



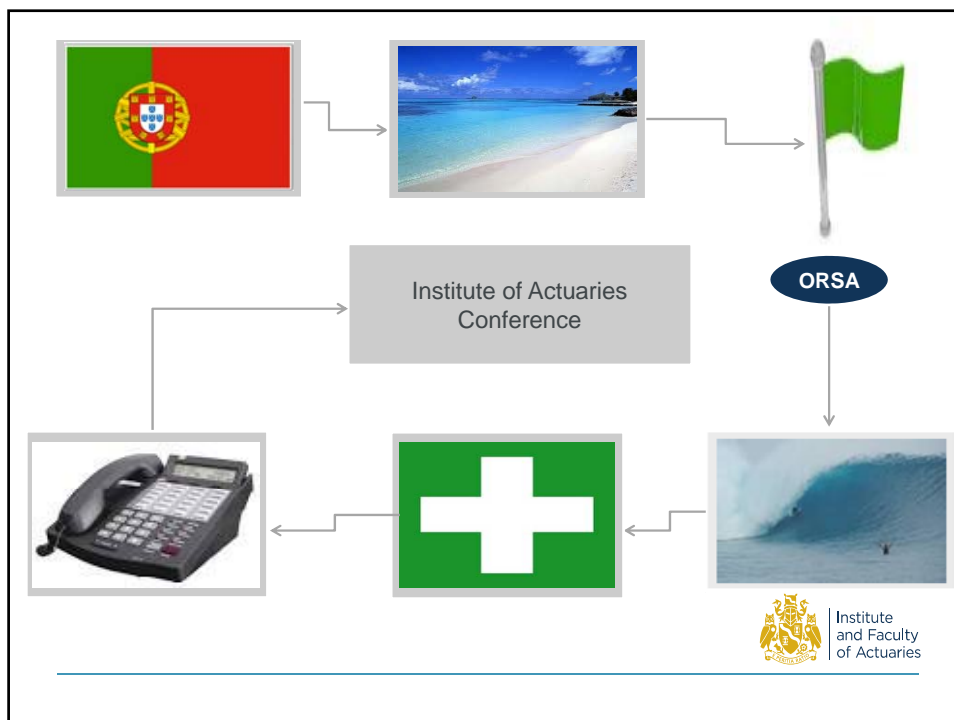
Institute
and Faculty
of Actuaries

Own Solvency Needs

Gavin Hughes, Towers Watson



1 July 2013



Agenda

- Background
- Key considerations
- Potential implications
- Conclusion



Institute
and Faculty
of Actuaries

2



Institute
and Faculty
of Actuaries

Background

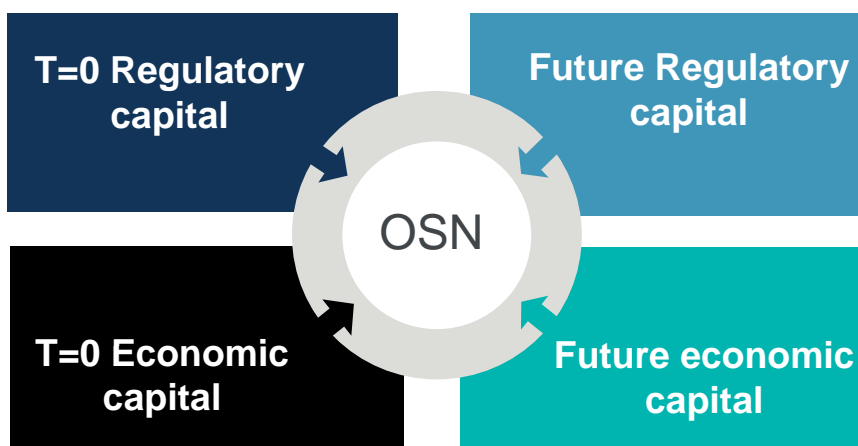
Expertise
Sponsorship
Thought leadership
Progress
Community
Sessional Meetings
Education
Working parties
Volunteering
Research
Shaping the future
Networking
Professional support
Enterprise and risk
Learned society
Opportunity
International profile
Journals
Support

Background — Own Solvency Needs

$$\text{OSN} = \text{T = 0 Capital need} + \text{Allowance for future capital needs}$$

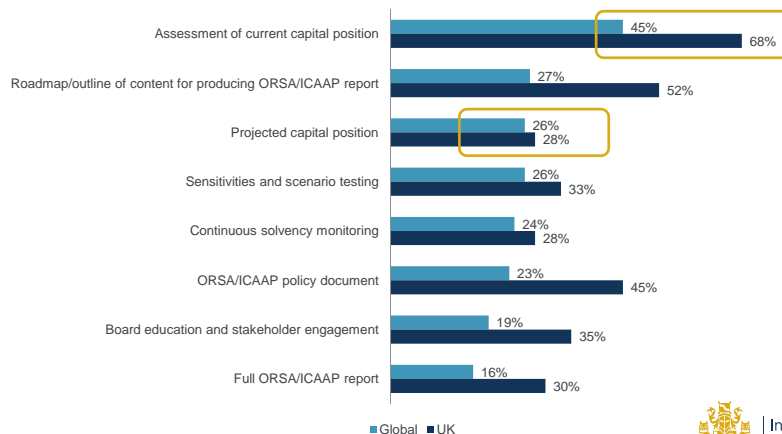
- Article 45 1(a) and L3 CP Guideline 12 (and others)
- Firm's own view of its capital needs
- Taking into account future solvency needs
- Applies to both SF and IM firms
- Allowing for own risk profile, risk appetite and the business plan
- Requires input from across the business
- Expressed in quantitative terms
- Supplemented by a qualitative description of material risks
- Subject material risks to a wide range of stresses

Background — Own Solvency Needs



U.K. insurers have progressed well with economic capital assessment, but not projections

% Participants Having Completed Relevant ORSA Component



Source: Towers Watson's 2012 Global ERM Survey.
How would you describe your organisation's progress with the ORSA/ICAAP to date?



6

Why do an OSN?

- Emerging regulatory requirement
- Link to business strategy, risk appetite and business plan
- “Articulate” the assumptions underlying the business model
 - Understand the differences with the assumptions underlying the “regulatory” model
- Basis to help inform management decisions
 - Understand impact of management actions



02 July 2013

7



Institute
and Faculty
of Actuaries

Key considerations

Expertise
Sponsorship
Thought leadership
Progress
Community
Sessional Meetings
Education
Working parties
Volunteering
Research
Shaping the future
Networking
Professional support
Enterprise and risk
Learned society
Opportunity
International profile
Journals
Support

Considerations — General

- How important is this — how will the assessment be used?
- How to project own funds and risk capital
- How onerous is it to maintain and regularly update projection model?
- Balance the needs for flexibility, transparency, understanding, accuracy and practicality
- Granularity of results
- Term of projections
- How the assessment can be used to improve risk and capital management

Holding more capital is not necessarily the answer!

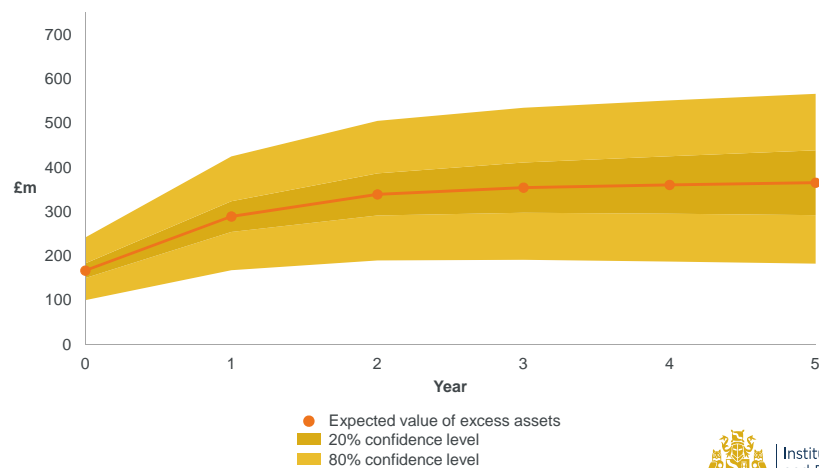


Institute
and Faculty
of Actuaries

The importance of the Own Solvency Needs Assessment will vary considerably for different insurers

Important	Less Important
Standard formula firm	Internal model firm
Competitive pricing important	Closed to new business
Business plan is capital-consuming	Existing business throwing off sufficient capital
External view of capital important	Mutual insurers
Risk profile non-static	Risk profile stable

Projecting the excess assets position



T = 0: capital needs

General

- Different valuation and recognition bases for OSN
- Quantitative assessment of impact
- Consider the sensitivity of the risk profile

Standard Formula

- Justify use of SF as baseline
- SF assumptions paper
- Known deficiencies of SF
- PRA data collection exercises

Internal Model or PIM

- Consistent with SCR?
- Trigger change in IM?
- Risks outside of PIM
- Different to IM SCR for Pillar 1?



12

Allowance for future capital needs

What might lead to additional capital requirements?

- New business plans and planned acquisitions
- How sensitive is the risk profile to change?
 - Emerging risks
 - Changing operating environment
- Adverse events, stresses and scenarios

Factors affecting how much capital to hold

- Quality and loss absorbency of capital
- Availability and ease of risk transfer
- Allowance for future management actions
- Plans for distribution of surplus capital / dividends
- Options for raising capital and associated costs
- Sensitivity of the projection assumptions



13



Institute
and Faculty
of Actuaries

Potential implications

Expertise
 Sponsorship
 Thought leadership
 Progress
 Community
 Sessional Meetings
 Education
 Working parties
 Volunteering
 Research
 Shaping the future
 Networking
 Professional support
 Enterprise and risk
 Learned society
 Opportunity
 International profile
 Journals
 Support

Regulatory outcomes for a SF firm

Own assessment
requires **more**
capital than Pillar 1

Self-imposed CAO

Regulator CAO?

Change risk profile

Apply for USPs, PIM or IM

Own assessment
requires **less** capital
than Pillar 1

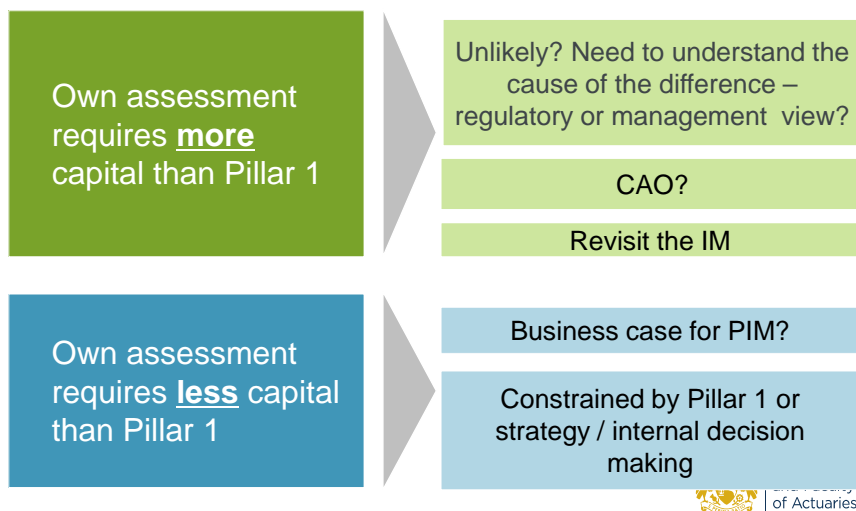
Business case for PIM?

Constrained by Pillar 1 or
strategy / internal decision
making



Institute
and Faculty
of Actuaries

Regulatory outcomes for an IM / PIM firm



Wider business implications for firms

- Questioning of the assumptions underlying the business model
 - identification of strategic advantages
- Better linkage of risk appetite, strategy and business plan
 - Strategic lead rather than model lead
- Better understand the evolution of the capital position
 - Greater confidence in financial plans
 - Better understanding of management actions
- Improved capital efficiency



Institute
and Faculty
of Actuaries

Conclusions

Expertise
Sponsorship
Thought leadership
Progress
Community
Sessional Meetings
Education
Working parties
Volunteering
Research
Shaping the future
Networking
Professional support
Enterprise and risk
Learned society
Opportunity
International profile
Journals
Support

Conclusions

- Capital management is the twin brother of risk management
- There is a requirement for an OSN assessment but important to think upfront how it will be used and communicated
 - Link to strategy and business plan
- It will likely require development work for most.
 - Understand the difference between “regulatory” and “economic” view
 - Future capital position and impact of management levers
 - Not just about the models
- Capital is not everything !



Institute
and Faculty
of Actuaries



Questions



Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

