



ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION



Institute of Actuaries of India



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Emerging Risks... Daring Solutions

From quantification to management:
Solvency II – Own Risk and Solvency
Assessment

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Hong Kong

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ORSA is a central part of Solvency II and emerging global guidance from regulators

	Pillar 1	Pillar 2	Pillar 3	
Technical	<p>All Insurers</p> <ul style="list-style-type: none"> Balance sheet items Standard formula SCR MCR 	<p>Internal Model option</p> <ul style="list-style-type: none"> Approval process Technical standards 	<ul style="list-style-type: none"> Supervisor review 'Own Risk and Solvency Assessment' (ORSA) 	<ul style="list-style-type: none"> Supervisory and public disclosures
Governance and business management	<p><i>Technical tests</i></p> <p>Internal model 'Use test'</p>	<p><i>Key role in governance</i></p> <ul style="list-style-type: none"> Governance Risk management Internal controls Internal audit Actuarial function Outsourcing 		



The ORSA is at the core of developing business strategy

“The own risk and solvency assessment shall be an integral part of the business strategy and shall be taken into account on an ongoing basis in the strategic decisions of the undertaking.”

Article 45(4) of the Solvency II Framework Directive



Definition of the ORSA

- “The **entirety of the processes** and procedures employed
- to **identify, assess, monitor, manage and report** the
- **short and long term risks** a (re)insurance undertaking faces or may face and to
- **determine the own funds** necessary to ensure that the undertaking’s overall
- **solvency needs are met at all times.**”

(May 2008 Issues paper)



An ORSA forces companies to think about their business in a joined up way

Own Risk and Solvency Assessment
- Responsibility of the Board

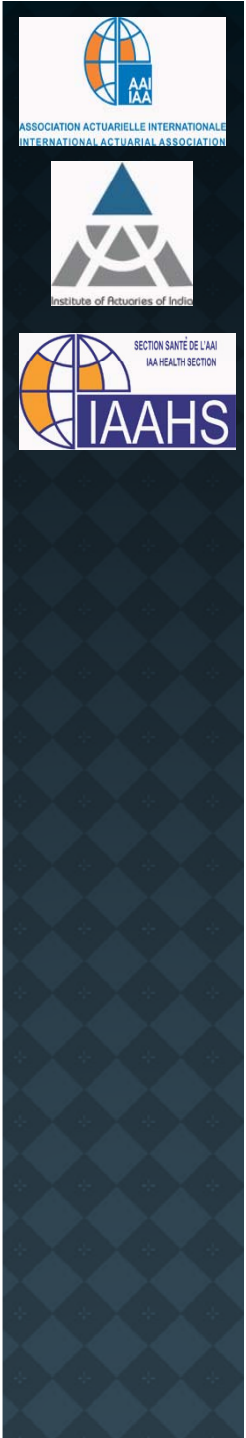
business functions in silos e.g.

Actuarial /
Regulatory
reporting

Senior
Mgmt

Investment

Distribution



...and consolidate its risk management activities

Own Risk and Solvency Assessment
- Responsibility of the Board

Risk management in silos e.g.

Actuarial /
Regulatory
reporting

Business
planning

ALM

Product
Dev.

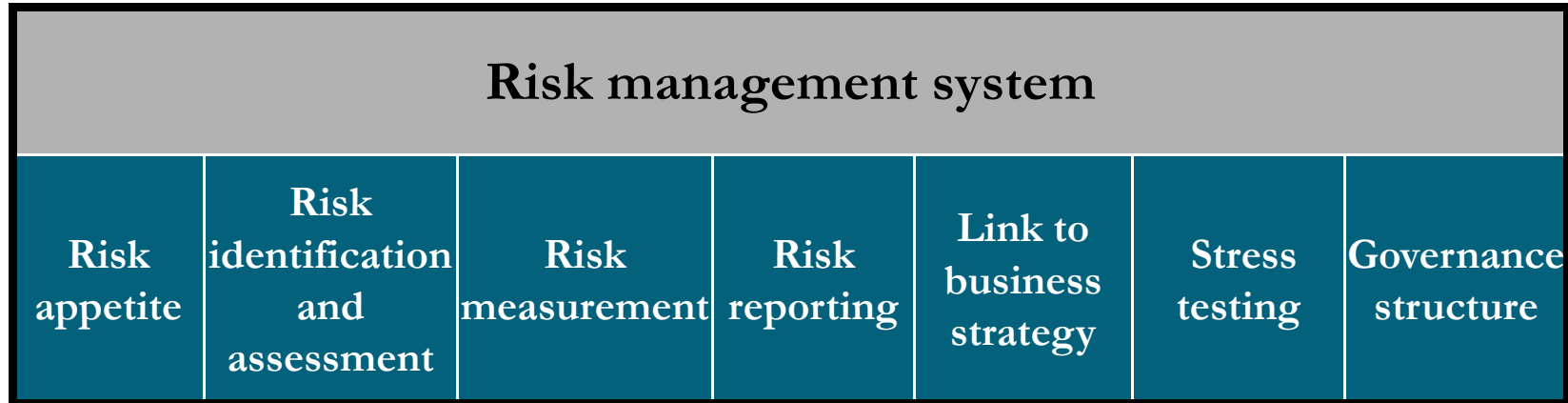


Moving from regulatory capital requirements to an ORSA

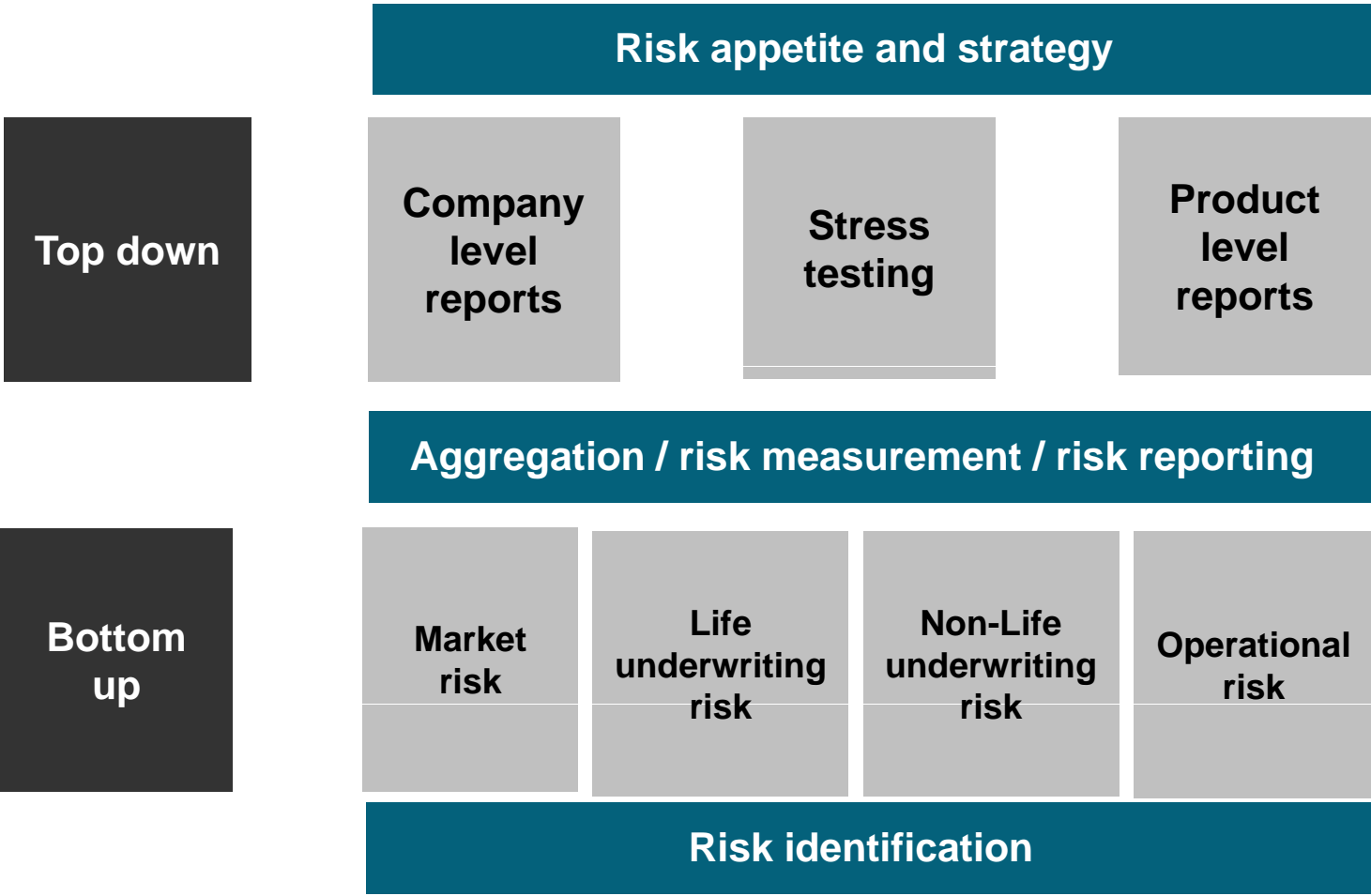
- ⦿ What risks are not included in the regulatory capital requirements?
- ⦿ Do the regulatory requirements reflect the specific risks of the business?
- ⦿ What is our tolerance for accepting risks?
- ⦿ What is our exposure to emerging risks and external factors?
- ⦿ How do management decisions affect our capital position?
- ⦿ How does our business plan affect our risk profile and capital requirements?
- ⦿ Snapshot vs. continuous solvency assessment



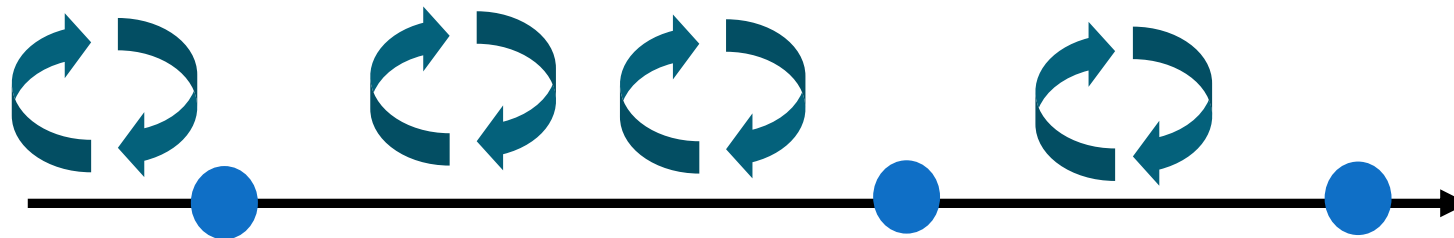
ORSA components



A combination of top down and bottom up analysis



An iterative approach to ORSA



Iteration 1

Develop first draft using existing information

Pilots with top-down and bottom-up assessment

Engage with management on use

Iterations 2,3...

Refining pilot as company / regulatory views on the ORSA evolve

Refining pilots by improving bottom-up capabilities to deliver top-down requirements

Populate as changes in processes and tools make more data available

Final iteration

Refinement

Business as usual

At the core of strategic decisions and Board reporting

ORSA pilot represents first iteration in a process of continual improvement as more information becomes clear

Conclusions

- ⦿ The emerging guidance and experience on ORSAs provide a realistic guide for companies on the development of “implementable” risk management
- ⦿ A significant amount of information may already exist to support the development of a risk management system.
- ⦿ Companies should focus on practical “deliverables” and engagement with management rather than development of the perfect solution.

