

Institute of Risk Management

Solvency II Special Interest Group – Workshop 1

20th November 2009 9.30am-12pm, IRM Conference Room

Item	Details discussed and agreed
1	<p>The meeting was opened by Carolyn Williams of the IRM who welcomed members and non-members to the IRM and encouraged all to join the IRM.</p> <p>Philip Whittingham took the chair. There were 40 people in attendance. The speakers were introduced.</p>
2	<p>Alex Hindson presented back the findings of the first SIG survey. 31 SIG members responded. The key messages are presented on the website</p> <p>Thanks to Ian Fraser at the IRM for managing the online survey process.</p>
3	<p>Alex Hindson reminded members that a second survey was running to close on 4th December and all members are encouraged to take part. This survey was on the topic of the second workshop – The role of the risk function, skill set of a CRO and Resourcing of the Solvency II programme.</p>
4.	<p>Tim Edwards, FSA gave very personal perspective on the Use Test and its implications. Key points included:</p> <ul style="list-style-type: none">- the slides are available on the website- Passing the ‘meringue test’ – there needs to be something below the surface – the model cannot be developed in a dark room without engagement of the business.- Companies should focus on CP33, CP56 and CP37 in terms of the use test. Create a list of what to showcase and what to worry about.- As an example, the ORSA would need to include non-insurance or non-regulated entities within its scope due to group risk issues, whereas this would not be the case for the Internal Model- The internal model should be constructed with the users in mind. A use requirement specification upfront would negate the need to worry about the Use Test later.
5.	<p>Rodney Bonnard of Ernst & Young presented the findings of an IMEG working group on the Use Test.</p> <ul style="list-style-type: none">- the slides are available on the website- The use test in designing the model comes to the fore when deciding on the balance between a highly comprehensive versus a highly useable model- Organisations should consider the benefits of narrowing the scope of the Internal Model and widening the scope of the ORSA

	<ul style="list-style-type: none"> - The ORSA in practical terms is subject to a use test, if the ORSA is not used this would be a serious mistake. - The Use Test might include 20-30 aspects, but it might not be wise to take this approach. Most organisations should anticipate having a core 4-5 issues within their Use Test, and then select from a range of other aspects that best suit their circumstances. - It is undoubtedly better to complete a small number of Use Test elements well than attempting many and falling short - Key examples would be Business Planning, Reinsurance optimisation, Solvency position evaluation, Asset strategy. - In practice organisations might end up with two model environments – a comprehensive model with rigorous analysis run periodically (say quarterly) and a ‘stripped down’ development / test environment model where the parameters matched the comprehensive model but in practice this was the environment for decision-support and ad-hoc questions.
6.	<p>A round table discussion followed with a wide ranging debate. Some key aspects included:</p> <ul style="list-style-type: none"> - Use Test is about understanding the business and how it operates. Clearly this is easier to demonstrate in smaller companies. Big multinationals have a significant organisational challenge. - What constitutes a material change that would require the model to be rerun and/or ORSA reassessed was discussed. Market events were identified from the perspective of cat losses, but also a market risk event implicating an impact on investments. - Many organisations would expect the Internal Model to be made up of a series of models. This would make it easier to operate and assess ad-hoc questions in practice. - Reinsurance optimisation was a widely perceived ‘use’ of the model - Underwriters asking for cat models to be rerun frequently to advise them on aggregations was a practical ‘use’ - Use of the Internal Model did not imply having to rerun the entire model each time. Portions of the model(s) might be sufficient - The concept of reverse stress tests could be extended to practical use to provide management with a view as to what a 1 in 5 or 1 in 10 year and underwriting year might look like for planning purposes - Reference was made to the Lloyd’s dry run guidance documents which were perceived to well constructed and useful.
7.	<p>Phil Whittingham thanked all the speakers for their input. The 2010 Risk Forum will be held at Keele University on 21-22nd April 2010 and the SIG has been asked to host a workshop on 21st April. The members were canvassed on support for this, which was strong, a potential topic was raised. Several members suggested the following topic which was put together from their suggestions.</p> <p>Topic; Can actuaries and risk professionals learn to love each other?</p> <ul style="list-style-type: none"> - What is the role of the risk function in overseeing the Internal Model?

	<ul style="list-style-type: none"> - Should actuaries be risk professionals? - Should risk professionals be actuaries? - Is there a new hybrid quant-literate risk professional developing? <p>Speakers to be confirmed we will aim to get a mixture of risk professionals and actuaries Suggestions for speakers most welcome from members.</p>
8.	Phil Whittingham reiterated that non-members of the SIG who had attended 2 meetings would be actively approached to join and we encouraged them to do so.
9.	<p>Phil Whittingham highlighted to emphasis the IRM was putting on Financial Services with the commitment to develop a Financial Services Risk specialist module for the IRM Diploma Course to launch autumn 2010.</p> <p>The IRM continues to aim to position itself with stakeholders such as the recruiting managers, recruitment consultants and regulators as the provider of only truly international broad-based enterprise risk management professional qualification. This is part of wider strategy to enhance the standing of the risk professional. SIG members' support was sought reinforcing this message at all opportunities.</p>
10.	<p>Next meeting – 9th December, 9.30am to 12noon at IRM Offices. A dial in facility will be provided. Book early to attend as spaces are limited to 45.</p>

Minutes taken by Alex Hindson
November 2009