy for the ORSA;
- b) a 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) The management board should approve the policy for the ORSA. This policy should include at least:

- a) a description of the processes and procedures in place to conduct the ORSA;
- b) a description of the link between the risk profile, the approved risk tolerance limits and the overall solvency needs;
- c) information on:
 1. how and how often stress tests, sensitivity analyses, reverse stress tests or other relevant analyses are to be performed;
 2. data quality standards;
 3. the frequency of the assessment itself and the justification of its adequacy particularly taking into account the (re)insurance undertaking's risk profile and the volatility of its overall solvency needs relative to its capital position;
 4. 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) The (re)insurance undertaking should adequately evidence and document each ORSA and its outcome.

Guideline 6 – Internal reporting on the ORSA

(1) The (re)insurance 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 management board.

Guideline 7 – Assessment of the overall solvency needs

(1) The (re)insurance 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.

(2) Where appropriate, the (re)insurance 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.

(3) Národná banka Slovenska recommends that insurance undertakings whose own funds include a high share of *expected profits included in future premiums* (EPIFP) – a share representing more than 40% of their life or non-life insurance business – consider including EPIFP stress testing in their range of stress tests, using the following scenarios:

- a) A scenario testing the reclassification of EPIFP as Tier 2 capital – designed to show the undertaking's solvency position if EPIFP for life insurance is reclassified as Tier 2 capital. Thus, the assigning of EPIFP to the less liquid Tier 2 capital is quantified in respect of its impact on own funds, the SCR, and the solvency margin.
- b) A scenario testing premium losses – designed to show the impact of premium losses resulting from a surge in policy surrenders (e.g. by 40%) on own funds, the SCR, and the solvency margin over the next three years. This enables the quantification of the risk associated with a slump in premiums resulting from rising policy surrenders.
- c) A scenario testing liquidity – predicated on comparing expected liquidity over the next three years and expected liquidity in the event of a surge in policy surrenders (e.g. by 40%) for a selected coverage limit (e.g. 1, 6, 12 months). Thus, it can be established whether the undertaking's liquidity would be sufficient if conditions deteriorated.

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

(1) The assessment of the overall solvency needs should be forward-looking, including a medium-term or long-term perspective as appropriate.

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

(1) The (re)insurance undertaking should, if it uses recognition and valuation bases that are different from those required under the Insurance Act and the Commission Delegated Regulation 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.

(2) The (re)insurance 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 those required

under the Insurance Act and the Commission Delegated Regulation have been used in the assessment of its overall solvency needs.

Guideline 10 – Continuous compliance with regulatory capital requirements

(1) The (re)insurance undertaking should analyse whether it complies on a continuous basis with the regulatory capital requirements under the Insurance Act and the Commission Delegated Regulation, 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) The (re)insurance 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) The (re)insurance 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) The (re)insurance 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) The (re)insurance undertaking should perform the ORSA at least annually.

Guideline 15 – Scope of group ORSA

(1) The participating (re)insurance 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) The participating (re)insurance undertaking, the insurance holding company or the mixed financial holding company should send to Národná banka Slovenska, as the group supervisor, the group supervisory ORSA report. The document sent to Národná banka Slovenska, as the group supervisor, with the outcome of the group ORSA should be in the same language as the group regular supervisory reporting.

(2) If a single ORSA document has been produced, the participating (re)insurance 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) The participating (re)insurance 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.

(2) In accordance with Guideline 5 on the record of each ORSA, the participating (re)insurance 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 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 18 – Group specificities on the continuous compliance with regulatory capital requirements

(1) In accordance with Guideline 5 on the record of each ORSA, the participating (re)insurance 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) In the case of an application to undertake the ORSA according to Section 108(6) of the Insurance Act, the participating (re)insurance undertaking, the insurance holding company or the mixed financial holding company should provide to Národná banka Slovenska, as the group supervisor:

- a) a list of the undertakings for which the individual assessments 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 administrative, management or supervisory bodies 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 Národná banka Slovenska, as 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 (re)insurance undertakings

(1) In the assessment of the group overall solvency needs, the participating (re)insurance 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.

Article III

Repealing provision

This Recommendation repeals Recommendation No 5/2016 of the Financial Market Supervision Unit of Národná banka Slovenska on own risk and solvency assessments for the insurance and reinsurance sectors.

Article IV

Date of effect

This Recommendation takes effect on the date of its publication in the Journal of Národná banka Slovenska.

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