The Actuarial Profession
making financial sense of the future

Health and care conference 2011

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ORSA
Bringing it to Life

Agenda

- ORSA Presentation
- Background
  - Purpose
  - Key components
  - Roles and responsibilities
  - Practical considerations
  - Level 3 guidance
- Q&A

Own Risk and Solvency Assessment "ORSA" – How clear is it?

- "The ORSA can be defined as the entirety of the processes and procedures employed to identify, assess, monitor, manage and report the short and long term risks an undertaking faces or may face and to determine the own funds necessary to ensure that the undertaking's overall solvency needs are met at all times"
- ORSA (CEIOPS Issues Paper on the ORSA)
- "Insurance and reinsurance undertakings shall have in place an effective risk-management system comprising strategies, processes and reporting procedures necessary to identify, measure, monitor, manage and report, on a continuous basis the risks, at an individual and at an aggregated level, to which they are or could be exposed, and their interdependencies"
- Risk Management System (Article 44)

What the ORSA isn't !

The FSA and CEIOPS have both publicly stated recently that compliance with the ORSA requirements will not be satisfied by a report alone.

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What is the ORSA?

- The ORSA represents a company's opinion and understanding of its risks, its overall solvency needs and its available capital (own funds)
- The main purpose of the ORSA is to ensure that Bupa engages in the process of assessing all the risks inherent in its business and determines its corresponding capital needs taking into account its business strategy, its risk profile and its approved risk appetite
- The ORSA Report is a roadmap for a forward looking assessment of a Bupa's capital and solvency position across a wide range of risks and is designed to ensure that its solvency needs are met with a reasonable degree of probability at all times across the planning horizon
- The ORSA is not an additional regulatory capital requirement.

In simple terms the ORSA should

- Give the Board comfort on the level of capital required now and in the future
- Demonstrate a framework for capital management and efficiency
- Succinctly and concisely present the risk management and capital management story
- Provide comfort to the regulators who will use the ORSA outcome in their supervisory process

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"ORSA" – Why is it so important for you?

- The standard formula is not calibrated to take into account the way health insurance business works
- This leave the ORSA as your mechanism for detailing why YOUR business is unique and why it should be treated as such by the regulators
- The ORSA process will allow you to ensure you can fully understand and articulate the way your business is operating and what your plans are for the future
- How those plans will affect your capital and how this differs from the MCR and SCR calibrations

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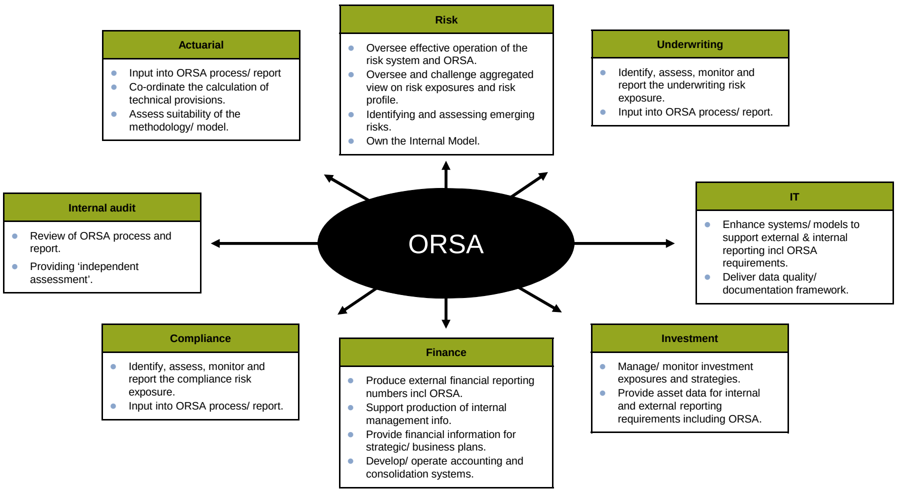
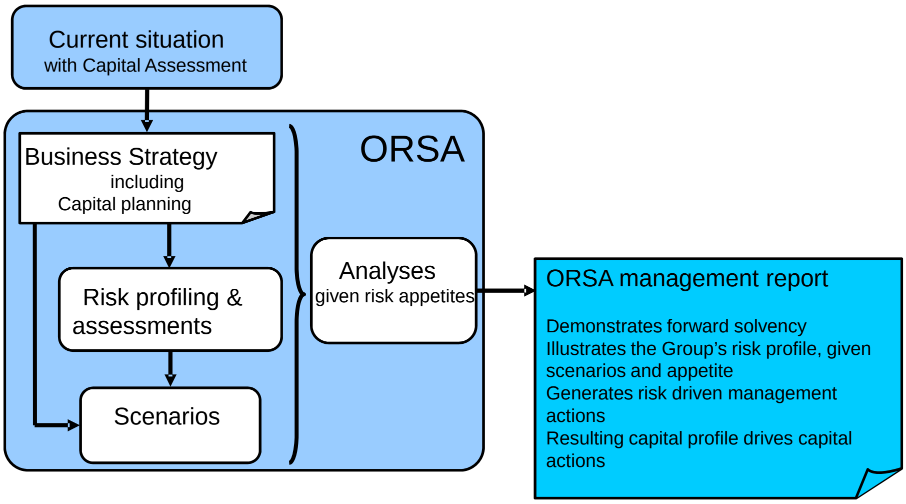
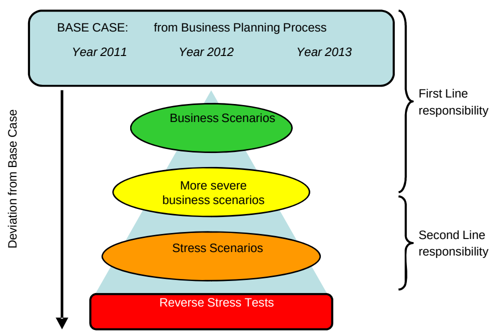
Who is involved in the ORSA?



The ORSA process



Stress and scenario tests



Stress and scenario testing are a significant part of the ORSA and must be forward looking, incorporating the simultaneous occurrence of events across the Group. A range of scenarios are considered encompassing different events and degrees of severity, including:

Business risks e.g.
- Reduction in new business, occupancy levels
- Increase in lapses, claims or expenses

Financial risks e.g.
- Losses on alternative asset
- Devaluation of property assets
- Counterparty failure(s)
- Pension scheme risk

Macro-economic events e.g.
- Stagflation

Population health events e.g.
- Pandemic

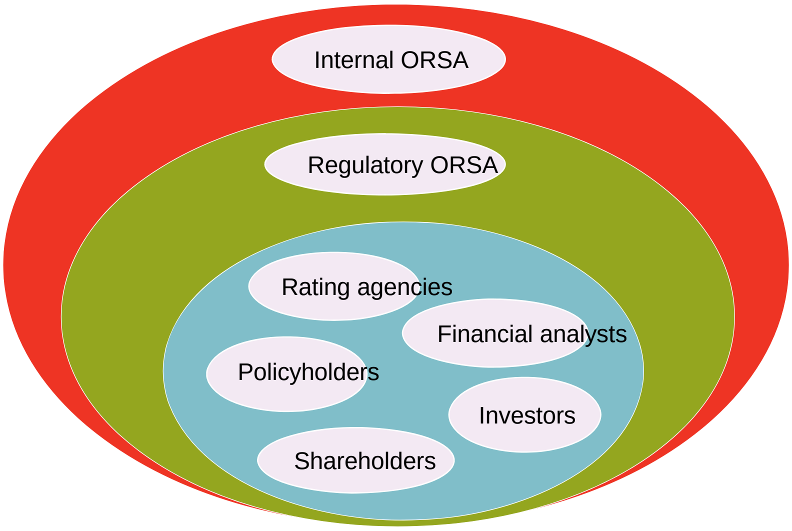
Socio-political events e.g.
- Community rating

Business and more pessimistic scenarios are, of course, business specific. However, some parts of these scenarios will be made uniform for a group of businesses, e.g. the macro economic outlook and the regulatory outlook.

Where appropriate stress scenarios across a group of Business Units will be uniform but consistently calibrated to local Business Units exposures.

Detail and complexity of the tests in specific Business Units will be "proportionate".

ORSA – target audience



Key messages

- Ensure a clear end state vision is in place before starting to develop any processes
- Don't underestimate the workload and complexities, ensure suitable programme management and discipline exists
- Achieve buy in from all necessary Execs and Key stakeholders at the outset
- Assess and understand the impact of the data requirements on the business