



Society of Actuaries in Ireland

Enterprise Risk Management Forum

27th April 2017

Agenda

- ERM Committee objectives 2017 (Bridget MacDonnell)
- ORSA – a “12 page ORSA” (Paul Harwood)
- Brexit – overview and cross sector views on Brexit (Gareth McQuillan, Aidan Holton and David Costello)
- Drinks and finger food!

Disclaimer:

The material, content and views in the following presentation are those of the presenter(s).



Society of Actuaries in Ireland

ERM Committee Objectives 2017

27th April 2017



SAI ERM Committee - Objectives 2017

Group	Objectives
Risk	Consider Emerging risks and hot topics
Communications	Develop a communication strategy and increase awareness of ERM amongst members
Learning	Organise learning opportunities and promote awareness of risk management courses
Research	Promote research activities
Regulation	Influence consultations and consider need for ERM ASPs or IANs
Relationships	Develop links with risk management associations and other parties



ERM committee members

Tom Donlon
(chair)

Richard
McMahon

Eamonn
Mernagh

Danielle
O'Sullivan

Eric
Brown

Don
Browne

Jean
Rea

Eamonn
Phelan

Billy
Galavan

Patrick
Meghen

Laura
Power

Bridget
MacDonnell

Bryan
O'Higgins



Find us on LinkedIn!

Aspiro – ECJ adds pressure to insurance premiums

Risk management – how to avoid an own goal

Gardaí advise actuaries on Cyber Fraud

Articles
to date:

Risks to the profession and public interest

Spotlight on Operational and Reputational Risk

Liquidity risk: A wolf in sheep's clothing?

Interest Risk in a Solvency II Environment



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The 12-page ORSA Report

Paul Harwood

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A 12-page ORSA Report

Introduction

Contents

- What's the question?
- What are the requirements?
- What's the solution?

Conclusion



A 12-page ORSA Report

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tl;dr



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The Directive

Article 45

Own risk and solvency assessment

1. As part of its risk-management system every insurance undertaking and reinsurance undertaking shall conduct its own risk and solvency assessment.

That assessment shall include at least the following:

- (a) the overall solvency needs taking into account the specific risk profile, approved risk tolerance limits and the business strategy of the undertaking;
- (b) the compliance, on a continuous basis, with the capital requirements, as laid down in Chapter VI, Sections 4 and 5 and with the requirements regarding technical provisions, as laid down in Chapter VI, Section 2;
- (c) the significance with which the risk profile of the undertaking concerned deviates from the assumptions underlying the Solvency Capital Requirement as laid down in Article 101(3), calculated with the standard formula in accordance with Chapter VI, Section 4, Subsection 2 or with its partial or full internal model in accordance with Chapter VI, Section 4, Subsection 3.



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Guideline 3 – Documentation

1.15. The undertaking should have at least the following documentation on the ORSA:

- a) the policy for the ORSA;
- b) record of each ORSA;
- c) an internal report on each ORSA;
- d) a supervisory report of the ORSA.



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Article 306

Own-risk and solvency assessment supervisory report

The ORSA supervisory report shall present all of the following:

- (a) the qualitative and quantitative results of the own risk and solvency assessment and the conclusions drawn by the insurance or reinsurance undertaking from those results;
- (b) the methods and main assumptions used in the own risk and solvency assessment;
- (c) information on the undertaking's overall solvency needs and a comparison between those solvency needs, the regulatory capital requirements and the undertaking's own funds;
- (d) qualitative information on, and where significant deviations have been identified a quantification of the extent to which quantifiable risks of the undertakings are not reflected in the calculation of the Solvency Capital Requirement;



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Purpose of the ORSA

“The main purpose of the ORSA is to ensure that the undertaking engages in the process of assessing all the risks inherent to its business and determines the corresponding capital needs.”



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Is it important that Boards read ORSA reports

or

Are ORSA reports collations of evidence to prove the assessment of Own Risk & Solvency was done in compliance with the rules?



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Requirements

The internal ORSA report must

- report results and conclusions
- be meaningful
- confirm compliant process has been followed
- meet the supervisory report requirements



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The draft paper suggests:

- A 25-step Standard ORSA Process Model
- Standardised ORSA Record
- Risk Book

which might allow

a shorter, more focused ORSA report



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The 25-step Standard ORSA Model

- Steps 1-6 agreeing the business plan
- Steps 7-12 agree the risks, decide their management and ORSA treatment
- Steps 13-15 run projections, analyse results, draw conclusions, develop first OSN
- Step 16 present first OSN and business plan/risk options to the Board
- Step 17-19 formal tests of continuing compliance
- Step 20 ensure decision making uses ORSA output
- Step 21-23 compile and agree the internal ORSA report; present it to the Board
- Step 24 compile and agree the supervisory ORSA report
- Step 25 post-ORSA review

Each Step is: an Activity or a Meeting

May therefore involve: Action, Confirmation, Decision and/or Understanding

Work done by: Business Planning, Modelling & Projections, Risk Management

Each Step is described with: Aim, Detail, Output, ORSA Record Contents



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The ORSA Record

Standardised Index of documents and working papers used in the assessment of own risk and solvency.



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The Risk Book

Purpose

- To separate risk assessment from the ORSA
- To demonstrate adequate and robust risk assessment, monitoring and management process

Design

Four Levels

- Level 1 – Principal Risk Assessment Outputs
- Level 2 – Risk Assessment Summary Output for Business Planning
- Level 3 – High Level Risk Assessment in Practice
- Level 4 – Assessment of Individual Risks



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The Risk Book

Level 1 – Principal Risk Assessment Outputs

- Latest risk profile
- Latest ranking of risks based on materiality
- Latest approved risk tolerances
- The business strategy to which the risk tolerance levels apply

Level 2 – Risk Assessment Summary Output for Business Planning

- List of risks (split quantifiable/standard formula, quantifiable/not sf, non-quantifiable)
- List of risks to be managed through capital, showing capital allocated and management approach
- List of risks to be managed through mitigation, showing management action
- Approved management instructions to be followed if certain risks materialise



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The Risk Book

Level 3 – High-level Risk Assessment in Practice

- Policies
- Timetable
- Activity
- Scenarios

Level 4 – Assessment of Individual Risks

- Individual Risk Analysis
- Specific Risk Detail



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The 12-page ORSA report template

Contents (9 sections)

Business for the Board & Executive Summary

1. Principal & Secondary Conclusions
2. Overall Solvency Needs Information
3. Quantitative Results
4. Qualitative Results
5. Differences compared with the SCR
6. Changes made during the ORSA process
7. Capital Management
8. Methods & Main Assumptions



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Conclusion

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Conclusion

Is it important that Boards read ORSA reports?

Yes!

or

Are ORSA reports collations of evidence to prove the assessment of Own Risk & Solvency was done in compliance with the rules?

They might, but they needn't be. That said, firms do need to have the process and documentation to demonstrate compliance



A 12-page ORSA Report

For more information...draft paper

- 70 pages
 - A Introduction (1 page)
 - B Process Steps (3 pages)
 - C Detailed Steps (37 pages)
 - D 12-page ORSA Report template* (12 pages)
 - E The Risk Book (5 pages)
 - F The ORSA Record (5 pages)
 - *Additional Detail on some Steps (36 pages)

Available from p.h@btinternet.com



A 12-page ORSA Report





A 12-page ORSA Report



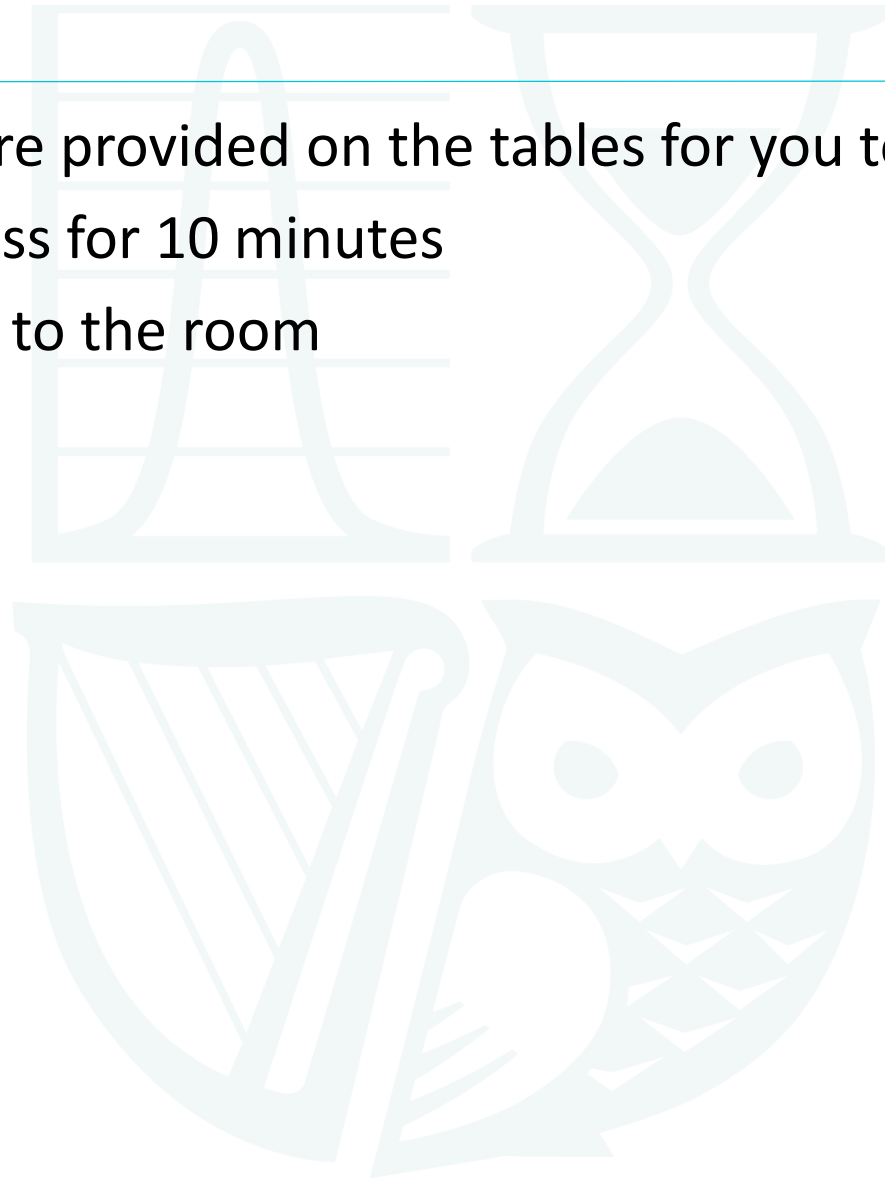


A 12-page ORSA Report



Discussion

- Questions are provided on the tables for you to discuss
- Please discuss for 10 minutes
- Report back to the room



Discussion

1. How do you demonstrate Board's ownership of the ORSA – what is the best way to bring them on the journey?
2. How might firms (or the Board?) satisfy themselves whether a 12-page ORSA report is acceptable to the CBI?
3. The use of appendices and references to other documents in the ORSA – what is the best way to ensure efficiency in the context of the Annual Report, SFCR, RSR, AFR, ARTPs...?
4. Group ORSA versus local ORSA – how can you demonstrate that the Group ORSA is appropriate for the local entity?
5. Stress and scenario testing – what is expected, how many and how often do you update the scenarios used
6. Timelag between date of results in the report and the submission date – when is the best time of year to do it, and how does it interact with other business processes?



Society of Actuaries in Ireland

Brexit

Eric Brown, Gareth McQuillan, Aidan Holton, David Costello

Agenda

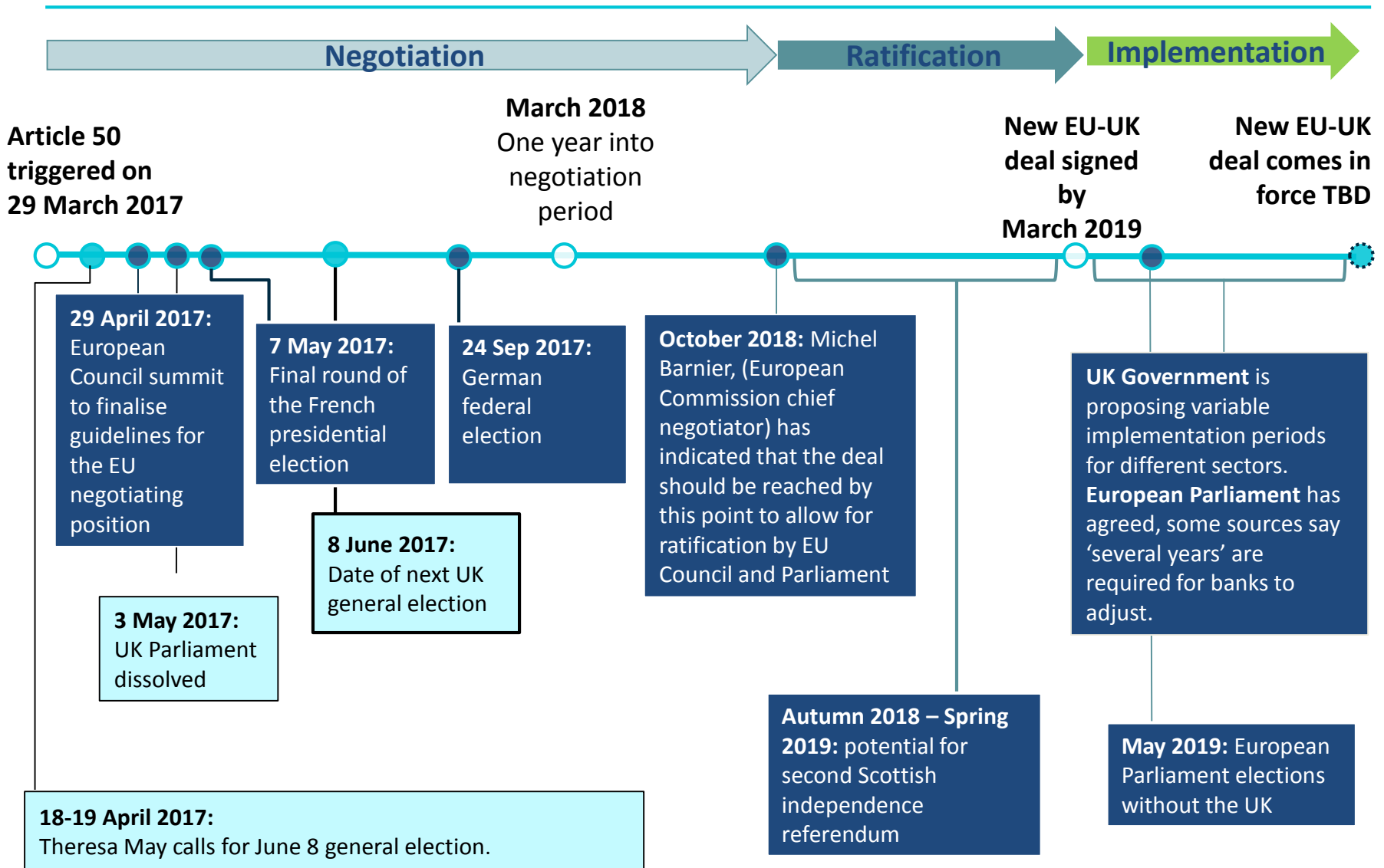
- Overview and timeline – Eric Brown
- Cross sector views
 - International life – Gareth McQuillan
 - Non-life – David Costello
 - Reinsurance – Aidan Holton
- Discussion

Overview

What does it mean?

- Base case has to be a hard Brexit
 - Loss of passporting
 - Short time lines
 - Unhelpful authorities
- Companies need a credible plan to manage stakeholders' expectations
- The clock has started!

Brexit Timeline





Brexit - impact on international life cos

- Reference point: Variable Annuity & Offshore Bond provider; 80%+ of business into the UK (both FoS & Reinsurance)
- On the CRO's Top Risk list and Board Risk Co agenda from early 2015

Focus of Risk Management attention

Post 24 June 2016	2016 to 2019	2019 onwards
Yields ↘ Equities ↘ Vol ↗ GBP/Eur ↘	UK economic performance – how is it impacting demand for our products? How are distributors reacting?	Will we be able to trade? (direct/reinsurance)
Hedging – can we trade? Liquidity for margin calls etc?	Competitor activity, in sector and the broader market	Ireland v UK if solvency/ regulatory regimes diverge
Capital impact – BEL/RM, OF, SCR. Recalibration of shocks? Impact on UR risks?	UK election & French elections – preparing for further market volatility	Parent Co's strategy for the UK market?
Repricing requirement – viability of product lines?	ORSA – defining scenarios that capture the future risks	Opportunity to play larger role within a Group?



Domestic Non-life Insurance Companies

- Political Uncertainty
 - Rate Increases – Populist reaction
 - Unwanted European Legislation
- Sales Impact
 - Target Industrial Sector
 - New Companies Competition
- Recruitment
 - Good Staff Are Hard to Get
 - Salary Inflation is on The Rise

Overall Brexit is not a dominant factor



International Non-life Companies

- All the Domestic Issues
- Direct Economic Uncertainty
- Freedom of Services / Barriers to Trade
 - Directly affects Sales
- Corporate Structure
 - UK version of Solvency 2? Increased Capital?
 - Branch vs Subsidiary

Brexit could be a considerable factor



A Reinsurance Perspective

Issue

- Entities in EU, UK and ROW. Branch of EU entity in UK.
- Business Flows between all of these and clients.
- Brexit may require changes to how business flows operate... but equally.... it may not !
- The 'target environment' is unknown.

Approach

- Consider each business flow and understand how it operates in various Brexit scenarios.
- Truly International business. Domestic, EU, US, Asia. In equivalent and non-equivalent regulatory regimes.
- May be some challenges – but solvable.

Factors

- Passporting and Equivalence
- Sol2 - No Collateral between EU partners
- At an individual Regulatory level, its unlikely that they will suddenly take a negative view of PRA supervised firms (or vice versa)however in politics
- Punitive Actions by one or both sides – Mutually Assured Destruction

Conclusion – Analysis and Contingency Planning is important. Cannot Execute yet.

Discussion

1. What Brexit scenarios do you or should you be including in your ORSA?
2. What are the threats and opportunities of Brexit for your company and the (re)insurance industry?