



Society of Actuaries in Ireland

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**Does the ORSA add value?  
Challenges and initial achievements**

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Lukas Ziewer  
'Risk Management Perspectives', 18/11/2014

# My three wishes for a prudential regime

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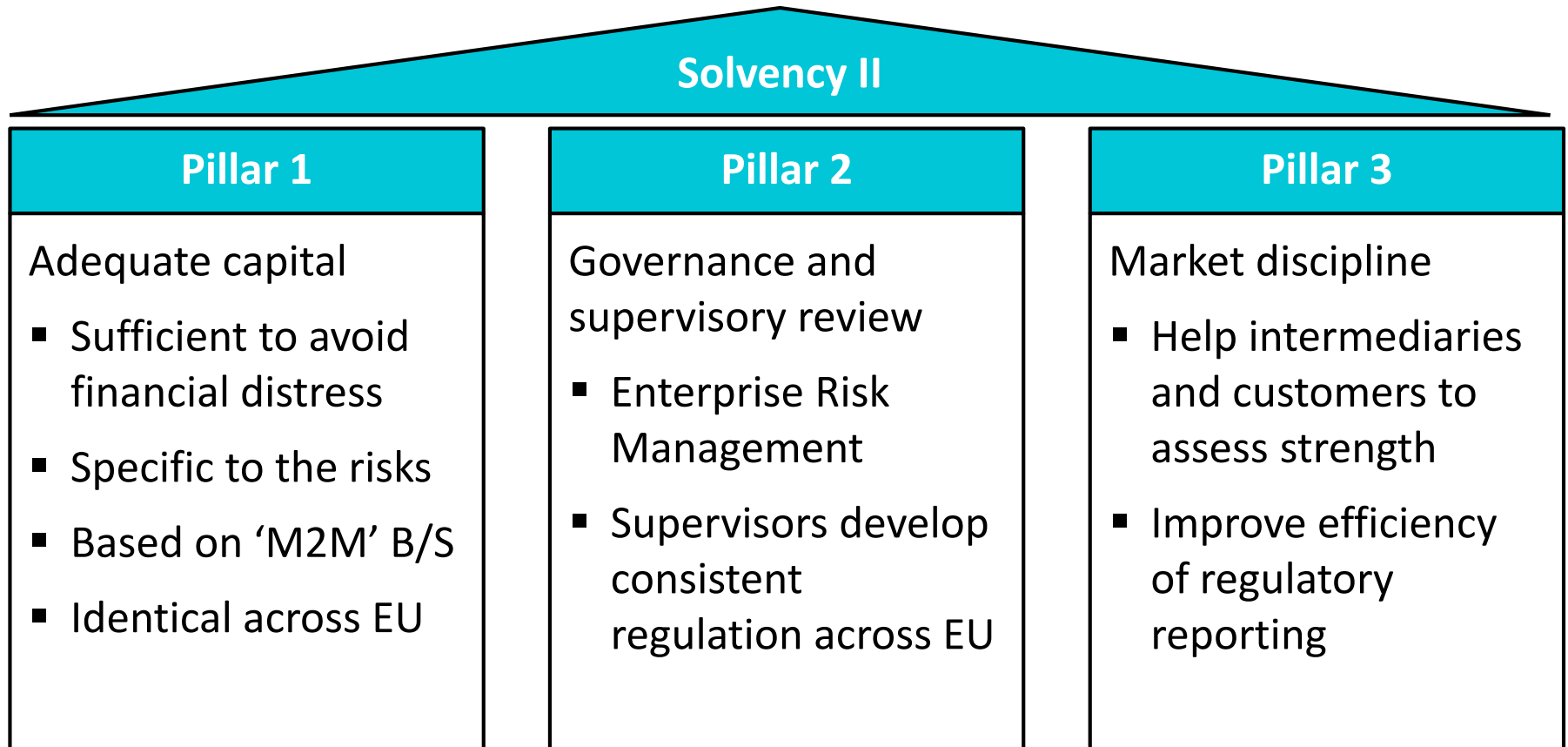
1. Capital as a **'single currency for risk'** as a balance to profit
2. Regulatory requirements are consistent with **ERM** – solidly embedded in the business
3. Avoid **information overload** whenever possible

***Disclaimer:***

***The material, content and views in the following presentation are those of the presenter.***



# Solvency II envisages a holistic framework



ORSA/FLAOR: Ensure that the forward-looking solvency steering is an ongoing responsibility of the Top



# ORSA/FLAOR requirements (selected)

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- Description of the material risks, including any material changes, both quantitatively and qualitatively
- Where appropriate the undertaking should subject the identified risks to a sufficiently wide range of stress test/scenario analyses
- Quantify any material deviation the risk profile from the assumptions underlying the SCR calculation
- Express the overall solvency needs in quantitative and qualitative terms
- Assessment of the overall solvency needs should be forward-looking – regulatory and “own view”, including quality of capital
- Use insights gained in the ORSA at least for the system of governance including medium term capital management, business planning and product development



# The world's future regulation uses ORSAs

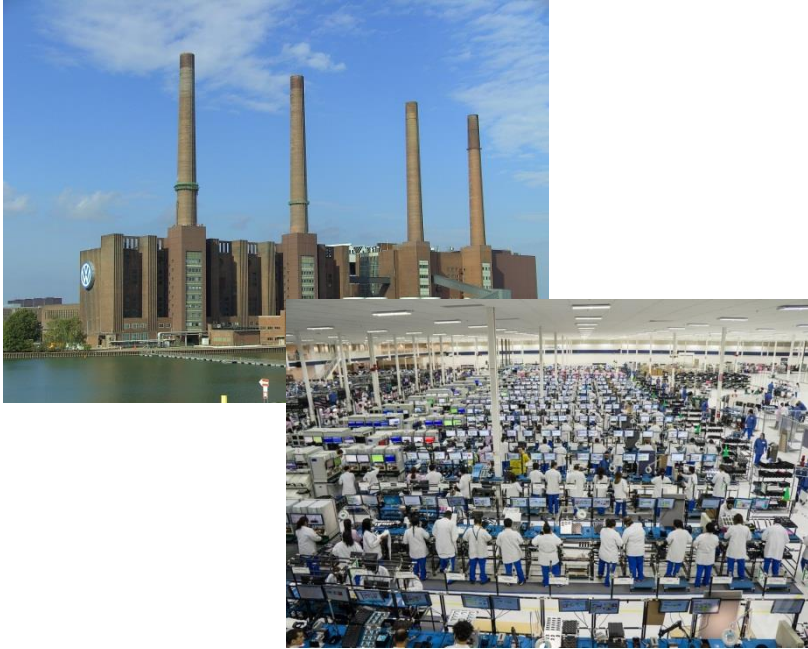
Regulator	Status	ORSA-Like Requirements
European Union	Solvency II - 1 <sup>st</sup> of January 2016 effective date	<ul style="list-style-type: none"><li>• ORSA required annually</li><li>• Initial ORSAs during Interim Guidelines period</li></ul>
National Association of Insurance Commissioners	Solvency Modernization Initiative - 2015 effective date	<ul style="list-style-type: none"><li>• First ORSA in 2015</li></ul>
International Association of Insurance Supervisors	Proposed requirements for Internationally Active Insurance Groups to contribute to global financial stability (ComFrame)	<ul style="list-style-type: none"><li>• Promoting consistent regulatory practices across the globe, incl. 'own risk assessment'</li></ul>
Bermuda Monetary Authority	EU expected to consider solvency regime to be 'equivalent' to S-II	<ul style="list-style-type: none"><li>• CISSA required at least annually</li></ul>



# Insurers need capital to work

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Not like this...



But in order to...

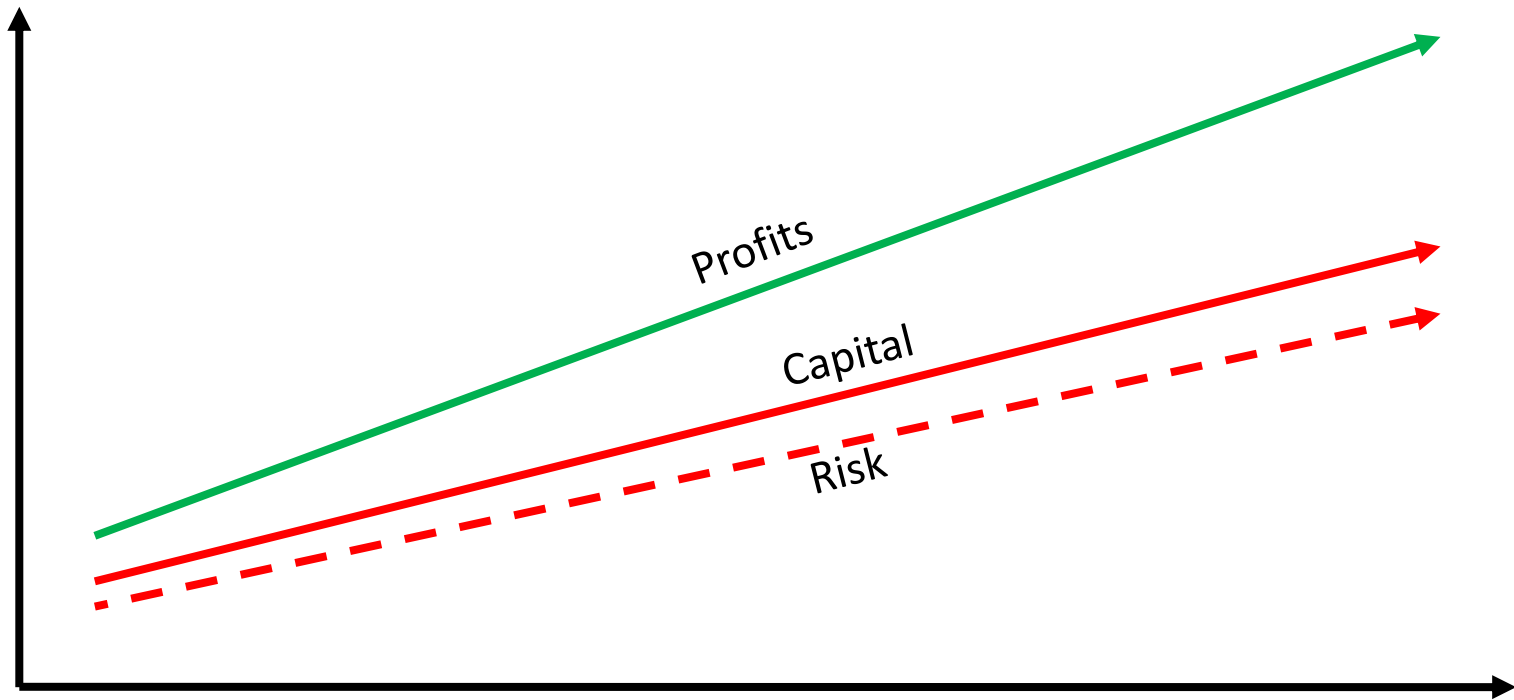
- Meet policyholder obligations even if extreme losses strike
- Remain financially flexible through the business cycle
- Fund new-business acquisition
- Satisfy regulatory requirements

The key drivers of insurers' capital requirement are the levels of growth and risk



# Insurers need to plan their use of capital

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Retaining the right level of capital – neither too much nor too little – to support the business and its risks is tricky but absolutely critical



# How to do an ORSA (1/3): Solid foundations

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- Agree with the stakeholders
  - Starting position for capital (available and required)
  - Drivers of change (business plans, inforce run-off, macro-economic)
  - Scenario assumptions





# How to do an ORSA (2/3): Execute plan

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- Project base capital position
  - In-force run off
  - New business
- Re-run for stress scenarios
- At each stage, validate against business expectations
- Team-work between Risk, Actuarial and Finance



# How to do an ORSA (3/3): Move in

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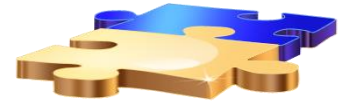
- Communication with Exec team – ORSA is a business tool
- Key themes include
  - Identify the risks that tie up capital
  - Key drivers of future capital
  - Potential to release capital



# Initial focus for ORSA: highly visible insight

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- Present a consistent picture of risk and capital strength for all entities in a group / business units
- Investigate the resilience of capital in a set of adverse risk scenarios
- Identify the main risk drivers that need to be monitored to manage capital





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# What does a Board really want from an ORSA

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Roy Keenan  
Risk Management Perspectives Conference  
18 November 2014

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## ORSA

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- “The heart of Solvency II”
  - Gabriel Bernardino, EIOPA Chairman





# Agenda

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- What's a Board worried about
- Critical ORSA Challenges for a Board
- Effective Risk Management
- Effective ORSA Culture
- Best Practice ORSA
- A word on ...



# What's a Board worried about

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Strategy

Business Model

Operational Plan

Risk Management







## What's a Board worried about (continued)

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Solvency II

Culture

Resources

Reputation





# Critical ORSA Challenges for a Board

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- Effective Risk Management
- Effective ORSA Culture
- Best Practice ORSA
- FLAOR
- Data Quality & Documentation



## Critical ORSA Challenges for a Board (continued)

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- Well Embedded Processes
- Group v Subsidiary ORSA
- Expert Judgement
- Independent Assessment
- CBI Scrutiny



# Effective Risk Management

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CRO

Risk Strategy

Risk Appetite

Risk Tolerances

Risk Register



# Effective ORSA Culture

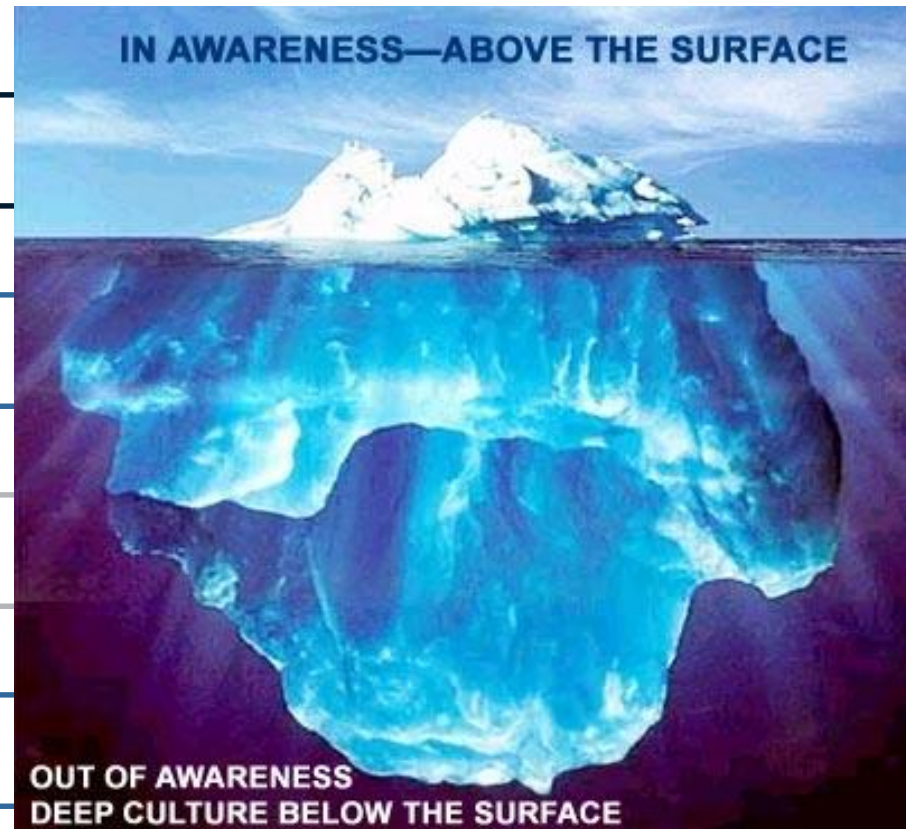
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Buy-in

ORSA Production

ORSA Communication

Assessing Risk Culture





## Best Practice ORSA

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Integrated into Strategy

Comprehensive Risk Coverage

Relate Risks to Capital

Ability to Prevent a Major Failure

Regularly Updated



## A word on ...

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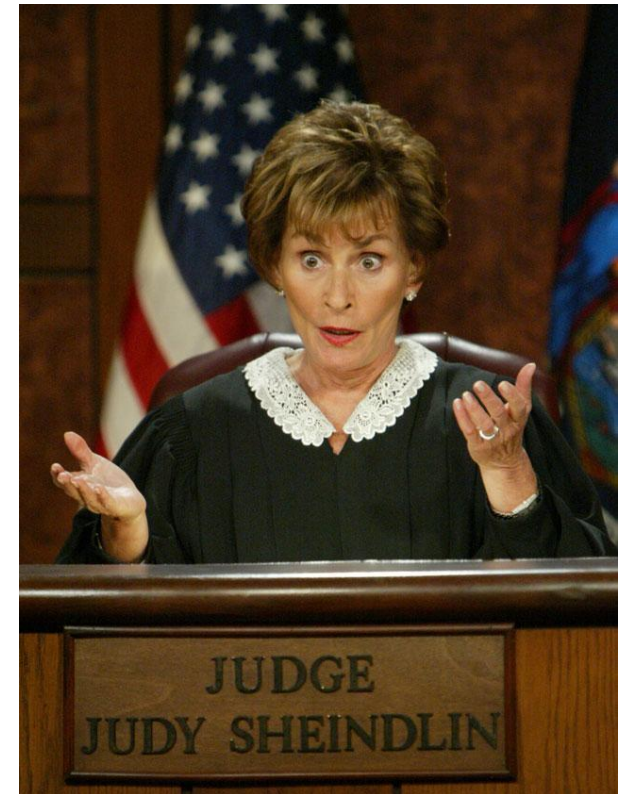
- FLAOR
- Data Quality & Documentation
- Well Embedded Processes
- Group v Subsidiary ORSA



## A word on ...

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- Expert Judgement
- Independent Assessment
- CBI Scrutiny







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**NO DIFFICULT  
QUESTIONS PLEASE!**





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# **Risk and Actuaries Where Four Eyes Really Matter**

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18<sup>th</sup> Nov 2014

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Ger Bradley, Milliman

# Agenda – Where Four Eyes Matter

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Risk and Actuarial

Responsibilities

Conflicts of Interest

Controls

Conclusions



# Risk Management and Actuarial Roles

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Risk Management

Actuarial Roles – Statutory and other

Variety of Organisation Structures

Solvency II - Differences

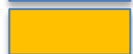


# S II AF Roles versus Existing Roles

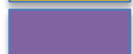
S II AF Responsibilities	Life	NL	RI
Technical provisions	Green	Green	Green
Underwriting	Green	Yellow	Yellow
Reinsurance	Green	Yellow	Yellow
Risk management system	Purple	Blue	Blue



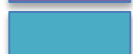
= Overlap with current Appointed Actuary/Signing Actuary statutory responsibilities



= Not currently a statutory responsibility but Actuaries typically involved



= Overlap with some aspects of current Appointed Actuary/Signing Actuary statutory responsibilities



= Not currently a statutory responsibility but Actuaries involved to varying degrees across the industry

# Responsibility of RMF

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*“Insurance and reinsurance undertakings shall provide for a risk-management function which shall be structured in such a way as to facilitate the implementation of the risk-management system.”*



# Responsibility of RMF

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## Area of work

Facilitate implementation of RMS

Develop risk policies

Demonstrate compliance with investment rules

Internal Model



# Responsibility of AF

## Area of work

1. Technical Provisions

2. Pricing Opinion

3. Reinsurance Opinion

3.5 (contribute) Risk Management System





# Relations between RMF & AF!



## Actuarial Function

- Technical Provisions
- Opinion on underwriting policy
- Opinion on reinsurance arrangements

## Risk Management Function

- Facilitate implementation of RMS
- Develop risk policies
- Demonstrate compliance with investment rules
- Internal Model



Contribute to effective implementation of RMS including SCR and MCR risk modelling, Internal Model, ORSA

# Risk Management System



# Conflicts of Interest – Solvency II Functions



☐ Same person responsible for both the AF and the RMF

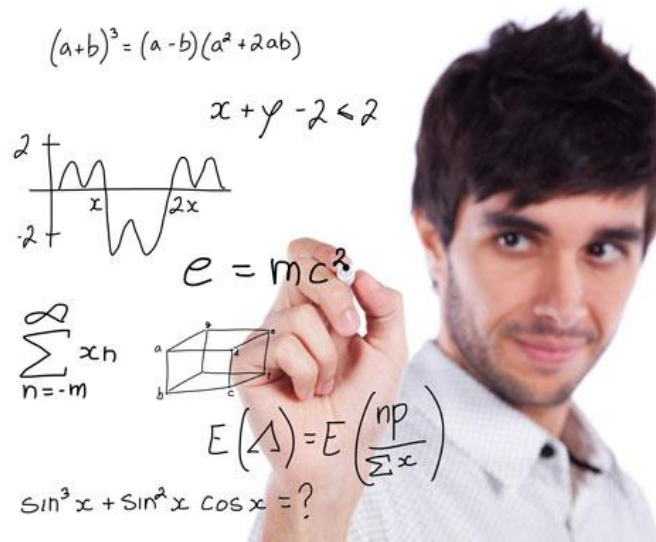
☐ Same person responsible for the AF and other business activities

☐ A person with responsibility for the RMF and Mergers and Acquisitions

☐ Same person is responsible for both the AF & RMF and with other responsibilities

# Conflicts of Interest – Solvency II functions

**Option 1:** Same person is responsible for both Actuarial Function and Risk Management



## Conflicts of Interest – Solvency II functions

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**Option 2:** Same person responsible for the Actuarial Function and other business activities – Pricing Director



# Conflicts of Interest – Solvency II Functions

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**Option 3:** A person with responsibility for the Risk Management Function and M&A



## Conflicts of Interest – Solvency II Functions

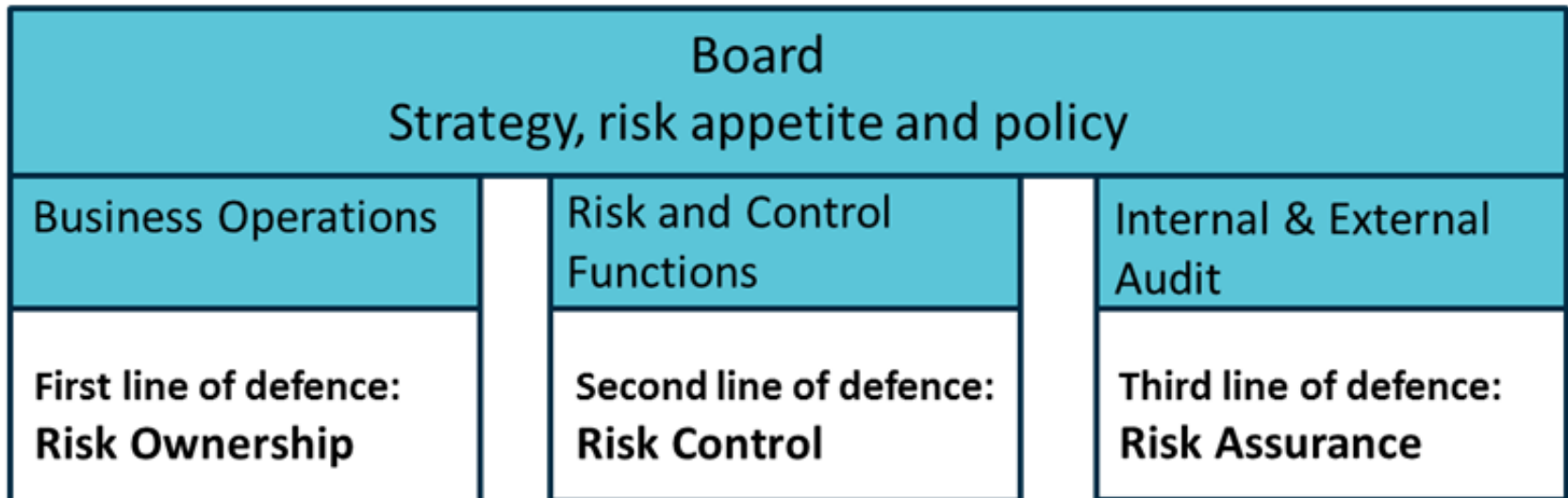
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**Option 4:** The same person is responsible for both the Actuarial Function and the Risk Management - and with other responsibilities





# Conflicts of Interest: Three Lines of Defence Risk Management Model





# Conflicts of Interest: Checklist



What could go wrong?	✓
How much would such an event cost to rectify?	✓
Are there vested interests materially conflicting with responsibilities?	✓
Misalignment between remuneration & responsibilities?	✓
Are the personnel responsible subject to professionalism requirements	✓

# Conflicts of Interest: Checklist



Are there executive/Board oversight committees in place?	✓
Is periodic external review in place?	✓
Could the organisation defend the perceived conflicts of interest if issues arise?	✓
Would the structure withstand regulator or media scrutiny?	✓
What would be the cost of full segregation of duties?	✓

# Conclusion – Where Four Eyes Matter

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Risk and Actuarial

Responsibilities

Conflicts of Interest

Controls

Conclusions

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# Questions

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Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# A regulatory perspective on risk management in a Solvency II world

Mark Burke,

Head of Life Insurance Supervision, Central Bank of Ireland

18 November 2014



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## Agenda

1. CBI Observations on existing risk management practices
  2. Opportunities to further enhance Solvency II risk dialogue
    1. Board emphasis on risk strategy and risk culture
    2. Constructive Board engagement in the ORSA
    3. Positioning the Risk Management Function for success in a Solvency II environment
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## 1. Where are we now?

*The change in risk management mind-set sought by Solvency II is a journey that will not happen overnight.*

A black silhouette of a person walking on a dark blue road with white dashed lines. The road curves from the bottom left towards the right. On the left side of the road, there is a green sign on two dark blue posts. On the right side, there is another green sign on two dark blue posts. The person is walking towards the right sign.

Risk management  
as a compliance  
exercise

Enterprise Risk  
Management



## 2. Board emphasis on risk strategy and risk culture

How would your Board answer these questions?

- How is risk management perceived within the business?
- Is the CRO a true peer amongst the Executive?
- Is risk a core consideration when assessing strategy, business plans, performance?
- Maturity of Risk Appetite Statement in articulating risk capacity, business strategy, financial goals?
- How does the Executive embed risk management practices in day-to-day activities?





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## 3. The ORSA process and the Board

- Solvency II is an economic and risk-based solvency regime
  - ORSA is at the heart of the Solvency II initiative
  - Firms have an opportunity in the development of the ORSA to ensure the work devoted to Solvency II delivers tangible business benefits
  - The process around the production of the ORSA is the end product, not the document itself
  - Therein lies the opportunity to shift the organisational risk mind-set from *compliance* to *embeddedness*
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## Key ORSA considerations for the Board

- Development of an appropriate structure to ensure collaboration and buy-in between business units and control functions
- Integration with the business model analysis and strategic decision-making
- Supporting risk identification and testing the continued validity of risk appetite
- Producing meaningful management information
- Don't forget conduct risk





## 4. Evolution of Risk Management roles under Solvency II

- CRO critical to establishing a top-down approach to ERM
- Calibre of the individual is important:
  - Empowered to implement appropriate ERM strategy
  - Be seen as a peer amongst the Executive
  - Possess the leadership and influencing skills to drive behavioural change
- Risk Management system also requires a strong AFH
- CBI is keen to avoid any gap between AFH & CRO in new regime
- AFH should play a role in providing an opinion to the Board on richness of the ORSA scenarios:
  - Bringing actuarial rigour and discipline to the scoping of ORSA scenarios, and
  - Providing a safeguard against groupthink within ORSA process





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## 5. Concluding remarks

Boards can use the opportunity of SII preparatory work to:

- Reflect on the depth of the work being done around risk strategy and to embedding the desired risk culture;
  - Critically evaluate the positioning of the risk management function within the firm and whether this is set up for success;
  - Recognise that the operating environment is more complex and inter-connected and risk management frameworks need to continue to evolve; and
  - Capitalise on the ORSA **process** to place a risk dimension at the heart of strategic decision making within the business.
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# Thank you

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