

Own Risk and Solvency Assessment and Disclosure Requirements

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Breakfast Briefing

30th September 2009



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Agenda



- Own Risk and Solvency Assessment
- Supervisory Review Process and Capital Add-ons
- Disclosure requirements

Own Risk and Solvency Assessment “ORSA”

- Pillar II requirement
- Annual ORSA required
 - Reviewed and approved by Board
- ORSA is the entirety of processes and procedures used to
 - Identify, assess, monitor, manage and report the short and long-term risks
 - Determine own funds necessary to ensure that the solvency needs are met at all times
- Should at least
 - Determine overall solvency needs allowing for risk profile, limits and business strategy
 - Demonstrate compliance with capital requirements, on a continuous basis
 - Report on extent to which risk profile differs from assumptions underlying capital calculations
- Standard formula might not reflect the risk profile or solvency needs

Own Risk and Solvency Assessment

- Aim of ORSA is to enhance awareness of
 - Interrelationships between risks
 - Internal capital needs that follow from exposures
 - “Process is as important as final outcome”
- Encompass all material risks
 - Taking account of external factors
- Should be forward looking, taking account of business plans
 - Projections of capital requirement and own funds
- Integral part of business strategy
- Must inform regulator of process and results

Own Risk and Solvency Assessment



- Proportionality
 - Less complex risk profiles may use less sophisticated tools
 - “should not be too burdensome”
- Demonstrate processes to identify and assess risks
 - Appropriately documented
- Regular assessment of process by independent persons
 - Internal or external auditor
 - Conclusions reported to Board

Own Risk and Solvency Assessment

- Internal capital may be different to SCR
 - Different confidence level
 - Risk profile different to assumptions underlying SCR
 - Time horizon might differ
- ORSA might use different capital measure or time horizon but also required to calculate 99.5% one-year VAR
- If ORSA produces different capital requirement to SCR
 - Explain the reasons and identify the impact
 - Higher capital might not mean capital add-on
 - Lower capital will not result in capital release

Supervisory Review process “SRP”



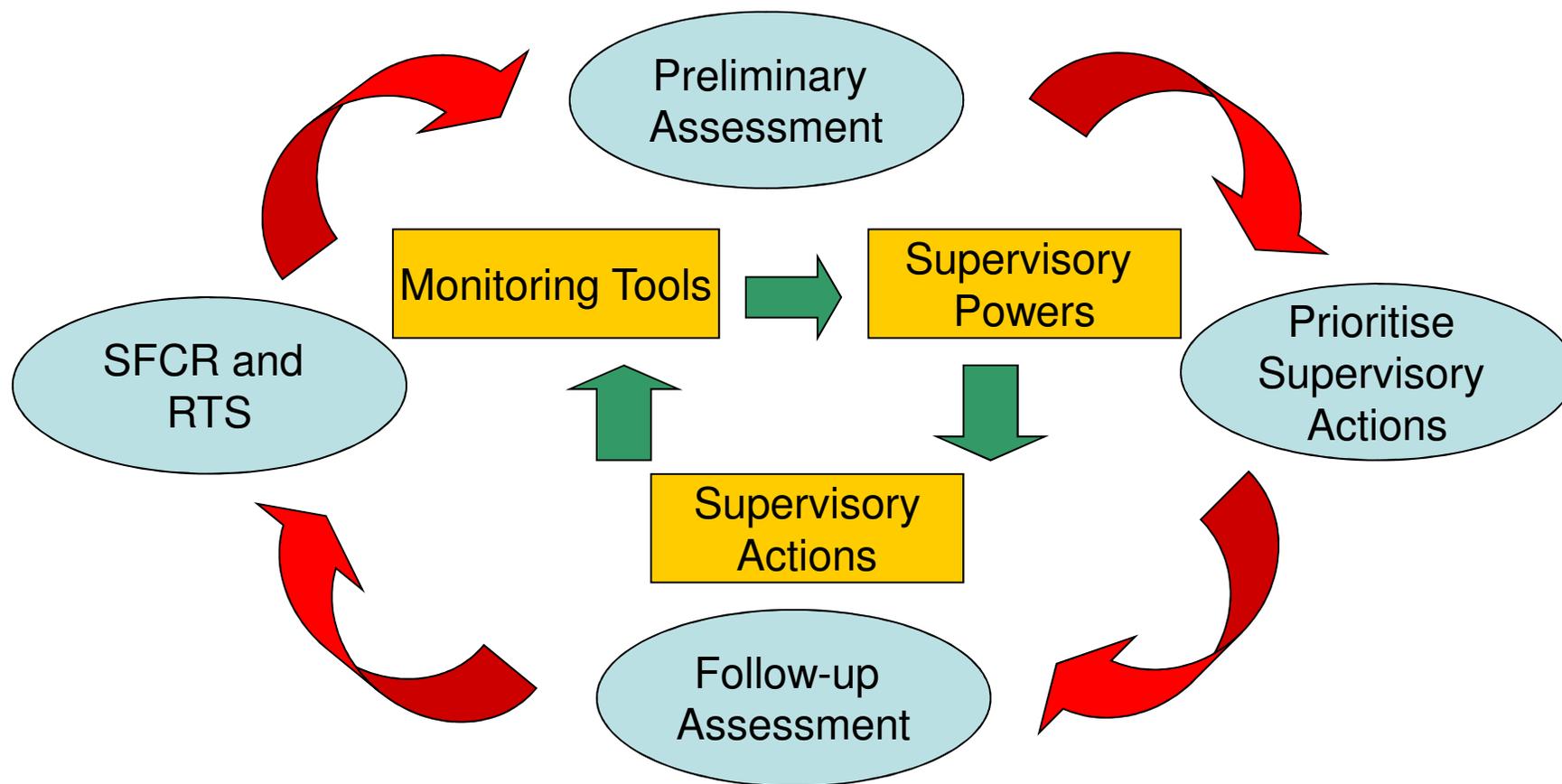
- Risk Based Approach
- Intended to achieve a more harmonised basis for solvency supervision
- Reporting requirements and ORSA form key parts of review
- Assessment of:
 - Qualitative requirements
 - Risks which the undertaking faces
 - Ability of the undertaking to assess those risks
- Will establish minimum frequency and scope of reviews and assessments
- May in exceptional circumstances set a capital add-on

Supervisory Review process



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Capital Add-on CP57

Exceptional

- Last resort measure when other measures ineffective
- Not required if addressed within an appropriate timeframe

Possible in following cases

- Risk profile deviates significantly from assumptions SCR
 - High sensitivity of assumptions, or risk is dynamic
- System of governance deviates significantly from standards
 - Not able to identify, measure, monitor, manage and report risks

Process

- Identify deviations
- Assessment of deviation – is it significant?
- Calculation of add-on
- Results from the steps documented
- Conclusions communicated and undertaking has the opportunity to respond

Public disclosure of add-on and justification

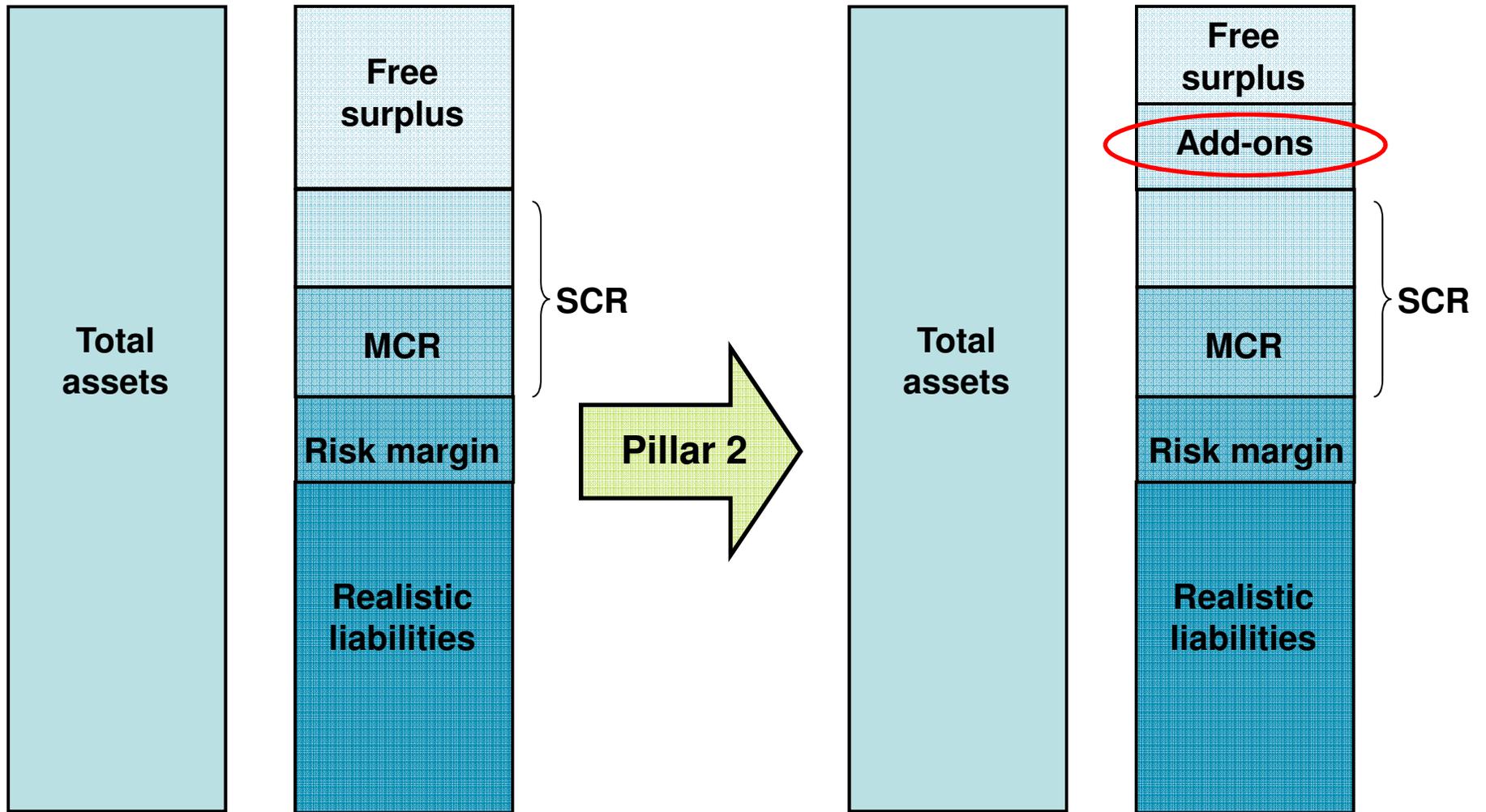
Reviewed once a year and removed when deficiencies remedied

Capital Add-on



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Supervisory Reporting and Public Disclosure Requirements CP58



- Pillar III
 - “Disclosure is primarily achieved through the SFCR”
- Annual public document – Solvency and Financial Condition Report (SFCR)
 - Publicly available - website
- Annual private Report to Supervisors (RTS)
 - Confidential and proprietary information
- Both contain a qualitative report and quantitative reporting templates
- Single group-wide SFCR required
 - Might also contain SFCR for each subsidiary in an annex

Supervisory Reporting and Public Disclosure Requirements CP58



- Level of detail depends on nature, scale and complexity of risks
- Frequency of full qualitative RTS linked to intensity of SRP
 - Might only submit details of material changes
 - Maximum five years between full reports
- Reports to be provided within either 3 or 4 months
- Disclosure policy
 - Appropriate procedures in place to ensure accuracy of information
 - Principles applied to comply with definition of materiality
 - IAS definition “omission or misstatement could influence the economic decisions of users”

Solvency and Financial Condition Report



- Stand alone document
- Structure
 - Executive Summary
 - Business and performance
 - System of governance
 - Risk Management
 - Regulatory Balance Sheet
 - Capital management
 - Internal Models
 - Annex – Quantitative Reporting Template
- Details of capital add-on and justification



- System of governance
 - Governance and risk management
 - ORSA – details of process undergone
- Risk Management
 - Risk categories
 - Material risk exposures and concentration
 - Risk mitigation and sensitivity
- Regulatory Balance Sheet
 - Explain any differences to accounts



- Capital Management
 - Structure, amount and quality of own funds
 - MCR and SCR
 - Broken down by risk module
 - Any non-compliance with SCR/MCR

- Internal Model
 - Knowledgeable person can get a reasonably good understanding of design, operational details and reliability of the model
 - Qualitative information
 - Use of model, data, assumptions, methodologies, validation
 - Quantitative information
 - Capital for each category before and after diversification
 - Reconciliation to standard formula and to prior period
 - Complementary information (may not be relevant at all times)
 - Partial models, major model changes pending, capital add-ons

Report to Supervisors

- Structure of RTS is same as SFCR
 - Stand alone document
 - Might contain a lot of the same information as SFCR
- Private document
 - Contain additional proprietary and confidential information
- ORSA
 - Outcome including future solvency needs
 - Comparison with capital requirements of SCR
 - Details of any risks identified not included in SCR and how quantified
- RTS is part of supervisory dialogue
 - E.g. might address comments from on-site inspection

Quantitative Templates



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- Quantitative Template
 - CEIOPS developing – Level 3 guidance
 - Harmonised at European level as far as practicable
 - Supplementary national templates restricted to exceptional cases
- Annual Quantitative Template
 - Reported within either 3 or 4 months
 - Preference is for specific templates to be externally audited, not all
- Quarterly Quantitative Template
 - Reported within either 3 or 4 weeks
 - Audit not proposed
- Sample spreadsheet Template is given in appendix to CP58
 - Useful view of likely information required
 - But warning that it is very early indication