

Society of Actuaries in Ireland

Draft IAN LA1 - Actuaries involved in the ORSA Process

Working Party of Life Committee 23 April 2014

Agenda

- Introduction
- Background
- Main points of IAN
- Panel discussion and Questions

Disclaimer:

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

Working Party

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.....No "lans" on the WP.

Background

- What prompted this?
 - Role of Actuary in Solvency II
 - Recent experience

- Aim
 - To provide support to actuaries in SII

Not an ASP....



What is an IAN?

- SoAl's view of good practice
- Intended to be helpful to actuaries and others, encourage thought
- Encouraged to use but need to consider
 - Suitability
 - Relevance
 - Sufficiency
- No obligation to perform work strictly according to note.
- Not a checklist
- Not a substitute for thinking



Ways in which actuaries involved in ORSA....

Scenarios

Quantification of risks

Time horizon and conf interval

Appropriate capital measure

Standard formula inappropriate

Challenge

Identify weakness in risk management

Internal model weaknesses

Financial projections

Assess implications

Areas covered by the IAN

Scope

Sensitivity and Scenario Testing

Identifying and quantifying risks outside SF

Identifying and quantifying risks where SF inappropriate

Challenging ORSA results

Reviewing risk management processes and internal model

Documentation

Scope

Define scope of work

Exclusions

Reliances

Deliverable

How work to be presented to other stakeholders

Sensitivity & Scenario Testing

Inspired by ASP-LA2

Risk concentrations

Events not in recent past

Non linearity in outcomes

Emerging risks

Sensitivity of balance sheet

Watching biases

Management actions

Identifying and quantifying risks outside SF

Consider asset liability profile Risk register and risk appetite Historic sources of variance

Examples



Government bonds/credit risk

Volatility

Small portfolio (volatility in experience)

Non-linear risks

Cross terms (generating correlations)

Expenses for smaller entities, start-ups or companies in run-off

Liquidity

Concentrations

Basis risk

Inflation risk (for exposures other than expenses)

Operational risks e.g. Legal risk, Strategic risk, Regulatory risk, Political risk, Reputational risks and Fraud.





Identifying and quantifying risks where SF inappropriate

Comparing risk profile versus standard formula

Aware of SF calibration



Challenging ORSA results





Reviewing risk management processes and internal model

Sufficiently competent

Agree scope of work and output

Interaction between risk management processes and design of internal model

Documentation



Actuaries love it!

Document work performed and pass to User

Specified minimum content

Should also be included in AF report (if appropriate)

Summary/Next Steps



- IAN intended to be helpful and supportive to actuaries
- Not an ASP
- Consultation
- Consider member feedback
- Issue note

Panel Discussion

