



Society of Actuaries in Ireland

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# ERM Forum 2024

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22<sup>nd</sup> February 2024

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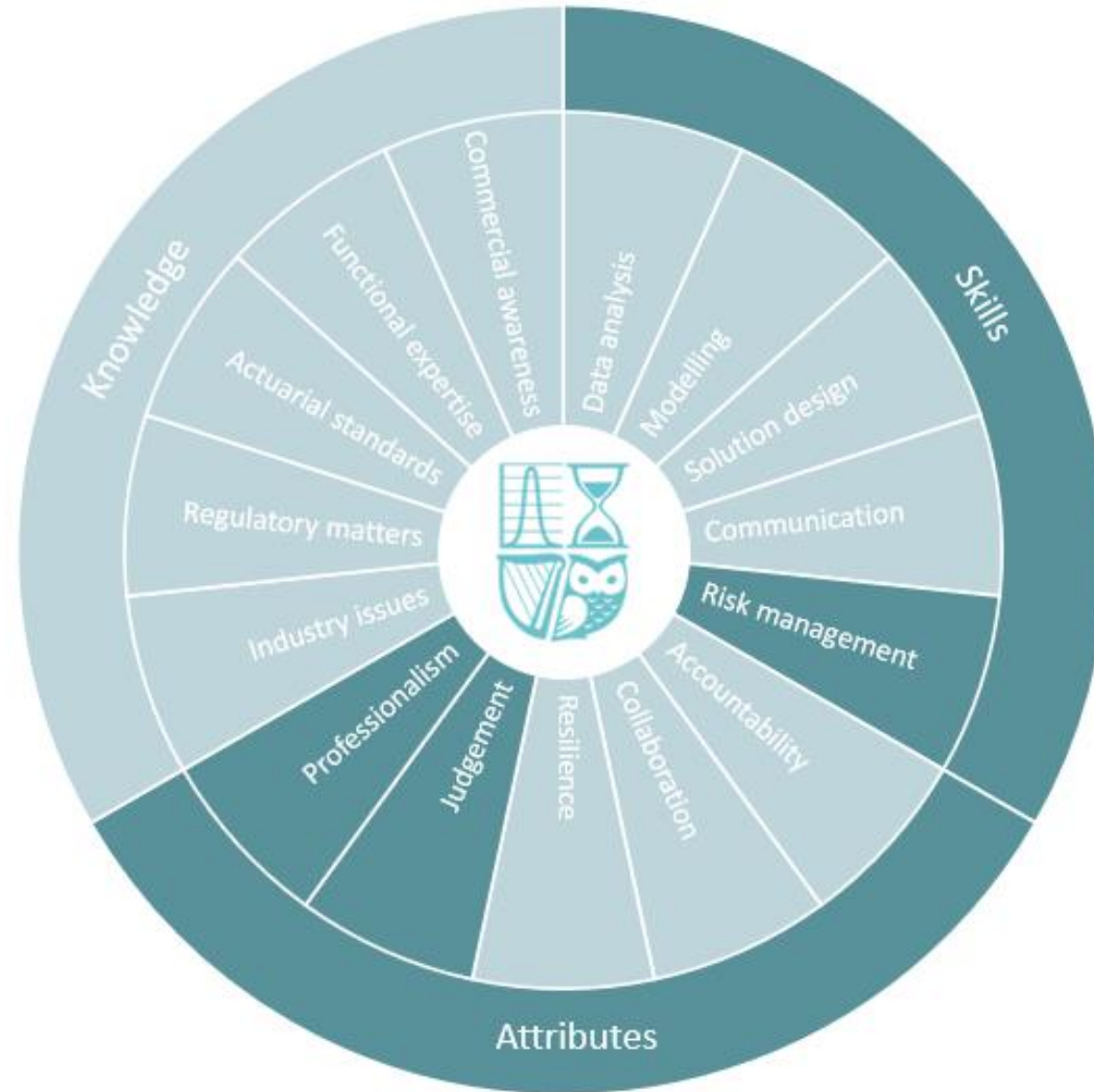
## Disclaimer

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**The views expressed in this presentation are those of the presenter(s) and not necessarily those of their employer(s) (if any) or the Society of Actuaries in Ireland.**



# Competency Framework Wheel





## Society of Actuaries in Ireland

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Brendan Kennedy, Pensions Regulator, Pensions Authority

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# SAI ERM Conference

Tim O'Hanrahan - Central Bank of Ireland

*February 2023*

# Overview

- Introduction.
- Risk Management in Financial Services.
- Lessons from Insurance.
  - Board.
  - Risk Management Function.
  - ORSA.
- Conclusion.



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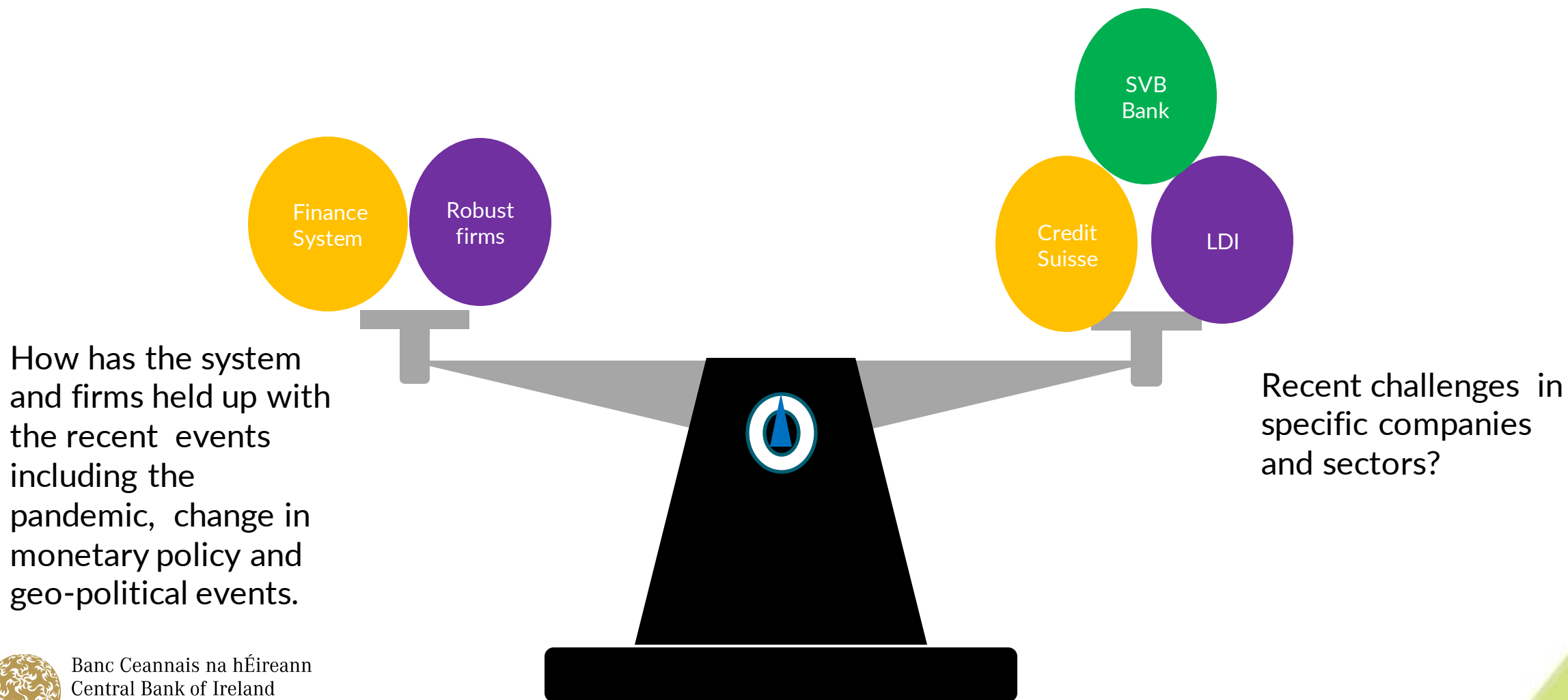
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# Risk management requirements in financial services

Area	Requirements	Banking	Insurance	Investment firms
Governance	Explicit risk management responsibilities for the Board of Directors & Senior Management	√	√	√
Risk Framework	Specific requirements for a risk management framework	√	√	√
Risk Assessment	Enterprise Risk Management – assessment of risk and capital requirements	√ ICAAP & ILAAP	√ ORSA (incl liquidity risk)	√ ICAAP (incl liquidity risk)
Regulatory Capital	Supervisors ability to impose additional ‘Capital Add Ons’	√ <i>As part of supervisory review</i>	√ <i>But only in exceptional circumstances</i>	√ <i>As part of supervisory review</i>



# So has it made a difference?



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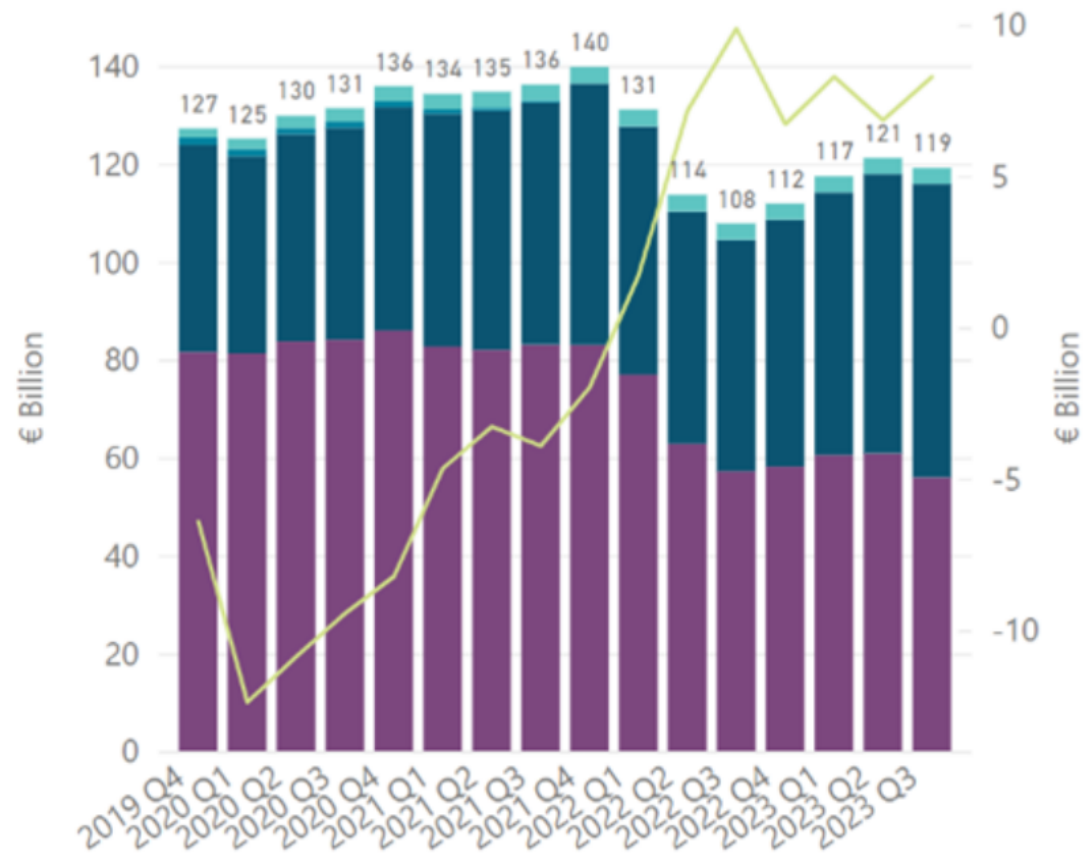


# The size and structure of Irish Pension schemes

Liabilities of Irish Pension Schemes.

Net Worth of Irish Pension Schemes.

- DB pension entitlements
- DC pension entitlements
- Financial derivatives
- Remaining liabilities
- Net worth (RHS)



# The size and structure of Irish Pension schemes

- There are a very large number of Pension Schemes (>85k end 2022). The total assets at Q3 2023 were €127bn.
- The largest (circa 440 schemes) report quarterly to the Central Bank and report total assets of €104bn.
- Within this - a smaller number of large schemes;
  - Less than 40 hold circa 50% of total pension assets.
  - Less than 300 hold circa 80% of total pension assets.
- There is currently a significant amount of change in structures.

<i>Total Pension Schemes</i>	
Number of Pension Schemes (end 2022)	
DB	636
DC	85,228
Total	85,864

<i>Of whom report quarterly to the Central Bank</i>	
Number of Pension Schemes (Q3 2023)	
DB	251
DC	191
Total	442

Total Assets Q3 2023 €bn	
DB	66
DC	38
Total	104

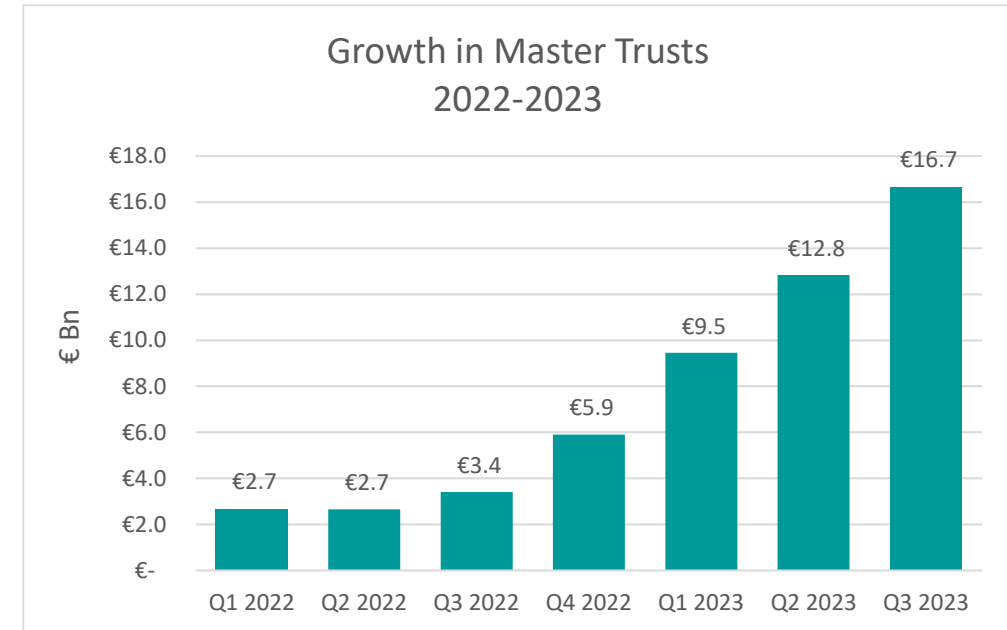
# The size and structure of Irish Pension schemes

■ Are the new risk management requirements contributing to a change in the market structure of Irish pension funds?

■ Structural changes:

■ Master Trusts,

■ Bulk Annuities, Buy in/Buy out.



Source: [Central Bank of Ireland Pension Funds Statistical Release](#) Q3 2023 and analysis from Statistics Department.

Q3 2023 – Master Trusts who filed reports for Q3 2023.



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# Risk governance – key principles for Boards

- A clear understanding of the material risks to which the entity is exposed.
- Effective oversight of risk management, including receipt of relevant, timely information.
- Promote discussion and challenge at board level.
- Establishing and promoting an appropriate risk culture.
- Adequate, relevant risk experience –or access to expert advice.
- Establish and document a risk appetite - expressed in qualitative terms, but with measurable quantitative metrics.
- Ensure a robust risk management function – adequate resources, expertise, policy and processes.



# Risk management function – key principles

- A CRO and a risk management team.
- An effective risk-management system and good reporting – management and board.
- Risk management strategy which is consistent with the undertaking's overall business strategy.
- Risk management is embedded in decision making.
- Stress and scenario testing.
  - Recession/strong economy, Interest rates, Mass Lapse.
  - Climate and Sustainability.
  - Cyber Security and Digitalisation.
  - Reverse Stress Testing.



# Own Risk and Solvency Assessment (ORSA)

- Feedback to Industry – Links in Appendix

ORSA - An ORSA is an internal process undertaken by an insurer or insurance group to assess the adequacy of its risk management and current and prospective solvency positions under normal and severe stress scenarios.

- Embedding the ORSA process within the wider risk management framework.
- Effective discussion and challenge at board level.
- Consideration of all material risks and vulnerabilities, including interlinkages between risks.
- Inclusion of a wide range of (appropriately severe) stress tests or scenario analyses in respect of material risks. This may also include a 'reverse stress test' scenario, i.e. quantifying how severe a stress is required to be, in order to breach capital requirements.
- Consideration of possible management actions that could be taken, in the event of a material shock to the capital or liquidity position.
- Adopt a forward looking approach: leading firms take lessons and data from historical events but also look ahead to new risks that might emerge.



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# Appendix

## ■ Thematic review:

- Stand alone document – rather than an evidence based output of an integrated risk management framework.
- Further insight into how each undertaking takes into account the insights gained during the ORSA process in its capital management, planning and strategic decision making (e.g. investment).

## ■ Insurance Newsletters.

- [September 2023](#) – pages 5-9.
- [September 2022](#) – pages 2-4.

Includes:

- Giving due consideration to key sector-wide risks within their ORSAs (climate change and reinsurance market were highlighted).



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# Appendix

## ■ Includes

- Clearly demonstrate, that the conclusions from the ORSA process are feeding into the strategic planning process, as well as the strategic decisions made by a firm on an on-going basis.
- Consider the potential impacts to both assets and liabilities of various direct and indirect climate change impacts.
- Consider how the materiality of risks might change over the short, medium, and long term.
- Consider reverse stress testing to help identify the point at which point a risk would result in the firm becoming insolvent.





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## Professionalism training

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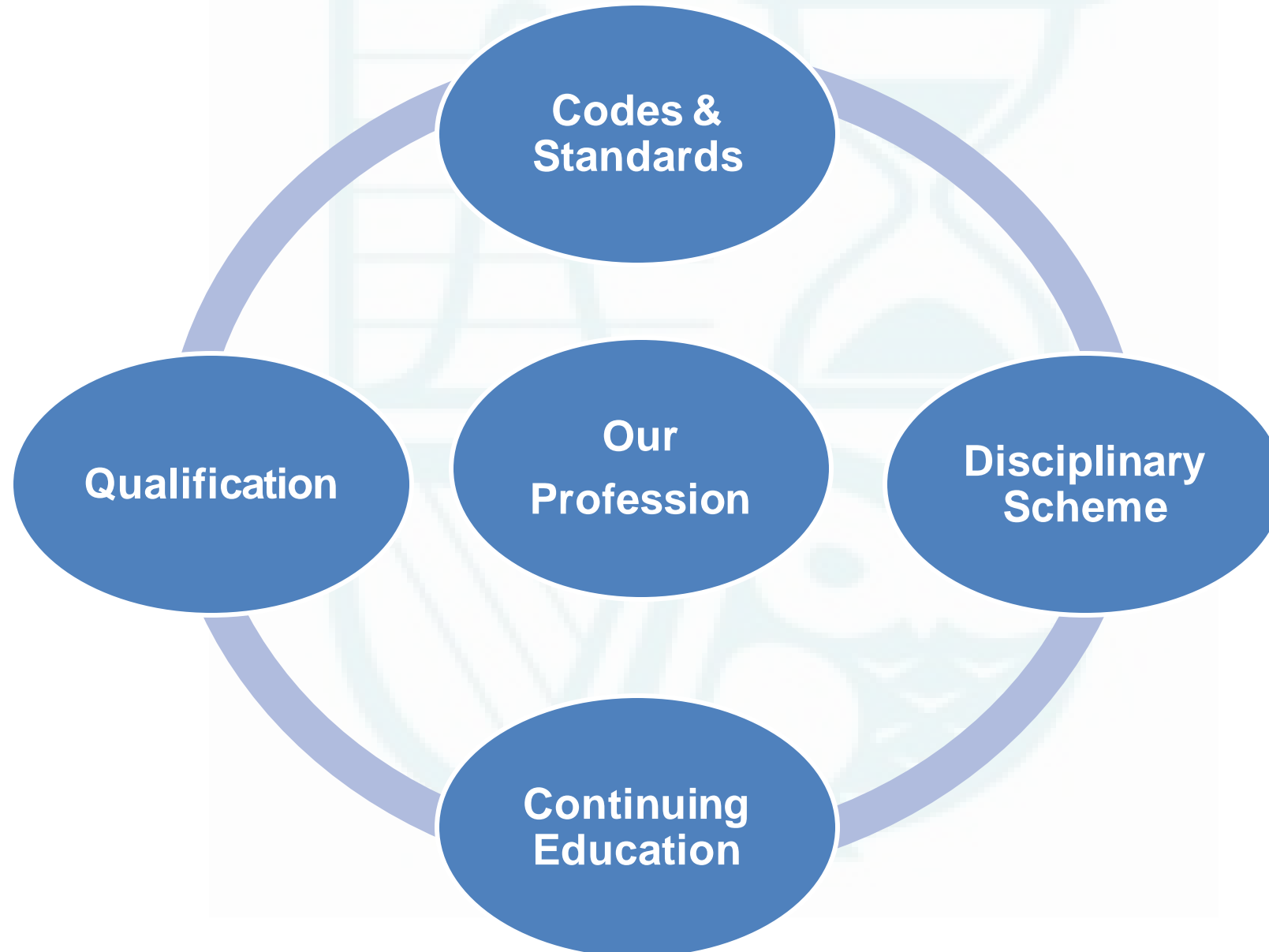
Darragh McHugh (He/Him), Alcarine Power (She/Her/), Kieran Manning (He/Him)

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# The cornerstones of our profession

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## Case study 1 – Pharmaceutical CRO

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### Discussion points

- How might you use the Code of Professional Conduct in responding to the CEO? - <https://web.actuaries.ie/standards-regulation/code-professional-conduct>
- More generally what would you do and what further steps might you take?
- What, in hindsight, may have helped manage the situation?



## Case study 1 – Pharmaceutical CRO

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### Additional discussion points

1. What if you knew that refusing the CFO's request to omit the damaging elements of the report would have a detrimental effect on your upcoming promotion chances?
2. Maybe you are aware of the past experience of other colleagues who were ostracised in work when they kicked up a commotion on such issues. Or maybe the member is good friends with one of the sales staff in distribution and fears that the Head of Distribution could blame this staff member and make their job harder. How would this affect your decision?
3. Might you consider giving up your SAI membership since you are living outside Dublin and you would no longer be bound by the Code of Professional Conduct or CPD requirements?



## Case study 2 – You're on Joe Duffy

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You are a Scheme Actuary providing advice to a group of trustees who are winding up a Defined Benefit scheme that has always met the MFS test. The trustees have considered your advice and sought legal advice as part of the wind up process and then decided on a method of allocating the assets of the scheme. The wind up process will see annuities purchased for pensioners and transfer payments of the order of 160% of standard MFS transfer values paid to non-pensioners.

The wind up process has been acrimonious with both pensioners and non-pensioners very dissatisfied with the outcome. In particular:

1. A group of 10 non-pensioners have taken to social media to question the accuracy and validity of the advice that you provided to the trustees. The volume of comment has grown over a period of weeks and is also appearing in the national press.
2. A pensioner has made a complaint about you to the Financial Services and Pensions Ombudsman claiming that your advice was flawed and resulted in him suffering a financial loss.

**What should you do?**



## Case study 3 – Substitute

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You are the Scheme Actuary to a defined benefit pension scheme with a Funding Proposal in place running to the end of 2025. The Funding Proposal assumed a gradual increase in long dated Government bond investment to 50% of overall assets to match the projected liability in respect of pensioners. Each recent review of the progress of the Funding Proposal has indicated that the financial position is very tight with only a small margin of projected assets over projected MFS liabilities at the end of 2025. An investment proposal is under consideration by the trustees and the employer that would mean the Funding Proposal would be “off track” using its original assumptions but “on track” using more aggressive assumptions. You have been asked by the trustees for your view on the investment proposal.

**How do you reply to the trustees?**