

# Interim Measures

## Forward Looking Assessment of Own Risks (based on the ORSA principles)

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Milliman Breakfast Briefing  
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## Guidelines

- 25 Guidelines
  - 21 as per EIOPA's final report on ORSA July 2012
  - 3 initial guidelines covering general provisions, National Competent Authorities (NCAs) and thresholds
  - 1 new guideline on supervisory report
  
- Nothing particularly new in the guidelines



## General Provisions

- NCAs need to put in place Guidelines from 1 January 2014
  
- NCAs should ensure companies take steps to:
  - A) build process to develop FLAOR
  - B) build qualitative information supporting FLAOR
  
- Required to perform an assessment “as of 2014”
  
- CBI’s attitude
  - Expect best efforts especially from high impact firms
  - Sanctions only considered in extreme cases and as a last resort

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## Main Requirements

- Assess overall solvency needs
  
- Forward looking perspective of overall solvency needs
  
- Link to strategic management and decision making
  
- Board must steer the process and challenge results
  
- Perform at least annually

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## Main Requirements

- Documentation
  - Policy for FLAOR
  - Record of each process
  - Internal report
  - Supervisory report
  
- Group requirements
  - Group FLAOR
  - Consider group specific risks
  - Single FLAOR for group is possible

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## Additional Requirements

- Threshold applies
  - 80% of market share
  - Groups above €12 billion
  
- Assess compliance on continuous basis with SCR and technical provisions
  
- Assess deviation of risk profile from standard formula
  - If threshold above applies
  - And not in pre-application for internal model

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## Guidelines As Expected?

- Required to calculate and project SII figures during 2014
  - Therefore, SII pillar I requirements apply from 2014
  
- Significant uncertainty remains regarding technical provisions
  - Significant risk regarding outcome of LTGA/OMDII
  - Significant challenge in being able to meet timescale
  - EIOPA will revisit timescale at end 2013
  
- Parallel running of SI and SII calculations over extended period
  - SII costs without the benefits

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## Issues to Address - Projections

- Project Assets/Technical Provisions/Capital Requirements
  - At least over business planning period
  - New business projections
  - Reinvestment of assets
  - Dividend policy
  
- Specific issues if guarantees
  - Stochastic approach needed for calculation of technical provisions
  - Need to rebase calculation for scenario

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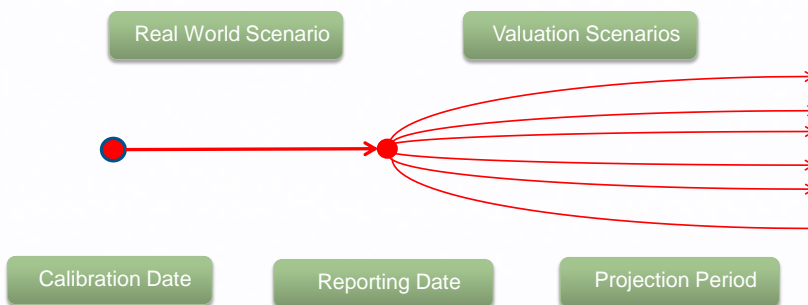
## Issues to Address - Projections

- Life companies have experience through FCR
  - Albeit Solvency I basis so less focus on asset risks
  - Non-life companies and reinsurers don't have this experience
- Define real world scenarios for projection period
  - Potentially use stochastic projection but very complex
  - Typically define number of scenarios covering economic, insurance, firm-specific considerations
  - Should there be a specified confidence level?
- Projecting capital requirements “accurately” within current capabilities?

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## Projection Capability



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# Projection Capability

- Potential Approaches
  - Key risk drivers
  - Accurate deterministic projections
  - Nested stochastic projections
  - Least Squares Monte Carlo
  - Replicating portfolios
  - Curve Fitting

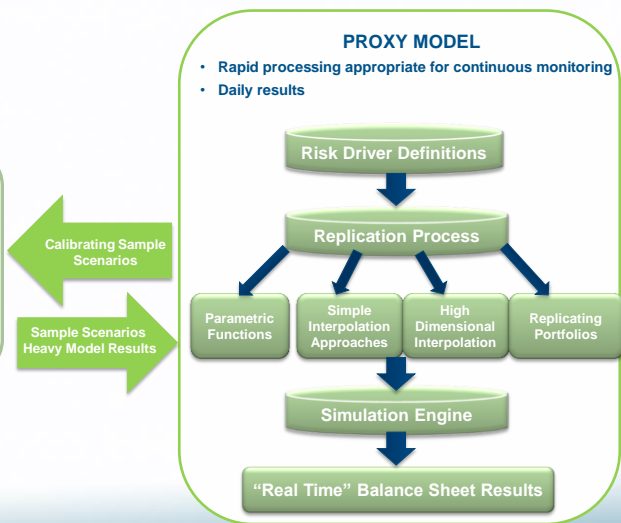
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# Proxy Models Leverage Existing Actuarial Modeling Infrastructure

## HEAVY MODEL

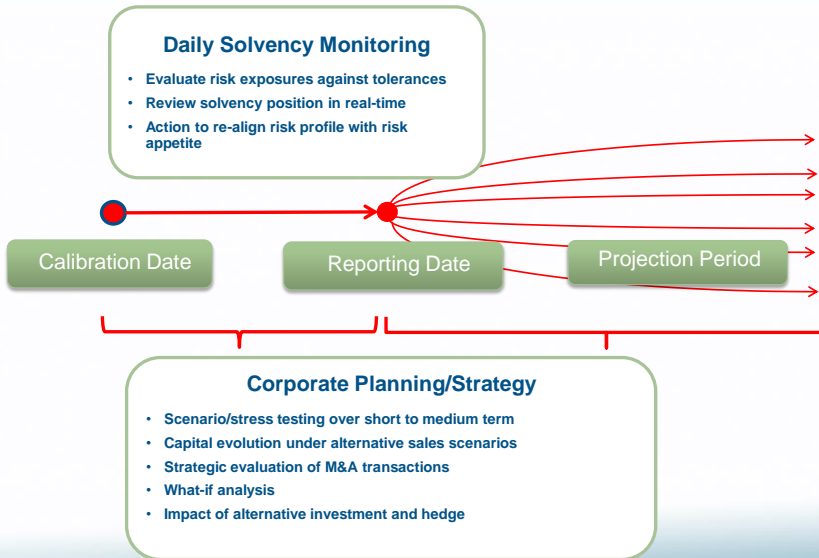
- Time consuming to produce granular results
- Balance sheets only produced at certain times of the year
- Only a small number of sensitivities can be run expeditiously



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## Proxy Model Uses



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## Issues to Address - Documentation

- Significant documentation required
- Policy for FLAOR
  - Description of processes and procedures
  - Link between risk profile, risk tolerance limits and solvency needs
  - What stress tests, sensitivity tests performed
  - Data quality standards
  - Frequency of and triggers for additional assessment
- Record of process and internal report
- Supervisory report within 2 weeks of conclusion
  - After Board approval

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## Issues to Address – Role of Board

- Steer how assessment is performed and challenge results
  - Need to provide evidence of this role
  
- Take results into account in:
  - Capital management
  - Business planning
  - Product development
  
- Conflict between SI figures and SII figures
  - Parallel running
  - Additional costs

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## Group Issues

- Member of group
  - Need to consider group issues as part of FLAOR
  
- Group assessment required
  - Include regulated and non-regulated entities
  - Include entities inside and outside EEA
  - Group specific risks and interdependencies
  - Single FLAOR?

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## In Conclusion

- FLAOR required for 2014
  - Trial run during 2013 advised
- Significant requirements
  - Especially if additional requirements apply
- Degree of preparedness is mixed
  - Some companies well placed
  - Others still have a lot of work to do

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