

The Actuarial Profession
making financial sense of the future

Solvency II: ORSA challenges **Richard Dewar, Solvency II & Economic Capital Director, Aviva**



Agenda

- Importance of the ORSA
- Role of boards and management
- ORSA process – content
- ORSA report – content & timing
- Complexity of large groups

Importance of the ORSA – its role in Solvency II

Extracts from a speech by Ken Hogg,
Director, Insurance Sector, FSA (18 May 2010)

• “...from a capital perspective, the aim of Solvency II is **not to seek excessive prudence**; rather it is to ensure that the right amount of capital is held in relation to the risks each individual firm faces.

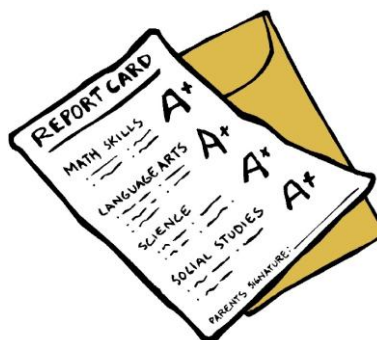
• ...the responsibility for the running of the firm rests firmly on the shoulders of senior management. ... senior management and the Board must be able to demonstrate they are fully in control of their firm and that they fully understand the risks that the firm is running, or might face in the future.”



- The ORSA plays a key role in helping boards discharge this responsibility

Importance of the ORSA – high expectations?

- **FSA expectations**
- Risk and solvency framework that is appropriate to their business
- Clear ownership of the framework - beyond the standard formula by...
- ... use of internal models to assess solvency and capital
- Regulators need to be convinced ORSA is really used
- The 'prize' is more efficient use of capital than allowed under the standard formula but...
- ... larger companies don't really have a choice!



Role of boards and management

- support from the top is important

Overall responsibility	<ul style="list-style-type: none"> The Board is ultimately accountable and responsible for compliance Delegating to committees does not in any way release the Board from its duties and responsibilities
Drive a risk aware corporate culture	<ul style="list-style-type: none"> The corporate culture must support effective risk governance Board provides the appropriate values and priorities to set the right “tone at the top”
Right people right job	<ul style="list-style-type: none"> All Board members must be “fit and proper” (qualifications, knowledge and experience)
Active involvement	<ul style="list-style-type: none"> Board must have regular and robust interaction with executive committees AND key functions Board duties include requesting information proactively and challenging this information when necessary

Role of boards and management

- the board itself will need support

- Ultimate responsibility for Solvency II means boards need to cover...

Responsibilities of board and executive

- Impact on decision making strategy
- Capital allocation and use of economic capital
- ORSA / Use Test / disclosures responsibilities and process
- Capital and risk management information in business plans
- Links to remuneration
- Control frameworks
- Risk framework, management and decision making
- Risk appetite use and reporting
- Scope of internal model and limitations
- Diversification benefit
- Internal model outputs
- New business and strategy planning framework
- Understand key judgements and choices made

- ... which is a challenging blend of the strategic and the technical, requiring training and time

ORSA process – content – what will you see?

- Formal report, 80-150 pages covering the following:



1. Executive summary
2. Business and strategic environment
3. Risk environment
4. Key assumptions of Aviva internal model
5. Point-in-time capital and solvency position
6. Analysis of movement in solvency
7. Forecast capital and solvency position
8. Stress and scenario testing
9. Capital and liquidity plans: 3 year time horizon
10. Summary of key management decisions
11. Internal sign-offs

- Use of appendices?
- Comprises *fixed* and *variable* components

ORSA process – content – how will it be used?

Challenges

- Powerful management tool but...
- Content duplicates many existing reports
- Collation or Overarching document?

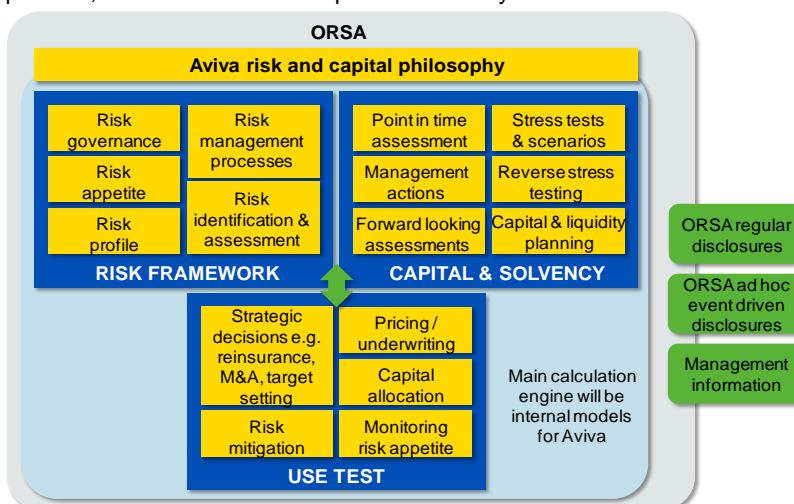


1. Executive summary
2. Business and strategic environment
3. Risk environment
4. Key assumptions of Aviva internal model
5. Point-in-time capital and solvency position
6. Analysis of movement in solvency
7. Forecast capital and solvency position
8. Stress and scenario testing
9. Capital and liquidity plans: 3 year time horizon
10. Summary of key management decisions
11. Internal sign-offs

- Don't forget: Where is the value add in all of this?

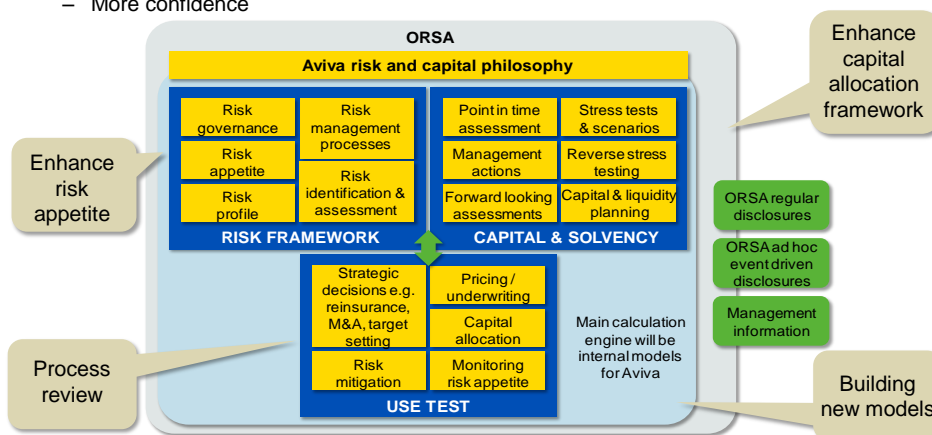
ORSA process – content – what's in it?

- Need to be able to explain ORSA – a diagram helps
- It's a process, but also exists as a report – can easily confuse



ORSA process – content - pictures help put the activity into context

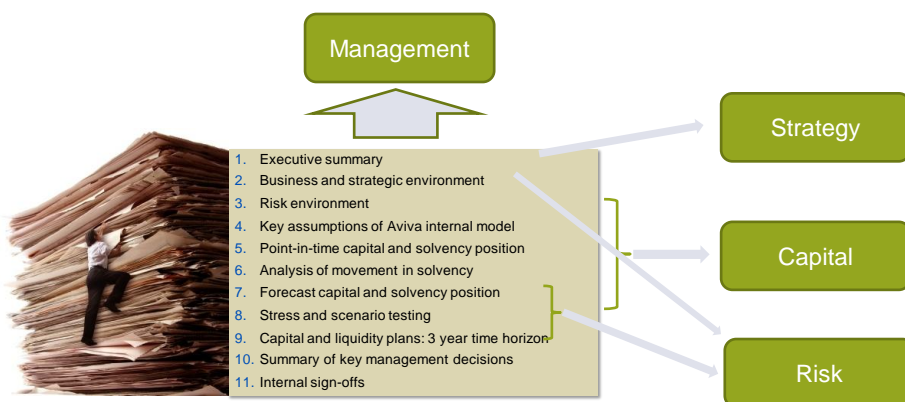
- Benefits:
 - Better visibility
 - Better understanding
 - More confidence



ORSA process – content

- who owns what?

- The ORSA cuts across functions, so ownership needs thought



- Capital teams own the majority, but are they best placed to coordinate production and design of the whole report?

ORSA report – content & timing

- timing is important

- Requirement is to report on ORSA at least annually – but when?
- Year End
 - Ties in with other reports (RSR ,SFCR, Annual Report)...
 - ...but probably busiest time of the year
- Planning
 - Most forward looking part of the business cycle...
 - ...but need to balance flexibility of process with robust reporting
- Neither of the above
 - Resources available...
 - ...but need to make sure the data is not 'stale'
- And is one report a year the best way of managing this?



Complexity of large groups



- Being large can bring diversification benefit, but brings complexity when thinking of ORSA
- Split of responsibility between board and supporting committees
 - how much does the board really need to see?
- Dependence on legal entity boards
 - they know the business better but...
 - ...Group also needs appropriate understanding
- Time to produce
 - in parallel or sequential?

Questions

