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Back a winning ORSA

Clare Barley – Asta Managing Agency
Catherine Drummond – LCP

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)



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?

So what?



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

Which of the following do you think adds least value?

...Vote

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

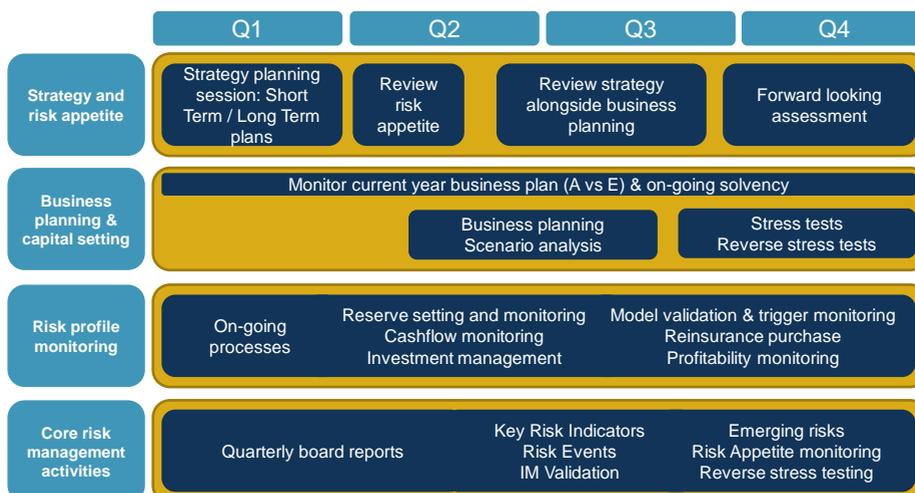


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It's a one ORSA firm



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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

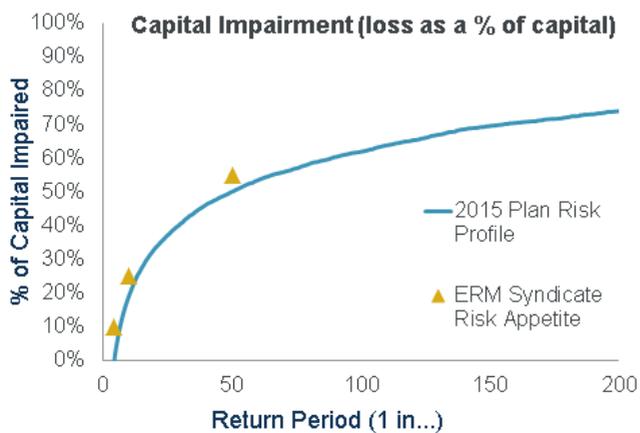


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Return Period	% of capital impaired
1 in 4	10%
1 in 10	25%
1 in 50	55%

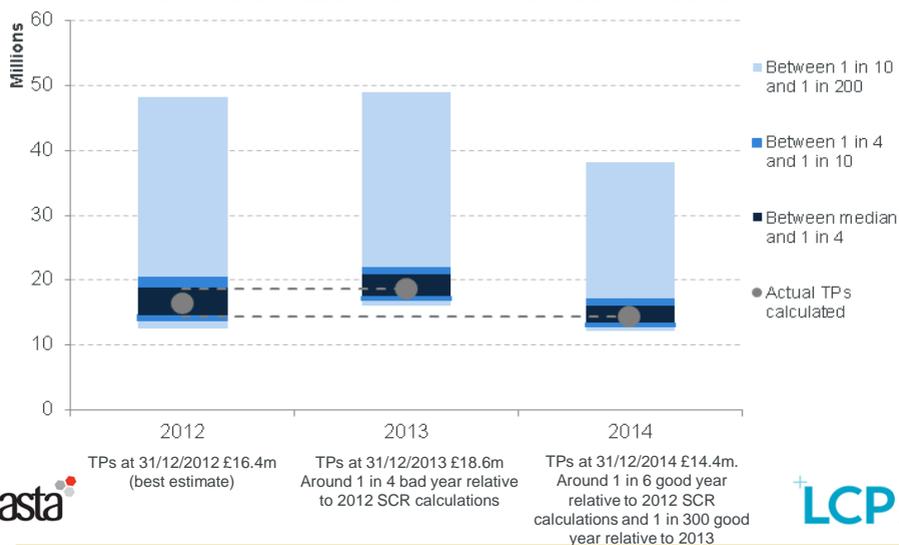
Does this style of risk appetite work?

...Vote

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

Don't look a gift ORSA in the mouth

Modelled deterioration of 2011 YOA Technical Provisions



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Can you see uses for this style of information?

...Vote

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

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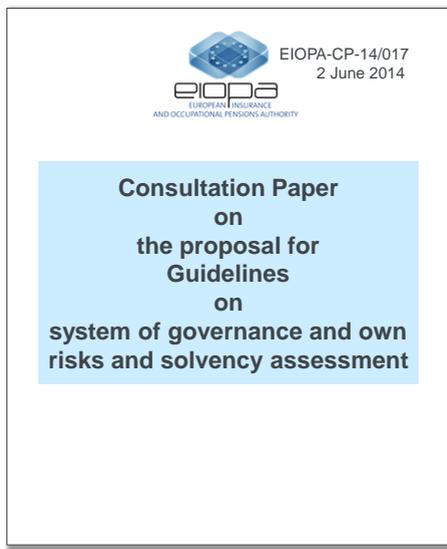
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Don't get saddled with uninformative scenarios

"...a sufficiently wide range of stress test or scenario analyses..."



"...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 specific 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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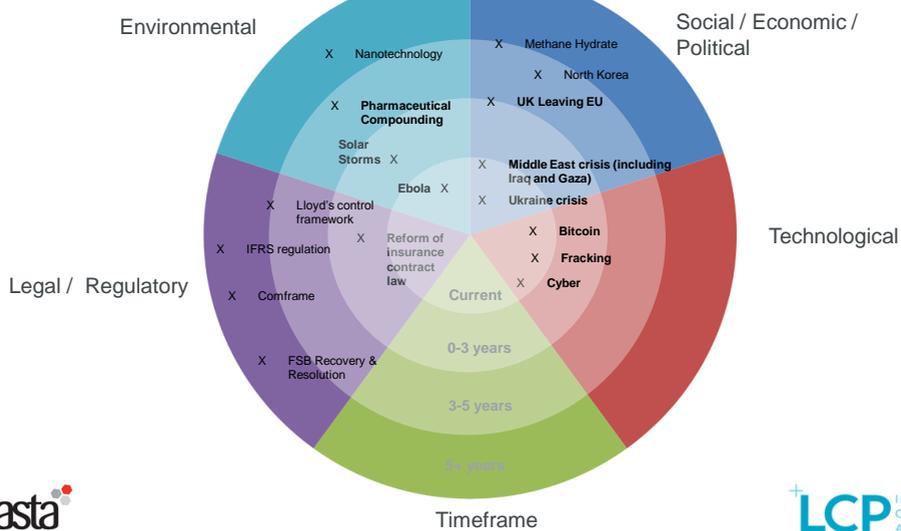
Emerging risks



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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

3. Re-run model with new inputs

4. Multi-year stochastic model

1. Qualitative assessment

ORSA report

~~~~~  
~~~~~  
~~~~~

### Future capital

~~~~~  
~~~~~  
~~~~~  
~~~~~

Some narrative about likely future capital requirements, eg maintaining "status quo" or reducing risk /capital

## 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                |
| <b>Total (undiversified)</b> | <b>65</b>   | <b>-835</b>                 | <b>-900</b>          | <b>625</b>        |
|                              |             | <b>Total (diversified)</b>  | <b>-625</b>          |                   |

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             |
| <b>Total for all scenarios</b>         | <b>-13.75</b>         | <b>145</b>        |

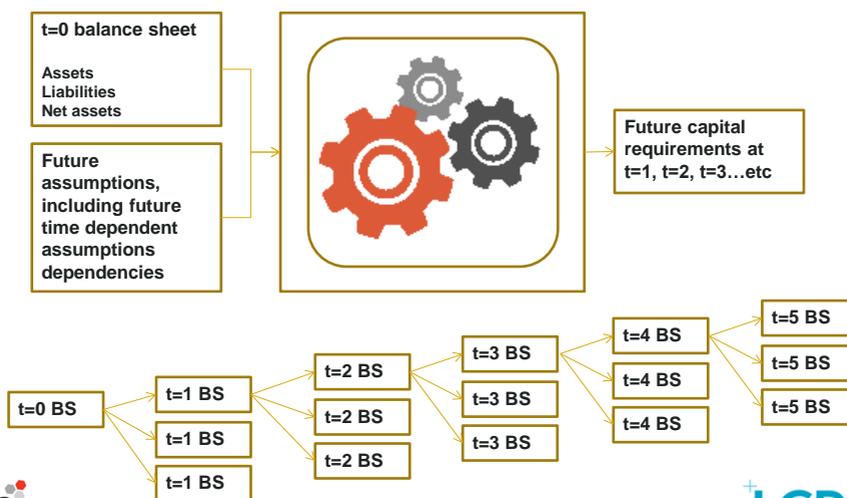
Projected capital next year 770



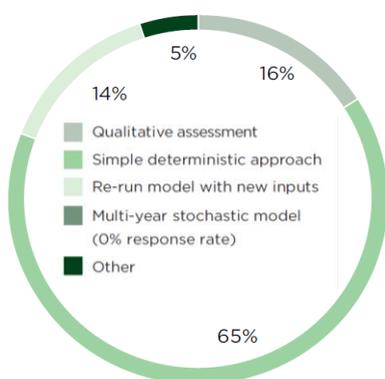
## 3. Re-run model with new inputs



#### 4. Multi-year stochastic model



#### 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?

## 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...

Clear communications

Good engagement

Compliant with requirements

Reporting

Maximise efficiency

Clear scoping

Interaction

Emerging value

Genuine integration



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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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