

ORSA – the hard questions?

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Milliman Breakfast Briefing
6 October 2015

Breakfast Briefing Rules

The 3 Commandments of Breakfast Briefings:

1. Thou shall not run out of rashers and sausages.
2. Thou shall not run past 9 o'clock.
3. Thou must bang on about ORSAs.

If ORSA was a movie...



Is your ORSA strong enough?

- Regulatory view – Cyril Roux, Gabriel Bernardino, Karel van Hulle – Don't over-emphasise the Pillar I stuff. The ORSA is what really matters.
- Further Great Expectations – but is your ORSA strong enough?
- Who owns the ORSA?
 - Who owns a weak ORSA?

Irritating ORSA questions

- How does it capture your overall Solvency Needs?
- Have you embedded your ORSA...?
- Have you addressed deviations in risk profile from the standard formula?
- And continuous compliance with the SCR and TPs?
- What about a Medium Term Capital Management Plan?

Overall Solvency Needs

How well does your ORSA assess your overall solvency needs?

- Identification of risks not included in the SCR
- What is your risk appetite?
- Forward looking perspective
- Scenario testing / reverse stress-testing
- Management Actions
- Link to capital planning

Projecting projections – growing uncertainty



Embedding the ORSA

- What does this mean?
- Give me an example of anything else embedded in your organisation?

The ORSA shall be an integral part of the business strategy and shall be taken into account in the strategic decisions of the undertaking.

- What strategic decisions do you take, and what role does your ORSA play in this?
- How does this link to your business plan?

My view

- Your business plan sets your view on sales, lapses, expenses etc.
- ORSA allows you to assess whether you have the right level of capital to deliver it
 - Allowing for your risk appetite
 - Including consideration of adverse deviations.
- Key benefit is a feedback loop to the business plan:
 - Change plan or change level of capital?
 - Insights for Board
 - Parameters for management
 - Early warning of potential problems

Appropriateness of the Standard Formula

How appropriate are the underlying assumptions of the standard formula for your business?

Perfect!

Not so perfect!

Really? Even contract boundaries?

So what are you doing about it?

And the ultimate forward rate?

Sovereign risk?

Nothing else?

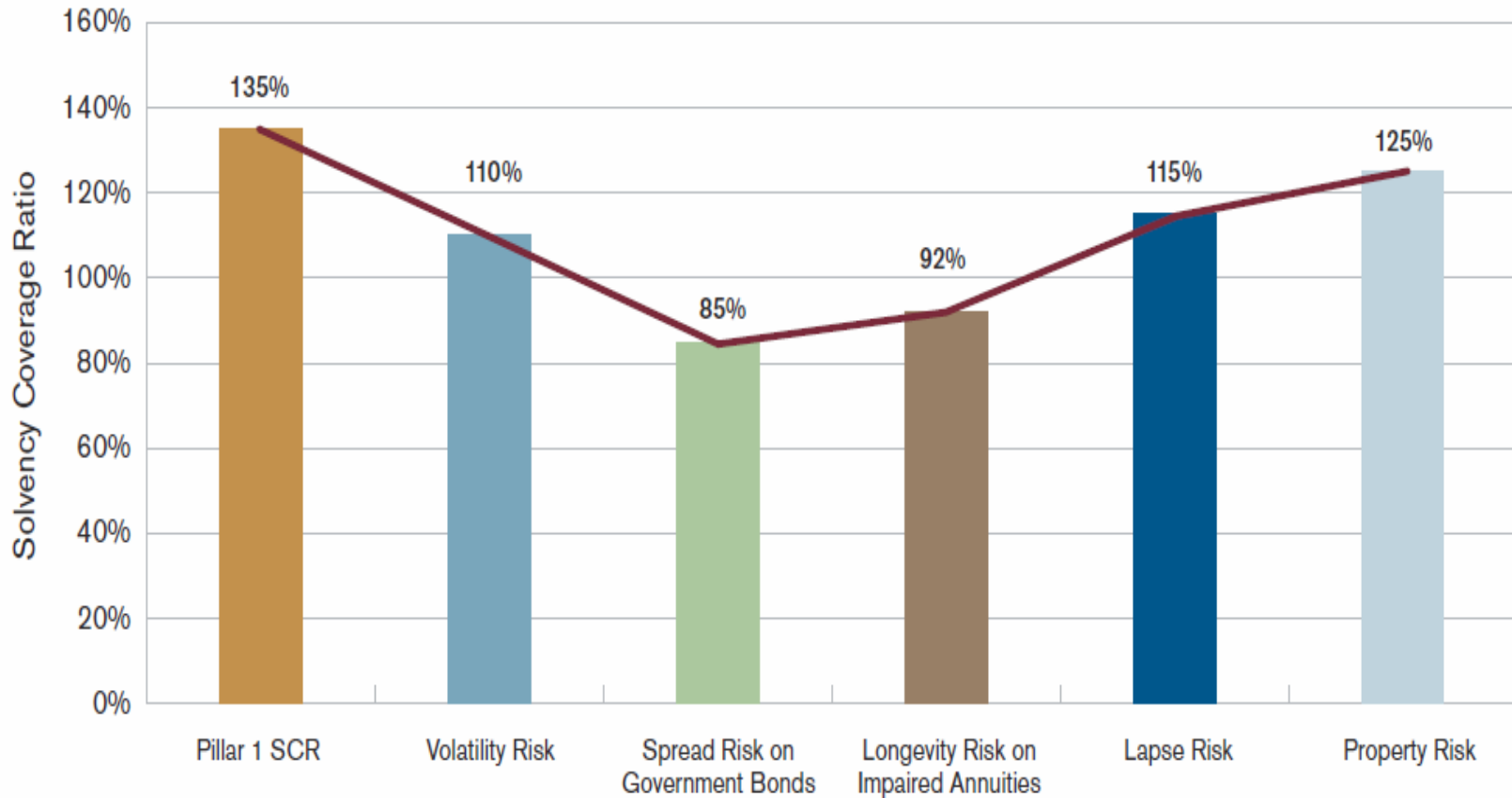
First step is qualitative...

Is there significant deviation in your risk profile relative to Standard Formula?

- Qualitative assessment:
 - What risks are missing?
 - Are some risks likely to be significantly overstated or understated?
 - What does 'significant' mean?
- Quantitative work
 - What is a more appropriate measure of lapse / operational / longevity risk etc.?

Deviation of risk profile from SF - sample

FIGURE 3: ASSESSMENT OF DEVIATION IN RISK PROFILE COMPARED WITH ASSUMPTIONS UNDERLYING THE SCR



Continuous compliance with the SCR

How do you demonstrate continuous compliance with your capital requirements?

- Requirement for medium high + in 2015 FLAOR and all companies in 2016 ORSA.
- Focus on regular solvency monitoring.
- L3 guidelines go further:
 - Quality of own funds over time
 - Link to capital management plan
 - Levers for restoring capital adequacy in stressed conditions?

Medium Term Capital Management Plan

How is your Medium Term Capital Management Plan Looking?

- It's looking a lot like our ORSA!
- Do we need a separate plan or can we roll it all in together?
- PRA comments – expecting a separate MTCMP.
- If you have lots of excess capital and all Tier 1 Basic Own Funds, then easier conversation?

What's the new 150% solvency cover

How much capital are you going to hold?

- **Comments from Gabriel Bernardino and Karel van Hulle suggest 100% is just fine.**

“The SCR is a target”
(Bernardino)

Expecting more than 100%
Cover is “wrong-headed”
(Bernardino)

Expecting more than
100% is “ridiculous”
(Van Hulle)

“Where will it end?”
(Van Hulle)

So how do you decide?

- Risk Appetite
- Overall Solvency Needs
- Volatility of Own Funds and / or SCR
- Availability (and cost) of capital
- Other levers for restoring capital
 - in a stressed environment?
- Liquidity position

If your next ORSA was a movie...

