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ORSA: Update on regulations and emerging practice

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02 July 2013

Agenda

Update on Solvency II

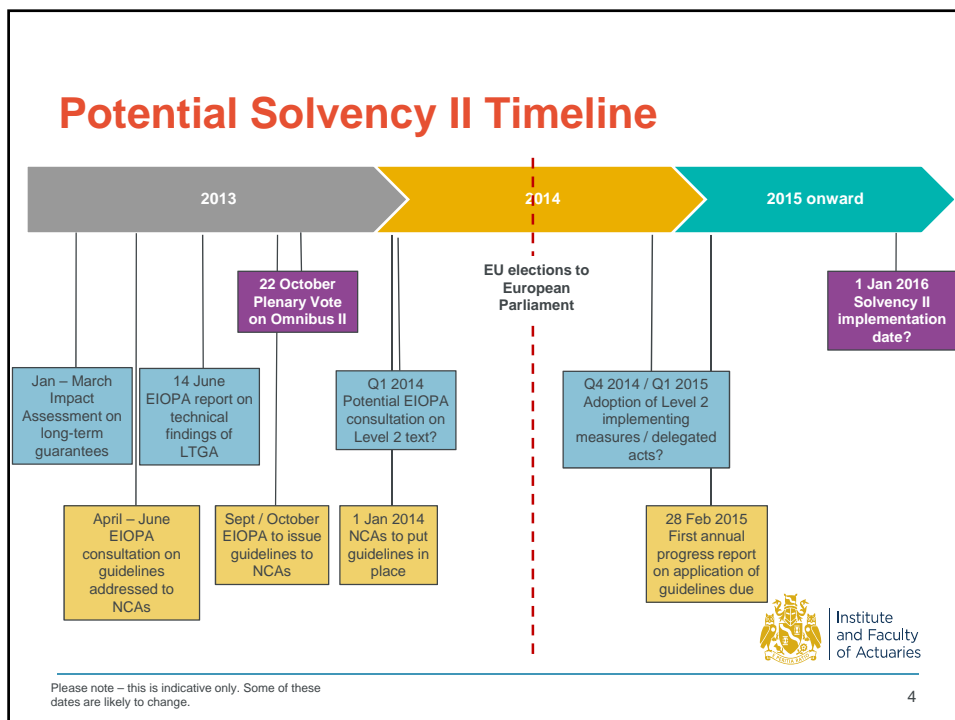
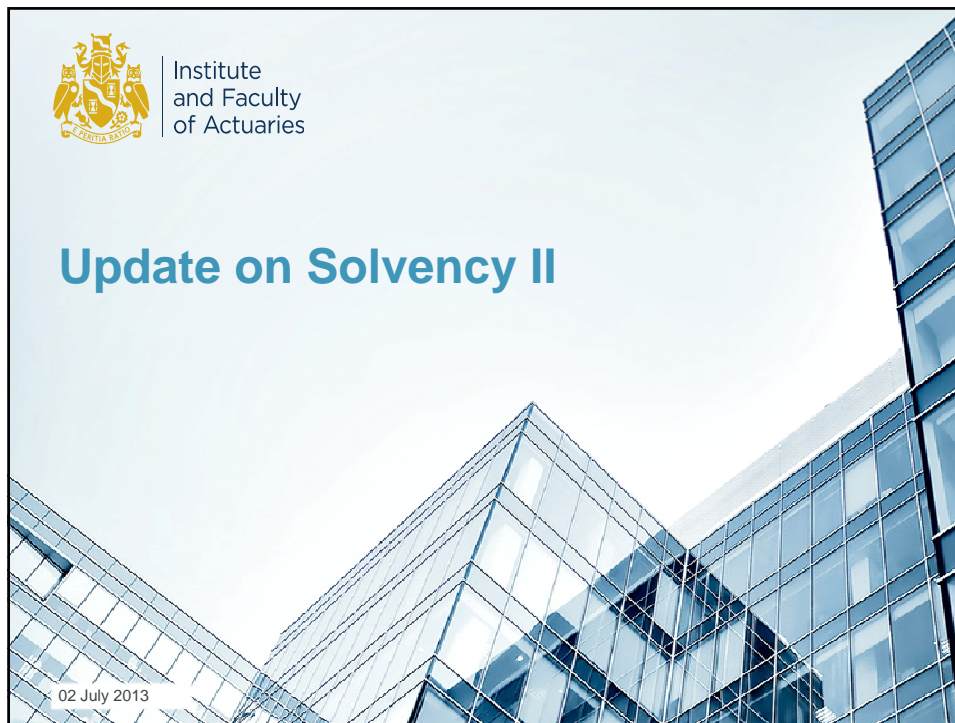
Overview of EIOPA consultation

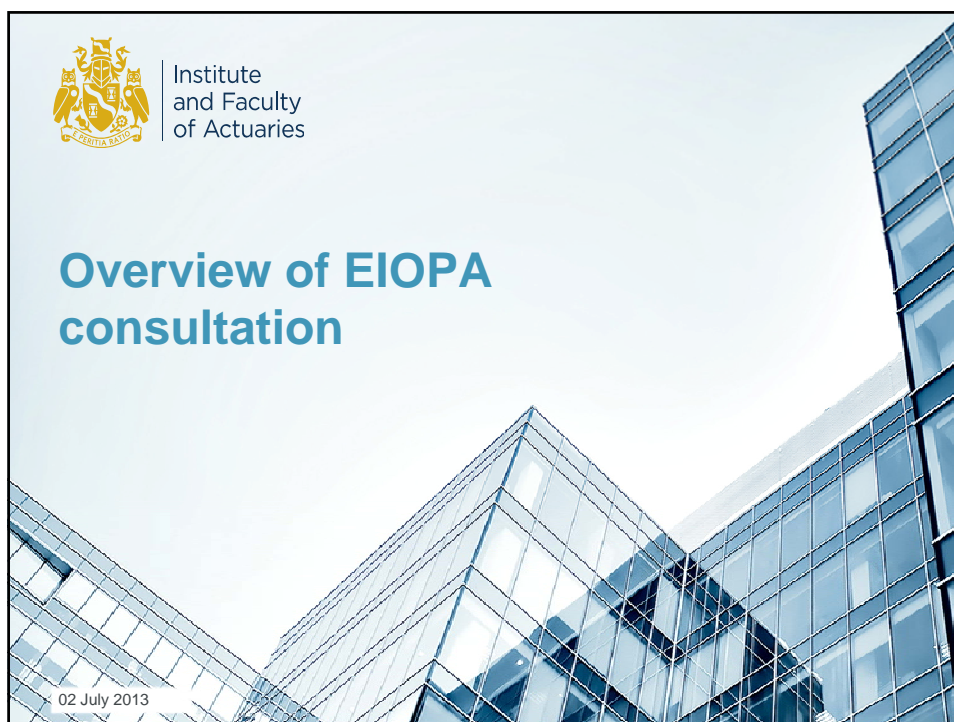
Reaction from the PRA

Emerging practice



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EIOPA has consulted on guidelines to be implemented ahead of full Solvency II implementation

New guidelines:

1. System of governance
2. ORSA (renamed to “forward looking assessment of own risks”)
3. IM pre-application
4. Submission of information to NCAs

Key points:

- Consultation ended on 19 June 2014
- Expect final guidance in Autumn
- Guidelines effective from 1 January 2014
- But first submission of information based on end-2014
- NCAs need to comply or explain on a guideline by guideline basis
- Thresholds and “phasing” applies

EIOPA consultation — General observations

- **Guidelines are preparatory — i.e., no supervisory actions expected**
- **Not expecting individual company full compliance by 1 Jan 2014**
 - But expect firms to have commenced work and to make continuous progress
- **Assumes first annual submission based on end-2014**
 - (20 weeks after year-end for solo and 26 weeks for groups)
- **First quarterly submission based on Q3 2015**
 - (Eight weeks after year-end for solo and 14 weeks for groups)
- **Strong link to Pillar 1**
 - Assumes OMDII will be finalised before end-2014, but EIOPA will release a technical specification if not
 - EIOPA will review the position at end-2013



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Re-cap on ORSA requirements

- Guidelines given on the performance of the ORSA, including risk assessment, frequency and forward-looking nature
- Performed at least annually or on occurrence of trigger event
- Documentation required
 - *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



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The EIOPA consultation requires three main elements to be included in the ORSA

1	2	3
Forward-looking assessment of risks and capital <ul style="list-style-type: none"> Includes assessment of own solvency needs Includes forward-looking assessment of capital needs 	Assessment of continuous compliance with Solvency II capital requirements	Assessment of how the company's risk profile compares to the assumptions underlying the Solvency II standard formula
All companies	80% of the market + AuM > €12bn	All firms undergoing the internal model application process (including groups) are exempt from this requirement.



Reaction from the PRA

Overview of activity to date

- PRA has been holding internal and external working groups to gather information and technical input on the key issues and challenges that the EIOPA guidelines may present
 - Shared the findings from the discussions to date at Expert Group meetings on 6th June
- They will not be sharing their position on whether they intend to comply or explain at this stage
 - This will be announced at the publication of final guidelines in September/October
- In considering each guideline, PRA will decide whether they will:
 - Comply at 1 Jan 2014
 - Comply after 1 Jan 2014; or
 - Not comply



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Assessment of guidelines

- Assessment considers guidelines against:
 - How consistent they are with the PRA supervisory model approach
 - Cost to the PRA/firms relative to benefits
- They have developed a taxonomy to categorise the preparatory guidelines into five categories:
 1. PRA/firms already doing this
 2. PRA/firms preparing to do this
 3. PRA could do if resources are manageable
 4. PRA could do, but resource burden is too high
 5. PRA would not seek to do as part of preparatory phase
- To date, many guidelines have fallen into categories 3 and 4. The PRA has stopped short of categorising any ORSA or Systems of Governance guidelines into category 5 at this stage



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Key points from PRA

- Expectation that there is a glide-path for implementation of the ORSA and Systems of Governance guidelines
 - Starting on 1 Jan 2014 and ending on 31 Dec 2015
- Conversations with the supervisor will begin at the start of 2014
- ICA+ firms will be expected to be further developed with respect to preparedness for ORSA, but all companies will be assessed individually
 - The PRA say they will always take *a proportionate approach*
 - They stressed that *this is not early implementation of Solvency II, but preparedness only*
- Companies should bear in mind the explanatory text when preparing for implementation as it may be expected that this will be subsumed into the guidelines by the time the final guidelines are issued



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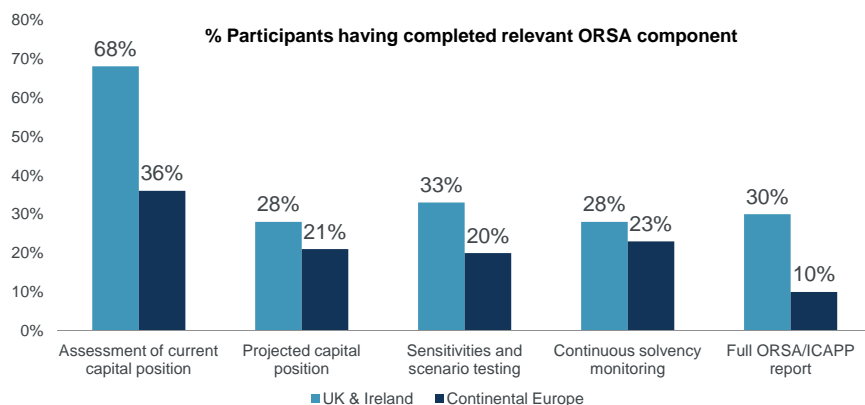


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Progress with ORSA to date



How would you describe your organization's progress with the ORSA/ICAAP to date?*

* 2012 Towers Watson ERM Survey



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Observations on progress in the UK

- The existing ICAS regime has served as a useful foundation on which to build ORSA processes
- In addition, many internal model firms have made good progress
 - Lloyd's agents have already submitted draft ORSAs to the regulator
- Non-internal model firms have further development to do
- Overall, less progress has been made with some of the more difficult technical areas, in particular capital projections
- General slowing down after the announcement regarding the delay to Solvency II implementation but this has picked up again since the interim measures were announced
 - However, this time, it is becoming the responsibility of BAU teams rather than a Solvency II project team
- It is seen as a way to gain value from Solvency II work to date



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Progress in other countries

- In many other European countries, the focus was heavily on Pillar 1 following the Eurozone fallout
 - There was little Pillar 2 activity carried out
 - In many countries, no equivalent of the ICA, so didn't have a useful starting point
- However, in 2012, many regulators started to change their focus
 - ORSA dry-run in the Netherlands took place
 - French regulator planned an "ORSA blanc" exercise in 2014, with certain firms taking part in a smaller pre-exercise in 2013
 - Irish regulator planned for companies to submit ORSA reports before the Solvency II implementation date
- Regulator's plans are changing as a result of the EIOPA consultation
- The focus of firms is now shifting to the ORSA and Systems of Governance requirements



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Conclusion

- Read the EIOPA consultation papers and the explanatory text!
 - A useful Towers Watson overview can be found [here](#)
- Start to consider your implementation plans and how to demonstrate progress to the PRA
- Keep an eye out for the final guidelines later this year, and the PRA's reaction
- ***The ORSA is here to stay!***



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Questions



Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

