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and Faculty
of Actuaries

ORSA: A view from the Board Room

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1 July 2013



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ORSA

A View from the Board Room

Enterprise
Sponsorship
Thought leadership
Progress
Community
Sessional Meetings
Education
Working parties
Volunteering
Research
Shaping the future
Networking
Professional support
Enterprise and risk
Learned society
Opportunity
International profile
Journals
Support

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ORSA: A view from the Board Room

Some initial observations

- ORSA is highly ambitious and may fail because it seeks to integrate too many complex concepts
- ORSA will fail if the regulators place too many constraints on its development
- ORSA's best chance of success is to emphasise the "OWN" and not try for one standard approach
- Success is clear POLICY, solid PROCESS, crisp REPORTING



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ORSA: A view from the Board Room

ORSA as a Policy

- | | |
|------------------------------------|----------------------------------------------------------------------------------------------|
| Integrated into Strategy | ▶ But how to be constructive and how to cope with the timing of the internal business cycle? |
| Comprehensive Risk Coverage | ▶ But have we captured unquantifiable risks, emerging risks, and elephants in the room? |
| Use Test | ▶ To be met, but can it be driven down into the executive process? |
| Regular Reporting | ▶ But how to keep this fresh? |
| Commitment to Documentation | ▶ But this Board member only wants to know that it works |



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ORSA as a Process

- ICA process may need strengthening to improve risk identification, quantification and integration of qualitative risks
- Projection of the ICA to integrate with strategy developments still seems a technical challenge
- Can the process meet the organisation's business cycle and proactively seek genuine risk capital solutions?
- Governance is necessarily top heavy — CRO and Risk Function, AFH and Actuarial Function, Executive Risk Committee, Board Risk Committee, Internal Audit and Board Audit Committee, WPC and the Board. Can it be streamlined?
- Need for clarity between the role of the Actuarial Department (first line ?), the Risk Function (second line ?) and Internal Audit (Third line) and the actuaries who operate in each line



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ORSA as a Report

- Frequent updates, annual refresh
- My preferred structure is
 - Where we are now (strategy, risk matrix, management actions, ICA, Pillar 1) kept short
 - Projected results (base case, scenarios, reverse stress tests)
 - Commentary, options and recommendations
 - Attestations
- This should keep report fresh, forward-looking and relevant



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Observations — Short term

- Proportionality measured against extreme outcome, not expected result
- How reliable are the management actions in really extreme conditions?
- How can we integrate the insights brought by reverse stress testing? Mitigation of the RST scenarios could be a part of ORSA?
- Are there reports we can drop?



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Observations — Longer term

- Still too model-driven while judgements on tails, correlations and extreme events are subjective
- More emphasis on integrating reputation, strategy, culture, conduct and other qualitative risks
- Integrating Project Management and Product Development risks into the ORSA Process
- Can we achieve an integrated Return on Risk Capital discipline?
- IFRS4 must integrate with the ORSA Process



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Back to my initial observation

- The ORSA require an attempt to integrate strategy development, risk management, capital allocation, statutory valuation and, in time, financial reporting
- What can go wrong?

