ORSA – latest from FSA and EIOPA

Kathryn Morgan
Institute of Actuaries
29 September 2011

Key messages

• There are no excuses for not doing anything
• Most firms have a lot of the components in place already
• Respond to the EIOPA consultation
Solvency II Timeline

- Omnibus II discussions ongoing
  - European Commission text
  - European Parliament Rapporteur’s comments
  - European Council comments awaited
  - Trilogue: Commission, Parliament and Council
  - Adoption of Omnibus II expected Q1 2012
- Creates uncertainty, but still lots to do
  - Continue preparations for implementation
  - Take part in consultations
    - FSA’s first CP due this quarter
    - EIOPA level 3 formal consultations expected in November on reporting and the ORSA
- Updates available at fsa.gov.uk/Solvency2

Solvency II - Pillars 2 and 3

Three-pillar approach

Pillar 1: Quantitative requirements
- Technical provisions
- Minimum capital requirement (MCR)
- Solvency Capital Requirement (SCR)
- Investment rules

Pillar 2: Qualitative requirements
- Principles for internal control and risk management, including the ORSA
- Supervisory review process

Pillar 3: Market discipline
- Transparency
- Disclosure
- Support of risk-based supervision through market mechanisms

Market-consistent valuation
Validation of internal models

New focus for supervisor
Level of harmonisation

More pressure from capital markets
More pressure from rating agencies
ORSA in the Directive

- Overall solvency needs currently and over the term of the firm’s business planning period
- Compliance with regulatory capital requirements
- Compliance with reserving requirements
- Assessment of the deviation of the regulatory capital assumptions from the risk profile
- Includes qualitative and quantitative risks
- Link between the own assessment of solvency needs and regulatory capital assessed using an internal model
- The ORSA must be used in decision making
- The ORSA process must be done when the risk profile changes significantly
- Results of the process must be reported to the supervisor
- The overall solvency need is NOT a capital requirement

ORSA things to think about

All firms
- Fit for purpose
- Ownership of the ORSA
- Reporting – in firm and to the supervisor
- Frequency of running through the ORSA process
- Actuarial function
- Prudent person principle for investments

Internal model firms
- Inclusion in the use test

Groups
- A group ORSA has to be performed, including all entities and risks in the group.
- As well as a group ORSA, an insurer must have an ORSA for each regulated entity in the group.

The principle of proportionality runs through the Directive
Tricky issues in the ORSA

• Where are the rules?
• What will pass?
• Is it a process? Is it a report?
• What does “own” mean?
• How detailed does it have to be?
• What is a risk appetite?
• Who owns the ORSA?
• Link to IMAP

• Many more……

We’ve heard the following excuses

• No EIOPA guidance
• No FSA rules
• It’s too hard
• No risk appetite
• There are lots of conflicting messages
• Not clear who the ORSA belongs to
• Too many people are involved

These are not valid excuses
### Key messages

- There are no excuses for not doing anything
- Most firms have a lot of the components in place already
- Respond to the EIOPA consultation

---

**More information can be found on our dedicated web pages:**

[www.fsa.gov.uk/solvency2](http://www.fsa.gov.uk/solvency2)

**Email us:**

solvency2@fsa.gov.uk