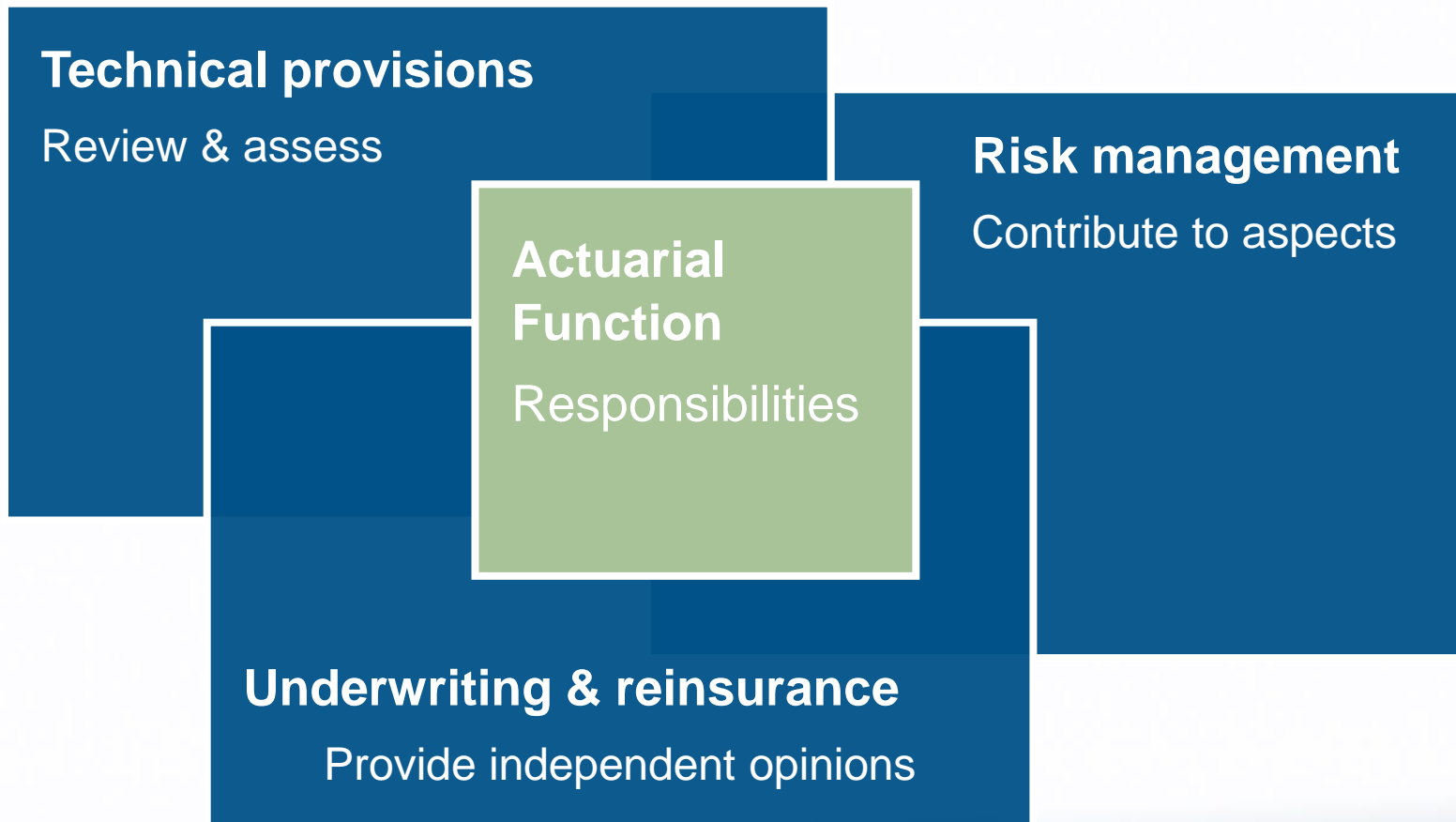


Actuarial Function and ORSA

Michael Culligan
Milliman Breakfast Briefing
11 February 2015

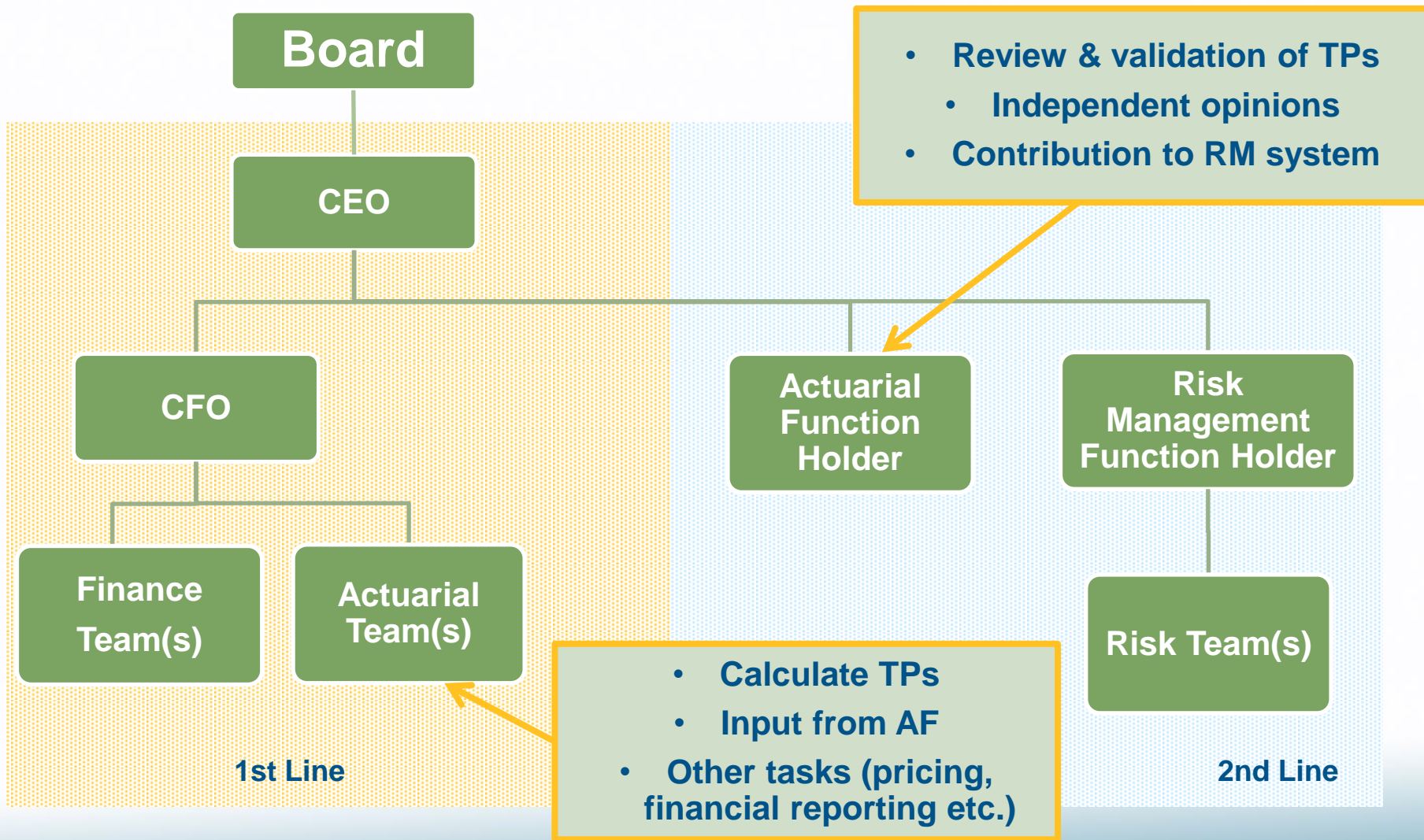
Responsibilities of the Actuarial Function



Nature of the role

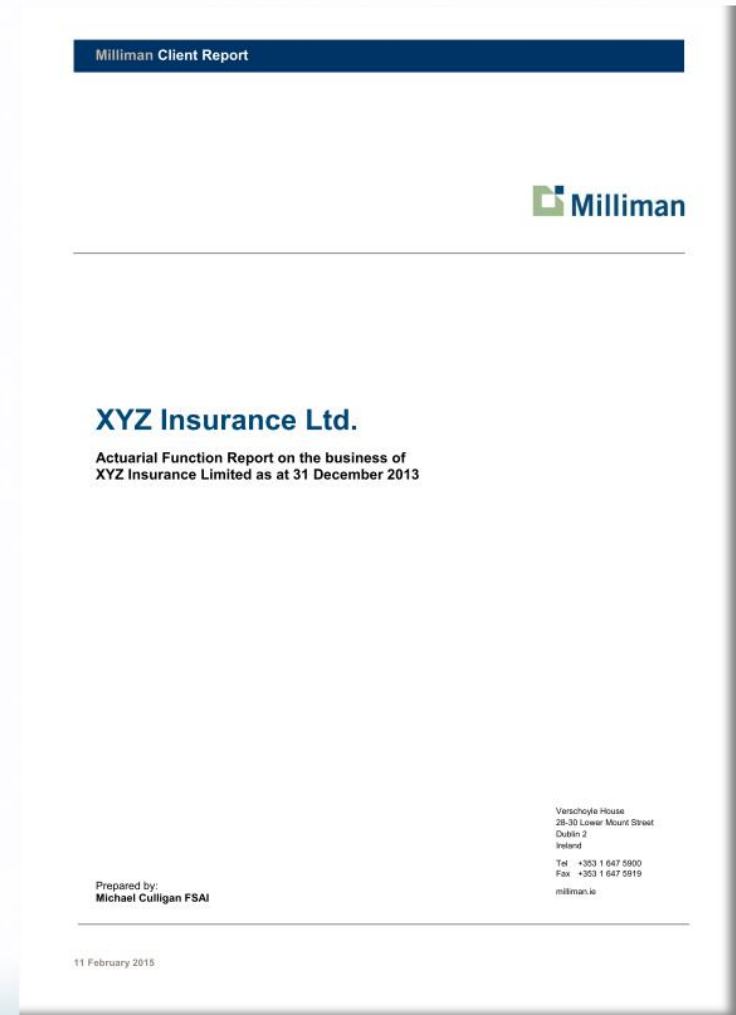


Organisation



Actuarial Function Report

- First AF reports delivered in late 2014
- Learning exercise
- Format & contents
- Challenges



Challenges

- Gaining confidence in Technical Provision models
 - Validation of TP models by Actuarial Function
 - Methodology & compliance with Solvency II rules
- Setting best-estimate assumptions
 - Data & expert judgment; documentation
 - Timing of work & interaction with other reporting regimes
- Calculating the Risk Margin
 - Requires input from Risk Management Function (SCR)
 - Suitability of approximations

Challenges

- Forming a view and making recommendations on data quality
 - Long list of requirements in EIOPA Level 3 Guidelines
 - Review, Assess, Identify Limitations, Document, Report ...
- Forming opinions on underwriting and reinsurance
- Additional work required in 2015
 - For High / Medium-High firms
 - Comparisons of actual versus expected performance

Governance

- Issues for the Board to consider
 - Independence of Actuarial Function
 - Ensuring second line of defence role
 - Gaining comfort with annual AF Report
- Remaining areas of uncertainty
 - Fitness & probity requirements (PCF)?
 - Actuarial certification to the regulator?
 - Peer review requirements?
 - Scope of external audit?

ORSA – lessons from 2014

- Quantitative issues
 - Producing opening balance sheet & SCR is one thing, but ...
 - ... projecting future balance sheets, SCRs, Risk Margins is another
 - Often multiple models with significant manual processes
- The need to start early
 - For effective Board involvement & challenge
- Whose “O” is it anyway?
 - Parent / Group view versus local view
 - Role of the local Board and local supervisor

ORSA – new for 2015*

- Comparison of risk profile against Standard Formula
 - Directive requires firms to identify material deviations from the standard formula SCR assumptions.
 - ORSA allows firms to demonstrate their assessment
 - PRA's views
 - Feedback from Central Bank on 2014 ORSA?

- Continuous compliance with solvency requirements
 - Process for solvency monitoring
 - Do you know your solvency position on daily/weekly/monthly basis?

*** For firms with High / Medium-High PRISM Impact Ratings**

ORSA – The challenge of embedding

- What is the ORSA for?
 - Still just a compliance exercise?
- Requirement to use ORSA findings in at least the following:
 - Capital management
 - Business planning
 - Product development and design
- How many firms are fully using the ORSA in this way?

ORSA – EIOPA’s vision

- Gabriel Bernardino (EIOPA):
 - “ORSA is a top-down process owned by the board”
 - “ORSA is connecting business strategy and capital planning”
 - “It is core board responsibility not to take on more risks than the capital base is allowing”
 - “Two main goals: The board should know that the company can ‘afford’ its strategic plan 3-5 years ahead including bumps on the way and the board should know how to execute its strategic plan ”