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redefining / standards

National Specific Templates Feedback - AXA Life Invest Risk Management

The following comments represent the views of AXA Life Invest ("ALI") on consultation paper CP89 "Consultation on National Specific Templates for Insurers and Reinsurers under Solvency II" published by the Central Bank of Ireland ("CBI") on the 6th November 2014. AXA Life Invest is the business unit of the AXA Group that includes both AXA Life Europe Limited and AXA Life Invest Reinsurance Limited. For any queries or clarifications on these comments please contact stephen.lee@axa-lifeinvest.com

AXA Life Invest welcomes the opportunity to provide input on this consultation paper, and recognises and supports the objective of the CBI to improve how the risks associated with Variable Annuity / Unit linked with Guarantees business are measured, monitored and mitigated. We would respectfully ask that the CBI consider the following in formulating its final position in relation to the National Specific Templates – noting that the feedback presented here is restricted to section 5 of the consultation paper, namely the templates required for Variable Annuity business. AXA Life Invest fully supports the general objective of the Central Bank of Ireland in ensuring that a robust risk management framework exists in VA/ ULG writers as well as the specific objective within NST to translate this into solid business process foundations.

VA Issue 1 – Basis for P&L attribution

Section 5.1 states that one purpose of the NST is to provide a retrospective examination of hedging performance (profit and loss attribution). ALI considers that the most appropriate attribution basis for that purpose is our own hedging basis. This position is aligned with the outcome of the "Interim Requirements" for the VA Risk Monitor.

In particular, we believe that the granularity of a daily attribution is only of real benefit when applied to a daily process such as hedging. ALI fully recognises the need to understand movements in the Solvency II balance sheet between reporting periods, but suggests that a quarterly attribution would suffice for that specific purpose, e.g. a daily attribution of hedging performance on our own hedging basis coupled with a quarterly reconciliation of the difference between the hedging and Solvency II basis would constitute the appropriate quarterly reporting within the NST. ALI would respectfully suggest that the CBI may wish to take this into consideration.

VA Issue 2 – Attribution for reinsured business

ALI has no comment to make on this issue.

VA Issue 3 – Split between VA and non-VA business

ALI believes that the risk on its non-VA book in relation to the factors considered in the stress tests is immaterial. We would also highlight that the entire balance sheet is stressed under the SCR calculation and as part of the ORSA process. Incorporating stresses on non-VA business could interfere with the purpose of understanding the risk posed by VA business alone. For this reason, for the specific purpose of the NST, ALI proposes that shareholder assets be completely omitted from the stress testing process.

VA Issue 4 – Interaction between NST and ORSA

It is ALI's understanding that the purpose of the stress tests is to highlight the impact of a specific set of shocks on individual providers and derive aggregate results across the industry as a whole, in the specific context of dynamic hedging programs. In that regard, ALI would like to suggest that it may be an exercise best kept in isolation from other processes such as the ORSA, where company specific considerations are the key focus. The nature of metrics calculated under Risk Appetite Frameworks and ORSA are likely to be tailored to the specific business concerns and use different methodologies, as well as being aligned to different internal models.

VA Issue 5 – Nature of scenario tests

Given the standardised nature of these stress tests, ALI does not believe that any specific changes to the parameterisations proposed are necessary.

Other comments

ALI welcomed the CBI's relaxation of the frequency of stress testing under the interim requirements and would propose that an Annual frequency of submission would represent an appropriate interval for the standardised stress tests that are required under the NST (Ref. Section 5.5).

The template suggests that the attribution should be performed separately for assets and liabilities (Ref. Sections 5.2 and 5.3). Profit and Loss arises from unhedged exposures and ALI believes that the attribution can be performed with full effectiveness using net exposures rather than separating assets and liabilities.

It would be useful if the CBI would clarify if the thresholds for the level of Unexplained prescribed within the Templates NST.08 and NST.09 represent hard limits that must be met, and if so, what the regulatory implications of exceeding those thresholds will be. It is ALI's understanding that breach of these thresholds under the interim requirements applicable in 2015 will result in a supervisory dialogue centring on an entity's plan to improve the quality of the P&L attribution – it is important to know if this will continue to be the case under the Solvency II regime or whether a breach in the limits would result in some other specific action.