



Agenda

- The ORSA Within Standard Life
- Challenges and Initiatives
- AFH Perspective
- Key Success Factors for Making Your ORSA Real

ORSA Within Standard Life

- We have had a Group ERM Framework for a number of years
- Each business unit has a ERMC; essentially their Executive
- The framework is broadly aligned with the aims of Solvency II
- Key changes introduced by Solvency II
 - An annual ORSA Report
 - Internal Model and ORSA Policies
 - Formal reviews of System of Governance by Risk
 - More accurate and timely risk modelling
 - More formal validation of Internal Model methodology
- **The ORSA is the processes that support our ERM Framework**
- **These operate on a continuous basis**

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The ERM Framework

Our Approach

Risk Culture

- Right staff, right jobs, right behaviours, roles and responsibilities clearly defined
- Right structure, effectively implemented, risk focussed committees and management
- Group wide awareness, deepening understanding of risk, ongoing embedding and change

Strategic Risk Management

- Putting risk at heart of our business planning
- Understanding our risks and strategy and making the right decision
- Effective strategic control and allocation of capital

Risk and Capital Models

- Modelling and understanding our business
- Managing complexity, achieving consistency and clarity with common metrics
- Risks effectively quantified and business fully profiled

The ERM Framework

Our Approach

Emerging Risks

- Fully defined process for identification of emerging risks
- Supported by reverse stress tests
- Raising awareness at executive level and across the Group

Risk Control Processes

- Driving group wide operational excellence
- Operational Risk and Control: Integrated system, consistent application
- Active Control Management – make the right things happen the first time, identify when things have not gone right and understand why, recover the position quickly when things have not gone right

Above elements underpinned by stress and scenario testing

Key is to put in place a framework that enables the Executive and Board to make informed and consistent decisions about risk and reward

Challenge within SLAL

- The Executive have a non-technical business background
- The majority of UK ERMC time was spent on operational, rather than financial, risk issues
- A significant proportion of new business is unit-linked
- Big focus on IFRS profits
- Financial Risk Board papers not reviewed by Exec, ERMC; but big impact on risk exposures, profit (and hence remuneration) of SLAL
- UK ERMC not engaged with financial risk issues
- Business unit not aligned with legal entity
- Elapsed time to produce risk exposures
- **There was a need to engage the UK ERMC in financial risk and to make it meaningful for them**
- **Exec are most interested in what they can influence**

Initiative: Financial Risk Reporting

- Simplify reporting; minimise complexity
- Don't overload with figures: only useful if people have time to use
- Focus on what Exec can influence and how it impacts the business
- Focus on outputs rather than inputs; not an exercise in demonstrating brain power
- Bring out key points; this is what paid to do
- Assume reports read pre-ERMC
- Want to hear ERMC views, not Risk views; although Risk paid to have an opinion
- ERMC / Exec see all risk related Board papers pre-Board

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Initiative: Exec training

- ERMC training sessions on financial risk and Solvency II
- 1-1 training; small doses
- S2 mock interviews
- Continual reinforcement
- Enable the Exec to make decisions

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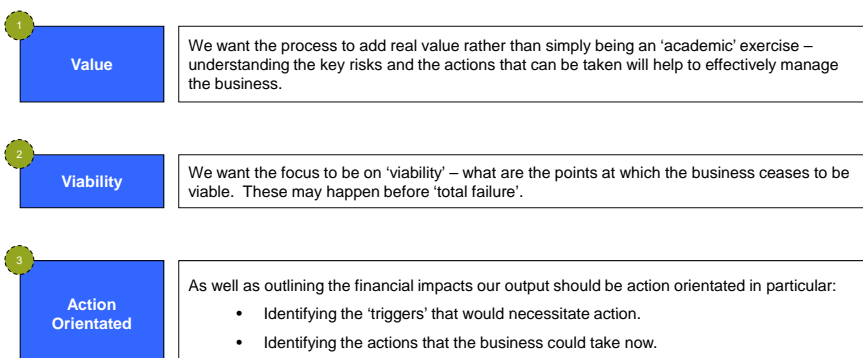
Initiative: ORSA Report

- Brings all info into one place
- Lets ERMC see big picture; holistic view
- Produce high level summary; focus on key recommendations
- Link in to what ERMC see on a regular basis: continual reinforcement
- SoG very useful as reference document

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Initiative: Reverse Stress Tests



Initiative: Reverse Stress Testing

- Engage ERM at start of process in deciding scenarios to investigate
- Link choice of scenarios into risk registers (strategic, emerging, financial, operational)
- Link to scenarios the ERM can relate to / business strategy (e.g. collapse of IFA distribution channel)
- Cover operational issues as well as financial unviability
- Involve the experts in the business in the development of the scenarios

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Initiative: Reverse Stress Testing

- For each scenario:
 - Triggers
 - Impact
 - What action can be taken now
 - What we can do if scenario unfolds
 - Recommendations
- Focus on actions that can be taken now; makes it real
- Less focus on contingency plans; can't always predict exact circumstances
- Very good workshop with ERM to review and finalise recommendations
 - Ran with flip-charts
 - Don't take changes in recommendations as criticism

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Initiative: Risk Appetites

- Only set quantitative appetites where assist in controlling risk
- Focus discussions on what ERM can influence
- Still some reliance on sub-set of ERM members
- Link appetites and management actions; impact of adverse conditions no exposures
- Reflect appetite breaches in BU performance scorecards; communicate this!

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Initiative: Embedding Risk Appetites in Business Planning

PROCESS:

- Work with planners to ensure integrated into full business planning process
- Combined plan including profit, risk and capital figures
 - Proposed business plan sets out how Shareholder value, Shareholder value at risk, Excess Working Capital and excess working capital at risk vary under specified univariate and combined stresses
 - Also consider impact of downside and severe downside scenarios
- Projection methods good enough for use rather than perfect
- Still not there; timescales and workloads challenging

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Initiative: Embedding Risk Appetites in Business Planning

EXEC AND ERM ENGAGEMENT:

- Engage ERM at start of process in agreeing stresses
- Keep telling the ERM stresses are important
- Only ask for stress and scenarios that will actually use
- Feedback on how used in past
- Discuss as Exec rather than ERM
- Use appetites to drive the plan / strategy
- Focus conversation on return as well as risk

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Initiative: Risk Appetites: The Future

- Move to IFRS at Risk
- Future: Risk and Capital Targets should be set by reference to a range of defined stress events after which the Group and all subsidiaries can meet their regulatory capital requirements
 - A range of stresses can be defined covering univariate equity & property, credit, interest rate stresses together with combined stresses involving the above
 - Easy for Senior Management to understand and aligns closely with FSA stress testing exercises
- Challenge going forward: Unit-linked business

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Initiative: Product Developments

- Minimise group / UK overlap
- Get involved early in process to identify key issues
- Be clear of role
 - Aim is to ensure risks clearly set out when Exec form a commercial judgement
 - And to ensure group minimum profit targets met and risks consistent with risk appetite
- Keep RAPRs short; focus on key risks; make accountabilities clear
- Ideally RAPRs need no comment when reach us
- Not there yet; risk is that frustrations with the process lead people to miss a key risk

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AFH Perspective

- Roles of Finance and Risk
- Design of the Actuarial Function
- Working with Risk
- Challenges

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Risk Management Roles of Finance and Risk

Our Approach

Risk

- Responsible for the risk management framework, risk policies, risk appetites
- 2nd line review and challenge of proposals
- Ensure that the key issues are brought out clearly
- Validation
- ORSA

Finance

- Monitoring and management of risk within the agreed framework, policies and appetites
- Proposing methodology, assumptions (Valuation, ICA, TPs, SCR, EEV etc.)
- Calculations and controls
- Communication and approval of results
- AFH role in the 1st line

Finance Capital & Risk Management

UK Actuarial
Director

Assumptions & Methodology team

- Propose methodology for assumptions (market & demographic) including stressed and distributions
- Ensure methodology and assumptions successfully navigate the governance process
- Perform experience analysis
- Propose demographic, economic and expense assumptions (on all bases, best estimate and stressed)

Technical Provisions & Reporting team

- Overall responsible for the production of Pillar 1 Valuation, Best Estimate Liability Valuation and P&L Attribution (as well as EEV and IFRS for as long as is required) including:
 - proposing methodology for calculation
 - analysis and reporting of results
 - ensuring methodology and results successfully navigate the governance process
- Primary responsibility for appropriateness of models and data and specifying changes

Solvency Capital Requirement team

- Overall responsible for the production of ICA, S2 SCR and Risk Margin including:
 - proposing methodology for calculation
 - analysis and reporting of results
 - ensuring methodology and results successfully navigate the governance process
- Responsible for Risk Agility and calibration of loss functions
- Producing Group SCR and stressed SCR

Capital Planning & Monitoring team

- Responsible for capital planning and supporting business planning
- Production of capital projections on all bases
- Responsible for monitoring of
 - assets
 - capital plan and solvency position
 - risk appetites / EWC@R / SV@R and risk register
 - liquidity
- Responsible for stress testing and reverse stress testing
- Responsibility for proposing the SLAL dividend
- Primary responsibility for 'what if' investigations

Capital Management team

- Responsible for optimising balance sheet through asset management, with-profit management, balance sheet management, liquidity and capital management

Technical Solutions

- Provides:
 - AFH support
 - Project support
 - Planning support

Working with Risk

- Review and challenge
 - Early engagement essential
 - Independence (both ways)
- Product development
 - Avoiding duplication of review and challenge
 - Responsibility for ensuring capital implications are appropriately quantified and communicated
 - Rely on detailed risk review as part of AFH sign-off
- FCR vs ORSA

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AFH Perspective – Challenges

- Strong engagement from SLAL Board – need to involve wider executive
- Complex with profits back book, simpler new business – focus on value of back book
- Too many metrics – focus on IFRS, economic capital (Shareholder Value), and cash

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Conclusions

- Tone from the top key
- To get full value need to engage key decision makers in ORSA
- Investing time in 1-1 discussions is worthwhile
- Make it meaningful in context of their day-jobs
- Focus on what they can influence
- Not everything you try will work
- There will always be more to do

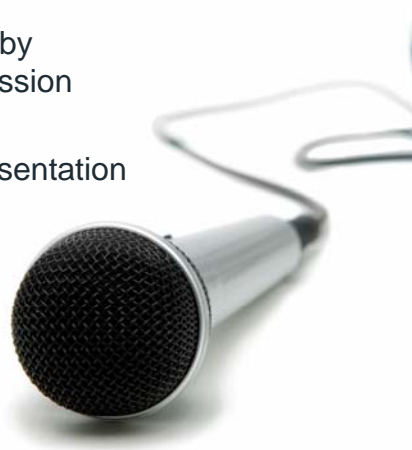
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