Irish SFCRs – 2017 and 2018

Points of Interest for IoM Insurers

Rob Frize
14 NOVEMBER 2019
Ireland – Well-established & large cross border market

<table>
<thead>
<tr>
<th>Top 10 Total Gross Written Premiums (€ million)</th>
<th>2017</th>
<th>2016</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intesa Sanpaolo Life</td>
<td>7,941</td>
<td>8,986</td>
<td>Life (Cross Border)</td>
</tr>
<tr>
<td>Irish Life Assurance</td>
<td>7,268</td>
<td>5,199</td>
<td>Life (Domestic)</td>
</tr>
<tr>
<td>SCOR Global Life Re</td>
<td>4,179</td>
<td>4,747</td>
<td>Reinsurance</td>
</tr>
<tr>
<td>Zurich Life Assurance</td>
<td>3,233</td>
<td>2,684</td>
<td>Life (Domestic)</td>
</tr>
<tr>
<td>Darta Saving Life Assurance</td>
<td>3,075</td>
<td>2,590</td>
<td>Life (Cross Border)</td>
</tr>
<tr>
<td>New Ireland Assurance</td>
<td>1,792</td>
<td>1,671</td>
<td>Life (Domestic)</td>
</tr>
<tr>
<td>AXA MPS Financial</td>
<td>1,642</td>
<td>1,310</td>
<td>Life (Cross Border)</td>
</tr>
<tr>
<td>Hannover Re (Ireland)</td>
<td>1,558</td>
<td>1,712</td>
<td>Reinsurance</td>
</tr>
<tr>
<td>AZ Life</td>
<td>1,526</td>
<td>3,533</td>
<td>Life (Cross Border)</td>
</tr>
<tr>
<td>MetLife Europe</td>
<td>1,486</td>
<td>828</td>
<td>Life (Cross Border)</td>
</tr>
</tbody>
</table>
2017 Gross Written Premiums by Country (excl Ireland)
Cross Border Life Insurance Business

Italy Top 5:
- Intesa San Paolo Life
- Darta
- Axa MPS
- AZ Life
- Utmost Pan Europe

UK Top 5:
- SLI, Pru, CLI
- MetLife Europe
- St James’ Place International

2018 GWP estimate - €20bn
2017 Distribution of SCR and Own Funds

179% average for Irish life insurers

150% SCR coverage
Solvency Coverage – 2018 SFCRs

*Companies with SCR coverage ratios of >1000% have been removed from the chart for readability.
Life – Top 10 SCR Coverage

- Irish Life: -14% Diversification, -25% Loss-absorbing capacity of technical provisions, 60% Life underwriting risk, 18% Health underwriting risk, 62% Operational risk, 7% Counterparty default risk
- MetLife: -5% Diversification, -24% Loss-absorbing capacity of technical provisions, 67% Life underwriting risk, 6% Market risk, 54% Operational risk, 8% Non-life underwriting risk
- Zurich Life: 6% Diversification, -29% Loss-absorbing capacity of technical provisions, 59% Life underwriting risk, 64% Health underwriting risk, 8% Operational risk, 5% Counterparty default risk
- Axa Life Europe: 4% Diversification, -27% Loss-absorbing capacity of technical provisions, 70% Life underwriting risk, 52% Health underwriting risk, 5% Operational risk, 5% Non-life underwriting risk
- New Ireland: -14% Diversification, -28% Loss-absorbing capacity of technical provisions, 70% Life underwriting risk, 50% Health underwriting risk, 16% Operational risk, 6% Counterparty default risk
- Intesa Sanpaolo: -14% Diversification, -30% Loss-absorbing capacity of technical provisions, 70% Life underwriting risk, 47% Health underwriting risk, 3% Operational risk, 9% Non-life underwriting risk
- Canada Life Europe: -30% Diversification, -41% Loss-absorbing capacity of technical provisions, 92% Life underwriting risk, 13% Market risk, 47% Operational risk, 7% Non-life underwriting risk
- Darta: -14% Diversification, -37% Loss-absorbing capacity of technical provisions, 64% Life underwriting risk, 70% Health underwriting risk, 3% Operational risk, 15% Counterparty default risk
- Athora: -14% Diversification, -17% Loss-absorbing capacity of technical provisions, 46% Life underwriting risk, 64% Health underwriting risk, 53% Operational risk, 7% Non-life underwriting risk
- Friends First: -42% Diversification, -49% Loss-absorbing capacity of technical provisions, 34% Life underwriting risk, 41% Health underwriting risk, 64% Operational risk, 9% Counterparty default risk
SCR Coverage – 2018 Top 10 Update

- Changes of note:
  - Mass Lapse Reinsurance Arrangement (Met Life)
  - Volatility Adjustment (New Ireland)
  - Reduced exposure to market risk on future fund management charges (Zurich)
Other Capital Management Techniques

VIF securitisation
Contract boundaries
Risk margin
Lapse hedging
Reinsurance “mixers”
IoM Framework – Public Disclosure

- Discussion Paper DP18-03-T18 issued 2018/19
- Consultation Paper planned 2019/2020
- Implementation:
  - Life – Mid-2020
  - Non-Life – During 2020
Changes to SFCRs – EIOPA 2020 Review

A new-look SFCR: policyholder section

- Easy to read
- Easy to access
- Use of standardised text from EIOPA
- Short, limited in scope: a “2-pager”
- Address only the areas of Solvency II that are useful and relevant to policyholders e.g.
  - Key performance information
  - Risk profile and financial strength
  - Outsourcing of certain functions
  - Significant events over the period
Changes to SFCRs

A new-look SFCR: non-policyholder section

- Similar structure to current SFCRs
- No “padding” – only information that is explicitly required
- More charts, graphs, tables
- Detailed information on governance and capital management policies moved to the RSR
- Additional quantitative information

EIOPA Proposal

Solvency II SFCR 20XX
Solvency and Financial Condition Report 20XX

Non-Policyholder Section

XYZ Company
Changes to SFCRs
Helping professional readers: standardised sensitivities

**EIOPA proposal**

**Economic Assumptions**
- Equity Markets (+/- 25%)
- Interest Markets (+/- 50bps)
- Credit spreads on government bonds (+/- 50bps)
- Credit spreads on corporate bonds (+/- 50bps)
- Real-estate values (+/- 25%)

**Non-economic Assumptions**
- Expenses (+10%)
- Lapse rates (+10%)

- Impact on amount of SCR and Own Funds
- Can publish additional list of sensitivities that better reflect risk profile
- Similar or identical to Market Consistent Embedded Value Principles© (“MCEV”)
- EIOPA welcomes views on how this should be included
Changes to SFCRs
Helping professional readers: analysis of change of Own Funds

**Eiopa proposal**
- Changes due to *valuation of the assets*
- Changes due to *new capital issued or redeemed*
- Changes due to *valuation of technical provisions of existing business*
- Changes due to *new business*
- Changes due to *taxation*
- Changes due to *dividends* (foreseeable and paid)
- Changes due to *other items*

- Series of movements in Own Funds
- % of Own Funds and absolute amount

**Similarities to:**
- Current QRTs (previously private)
- PRA: David Rule A-Z speech
- MCEV Principles

- Eiopa welcomes views on how this should be included
Links

Milliman Review of 2018 SFCRs – Irish Sample
http://assets.milliman.com/ektron/Milliman_BriefingNote_SampleLifeInsurersSFCRs_final2018.pdf

Milliman Research Report – 2018 Non-Life SFCRs

Capital Management Article

CBI’s SFCR Repository

Solvency II Wire
http://siiwdata.solvencyiiwire.com

Milliman Briefing Note - EIOPA SII 2020 Review – Consultation on SFCR
ORSA processes and outcomes
Lessons from the future

Mike Claffey & Patrick Meghen
14 NOVEMBER 2019
Contents

1. Introduction & Requirements

2. The projections piece
   - The Roles
   - Models
   - Scenarios
   - Documentation and Reporting
   - Outcomes
   - What the regulator will say

3. Adding value
Lessons from the future
Introduction & Key Components
Isle of Man ORSA requirements

CORPORATE GOVERNANCE CODE OF PRACTICE FOR COMMERCIAL INSURERS

- Schedule 2 (ORSA)

2 General

(1) An insurer must carry out an ORSA at appropriate intervals (including as referred to in sub-paragraph (3)), and at least annually, to assess—

(a) the adequacy of its risk management;

(b) its compliance, including on a continuous basis over an appropriate forecast time horizon, with its—

(i) regulatory capital requirement; and

(ii) capital adequacy requirement and liquidity adequacy requirement; and

(c) the significance with which its risk profile deviates from the assumptions underlying its regulatory capital requirement.
ORSA Sections
Isle of Man vs Solvency II

- Adequacy of risk management
- Capital requirements
  - Liquidity
- Risk profile deviates from assumptions underlying its regulatory capital requirements
- Out of scope
  - (RMS background, own risk assessment?)
- Own Solvency Assessment
- Risk profile deviates from the SCR calculation
  - Appropriateness of the Standard Formula

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The risk management system of an insurer must—

(a) be ongoing and comprehensive including strategies, policies, and procedures that promptly and effectively—

(i) identify, assess and measure;

(ii) monitor and control; and

(iii) where appropriate, mitigate;

all reasonably foreseeable, relevant and material risks to which the insurer is or may be exposed;
The Solvency II ORSA process

**ORSA**

- **Forward looking assessment.** Requires a projection of capital requirements and stress tests / sensitivities.
- **Company’s business plan**
- **Company’s risk profile and appetite for risk**
- **At least annually**
- **Board review and approval**

**ORSA**

- **Determine overall solvency needs allowing for risk profile, limits and business strategy**
- **Demonstrate continuous compliance with capital requirements**
- **Extent to which risk profile differs from assumptions underlying capital calculations**

**Key part of Supervisory Review Process (SRP)**
The Projections
Modelling the futures (basecase and scenarios)
Projections piece of an ORSA

- Includes projection of economic balance sheet over the business planning horizon under a range of stresses and scenarios. From this the company determines its capital needs.

- ORSA is the entirety of the processes and procedures used to:
  - Identify, assess, monitor, manage and report the short and long-term risks a company is facing
  - Determine own funds necessary to ensure solvency
Projection of Balance Sheet
Capture results for multiple time periods

Year 1 | Year 2 | Year 3 | Year 4 | Year 5

Assets
Liabilities

Assets
Liabilities

Assets
Liabilities

Assets
Liabilities

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ORSA Process
The Irish approach to the ORSA projections

1. Strategy & Risk Appetite
   - Business plan

2. Risk Identification / Quantification

3. Select stress & scenario tests

4. Financial Projections

5. HoAF Opinion to the Board

6. Reliable draft ORSA Report

7. Internal & Group Review

8. Board discussion and approval

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The Roles
Who “produces” the ORSA - Risk or Actuarial?
**Risk Function**

- **Phase 1**
  - Manage the ORSA process
  - Schedule it on Board and/or Risk Committee agenda
  - Ensure all have appropriate training
  - Draft policies with input from the Board
  - Assist with scenario selection

- **Phase 2**
  - Review the results
  - Draft the ORSA document
  - Communicate the results and assist in drawing conclusions
Role of Actuarial

- Give guidance to the Board
- Prepare and run the model
- Set assumptions (with the board)
- Prepare the results
- Communicate the results and assist in drawing conclusions
- Head of Actuarial Function Opinion on the ORSA (Ireland)
Role of the Board

• Board is responsible for the ORSA and must take an active part

• “Steering how assessment is to be performed” implies approval of
  – Plan for conducting ORSA
  – Key inputs to the ORSA
  – Process for performing ORSA

• “Challenging the results”
  – Discussion and challenge of results
  – Approval of results

• Must approve the ORSA policy

• Must approve the ORSA process and results

• Might appreciate a training session / workshop
Models
### S.02.01.02

#### BALANCE SHEET

<table>
<thead>
<tr>
<th>Assets</th>
<th>Solvency II value</th>
<th>CD010</th>
</tr>
</thead>
<tbody>
<tr>
<td>R050</td>
<td>Intangible assets</td>
<td>0</td>
</tr>
<tr>
<td>R040</td>
<td>Deferred tax assets</td>
<td>0</td>
</tr>
<tr>
<td>R0090</td>
<td>Pension benefit surplus</td>
<td>0</td>
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<tr>
<td>R060</td>
<td>Property, plant &amp; equipment held for own use</td>
<td>115,092</td>
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<tr>
<td>R074</td>
<td>Investments (other than assets held for index-linked and unit-linked contracts)</td>
<td>5,096,324</td>
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<tr>
<td>R080</td>
<td>Property (other than for own use)</td>
<td>10,363</td>
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<tr>
<td>R0990</td>
<td>Holdings in related undertakings, including participations</td>
<td>65</td>
</tr>
<tr>
<td>R110</td>
<td>Equities</td>
<td>43,146</td>
</tr>
<tr>
<td>R120</td>
<td>Equities - listed</td>
<td>43,146</td>
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<tr>
<td>R130</td>
<td>Bonds</td>
<td>4,882,748</td>
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<td>R140</td>
<td>Government Bonds</td>
<td>2,835,083</td>
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<td>R150</td>
<td>Corporate Bonds</td>
<td>1,960,824</td>
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<tr>
<td>R160</td>
<td>Structured notes</td>
<td>0</td>
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<td>R170</td>
<td>Collateralised securities</td>
<td>40,039</td>
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<td>R180</td>
<td>Collective investments Undertakings</td>
<td>41,746</td>
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<td>R190</td>
<td>Derivatives</td>
<td>12,770</td>
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<td>R200</td>
<td>Deposits other than cash equivalents</td>
<td>87,456</td>
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<tr>
<td>R210</td>
<td>Other investments</td>
<td>0</td>
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<tr>
<td>R220</td>
<td>Assets held for index-linked and unit-linked contracts</td>
<td>19,601,652</td>
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<tr>
<td>R230</td>
<td>Loans and mortgages</td>
<td>51,424</td>
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<tr>
<td>R240</td>
<td>Loans on policies</td>
<td>1,644</td>
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<tr>
<td>R250</td>
<td>Loans and mortgages to individuals</td>
<td>56</td>
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<tr>
<td>R260</td>
<td>Other loans and mortgages</td>
<td>49,724</td>
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<td>R270</td>
<td>Reinsurance recoverables from</td>
<td>1,350,496</td>
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<tr>
<td>R280</td>
<td>Non-life and health similar to non-life</td>
<td>0</td>
</tr>
<tr>
<td>R290</td>
<td>Non-life excluding health</td>
<td>0</td>
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<tr>
<td>R300</td>
<td>Health similar to non-life</td>
<td>0</td>
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<tr>
<td>R310</td>
<td>Life and health similar to life, excluding index-linked and unit-linked</td>
<td>1,538,214</td>
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<tr>
<td>R320</td>
<td>Health similar to life</td>
<td>35,512</td>
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<td>R330</td>
<td>Life excluding health and index-linked and unit-linked</td>
<td>1,492,690</td>
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<td>R340</td>
<td>Life index-linked and unit-linked</td>
<td>12,381</td>
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<tr>
<td>R350</td>
<td>Deposits to policyholders</td>
<td>0</td>
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<td>R360</td>
<td>Insurance and intermediaries receivables</td>
<td>15,738</td>
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<td>R370</td>
<td>Reinsurance receivables</td>
<td>84,923</td>
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<td>R380</td>
<td>Receivables (trade, not insurance)</td>
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<td>R390</td>
<td>Own claims (held directly)</td>
<td>0</td>
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<tr>
<td>R400</td>
<td>Amounts due in respect of own fund items or initial fund calls up but not yet paid in</td>
<td>0</td>
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<tr>
<td>R410</td>
<td>Cash and cash equivalents</td>
<td>66,857</td>
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<tr>
<td>R420</td>
<td>Any other assets, not elsewhere shown</td>
<td>111,110</td>
</tr>
<tr>
<td>R4900</td>
<td>Total assets</td>
<td>46,621,032</td>
</tr>
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<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Solvency II value</th>
<th>CD010</th>
</tr>
</thead>
<tbody>
<tr>
<td>R510</td>
<td>Technical provisions - non-life</td>
<td>0</td>
</tr>
<tr>
<td>R520</td>
<td>Technical provisions - non-life (excluding health)</td>
<td>0</td>
</tr>
<tr>
<td>R530</td>
<td>TP calculated as a whole</td>
<td>0</td>
</tr>
<tr>
<td>R540</td>
<td>Best Estimate</td>
<td>0</td>
</tr>
<tr>
<td>R550</td>
<td>Risk margin</td>
<td>0</td>
</tr>
<tr>
<td>R560</td>
<td>Technical provisions - health (similar to non-life)</td>
<td>0</td>
</tr>
<tr>
<td>R570</td>
<td>TP calculated as a whole</td>
<td>0</td>
</tr>
<tr>
<td>R580</td>
<td>Best Estimate</td>
<td>0</td>
</tr>
<tr>
<td>R590</td>
<td>Risk margin</td>
<td>0</td>
</tr>
<tr>
<td>R610</td>
<td>Technical provisions - life (excluding index-linked and unit-linked)</td>
<td>4,527,976</td>
</tr>
<tr>
<td>R620</td>
<td>Technical provisions - health (similar to life)</td>
<td>590,545</td>
</tr>
<tr>
<td>R630</td>
<td>TP calculated as a whole</td>
<td>0</td>
</tr>
<tr>
<td>R640</td>
<td>Best Estimate</td>
<td>315,621</td>
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<tr>
<td>R650</td>
<td>Risk margin</td>
<td>79,714</td>
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<tr>
<td>R660</td>
<td>Technical provisions - life (excluding health and index-linked and unit-linked)</td>
<td>4,323,631</td>
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<tr>
<td>R670</td>
<td>TP calculated as a whole</td>
<td>0</td>
</tr>
<tr>
<td>R680</td>
<td>Best Estimate</td>
<td>6,164,172</td>
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<tr>
<td>R690</td>
<td>Risk margin</td>
<td>145,159</td>
</tr>
<tr>
<td>R710</td>
<td>Technical provisions - index-linked and unit-linked</td>
<td>19,078,894</td>
</tr>
</tbody>
</table>

---

**Today**

- Value of Asset

**Future cash flows**

- $...
- $...
- $...

---

**R1000 Excess of assets over liabilities**

| CD010 | 2,030,627 |
Projection of Balance Sheet

Capture results for multiple time periods

Year 1

Year 2

Year 3

Year 4

Year 5

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Some other considerations

- Nested calculations of best estimate projection and reserving basis if different

- Projection of assets and rebalancing
  - Investment income and how this is split going forward
  - Funds maturing, how reinvested
  - New business asset mix

- How to project capital requirements?
  - SCR calculation at each time step

- Tax treatment
  - Deferred tax asset, deferred tax liability
  - Recoverability
  - IFRS profits

All Models don’t have to be beautiful
Models

- Your models will be too complicated
  - Asset rebalancing
  - Full capital requirement projections

- Rip it up and put it in the bin

- Simple to use business forecasting tool.
  - Quicker to set up
  - More flexible, will allow better scenarios
  - Means you can understand it intuitively

- You don’t need complete precision – you need to get the appropriate insights and give messages to the Board.
Scenarios
Development of Scenarios

Year 1
- Lots of scenarios to choose from
- Cover some of the basic ones first

Year 2
- Getting into some of the more specific items now
- Do you repeat the scenarios from last year?

Year 3
- Getting a bit stale?
- How much effort being put into scenario workshops?

How many to keep from year to year?
## Scenarios – different types

<table>
<thead>
<tr>
<th>Full projection</th>
<th>Shorter projection</th>
<th>Point in time stress</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario Analysis</td>
<td>Sensitivity Testing</td>
<td>Stress Test</td>
</tr>
<tr>
<td>Economic assumptions</td>
<td>Market shocks</td>
<td>Persistency/Decrements</td>
</tr>
<tr>
<td>Reverse stress test</td>
<td>Sales levels</td>
<td></td>
</tr>
</tbody>
</table>

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Scenarios – different types

Operational risk event

Cyber risk events

Counterparty

Reinsurance strategy

Maximum loss scenarios

Reputational damage

Closure to new business

Change of strategy (product, M&A)

Recovery plans

Management actions
Using it

- Compliance activity
  - Not really a tool for good
  - Same style scenarios each year
  - No real insights gathered

- Replaces business planning
  - The ORSA is your business planning process
  - Check capital before make decisions
  - Collect scenarios as you go through the year (“Lets add that to the ORSA”)
  - Use it to create strategy
Documentation and Reporting
Range of documents

Records
An insurer’s ORSA must be supported by suitable evidence and documentation, including its—

(a) ORSA policy (including the matters referred to in paragraph 5);
(b) record of each ORSA (including the matters referred to in paragraphs 6 and 7 and sub-paragraph 8(2)); and
(c) report for each ORSA (including the matters referred to in paragraph 8).
ORSA Documentation

1. An ORSA policy
   - Description of processes and procedures
   - Link b/w risk profile, risk limits and solvency needs
   - Stress and sensitivity tests

2. A record of each ORSA process
   - Sufficient detail to enable knowledgeable third party to understand and replicate ORSA
   - Record input data, assumptions, output and how this was arrived at.

3. An internal report on the ORSA
   - Sets out main outcomes of ORSA process
   - The ORSA report should be designed to be used by the Board and relevant executive committees

4. An ORSA supervisory report
   - Can be the same document as the internal report

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ORSA Reporting

- **ORSA Supervisory Report** contains:
  - Qualitative and quantitative results and conclusions
  - Methodology and assumptions
  - Comparison of solvency needs to regulatory capital and own funds
  - Information on risks not reflected in the SCR

- **Public disclosure (SFCR)**
  - A description of the process
  - How integrated into organisational structure and decision making process
  - Frequency reviewed and approved by the Board
  - How own solvency needs are determined, and how capital management activities and risk management system interact

- **Private disclosure (RSR)**
  - How performed, documented and reviewed
  - How integrated into management and decision making process
The reality

- Different to how I expected it to be!

- There is an ORSA policy
  - Draft once
  - Minor edits in the annual review
  - Typically not specifically reviewed while doing the ORSA

- There is (almost always) no separate “record of the ORSA process”

- There is one document which is the “record of the ORSA process” and the “internal report” and the “supervisory report” all in one.
What the regulator might say
Timeline on ORSA development in Ireland
Regulatory priority since 2014

- Up to 2014
  - Solvency I
  - Life
  - Appointed Actuary
  - “Financial Condition Report”

- 2015
  - Preparatory Guidelines
    - “FLAOR”

- 2016
  - CBI
    - Feedback on FLAORs submitted
  - Solvency II
    - ORSA submission template to CBI

- 2017
  - CBI
    - Feedback on ORSA’s submitted
  - AAE
    - ESAP3 (ORSA) model standard
  - Solvency II
    - Second round of annual ORSAs

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Quantitative issues
- Producing opening balance sheet & SCR is one thing, but …
- … projecting future balance sheets, SCR, Risk Margins is another
- Often multiple models with significant manual processes

The need to start early
- For effective Board involvement & challenge

Whose “Own” is it anyway?
- Parent / Group view versus local view
- Role of the local Board and local Supervisor

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CBI’s attitude to ORSA progress – 2014

Key Points
- Board ownership – “so-called use test”
- Process as important as the document
- Address capital needs – Company own view (not just repeat the Standard Formula)

Issues Noted
- Ignore risks that are difficult to quantify
- Inadequately tailored to local entities
- Stress tests too benign
- Fundamental assumptions – business plans and time horizon
- Deviation from assumptions – not appropriately addressed

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Extra risks not covered by Standard Formula

Milliman client survey 2014 – scope of ORSA “other risks”
ORSA - 2015 Improvements
Milliman client survey 2014

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FLAOR 2015 – CBI feedback
May 2016

Also mentioned:

• Appropriateness of Standard Formula (also on 2016 agenda for CBI)
• Board involvement
• SCR and Own Funds projections – are they reliable?
• Not very stressful stress tests

Overall Solvency Needs
Continuous compliance (in the future)
Report structure
Time lags
Geopolitical risk:

- Brexit and results of the US Presidential election
- Likely have a profound impact on how we transact business in Ireland
- Such environmental factors need to be considered

Comprehensive suite of relevant and current stress tests (e.g. Pension, Brexit)

The level of involvement and discussion by the Board within the ORSA process is an area that our supervision teams will be assessing on a continuous basis.
Head of Actuarial Function Opinion on the ORSA

- As part of the Domestic Actuarial Regime (which requires a Head of Actuarial Function to sign off on reserves), a specific role for the HoAF was created:

1. Range of risks and the adequacy of stress scenarios
2. Appropriateness of the financial projections
3. Continuously compliance regarding the calculation of Technical Provisions
Outcomes & Adding value
Outcomes from the ORSA

- Better understanding of risk and capital requirements
  - Board understand all aspects and implications for business
  - Results and conclusions communicated to staff where relevant
  - Identify new risks

- Use the results!
  - The undertaking should take the results of the ORSA and the insights gained in the process into account at least for the system of governance including long term capital management, business planning and product development and design
Other Possible Outcomes

- **Internal capital may be different to SCR**
  - Different confidence level (might target rating – higher confidence level)
  - Risk profile different to assumptions underlying SCR (e.g. operational risk?)
  - Time horizon might differ

- **If different, capital measure also required to calculate 99.5% one-year VAR?**

- **If ORSA produces different capital requirement to SCR**
  - Explain and identify
  - Not necessarily a capital add-on

- **Other considerations**
  - Risk profile and risk interactions
  - Culture & decision-making
  - Emerging risk
  - Prospective solvency
  - ERM Framework
Group ORSA – Solvency II

- In summary, groups need to prepare either a:
  (a) Solo ORSA for each subsidiary + a group ORSA, or
  (b) Single ORSA including the subsidiaries (group-wide ORSA)

- Need to receive agreement from the group supervisor
  - requires a high level of consistency in risk management processes across the group
  - evidence of full compliance with the ORSA requirements at both the subsidiary and group level.

- Guideline 19 from the EIOPA ORSA guidelines, which covers the requirements for a single ORSA document, notes that in the application to submit a single group-wide ORSA document the group should provide an explanation on how the subsidiaries are covered and how the subsidiaries’ board is involved in the assessment process and approval of the outcome.
Evolution of ERM
Appendix 1 – Appropriateness of SCR
Assessing the appropriateness of the standard formula

- All Irish insurance undertakings are required to perform an assessment of the appropriateness of the standard formula as part of their ORSA

- EIOPA guidelines suggest a two step process:
  - First step is a qualitative assessment of risks
  - If the qualitative assessment indicates a significant deviation is expected then a quantitative assessment is required

- Assessment of appropriateness must cover:
  - Risks to which the undertaking is exposed which are not reflected in the standard formula
  - Risks covered by standard formula which are either understated or overstated relative to the undertakings risk profile
Process for qualitative assessment

Risks covered by standard formula

- Rank each risk under standard formula based on capital charge
- Compare each risk to the assumptions underlying the standard formula calculations
- If a significant deviation is identified then must perform quantitative analysis

Uncovered risks

- Identify all uncovered risks e.g. Inflation risk, reputation risk, liquidity risk
- Nothing to compare to so focus is on scale of exposures and risk mitigation in place
- If cannot demonstrate uncovered risk is immaterial then must perform quantitative analysis

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Quantitative assessment

- Only required where “significant deviation” identified in qualitative assessment

- In practice, difficult to assess whether significant without carrying out quantitative assessment

- Once identified need to recalculate capital charges with shocks consistent with undertakings risk profile

- In essence need to re-calibrate the 1-in-200 shock, not straightforward but adjusting standard formula shocks good place to start

- Sensitivity testing useful to gauge materiality
  - Examine impact on SCR of changing a parameter in standard formula
  - Or changes to risk profile e.g. diversification or risk mitigation
Quantitative assessment – operational risk

- Difficult to adjust standard formula shocks for operational risk

- Factor based calculation based on expenses, technical provisions and premiums

- Makes no allowance for operational risk management

- Many undertakings will likely identify deviations as a result

- Number of undertakings developing operational risk models to calculate capital charge independent of standard formula e.g. Bayesian network models, Markov-chain Monte-Carlo etc.
Response to material deviations

- Likely CBI will engage undertakings with significant deviations

- Key concern for companies is capital add-on

- Directive states capital add on can be imposed if risk profile deviates from that underlying standard formula

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Overlap with own solvency needs assessment

- Some overlap between quantitative assessment in assessment of appropriateness and the OSN assessment

- But ultimately the OSN assessment has broader scope, may make adjustments to:
  - Confidence intervals
  - Time horizons
  - Contract boundaries
  - Yield curve adjustments
  - Management actions etc.
Appendix 2 – Board Checklist
ORSA Board – Key Questions to Ask (1)

Can you demonstrate understanding of the ORSA and implications of results?

Did you take an active role in steering and challenging the ORSA?

Have the ORSA results/insights gained taken into account of:
- Long term capital management?
- Business Planning?
- Product Development and Design?

Did you approve the ORSA policy?

Did you approve the ORSA report and supervisory report?

Have the ORSA results been communicated to all relevant staff?

Are any material risks missing?
ORSA Board – Key Questions to Ask (2)

- How robust are the projections?
- What approximations/simplifications have been used?
- How achievable are the management actions? Are they approved?
- How achievable is the business plan?
- Is the Standard Formula appropriate?
- Have you ensured continuous compliance?
- Are the stress scenarios onerous enough?
- Does the ORSA meet all of the Level 1, 2 and 3 requirements?
- Did you take account of any CBI feedback (either generic or specific)?
Appendix 3 – Risk/Actuarial Checklist
Practitioner Checklist

1. Adequacy of Risk Management
2. Forecasting
   1. Regulatory capital
   2. Liquidity
3. Risk profile deviation from assumptions underlying the regulatory capital requirements

1. Role of the Board
2. Use Test (Integration)
3. ORSA Policy
4. Forecasting
   1. Projection Period
   2. Ad-hoc ORSA
   3. Risks included (and changes)
   4. Adverse scenarios
   5. Own Funds composition
   6. Valuation bases
5. Reports
   1. Types
   2. Content – Conclusions & information

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