



The Actuarial Profession

making financial sense of the future

ORSA

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From Regulation to Reality

21 November 2011

Key messages from the FSA

- There are no excuses for not doing anything
- Most firms have a lot of the components in place already
- Respond to the EIOPA consultation

Solvency II Timeline

- Omnibus II discussions ongoing
 - European Commission text
 - European Parliament Rapporteur's comments
 - European Council comments awaited
 - Trilogue: Commission, Parliament and Council
 - Adoption of Omnibus II expected Q1 2012
- Creates uncertainty, but still lots to do
 - Continue preparations for implementation
 - Take part in consultations
 - FSA's first CP published
 - EIOPA level 3 formal consultations published in November on reporting and the ORSA
- Updates available at fsa.gov.uk/Solvency2

ORSA in the Directive

- Overall solvency needs currently and over the term of the firm's business planning period
- Compliance with regulatory capital requirements
- Compliance with reserving requirements
- Assessment of the deviation of the regulatory capital assumptions from the risk profile
- Includes qualitative and quantitative risks
- Link between the own assessment of solvency needs and regulatory capital assessed using an internal model
- The ORSA must be used in decision making
- The ORSA process must be done when the risk profile changes significantly
- Results of the process must be reported to the supervisor
- The overall solvency need is NOT a capital requirement

ORSA things to think about

All firms

- **Fit for purpose**
- **Ownership of the ORSA**
- **Reporting – in firm and to the supervisor**
- **Frequency of running through the ORSA process**
- **Actuarial function**
- **Prudent person principle for investments**

Internal model firms

- **Inclusion in the use test**

Groups

- **A group ORSA has to be performed, including all entities and risks in the group.**
- **As well as a group ORSA, an insurer must have an ORSA for each regulated entity in the group.**

The principle of proportionality runs through the Directive

Tricky issues in the ORSA

- Where are the rules?
- What will pass?
- Is it a process? Is it a report?
- What does “own” mean?
- How detailed does it have to be?
- What is a risk appetite?
- Who owns the ORSA?
- Link to IMAP

- Many more.....

We've heard the following excuses:

- No EIOPA guidance
- No FSA rules
- It's too hard
- No risk appetite
- There are lots of conflicting messages
- Not clear who the ORSA belongs to
- Too many people are involved

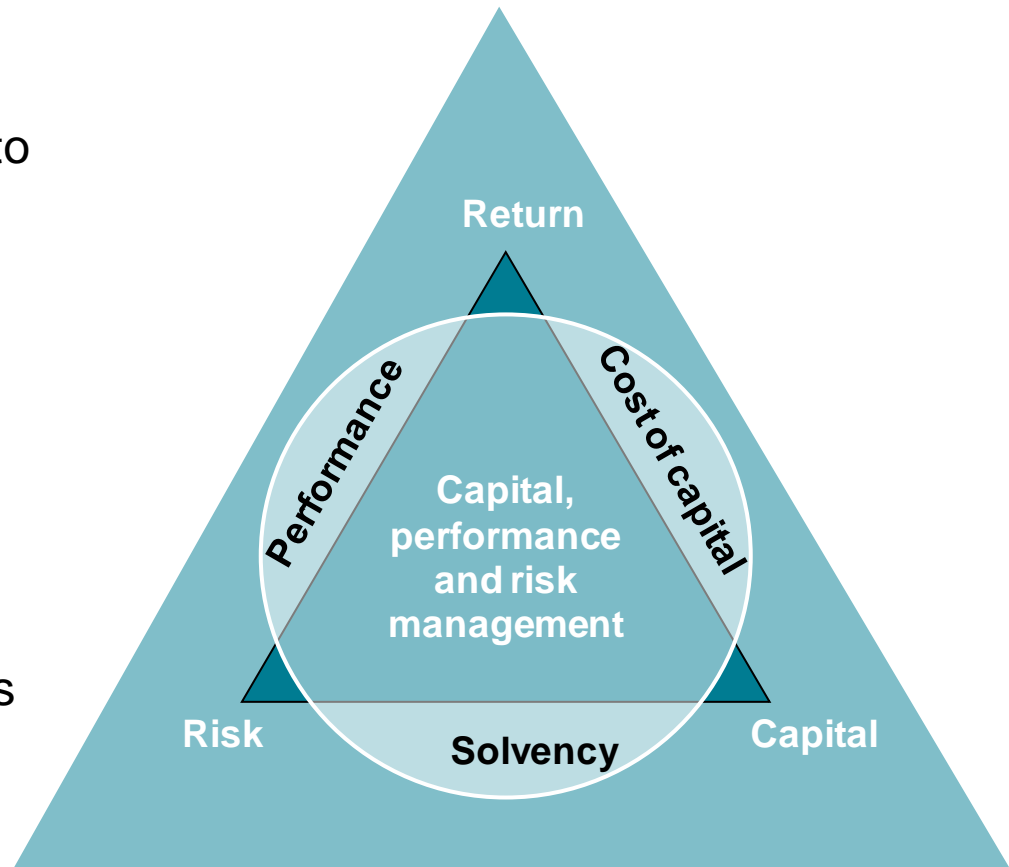
These are not valid excuses!

Key messages

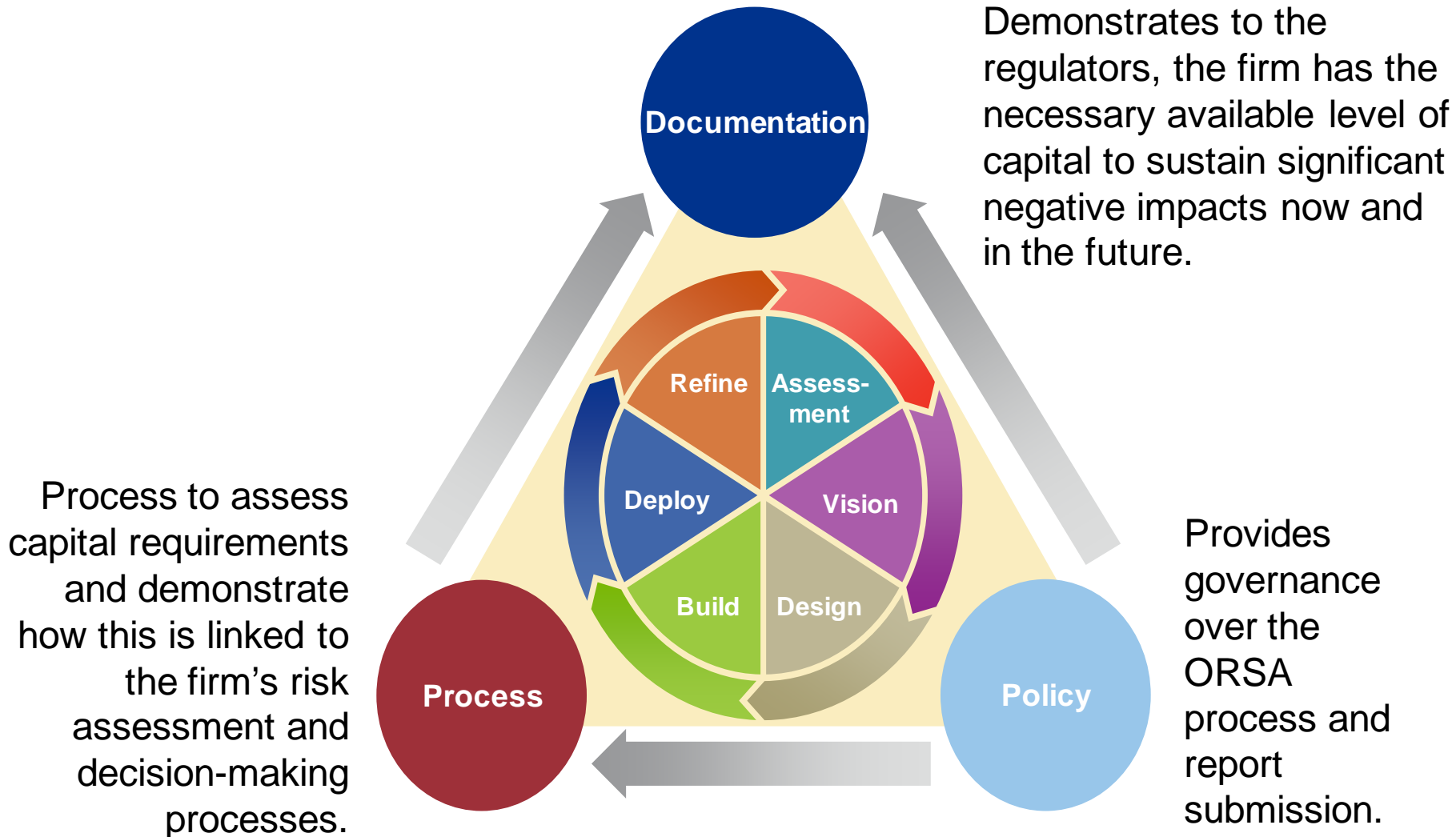
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Reality – Understanding the ORSA interactions

- There are a number of different components to the ORSA that need to be brought together, for example, key questions to answer are:
 - How much capital do you need?
 - How do you manage your risks?
 - Do you have the right SCR?
 - Have you met your regulatory capital requirements?
 - Can you meet your capital needs in the future?

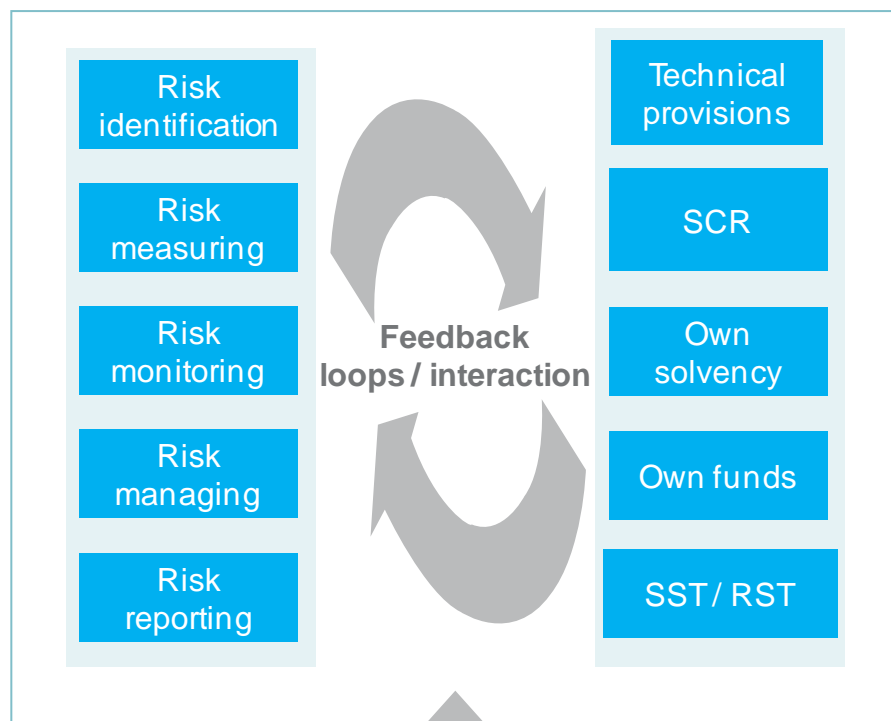


Implementing an ORSA strategy is key



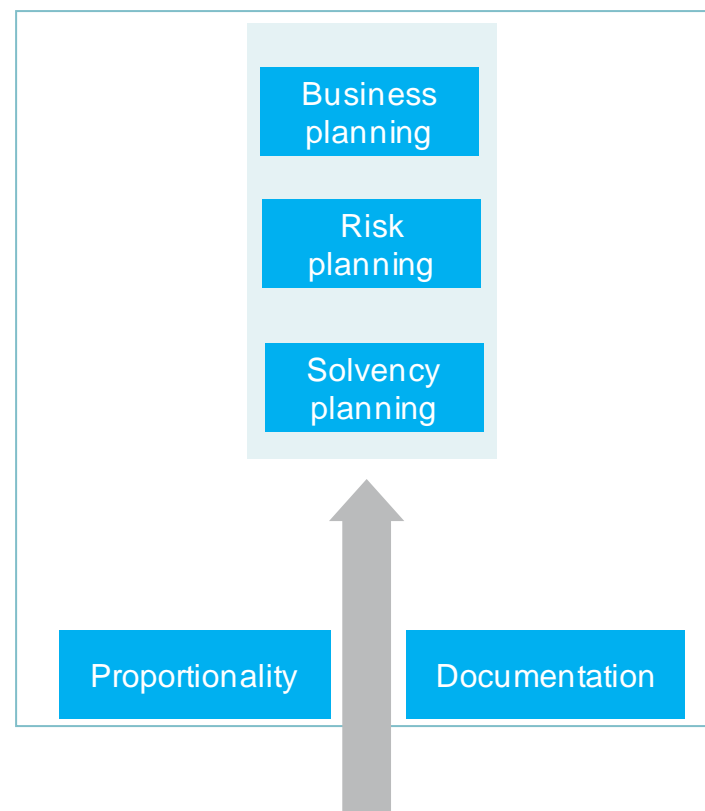
Managing all the ORSA components

Underlying processes



Identify areas of weaknesses in processes supporting and links between risk and capital management

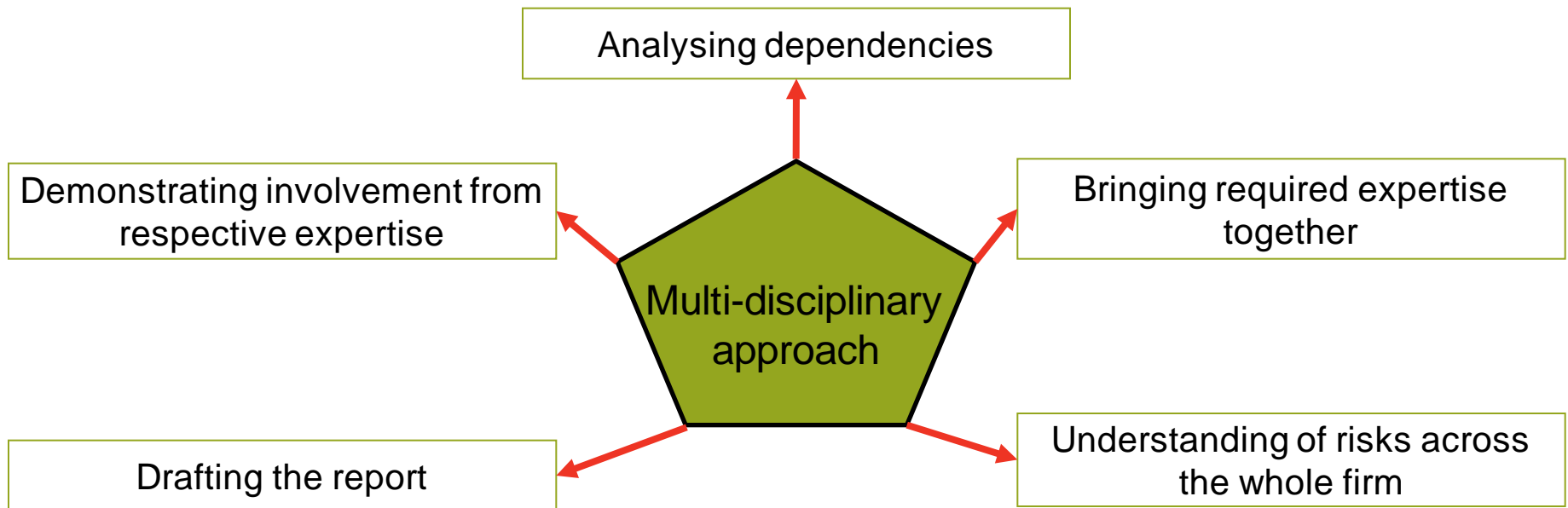
Further considerations



Apply the same principles to planning as monitoring

Multi-disciplinary approach

- Challenge of bringing the required expertise together in one coherent process
- Demonstrating involvement from these areas – getting them to act in the right way and contribute to the assessment
- Interdependencies in the process design – identification of these is key



Governance

Starts at the top = Board

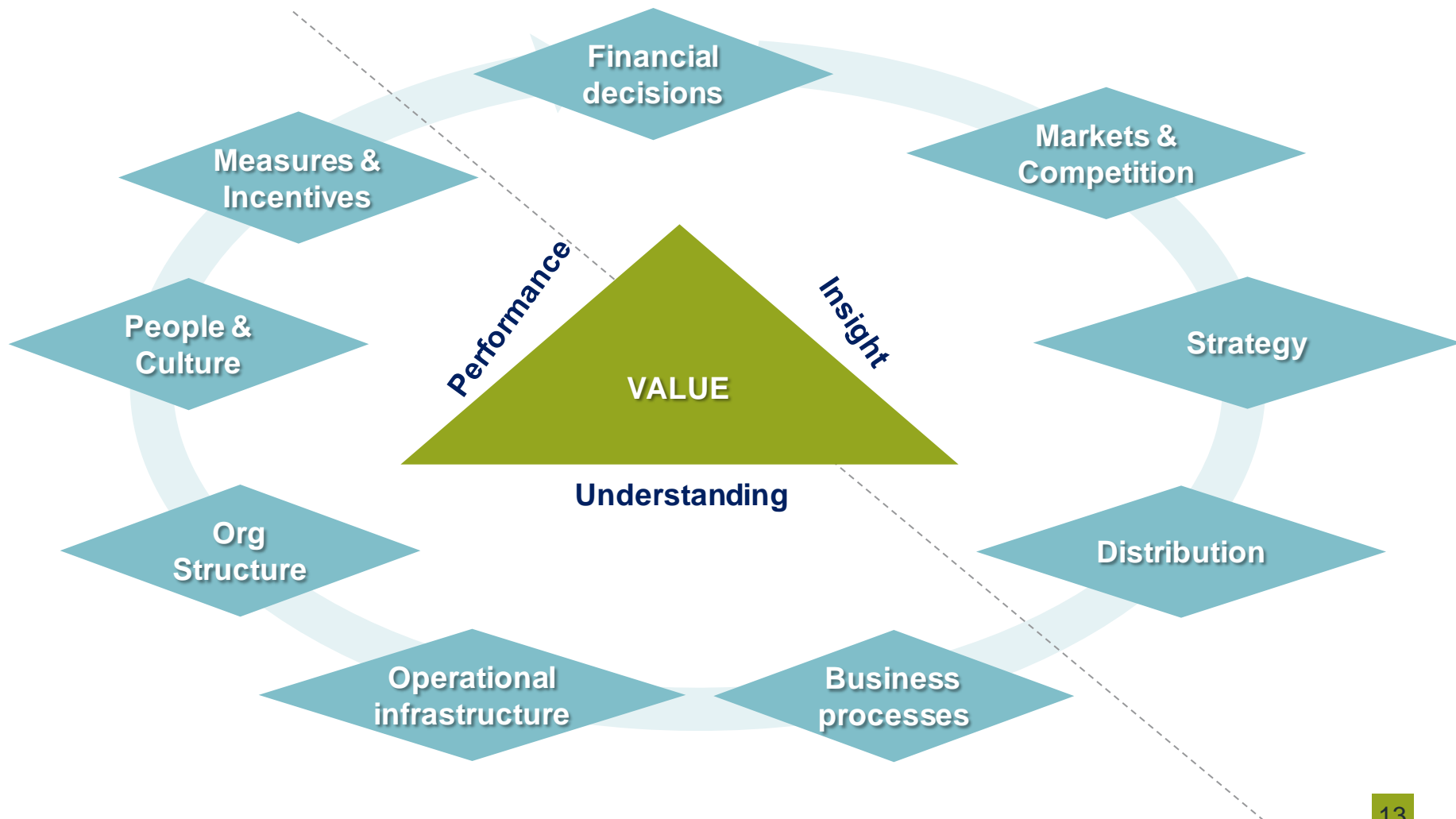
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| <ul style="list-style-type: none">• Financial MI• Business Plans• Risk Reports• Ad-hoc reports• ORSA report• Audit report | <ul style="list-style-type: none">• Determine strategic objectives• Monitor performance against objectives• Meet stakeholder obligations• Evidence risk-based decision making• Internal Model – approve and challenge assumptions therein• Risk management system – oversee implementation and regularly review• ORSA – approve, challenge and oversee the process; review the outputs and provide feedback |
|--|---|

Delegation of authority

Appropriate Committees

■ MI □ Decisions

Enhancing performance



Questions or comments?

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Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

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

