



## Agenda

- The ORSA Within Standard Life
- Challenges and Initiatives
- AFH Perspective
- Key Success Factors for Making Your ORSA Real

## ORSA Within Standard Life

- We have had a Group ERM Framework for a number of years
- Each business unit has a ERMC; essentially their Executive
- The framework is broadly aligned with the aims of Solvency II
- Key changes introduced by Solvency II
  - An annual ORSA Report
  - Internal Model and ORSA Policies
  - Formal reviews of System of Governance by Risk
  - More accurate and timely risk modelling
  - More formal validation of Internal Model methodology
- **The ORSA is the processes that support our ERM Framework**
- **These operate on a continuous basis**

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## The ERM Framework

### *Our Approach*

#### Risk Culture

- Right staff, right jobs, right behaviours, roles and responsibilities clearly defined
- Right structure, effectively implemented, risk focussed committees and management
- Group wide awareness, deepening understanding of risk, ongoing embedding and change

#### Strategic Risk Management

- Putting risk at heart of our business planning
- Understanding our risks and strategy and making the right decision
- Effective strategic control and allocation of capital

#### Risk and Capital Models

- Modelling and understanding our business
- Managing complexity, achieving consistency and clarity with common metrics
- Risks effectively quantified and business fully profiled

## The ERM Framework

### *Our Approach*

#### Emerging Risks

- Fully defined process for identification of emerging risks
- Supported by reverse stress tests
- Raising awareness at executive level and across the Group

#### Risk Control Processes

- Driving group wide operational excellence
- Operational Risk and Control: Integrated system, consistent application
- Active Control Management – make the right things happen the first time, identify when things have not gone right and understand why, recover the position quickly when things have not gone right

**Above elements underpinned by stress and scenario testing**

**Key is to put in place a framework that enables the Executive and Board to make informed and consistent decisions about risk and reward**

## Challenge within SLAL

- The Executive have a non-technical business background
- The majority of UK ERMC time was spent on operational, rather than financial, risk issues
- A significant proportion of new business is unit-linked
- Big focus on IFRS profits
- Financial Risk Board papers not reviewed by Exec, ERMC; but big impact on risk exposures, profit (and hence remuneration) of SLAL
- UK ERMC not engaged with financial risk issues
- Business unit not aligned with legal entity
- Elapsed time to produce risk exposures
- **There was a need to engage the UK ERMC in financial risk and to make it meaningful for them**
- **Exec are most interested in what they can influence**

## Initiative: Financial Risk Reporting

- Simplify reporting; minimise complexity
- Don't overload with figures: only useful if people have time to use
- Focus on what Exec can influence and how it impacts the business
- Focus on outputs rather than inputs; not an exercise in demonstrating brain power
- Bring out key points; this is what paid to do
- Assume reports read pre-ERMC
- Want to hear ERMC views, not Risk views; although Risk paid to have an opinion
- ERMC / Exec see all risk related Board papers pre-Board

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## Initiative: Exec training

- ERMC training sessions on financial risk and Solvency II
- 1-1 training; small doses
- S2 mock interviews
- Continual reinforcement
- Enable the Exec to make decisions

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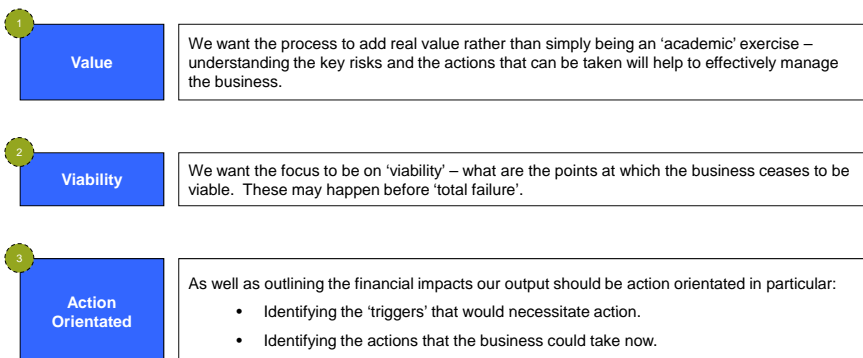
## Initiative: ORSA Report

- Brings all info into one place
- Lets ERMC see big picture; holistic view
- Produce high level summary; focus on key recommendations
- Link in to what ERMC see on a regular basis: continual reinforcement
- SoG very useful as reference document

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## Initiative: Reverse Stress Tests



## Initiative: Reverse Stress Testing

- Engage ERM at start of process in deciding scenarios to investigate
- Link choice of scenarios into risk registers (strategic, emerging, financial, operational)
- Link to scenarios the ERM can relate to / business strategy (e.g. collapse of IFA distribution channel)
- Cover operational issues as well as financial unviability
- Involve the experts in the business in the development of the scenarios

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## Initiative: Reverse Stress Testing

- For each scenario:
  - Triggers
  - Impact
  - What action can be taken now
  - What we can do if scenario unfolds
  - Recommendations
- Focus on actions that can be taken now; makes it real
- Less focus on contingency plans; can't always predict exact circumstances
- Very good workshop with ERM to review and finalise recommendations
  - Ran with flip-charts
  - Don't take changes in recommendations as criticism

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## Initiative: Risk Appetites

- Only set quantitative appetites where assist in controlling risk
- Focus discussions on what ERM can influence
- Still some reliance on sub-set of ERM members
- Link appetites and management actions; impact of adverse conditions no exposures
- Reflect appetite breaches in BU performance scorecards; communicate this!

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## Initiative: Embedding Risk Appetites in Business Planning

### PROCESS:

- Work with planners to ensure integrated into full business planning process
- Combined plan including profit, risk and capital figures
  - Proposed business plan sets out how Shareholder value, Shareholder value at risk, Excess Working Capital and excess working capital at risk vary under specified univariate and combined stresses
  - Also consider impact of downside and severe downside scenarios
- Projection methods good enough for use rather than perfect
- Still not there; timescales and workloads challenging

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## Initiative: Embedding Risk Appetites in Business Planning

### EXEC AND ERM ENGAGEMENT:

- Engage ERM at start of process in agreeing stresses
- Keep telling the ERM stresses are important
- Only ask for stress and scenarios that will actually use
- Feedback on how used in past
- Discuss as Exec rather than ERM
- Use appetites to drive the plan / strategy
- Focus conversation on return as well as risk

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## Initiative: Risk Appetites: The Future

- Move to IFRS at Risk
- Future: Risk and Capital Targets should be set by reference to a range of defined stress events after which the Group and all subsidiaries can meet their regulatory capital requirements
  - A range of stresses can be defined covering univariate equity & property, credit, interest rate stresses together with combined stresses involving the above
  - Easy for Senior Management to understand and aligns closely with FSA stress testing exercises
- Challenge going forward: Unit-linked business

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## Initiative: Product Developments

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- Minimise group / UK overlap
- Get involved early in process to identify key issues
- Be clear of role
  - Aim is to ensure risks clearly set out when Exec form a commercial judgement
  - And to ensure group minimum profit targets met and risks consistent with risk appetite
- Keep RAPRs short; focus on key risks; make accountabilities clear
- Ideally RAPRs need no comment when reach us
- Not there yet; risk is that frustrations with the process lead people to miss a key risk

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## AFH Perspective

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- Roles of Finance and Risk
- Design of the Actuarial Function
- Working with Risk
- Challenges

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## Risk Management Roles of Finance and Risk

### Our Approach

#### Risk

- Responsible for the risk management framework, risk policies, risk appetites
- 2<sup>nd</sup> line review and challenge of proposals
- Ensure that the key issues are brought out clearly
- Validation
- ORSA

#### Finance

- Monitoring and management of risk within the agreed framework, policies and appetites
- Proposing methodology, assumptions (Valuation, ICA, TPs, SCR, EEV etc.)
- Calculations and controls
- Communication and approval of results
- AFH role in the 1<sup>st</sup> line

## Finance Capital & Risk Management

UK Actuarial  
Director

#### Assumptions & Methodology team

- Propose methodology for assumptions (market & demographic) including stressed and distributions
- Ensure methodology and assumptions successfully navigate the governance process
- Perform experience analysis
- Propose demographic, economic and expense assumptions (on all bases, best estimate and stressed)

#### Technical Provisions & Reporting team

- Overall responsible for the production of Pillar 1 Valuation, Best Estimate Liability Valuation and P&L Attribution (as well as EEV and IFRS for as long as is required) including:
  - proposing methodology for calculation
  - analysis and reporting of results
  - ensuring methodology and results successfully navigate the governance process
- Primary responsibility for appropriateness of models and data and specifying changes

#### Solvency Capital Requirement team

- Overall responsible for the production of ICA, S2 SCR and Risk Margin including:
  - proposing methodology for calculation
  - analysis and reporting of results
  - ensuring methodology and results successfully navigate the governance process
- Responsible for Risk Agility and calibration of loss functions
- Producing Group SCR and stressed SCR

#### Capital Planning & Monitoring team

- Responsible for capital planning and supporting business planning
- Production of capital projections on all bases
- Responsible for monitoring of
  - assets
  - capital plan and solvency position
  - risk appetites / EWC@R / SV@R and risk register
  - liquidity
- Responsible for stress testing and reverse stress testing
- Responsibility for proposing the SLAL dividend
- Primary responsibility for 'what if' investigations

#### Capital Management team

- Responsible for optimising balance sheet through asset management, with-profit management, balance sheet management, liquidity and capital management

#### Technical Solutions

- Provides:
  - AFH support
  - Project support
  - Planning support

## Working with Risk

- Review and challenge
  - Early engagement essential
  - Independence (both ways)
- Product development
  - Avoiding duplication of review and challenge
  - Responsibility for ensuring capital implications are appropriately quantified and communicated
  - Rely on detailed risk review as part of AFH sign-off
- FCR vs ORSA

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## AFH Perspective – Challenges

- Strong engagement from SLAL Board – need to involve wider executive
- Complex with profits back book, simpler new business – focus on value of back book
- Too many metrics – focus on IFRS, economic capital (Shareholder Value), and cash

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## Conclusions

- Tone from the top key
- To get full value need to engage key decision makers in ORSA
- Investing time in 1-1 discussions is worthwhile
- Make it meaningful in context of their day-jobs
- Focus on what they can influence
- Not everything you try will work
- There will always be more to do

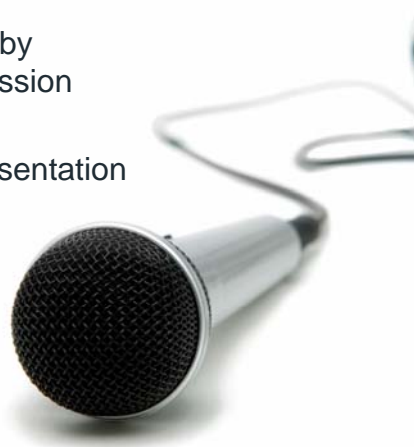
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## Questions or comments?

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.



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