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## The 12-page ORSA report template

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### The 12-page ORSA Report Template

- **The Place of the ORSA in the Risk Management System**
- Introduction
- The drivers for a shorter ORSA report
- Overarching principles
- The 25-step Standard ORSA Model
- The Risk Book
- The 12-page ORSA report template
- Next Steps



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## The Risk Management System

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The RMS includes the strategies, processes and reporting used to identify, measure, monitor, manage and report risk, continually, individually and in aggregate, actual and potential, with due regard for interdependencies.



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3

## The Risk Management System

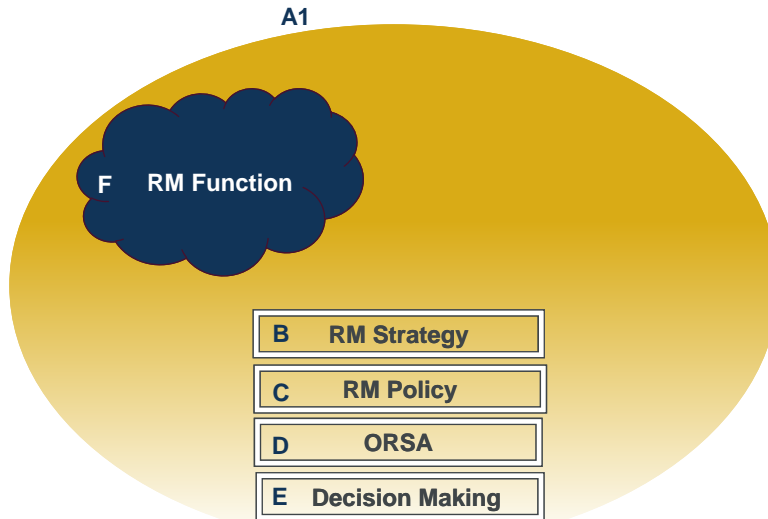
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4

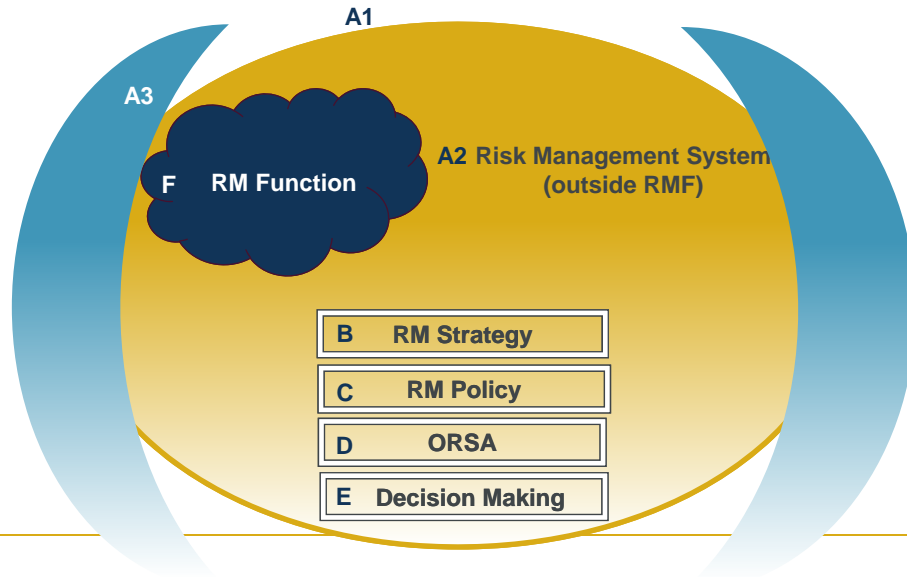
## The Risk Management System



## The Risk Management System



## The Risk Management System



## The 12-page ORSA Report Template

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## The 12-page ORSA Report Template



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## The 12-page ORSA Report Template

**The drivers for a short ORSA report...**and the resulting work

### 1. A documented self-assessment shared with a regulator is interesting

- ORSA is a great idea...
- ...but 'own' should not mean 'on your own'

### II. ORSA reports work when they are short and meaningful

- But will a short report cover the requirements?
- Is ORSA about demonstrating compliance or adding insight?
- A robust approach to the ORSA process is needed

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**The drivers for a short ORSA report...**and the resulting work

### III. Boards run firms: ORSA engagement needs to be meaningful

- Should the ORSA report be 'noted by the Board'...
- ...or lead to decisions/conclusions/action?

### IV. Risk assessments should not be done solely for the ORSA

- Firms have to operate their Risk Management Systems ('RMSs') continuously
- ORSA is just part of the RMS



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13

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14

## The 12-page ORSA Report Template

### What we have to work with

- Very little on the **internal ORSA report** in the directive and in guidance
- More on the **supervisory ORSA report** (but are reports not the same for most?)
- Lots on the **ORSA process**, but spread around
- Mention of the **ORSA record**, but not developed

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### So what's needed to meet requirements through

- An ORSA report template that is Board-meaningful
- An ORSA process ('Standard ORSA Model')
- An ORSA record, which robustly supports the ORSA process



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### Standard ORSA Model Development – Guiding Principles

- It's just an assessment
- Need a coherent and commercially focused process
- Must explicitly meet all the requirements

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### Standard ORSA Model Development – Method

- Define the ORSA outcomes
  - Set the Overall Solvency Needs
  - Agree management actions
  - Agree the capital management plans
- Separate the risk assessment from the ORSA process
- Separate work output between ORSA record and ORSA report
- Draw out requirements from directives and guidance
- Cross reference the approach back to the guidelines

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**Output** (see paper for (lots of) detail)

- The 25-step Standard ORSA Model
- The Risk Book
- The 12-page ORSA report template
- The ORSA record contents list

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## The 12-page ORSA Report Template

### The 25-step Standard ORSA Model

“The main purpose of the ORSA is to ensure that the firm engages in the process of assessing all risks to its business and determines its corresponding capital needs”

### Pre-requisites for the Standard ORSA Model

- ORSA Policy
- Business strategy
- Approved risk tolerances
- A working risk assessment process (‘the Risk Book’)



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21

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### The 25-step Standard ORSA Model

**Participants** (have **actions** and **confirm** assertions)

- Business Planning
- Risk Management
- Modelling & Projections

& the CEO

**Governance Structures** (understand, challenge and decide)

- Risk Management Committee
- Board



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### The 25-step Standard ORSA Model

Steps 1-6	agreeing the business plan
Steps 7-12	agree risks, decide their management and how to reflect in ORSA
Steps 13-15	run the projections, analyse results, draw conclusions, develop OSN
Step 16	present first OSN, changes to business plan/risk options to Board
Step 17-19	formal tests of continuing compliance
Step 20	ensure decision making uses ORSA output
Step 21-23	compile, agree and present internal ORSA report
Step 24	compile and agree the supervisory ORSA report
Step 25	post-ORSA review



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23

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### The Risk Book

#### Purpose

- To separate risk assessment from the ORSA
- To demonstrate adequate and robust risk assessment, monitoring and management process

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### The Risk Book

#### Design

##### Four Levels

- Level 1 – Principal Risk Assessment Outputs
- Level 2 – Risk Assessment Summary Output for Business Planning
- Level 3 – High Level Risk Assessment in Practice
- Level 4 – Assessment of Individual Risks

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### The Risk Book

#### Level 1 – Principal Risk Assessment Outputs

- Latest risk profile
- Latest ranking of risks based on materiality
- Latest approved risk tolerances
- The business strategy to which the risk tolerance levels apply

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### The Risk Book

#### Level 2 – Risk Assessment Summary Output for Business Planning

- List of risks (split quantifiable/standard formula, quantifiable/not sf, non-quantifiable)
- List of risks to be managed through capital, showing capital allocated and management approach
- List of risks to be managed through mitigation, showing management action
- Approved management instructions to be followed if certain risks materialise

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### The Risk Book

#### Level 3 – High-level Risk Assessment in Practice

- Policies
- Timetable
- Activity
- Scenarios

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### The Risk Book

#### Level 4 – Assessment of Individual Risks

- Individual Risk Analysis
- Specific Risk Detail

More detail on the Risk Book is provided in the paper (Section E, 5 pages)

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## The 12-page ORSA Report Template

### The 12-page ORSA report template

#### Contents

Business for the Board & Executive Summary

1. Principal & Secondary Conclusions
2. Overall Solvency Needs Information
3. Quantitative Results
4. Qualitative Results
5. Differences compared with the SCR
6. Changes made during the ORSA process
7. Capital Management
8. Methods & Main Assumptions



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### Business for the Board I

- **To finalise agreement** to the assessed Overall Solvency Needs and **determine** whether the figure/range proposed is appropriate as the firm's base capital requirement
- **To finalise agreement** to the associated short- and long-term capital plans
- The Board is asked **to note** the major changes to risk assessment, risk management and capital management processes proposed and **agree** to support their implementation



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33

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### Business for the Board II

- **To consider** and **agree** the management instructions in the event that risks materialise
- The Board is asked to **reflect upon** the insights drawn regarding possible amendments to strategy or business model to allow risk and capital to be managed more efficiently



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34

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### Executive Summary

“The firm has carried out a robust process of assessment of all of the risks that affect or might affect its business and has determined its Overall Solvency Needs for the current business plan as £/€X as at [date]. This assessment has been steered by the Board throughout

“The determination is contingent on the adoption of short- and long-term capital plans and the management instructions drawn up in the event of certain risk materialising.

“The ORSA process has considered the firm’s strategy and business model in the light of its business plans, risk tolerances and capital requirements. No immediate changes are proposed although several areas for consideration, at a later time, were identified.

“The ORSA process requires the consideration of the effectiveness of risk assessment, risk management and capital management processes within the firm. A number of changes have been suggested. Major changes are presented here.

“This report is a summary of important results from the ORSA.

“The ORSA Record contains detailed information about the ORSA process.”



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35

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### 1(a). Primary ORSA Conclusions

- Overall Solvency Needs Information

### 1(b). Secondary ORSA Conclusions

- Management of the ORSA process
- Overall Solvency Needs & SCR
- Consideration of Risk Management Options
- Business Design & Risk Management



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36

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### 2. Overall Solvency Needs Information

- Own Funds, SCR & MCR progression
- Proposed Overall Solvency Needs
- Excess capital over the requirement
- Statement of expected deficiency



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37

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### 3. Quantitative Results

- The Risk Profile
- Risks that require closer management
- Extent to which regulatory capital and technical provisions are continuously met



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38

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### 4. Qualitative Results

- The Importance of the RMS
- Risks Covered Completely by Capital
- Risks Covered Partially by Capital
- Risks Not Covered by Capital
- Risks Requiring Management Instruction
- Risk Materiality
- Model Risk



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39

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### 5. Differences Compared with SCR

- Where the SCR overestimates the required solvency
- Where the SCR underestimates the required solvency
- Where any deviation is not deemed material



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40

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### 6. Changes made during the ORSA process

- Changes made
- Changes proposed

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### 7. Capital Management

- Overall Solvency Needs
- Drawdown of Own Funds
- Short-term Capital Management Plan
- Long-term Capital Management Plan
- Capital Management Policy

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### 8. Methods & Main Assumptions

- High-level assertions about the ORSA process methods and assumptions
- Statements of continuing compliance
- Statement (and detail?) about ORSA process steering
- High-level assertions about the nature of the ORSA process
- Link to sources of additional information about risks (the Risk Book?)

How much of this can be assertions or assurances, as distinct from the descriptions themselves?

How much of this can be references to ORSA record contents?



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43

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44

## The 12-page ORSA Report Template

### For more information...

- Draft paper
- 70 pages
  - A Introduction (1 page)
  - B Process Steps (already circulated)
  - C Detailed Steps (37 pages\*)
  - D 12-page ORSA Report template (to be circulated post meeting)
  - E The Risk Book (5 pages)
  - F The ORSA Record (5 pages)
  - \*Additional Detail on some Steps (36 pages)



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45

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### For more information...Appendices

- Appendix 1 – The Business Model & the ORSA (1 page)
- Appendix 2 – The Risk Profile (2 pages)
- Appendix 3 – The Purpose of the ORSA (1 page)
- Appendix 4 – The ORSA Policy (4 pages)
- Appendix 5 – Input from across the Firm (2 pages)
- Appendix 6 – Decision Making & the ORSA (2 pages)
- Appendix 7 – Internal and Supervisory report requirements (1 page)
- Appendix 8 – The ORSA Record (2 pages)



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46

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47

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### Next Steps

- Is a standard ORSA process model/report template useful?
- Does such standardisation enable more effective risk management ?
- Should the profession be supportive of such an approach?



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The End



**Questions****Comments**

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