

## ORSA – Bigger Picture Thinking

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# Introduction to the ORSA

# The Basics – What is an ORSA?

- The ORSA is a Pillar 2 requirement defined in Article 45 of the Directive

Company's own risk  
profile and tolerance  
limits

Continuous  
compliance

Short and long  
term risks

Deviation from  
assumptions underlying  
SCR calculation

Proportionate to  
risks inherent in the  
business

Integral part of  
business strategy

Taken into account  
in strategic  
decisions

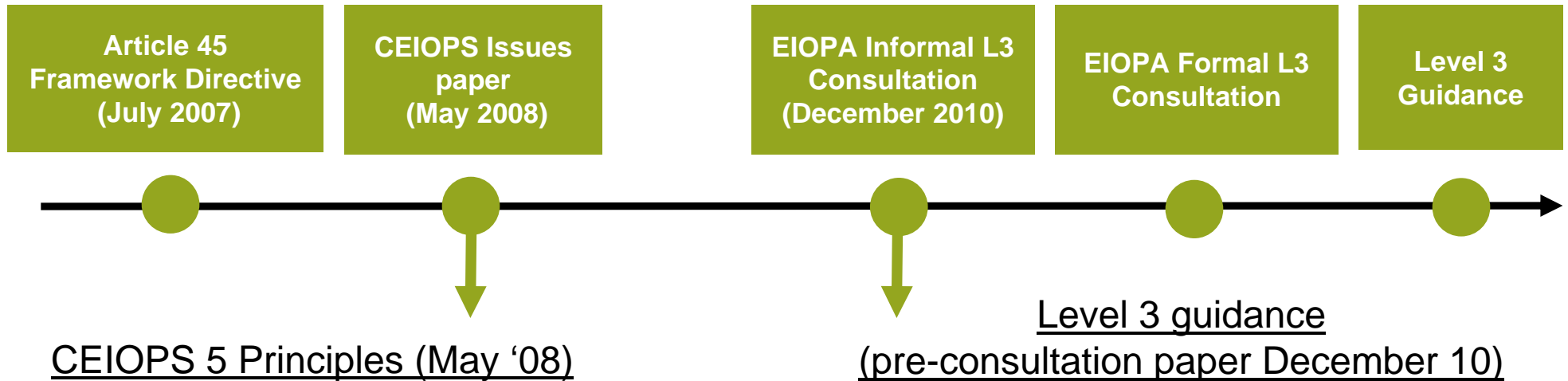
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## Other key points on ORSA requirements

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- Performed at least annually
- Disclosed privately to the regulator in the *Report to Supervisors*
- Summary of ORSA process in *Solvency and Financial Condition Report*
- Documentation
  - *ORSA policy*
  - *ORSA process*
  - *ORSA report*
- Management body of the organisation needs to take an active role in the ORSA process and sign-off the results







# Existing and expected future expected guidance on ORSA



1	Responsibility of the undertaking
2	Encompass all material risks
3	Adequate measurement/assessment processes and embedded in the decision making
4	Forward-looking
5	Appropriately evidenced/documented and independently assessed

1	Capturing all risks
2	Forward looking perspective
3	Ownership / role of governing body
4	Communications
5	Processes versus the report
6	ORSA linked to business strategy

# Other reference points – Emerging regional and national standards

Territory/ Domicile	Regulatory/ Supervisory Authority	Risk and Solvency Assessment	Status/Comment
	European Insurance and Occupational Pensions Authority (EIOPA)	Own Risk and Solvency Assessment (ORSA)	Expected to come into force on 1 January 2013
	US National Association of Insurance Commissioners (NAIC)	Own Risk and Solvency Assessment (ORSA) for the Solvency Modernization Initiative	Proposals currently being discussed by the Group Solvency Issues Working Group
	Bermuda Monetary Authority (BMA)	Commercial Insurer's Solvency Self Assessment (CISSA)	Expected to become effective in 2011, CISSA combines ERM and ORSA requirements
	Swiss Financial Market Supervisory Authority (FINMA)	Risk Management/Internal Control System Tool (RM/ICS Tool)	Developed in 2007 by FINMA as part of the Swiss Quality Assurance (SQA)
	Australian Prudential Regulation Authority (APRA)	Internal Capital Adequacy Assessment Process (ICAAP)	Capital standards under review following 2010 consultation — final standard expected to be implemented in 1 January 2013
	Superintendent of Financial Institutions Canada (OSFI)	Dynamic Capital Adequacy Testing (DCAT)	In 2009, OSFI published guidance on stress, scenario, and sensitivity testing to extend the use of testing beyond DCAT

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# ORSA is as much about the process as the numbers...

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- Product of an ORSA is a solvency assessment
- **BUT** a great deal more focus on risk management process
- **Qualitative** - Regulator likely to be as concerned with **whether the process works** than on the quantum of the numbers
- **Forward looking** - what may cause risk position to change
- Process should include **continuous monitoring** of internal and regulatory minimum solvency
- **Integration** with business management
- **Proportionality**

# What does the ORSA process look like?



# Compare ORSA with existing ICA calculations currently forming UK Pillar 2 requirements

AREA	ICA	ORSA
Calculation frequency	At least annual	At least annual
Calculation Time horizon	1 Year (few perform run-off ICAs)	Business planning period
Confidence level	1 in 200 over 1 year	Company specific
Allowance for new business	1 year / allowance for closure	Full
Links to business plan	Some consideration	Stronger links
Scenario testing	Some short term	Longer term including consideration of changing business plans
Capital planning	More of a snapshot	Explicit requirement to consider ability to raise own funds in future
Disclosure	Supervisor only	Supervisor only
How are deficiencies addressed by regulator	Mainly capital add-ons	Capital add-ons possible / More focus on fixing the process



# ORSA reconciled to Solvency II Pillar 1 - SCR

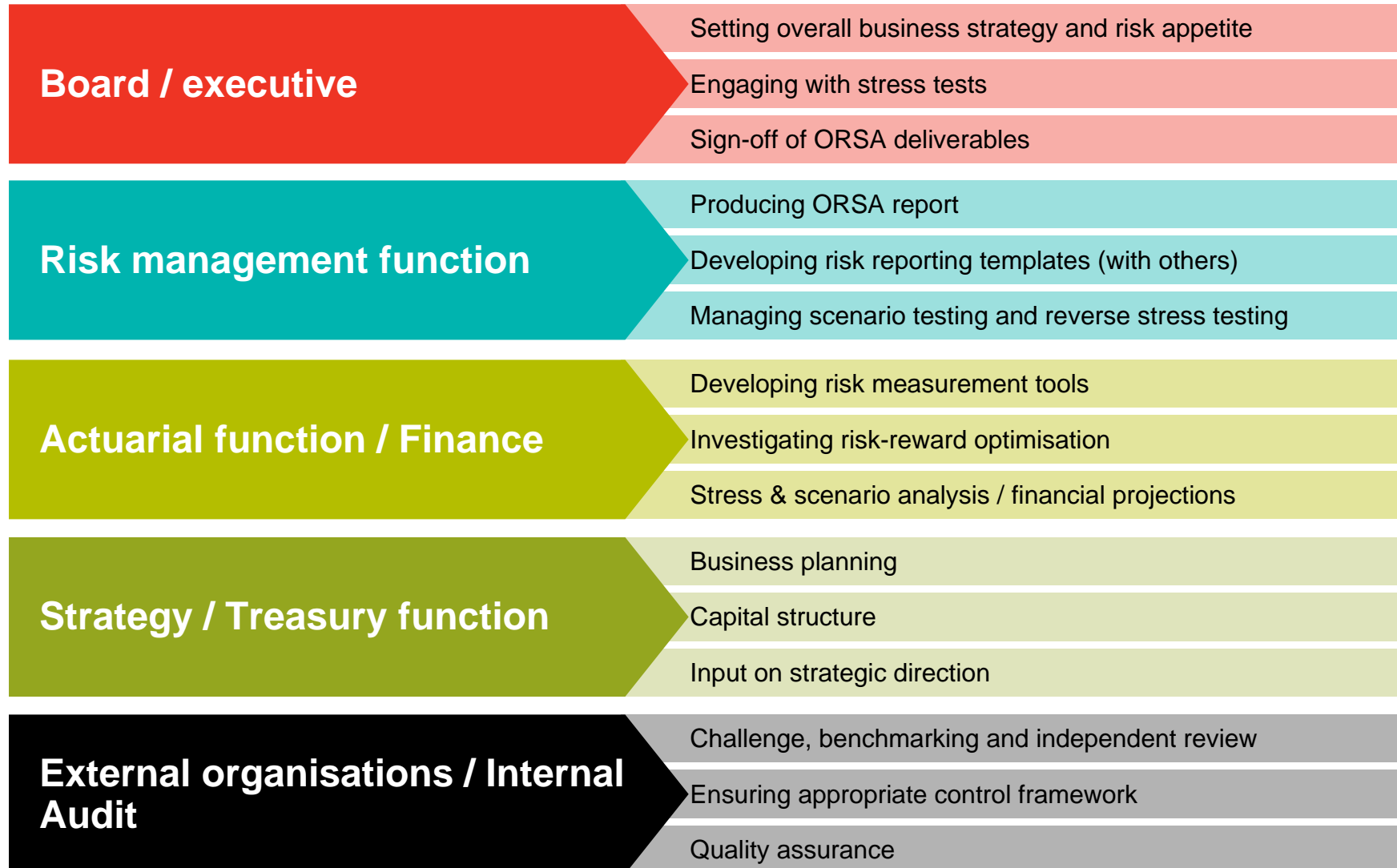
- Potential differences to standard model SCR



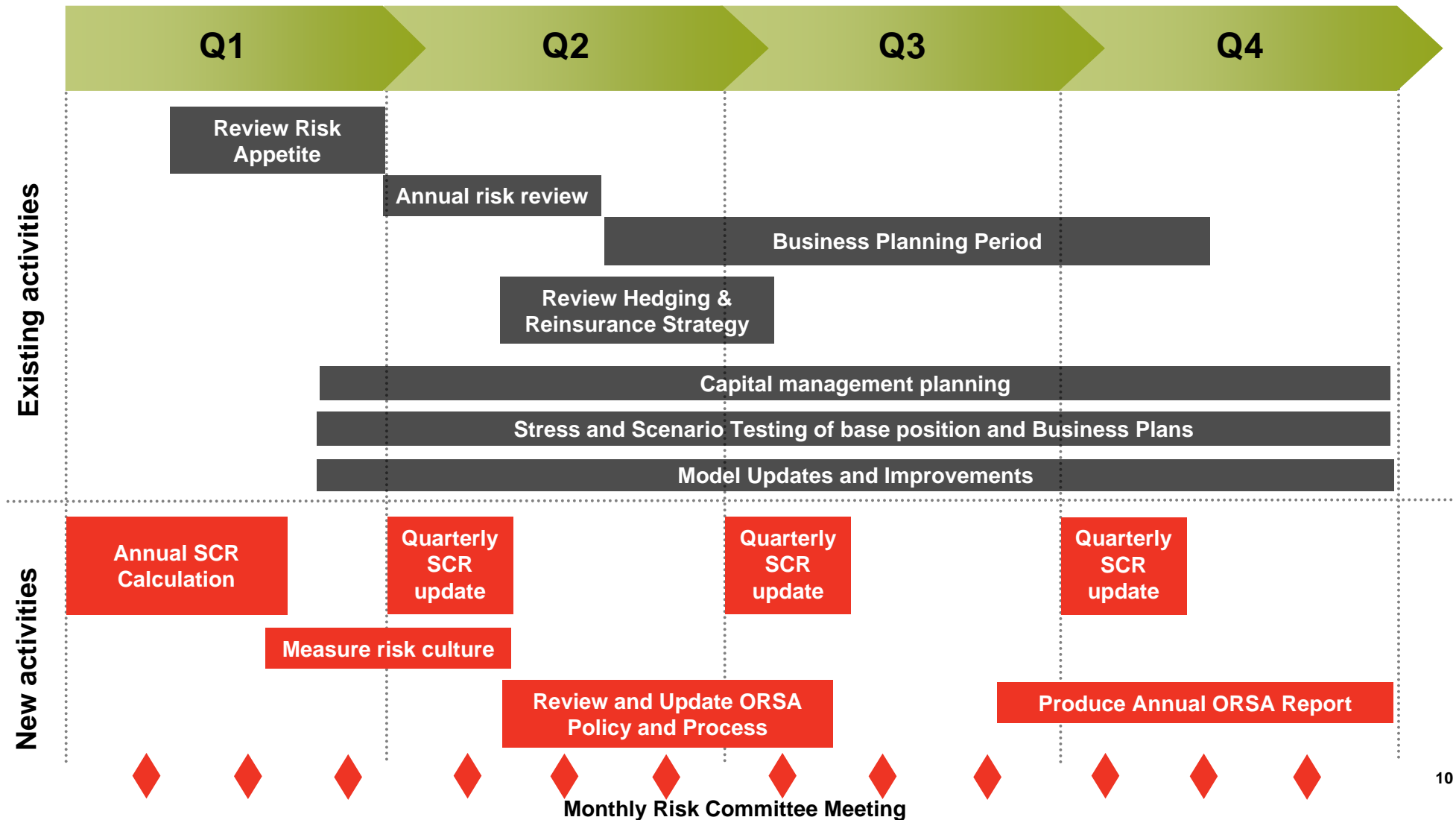
- Potential differences to internal model SCR



# Responsibilities of company stakeholders



# How could this process fit into an annual timeframe?



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# The ORSA is a way to realise benefits of Solvency II!

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- Better risk awareness and foresight
  - More insightful decision making
  - Forward looking and proactive risk management
- Focusing management attention on risks that matter
  - Focus on regular, current and relevant information
- Increased alignment of risk appetite and business strategy
  - ORSA pulls together existing ERM components
- Improve capital efficiency
  - Reduce cost of capital through better management of volatility
  - Uncover natural hedges
- An internal model, without the formal approval process!

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# 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 presenter.

