



ORSA: Where are we at the end of the first year?

September 2016



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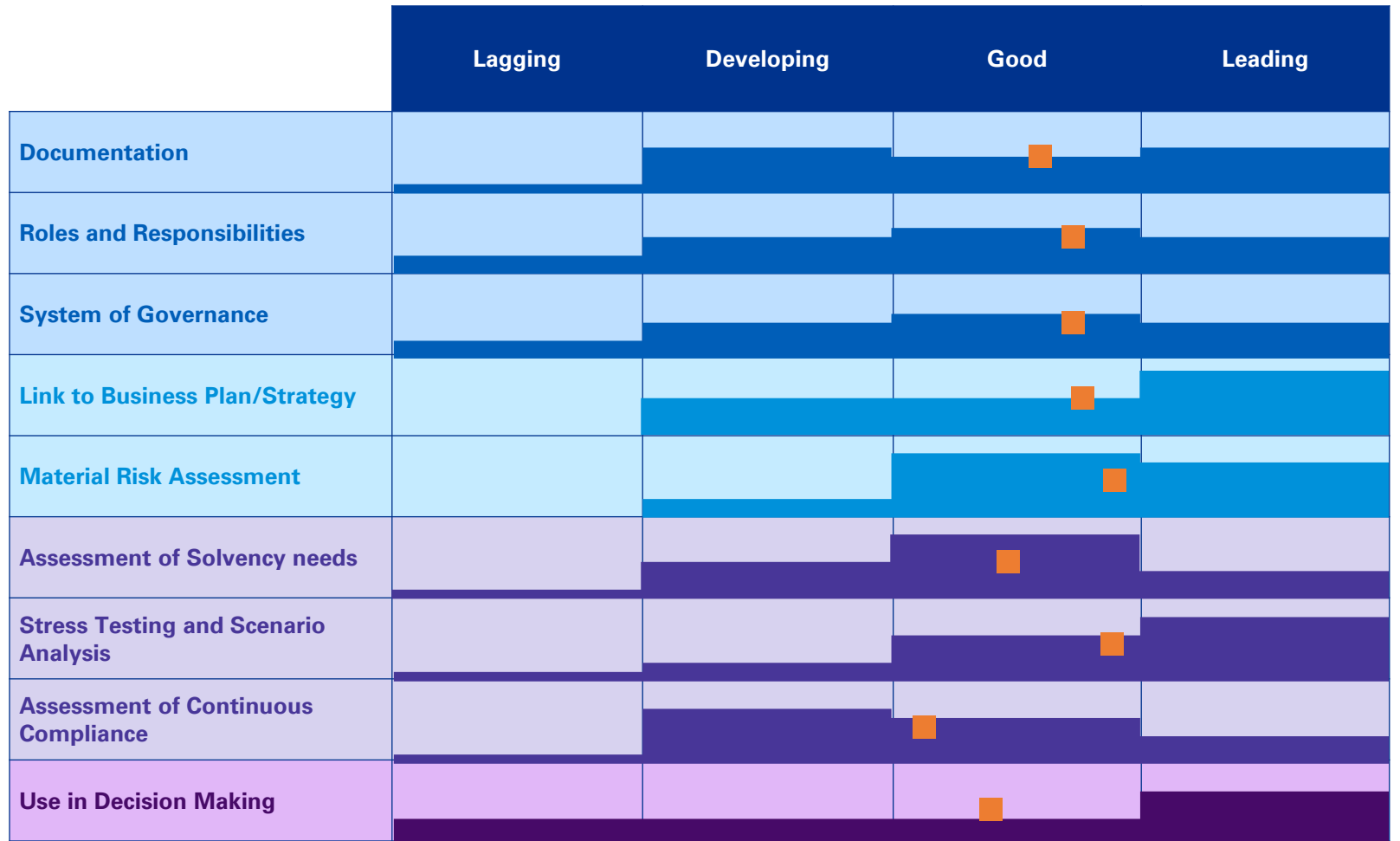
 - 2** Stress and Scenario testing

 - 3** MI – enabling use in decision making

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KPMG ORSA benchmarking results



* Based on a sample of 15 firms of varying size and complexity

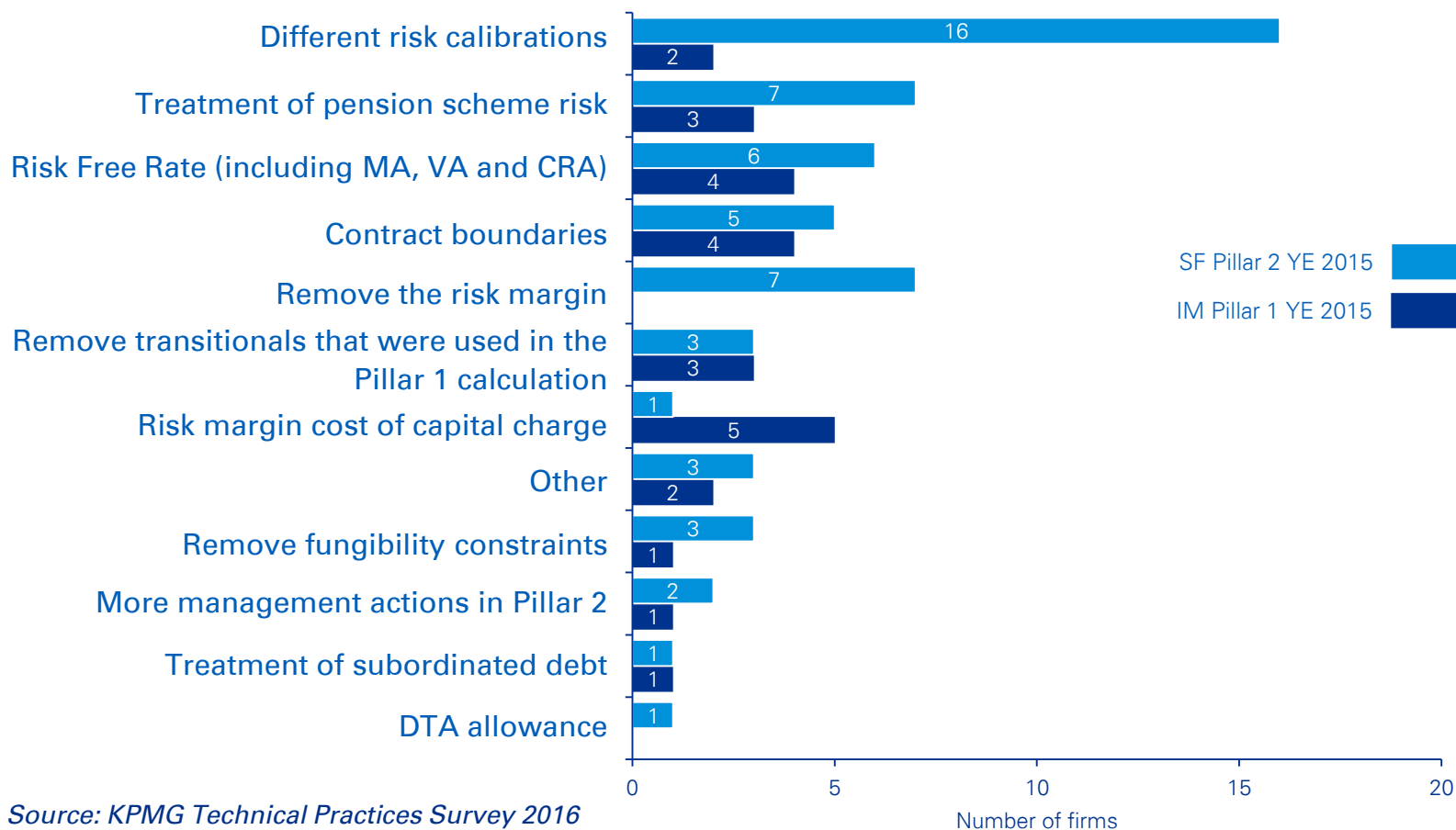
Distribution of ratings ■ Average rating

Source: KPMG benchmarking 2016



Balance Sheet / Capital in ORSA

Which of the following areas do you treat differently when performing your Pillar 2 calculations vs Pillar 1 calculations?



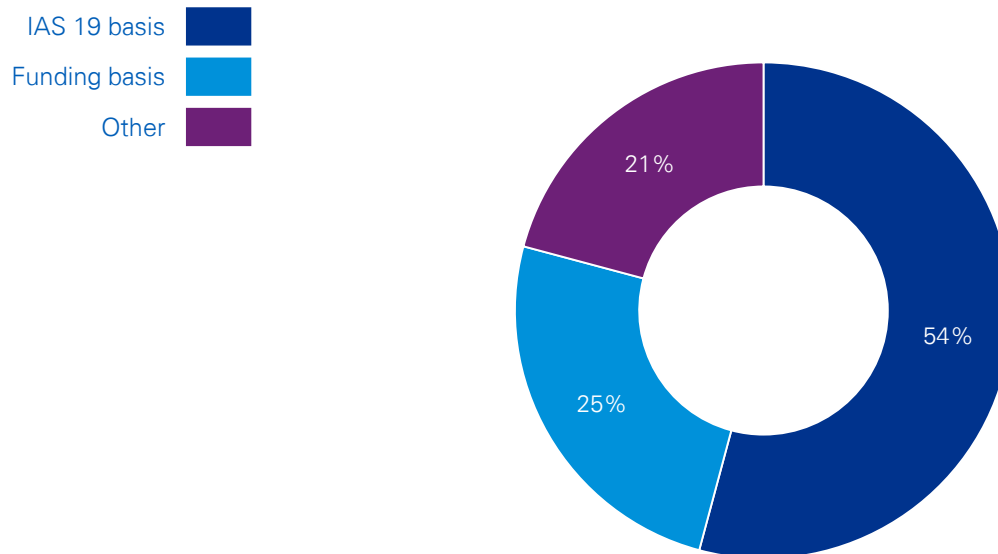
Source: KPMG Technical Practices Survey 2016



Pension schemes in ORSA

Many UK insurers operate defined benefit pension schemes. They are often large and can be a significant source of risk. Pillar 1 is prescriptive around how the pension scheme is treated. Pillar 2 has no restrictions, however, most firms uses the Pillar 1 treatment.

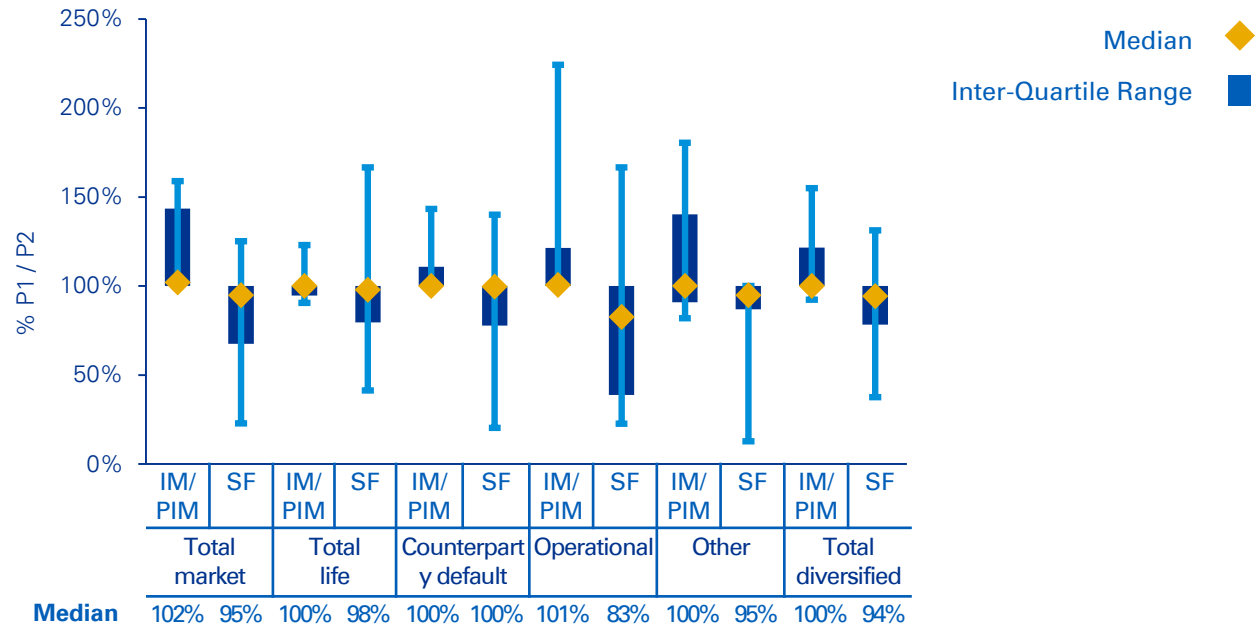
What basis do you use to value your pension scheme under Pillar 2?



Source: KPMG Technical Practices Survey 2016

Capital in ORSA

Ratio between Pillar 1 and Pillar 2 diversified solvency capital requirements (SCR).

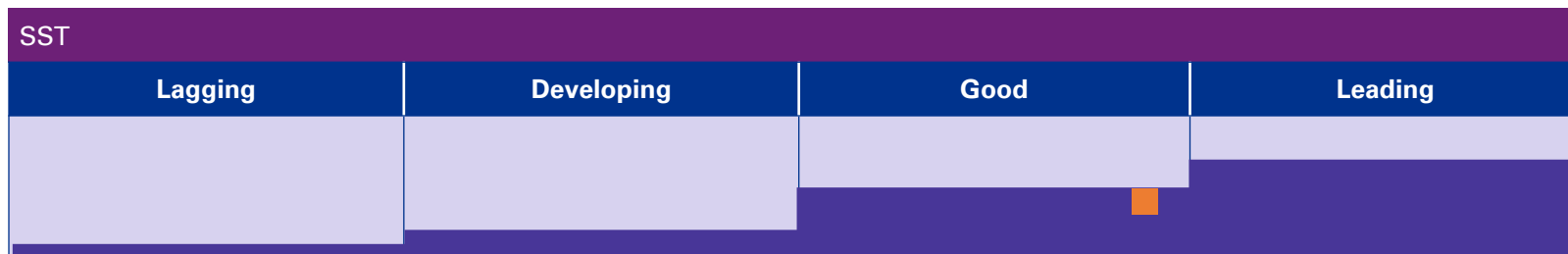


Source: KPMG Technical Practices Survey 2016



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KPMG ORSA benchmarking - SST



Source: KPMG benchmarking 2016

13 Firms reports documented how the material risks are stress tested.

but only ..

11 Reports considers scenarios, stresses and reverse stress tests to assess their impact on the risk profile, SCR and own funds.

5 Firms adequately documented how stress testing is conducted on a forward looking basis.

3 Reports were reviewed that did not take into account management actions.

Sample of scenarios analysed

	Life insurer	Annuity provider	Life insurer	Composite (life part)	Composite	Non-life insurer
Economic scenario	✓	✓		✓	✓	✓
Insurance risk scenario	✓				✓	
Regulatory change scenario	✓		✓			✓
Major operational failure scenario			✓			
Failure of a major business partner			✓	✓		
Business risk scenario				✓		

Comments on the scenarios analysed

High proportion
of **economic**
scenarios

Some companies are
anticipating
material

**regulatory
change**

Limited consideration of

operational
scenarios

Limited consideration
of

**management
actions**

Some may need to
reconsider
the likelihood of their scenarios

Conclusions- SST

Our benchmarking found:

**Areas for
development**

**Good
practice**



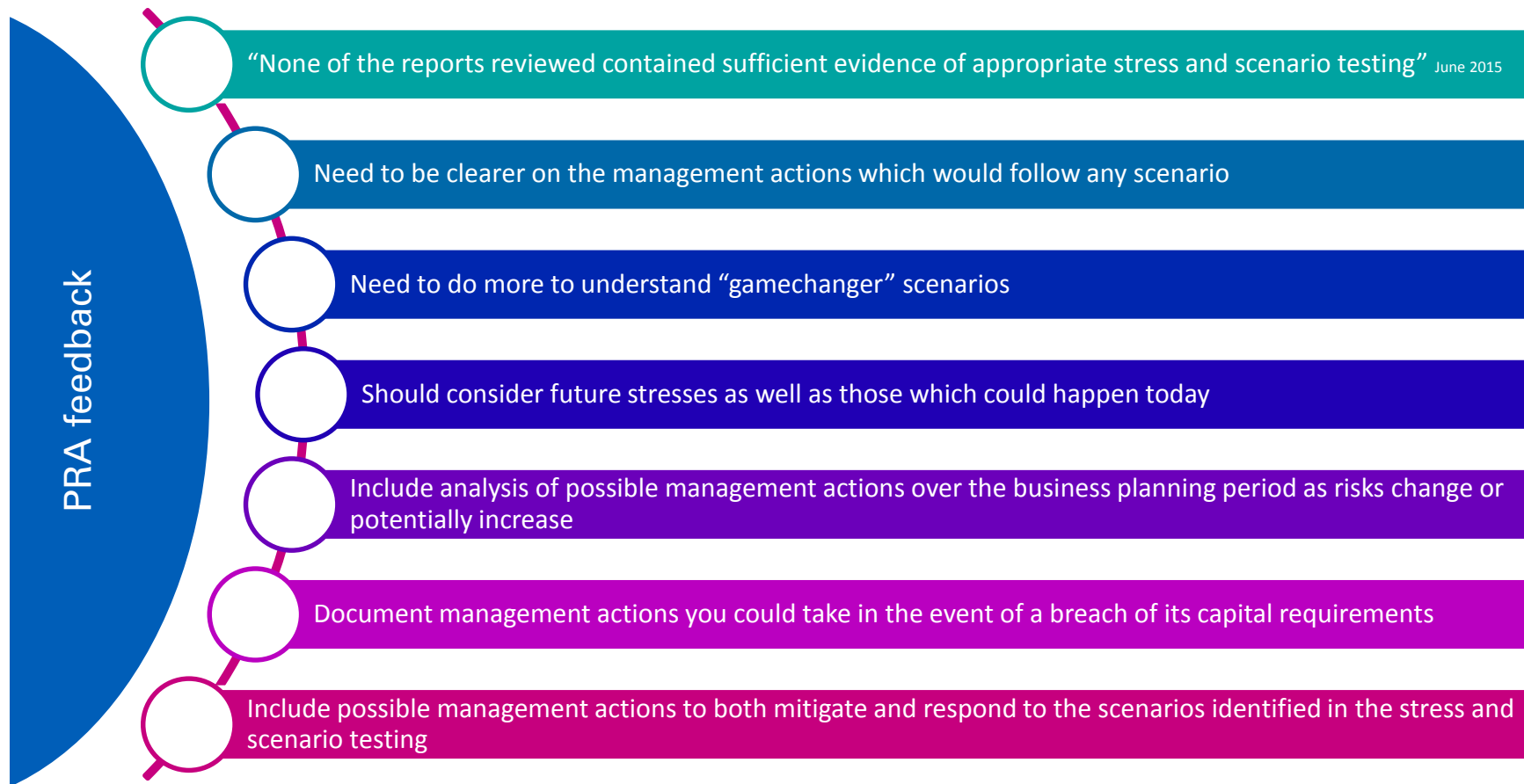
Firms are not:

- Doing enough to understand future stresses
- Looking at the practical aspects of management actions
- Using their SST/RST work to inform management discussions

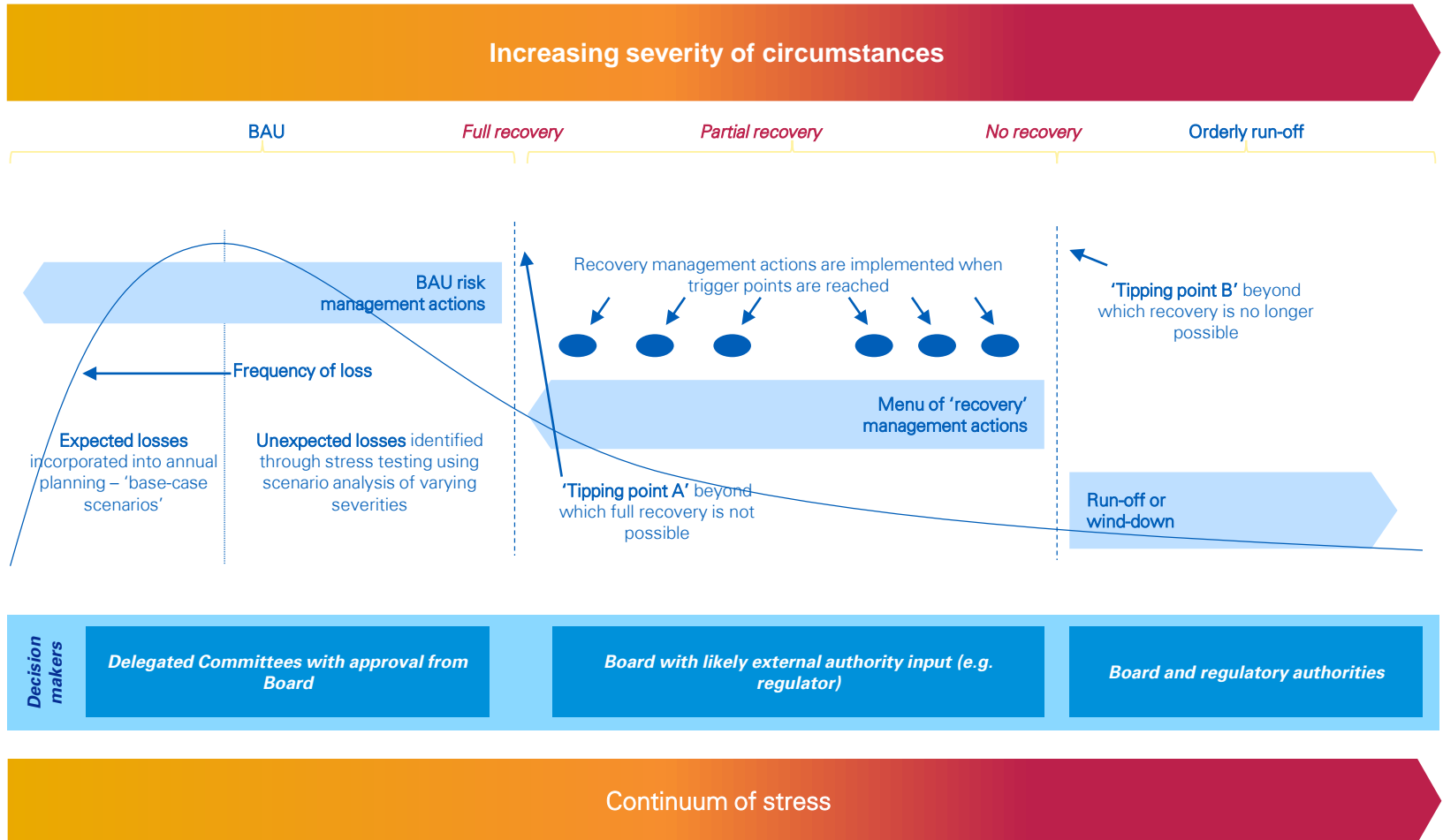
Firms are:

- Assessing a wide range of material risks
- Considering the impact on capital
- Taking a proportionate approach

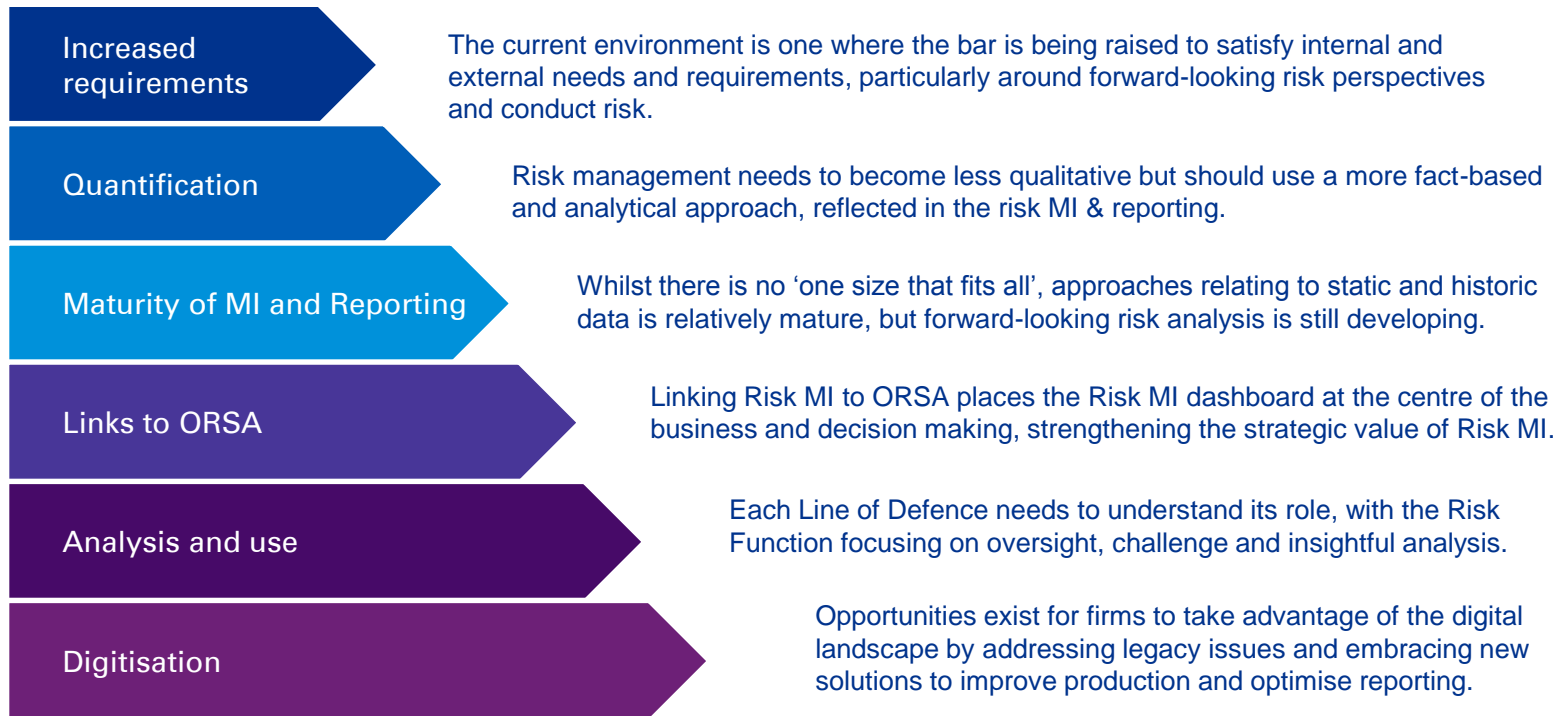
PRA feedback on SST in ORSA reports



The 'continuum of stress'

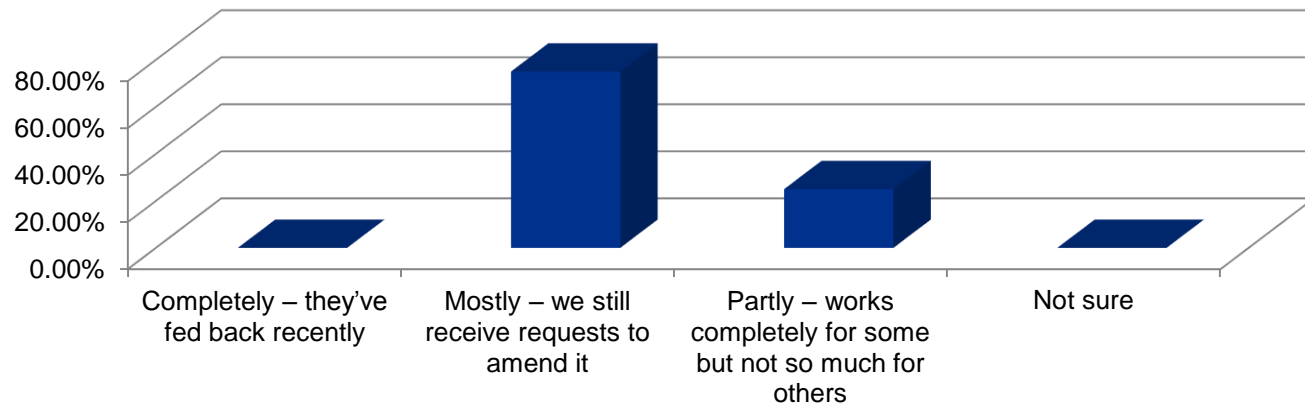


Why does Risk MI matter?

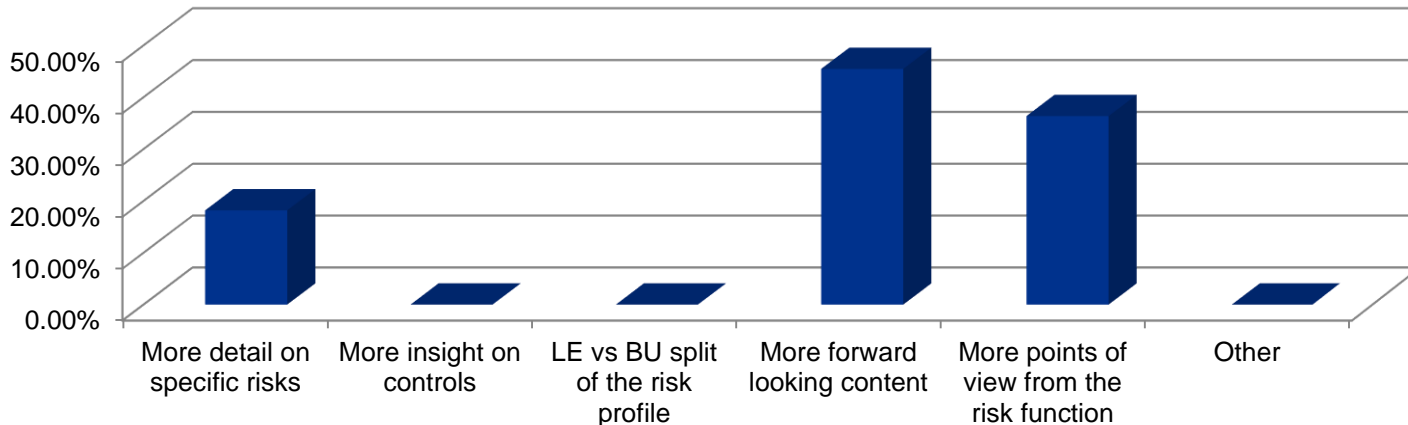


Boards are asking for better quality reporting

How satisfied do you think your stakeholders are with the risk information they receive?



What are the common information requests from your stakeholders?

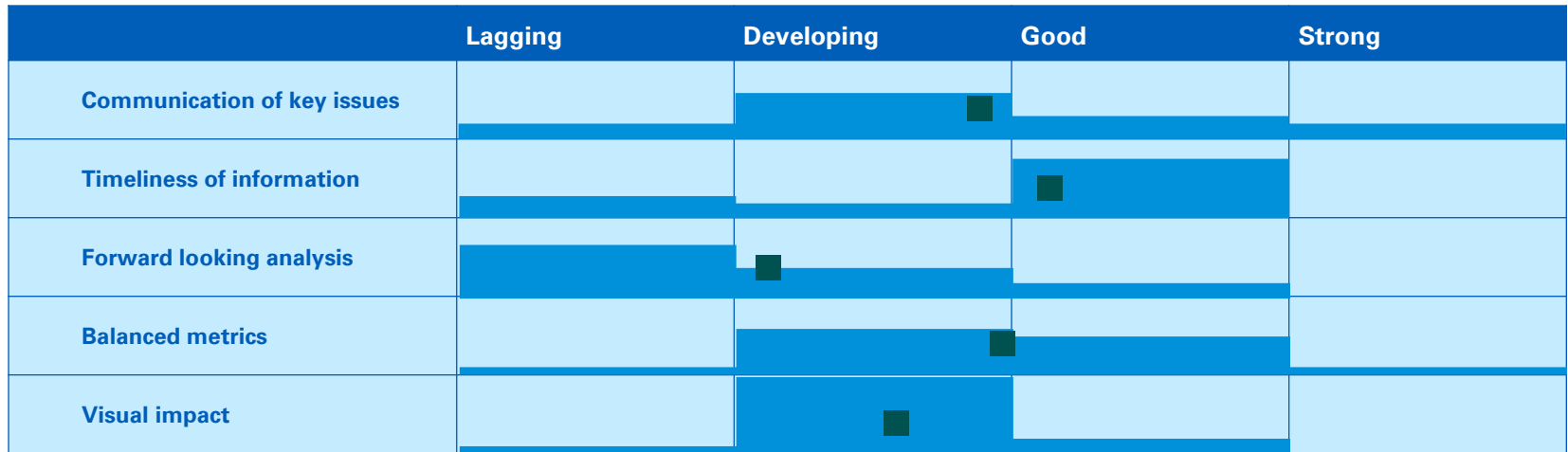


Source: Feedback gathered by KPMG at client event



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Risk analysis remains skewed to current or retrospective view



Source: KPMG benchmarking 2016

Distribution of ratings ■ Average

Key Facts (based on our sample of 13 risk reports)

More than

50%

of firms in our sample of 13 had either no, or inadequate forward looking analysis of risks in their reports

Less than

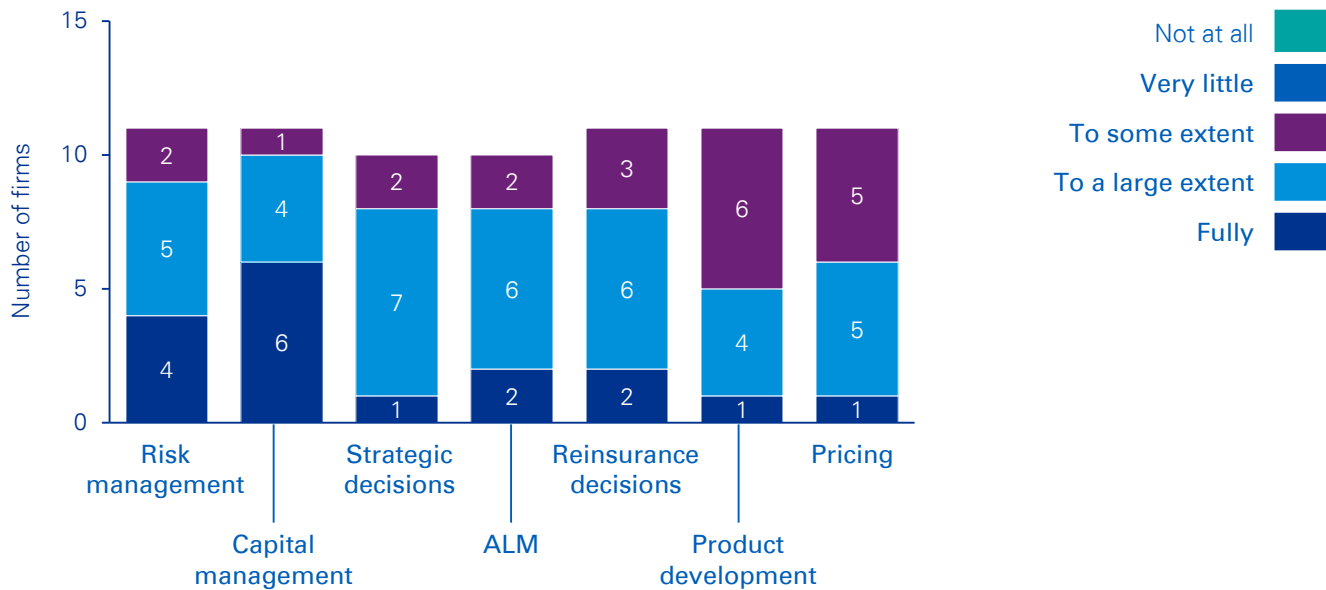
14%

Firms present information in a way that is visually impactful and engaging

Use of Internal Model in decision making

To what extent do you currently use your internal model or partial internal model when making business decisions in the following areas?

11 IM firms in total

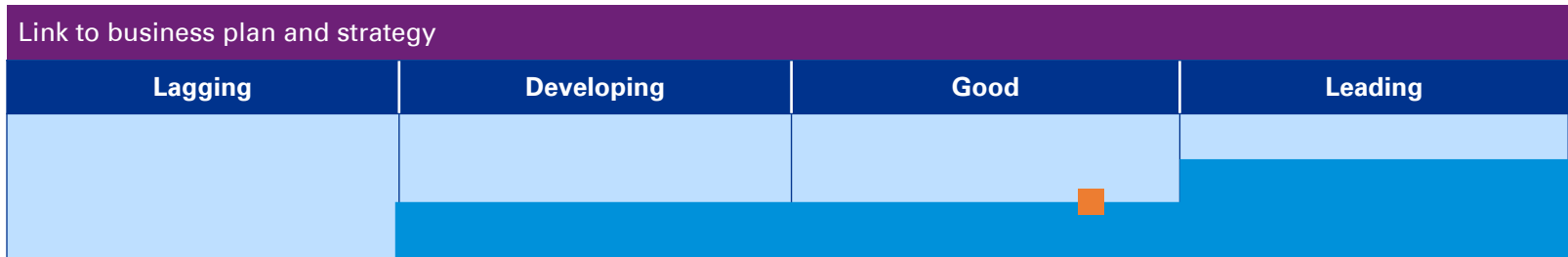


Source: KPMG Technical Practices Survey 2016



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Results – Link to business plan & strategy



The ORSA should show what the business plan is and how it impacts the risk profile, capital and risk appetite of the firm.

14 Firms included a description of the business plan.

11 Firms discussed the impact on capital.

10 Firms discussed the impact on risk profile.

8 Firms discussed the position against risk appetite over the planning period.

Considerations as ORSA moves to BAU

Does your ORSA **use** align to Board expectation / peers?

Have you fully leveraged the opportunity to

understand

the risk profile and management actions needed from the SST work and ORSA

Does the ORSA **timing** facilitate use in decision making / business and capital planning?

Have you fully rationalised your ORSA

capital measure?

What level of **validation** is provided to the Board that the ORSA process is executed as designed?

Is your ORSA process **aligned** to your other BAU processes such as regular Risk MI?



Matthew Murphy

*Principal Advisor,
Insurance Sector Risk
Team*

Tel +44 (0) 7917 158472

Matthew.Murphy2@kpmg.co.uk



Brent Smith

*Executive Advisor,
Insurance Sector Risk
Team*

Tel +44 (0) 7766 465903

Brent.Smith@kpmg.co.uk