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Back a winning ORSA

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24 September 2014

Objectives for today

- Learn something new
- Do something different
- Insight into market practice
- Audience participation



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Agenda

Introduction and market update

Part 1

Risk and capital – example ORSA outputs

Part 2

Emerging risk

Part 3

ORSA reporting

Part 4

Forward looking assessment

Questions



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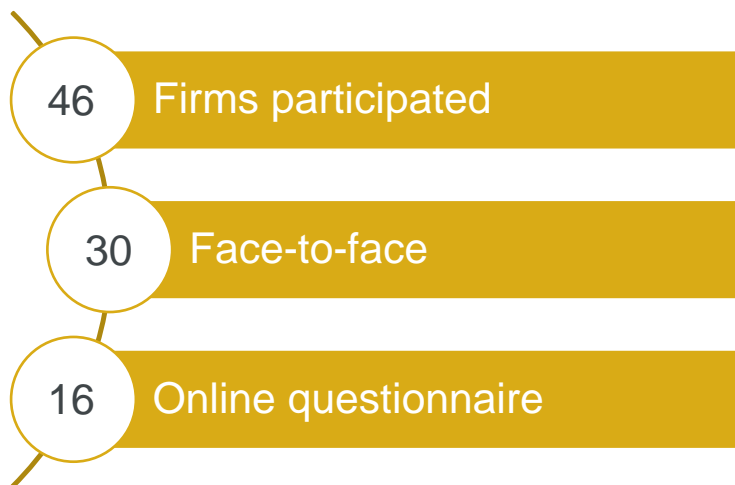
Introduction and market update



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From the ORSA's mouth (LCP ORSA Survey 2014)



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Key messages



Time and resource is the largest non-technical challenge



Is it a report or is it a process?



Would organisations benefit from an ORSA process timetable?



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So what?



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Which of the following do you think adds most value?

1. Emerging risks
2. Risk appetite
3. Scenario analysis and reverse stress testing
4. Forward looking assessment
5. Continuous solvency assessment

...Vote



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Which of the following do you think adds least value?

1. Emerging risks

2. Risk appetite

3. Scenario analysis and reverse stress testing

4. Forward looking assessment

5. Continuous solvency assessment

...Vote

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It's a one ORSA firm

	Q1	Q2	Q3	Q4
Strategy and risk appetite	Strategy planning session: Short Term / Long Term plans	Review risk appetite	Review strategy alongside business planning	Forward looking assessment
Business planning & capital setting	Monitor current year business plan (A vs E) & on-going solvency			
		Business planning Scenario analysis		Stress tests Reverse stress tests
Risk profile monitoring	On-going processes	Reserve setting and monitoring Cashflow monitoring Investment management	Model validation & trigger monitoring Reinsurance purchase Profitability monitoring	
Core risk management activities	Quarterly board reports	Key Risk Indicators Risk Events IM Validation	Emerging risks Risk Appetite monitoring Reverse stress testing	

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Risk and capital



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Don't put the cart before the ORSA

Risk Appetite

Aggregate level risk willing to accept in order to achieve business objectives

Capital impairment
Earnings targets
Investments or liquidity
Operations

Risk Tolerance

Early warning indicators to ensure risk appetite is not breached

Set and measured by risk module

Risk Limit

Operating limits

Operating limits

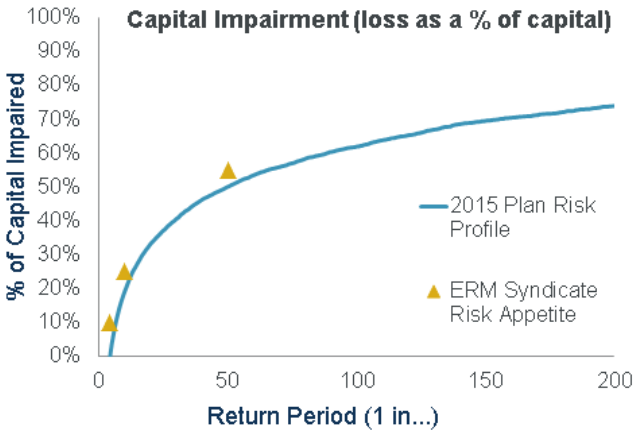


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Don't put the cart before the ORSA



Return Period	% of capital impaired
1 in 4	10%
1 in 10	25%
1 in 50	55%



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Does this style of risk appetite work?

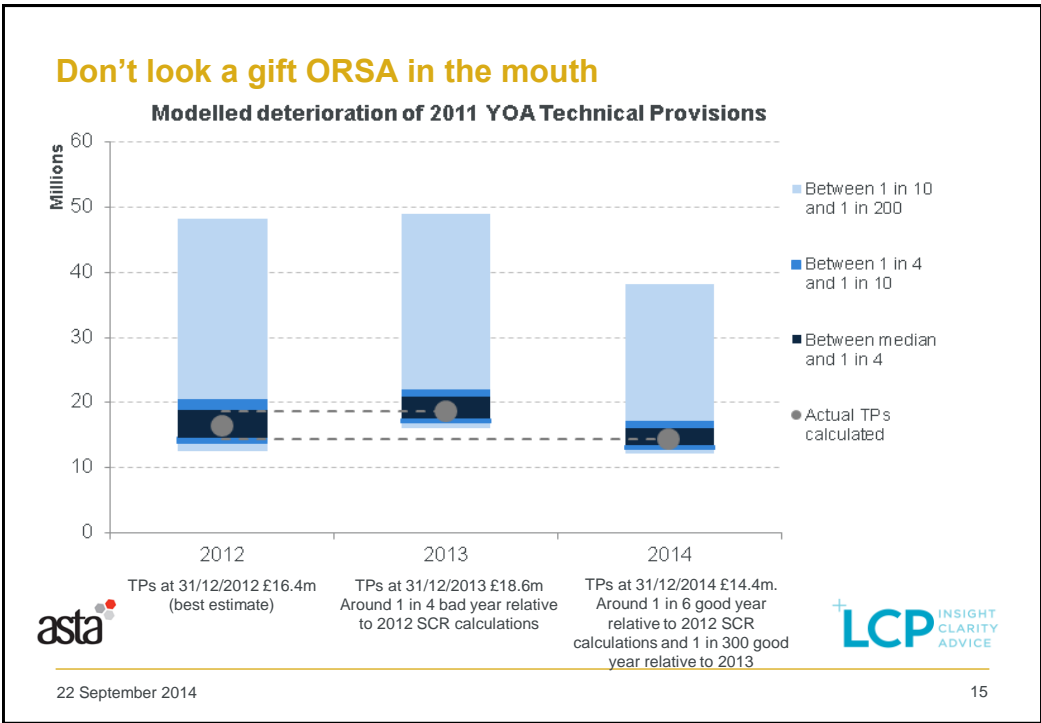
1. Effective way to start a debate on risk appetite
2. Has potential, I could see some uses for it
3. Not convinced, but may consider further
4. Don't really see the point



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Can you see uses for this style of information?

- 1. Plenty of possible uses
- 2. Limited uses, depending on what model output is easily available
- 3. More of a validation tool than anything else
- 4. Don't really see the point

...Vote

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Don't get saddled with uninformative scenarios

“...a sufficiently wide range of stress test or scenario analyses...”

EIOPA
EUROPEAN INSURANCE
AND OCCUPATIONAL PENSIONS AUTHORITY

EIOPA-CP-14/017
2 June 2014

**Consultation Paper
on
the proposal for
Guidelines
on
system of governance and own
risks and solvency assessment**

“...carry out stress tests and scenario analyses to assess the resilience of the business.”



Don't get saddled with uninformative scenarios

Compare scenarios side-by-side

Write 25% more business	Impact at mean	Impact at 99.5 th
- Across all LoBs evenly		Insert in £
- Within specifics LoBs		Insert in %

Consider more than just numbers

Overview of scenario	Describe scenario
Scenario impact	Financial, reputational, operational issues etc
External factors reducing / increasing scenario likelihood or impact	
Key controls	
Agreed management actions	





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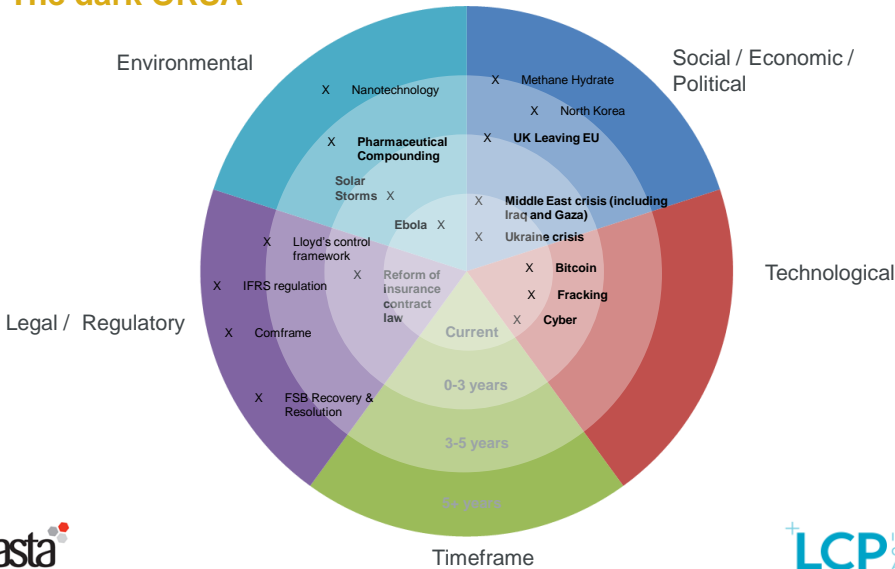
Emerging risks



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The dark ORSA



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Can analysis of emerging risks actually be useful?

...Vote

1. Can run scenario analysis, consider mitigation actions and prepare ahead of time in order to make better decisions
2. Can consider the impact for the business, but unlikely to change/influence decisions
3. By the time there is enough information the risk is no longer emerging
4. Don't really see the point



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ORSA reporting



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Key messages



Challenge to get the right balance between satisfying regulators and the Board



Making the ORSA available to a wider audience



Year-round, continuous reporting



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ORSA's for courses...



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Did you read your firm's last ORSA report?

...Vote

1. Yes – from cover to cover
2. I skimmed through it
3. Just the exec summary
4. No – I don't get to see it
5. No – I have access but haven't read it
6. Not applicable



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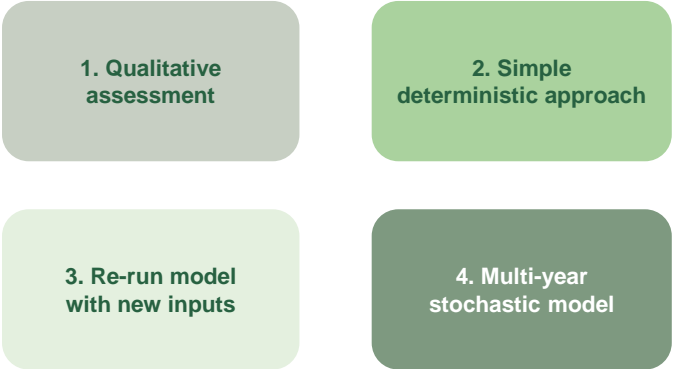
Forward looking assessment



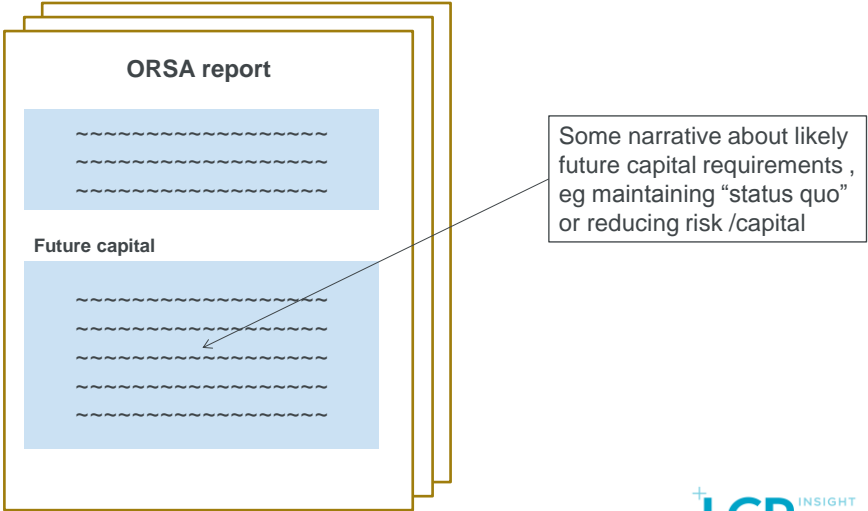
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Forward looking assessment: don't fall at the first fence



1. Qualitative assessment



2. Simple deterministic approach

£m	Mean profit	Independent 1 in 200 result	Difference from mean	Allocated capital	
Catastrophe risk	5	-95	-100	50	
Premium risk	50	-300	-350	310	
Reserve risk	3	-197	-200	150	
Credit risk	0	-50	-50	15	
Operational risk	-3	-78	-75	25	
Market risk	10	-115	-125	75	
Total (undiversified)	65	-835	-900	625	
		Total (diversified)	-625		

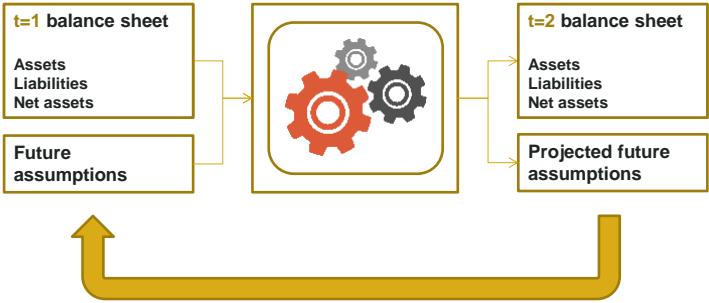
from model

Scenarios	Change in mean profit	Change in capital
Profitability forecast worsens by £20m	-20	20
Write 25% more catastrophe business	1.25	12.5
Increase reserves by 50%	5	112.5
Total for all scenarios	-13.75	145

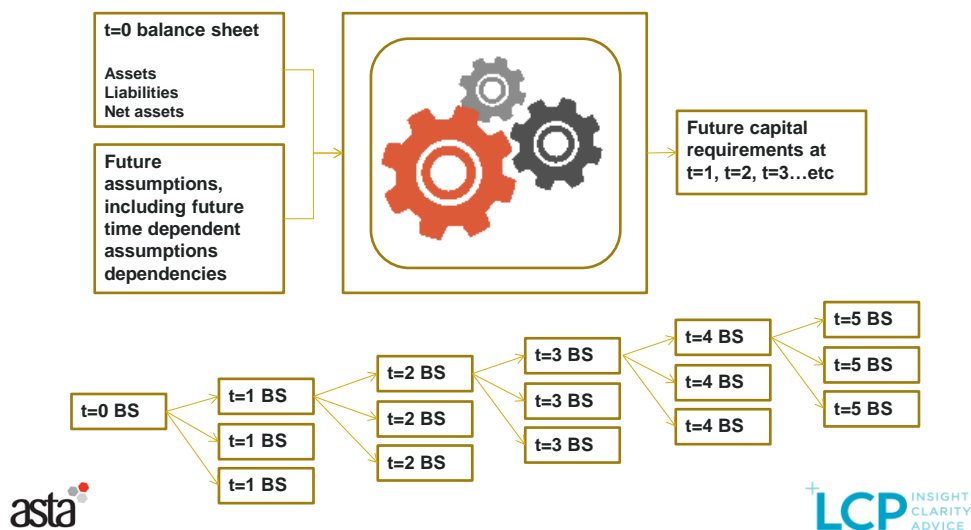
Projected capital next year 770



3. Re-run model with new inputs



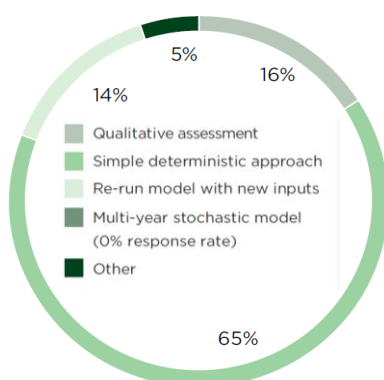
4. Multi-year stochastic model



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Forward looking assessment: which method should you choose?



- What are your plans and scenarios?
- What risks are you trying to model?
- Are you *really* demonstrating model use?
- Parsimony?
- What are you using the numbers for?

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Cracking the whip on continuous compliance

- Shift in understanding following recent EIOPA guidance
- Retrospective?
 - Meeting minutes
 - Signposting reports
 - Capital tracking
- Prospective?
 - FLAOR
 - Policy confirmation statements
 - Audit plans



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Are you concerned about continuous compliance?

...Vote

1. Very concerned
2. Fairly concerned
3. Not really concerned
4. I haven't thought about it yet



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Wrap up



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Your best bet is an accumulator...

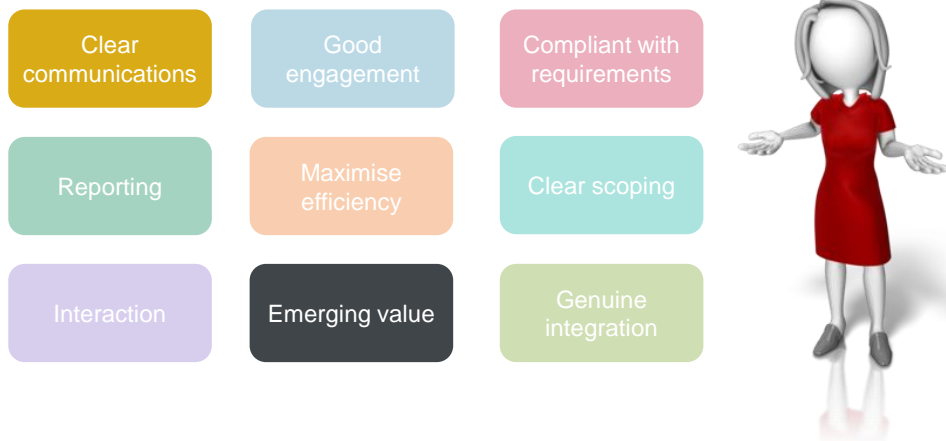


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Your best bet is an accumulator...



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How have you found this session?

...Vote

1. Very useful and I have learnt something
2. Useful and I will use these slides for reference
3. Useful, but greater technical detail would have been beneficial
4. Useful, but too much technical detail for me
5. Not very useful



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