

Own Risk and Solvency Assessment

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Own Risk and Solvency Assessment

- Top down process owned by the Board
 - Board needs to know what risks the Company is running
 - Has it sufficient capital for the next 3-5 years
 - Enhance awareness of relationship between risks and capital

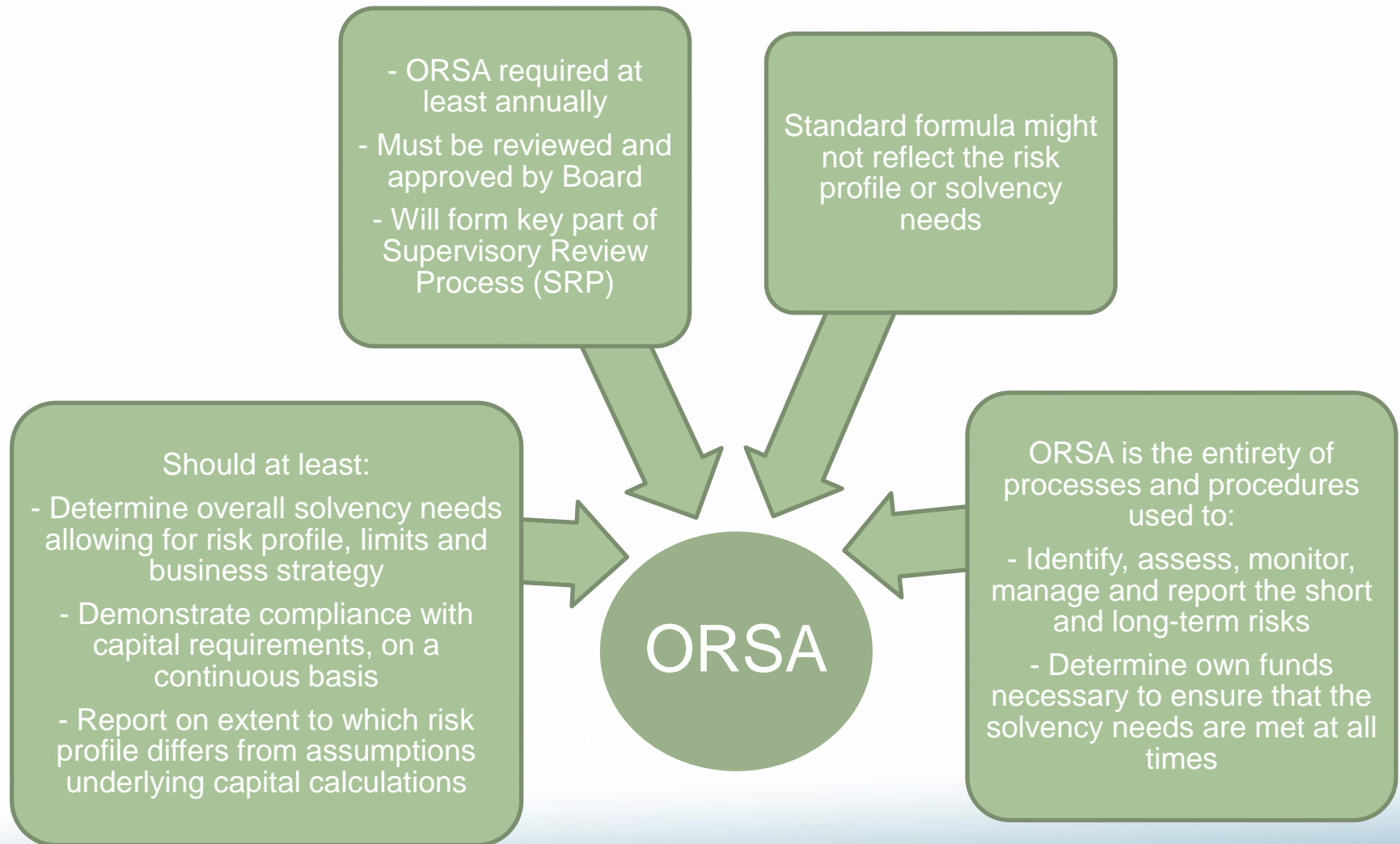
- “The heart of Solvency II” Gabriel Bernardino

- Link between Pillar I, Pillar II and strategy
 - Is the company comfortable with the risks it is running?
 - Has it enough capital?
 - Should it review its strategy?
 - Challenge to Pillar I

Own Risk and Solvency Assessment

- Report or Process?
- Key management and supervisory tool
- Doesn't necessarily require new processes
 - Some components probably already in place
- Minimum requirements outlined in Directive
- Level 3 consultation published 7 November

Own Risk and Solvency Assessment (ORSA)



Directive

- Assess overall solvency needs
 - Given risk profile, risk tolerance limits and business strategy
- Compliance on continuous basis
 - Technical provisions and SCR
- Assess if risk profile deviates from assumptions of SCR
- Perform regularly
 - without delay following change to risk profile
- Inform regulator of results
- Proportionate processes to identify and assess risks
- Integral part of business strategy
- Group ORSA required

Level 3 consultation

- Published 7 November
- Consultation ends 20 January 2012
- 24 Guidelines
 - 15 individual and 9 group
- Focus on desired outcomes of ORSA
- Freedom to design process suitable for company's needs

Level 3 General Considerations

1. Proportionality
 - Develop its own processes tailored to its structure and risks

2. Board must have active role
 - Decide how assessment to be performed
 - Challenging the results

3. Minimum documentation
 - ORSA policy
 - Record of each ORSA process
 - Internal report on ORSA
 - **ORSA supervisory report**

Level 3 General Considerations

4. ORSA Policy

- Description of processes and procedures in place
- Link between risk profile, risk tolerance limits and solvency needs
- Information on
 - Stress tests/sensitivity analyses
 - Data quality requirements
 - Frequency of ORSA and trigger for ad-hoc ORSA

Level 3 Record of each ORSA process

5. Process/outcome appropriately evidenced and documented
 - Enable third party to evaluate assessments

6. Internal report on ORSA
 - Results communicated to all relevant staff
 - Could be basis of supervisory report

Level 3 Specific features

7. Assessment of overall solvency needs
 - If Solvency II basis not used
 - Explain why and quantitatively estimate impact of different basis

8. Assessment of overall solvency needs
 - Express needs in quantitative terms and describe qualitatively

9. Assessment of overall solvency needs
 - Sufficiently wide range of stress test/scenario analyses/reverse stresses

Level 3 Specific features

10. Forward looking perspective

- At least cover each year of business planning period
- Project capital requirements and own funds
- Identify external factors
- Take management actions into account

11. Regulatory capital requirements

- Monitor compliance on continuous basis with SCR
- Monitor/manage quality and loss absorbing capacity of own funds

Level 3 Specific features

12. Calculation of technical provisions must comply at all times
13. Consider deviations from assumptions of SCR
 - May assess qualitatively initially
 - Quantification needed if significant deviation
14. Link to strategic management processes/decisions
 - Capital management/business planning/product development
15. Frequency
 - At least annually
 - Non-regular ORSA following significant change in risk profile

Level 3 Group specificities

16. Scope of Group ORSA

- Regulated and unregulated
- In EEA and outside

17. Reporting to supervisor

- Same language as group Regular Supervisory Reporting
- May require translation of subsidiary information

18. Assessment of overall solvency needs of group

- Group specific risks and interdependencies
- Explain key drivers including diversification effects

19. Criteria for single group-wide ORSA document

ORSA Template

1. Executive Summary
2. Context for ORSA process
 - Strategy and business context
 - Risk management framework
 - System of governance
3. Assessment of overall solvency needs
 - Link with outputs of risk management system
 - How risks are managed/mitigated
 - Capital required for those risks
 - Stress and Scenario Tests
 - Analysis of Own Funds

ORSA Template

4. Projections

- Forward looking perspective - link with strategy

5. Assessment of deviation from SCR assumptions

6. Continuous compliance

- Regulatory capital requirements
- Technical provision requirements
- Quality and loss absorbing capacity of own funds

7. Outcomes of ORSA

- Review strategy
- Future management actions
- Long term capital management

Summary

- ORSA is at heart of Solvency II
 - Link between Pillar I, Pillar II and strategy
 - Company's view of their risks and capital needs
- Level 3 consultation now public
 - Very good picture of requirements available
 - Companies have significant flexibility in designing the process
- Companies getting to grips with requirements
 - Need to have firm plan in place
 - Produce draft ORSA policy
 - ORSA dry run during 2012