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*Institute of Risk Management
Solvency II Special Interest Group:*

Bringing the ORSA alive

Bringing the ORSA alive

- Defining and managing the ORSA process
- Linking the ORSA process to business planning
- A forward looking perspective on capital and solvency

Defining and managing the ORSA process

Background

- The ORSA will be a key component of a company's **system of governance**.
- It will be one of the main elements **reviewed by regulators** under Solvency II.
- The ORSA will be an **integral part of business strategy**.
- The ORSA should be **forward-looking**, taking into account business plans and projections.
- Likely to require a **top down approach** whereby a company's management body will need to:
 - steer how the assessment is performed; and
 - challenge the results.

Defining and managing the ORSA process

Defining the ORSA

- Assessment of the **overall solvency** needs taking into account the **specific risk profile**, approved **risk tolerance limits** and the **business strategy**.
- Continuous compliance with the solvency capital requirement (SCR), minimum capital requirement (MCR) and technical provisions requirements.
- How the undertaking's 'own' risk profile deviates from the SCR.

Linking the ORSA process to business planning

Regulatory Capital v Own Economic Capital

■ Regulatory Capital

- The SCR / MCR
- Calculated via Standard Formula or Internal Model
- Calibrated to 1/200 probability of ruin over a one year horizon
- Covers the risks specified

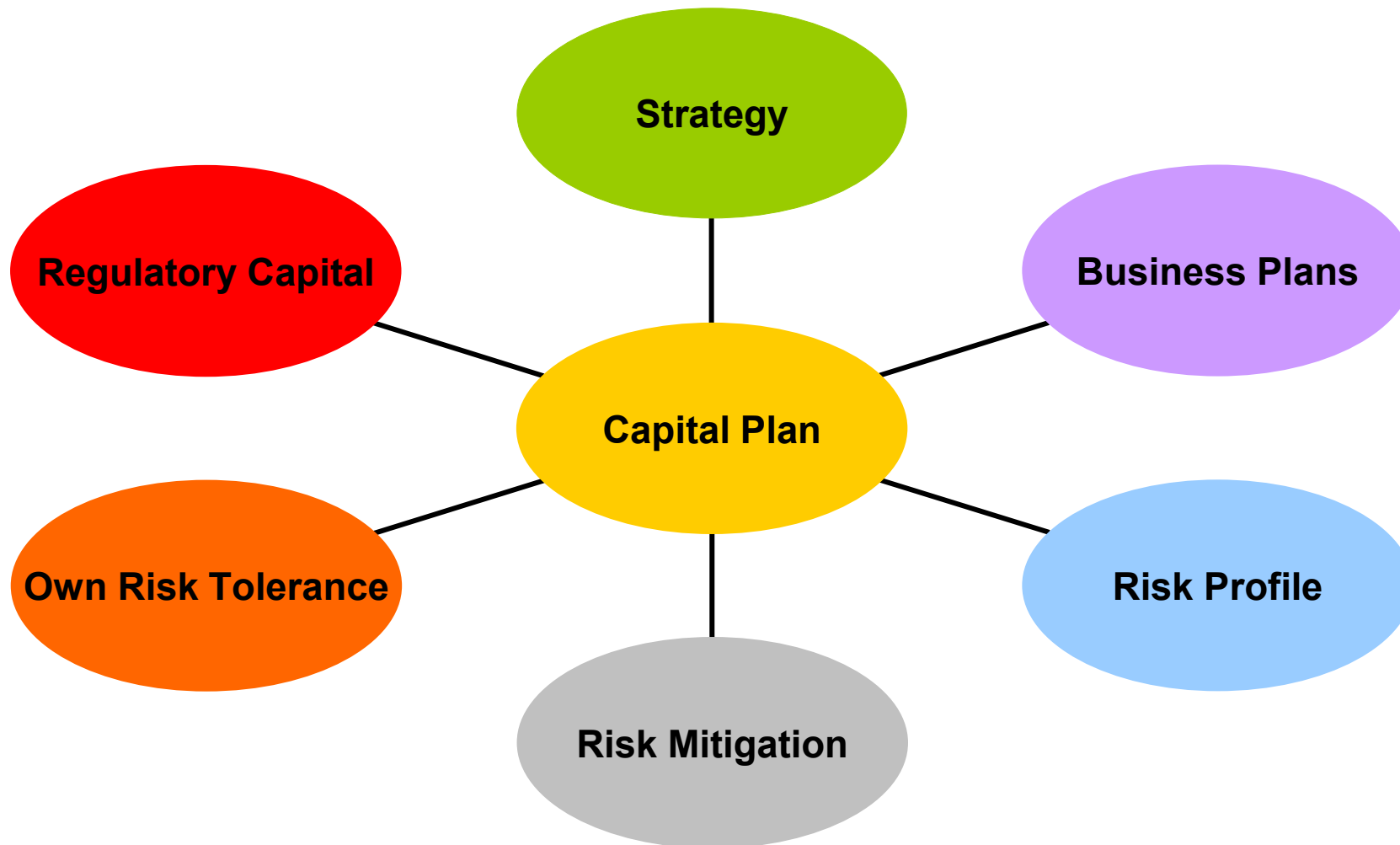
■ Own Economic Capital

- Insurer's own assessment
- Different probability of ruin?
- Different time horizon?
- Covers additional risks
- Allows for business plans, not a simple point in time calculation

An integrated capital plan considers both

Linking the ORSA process to business planning

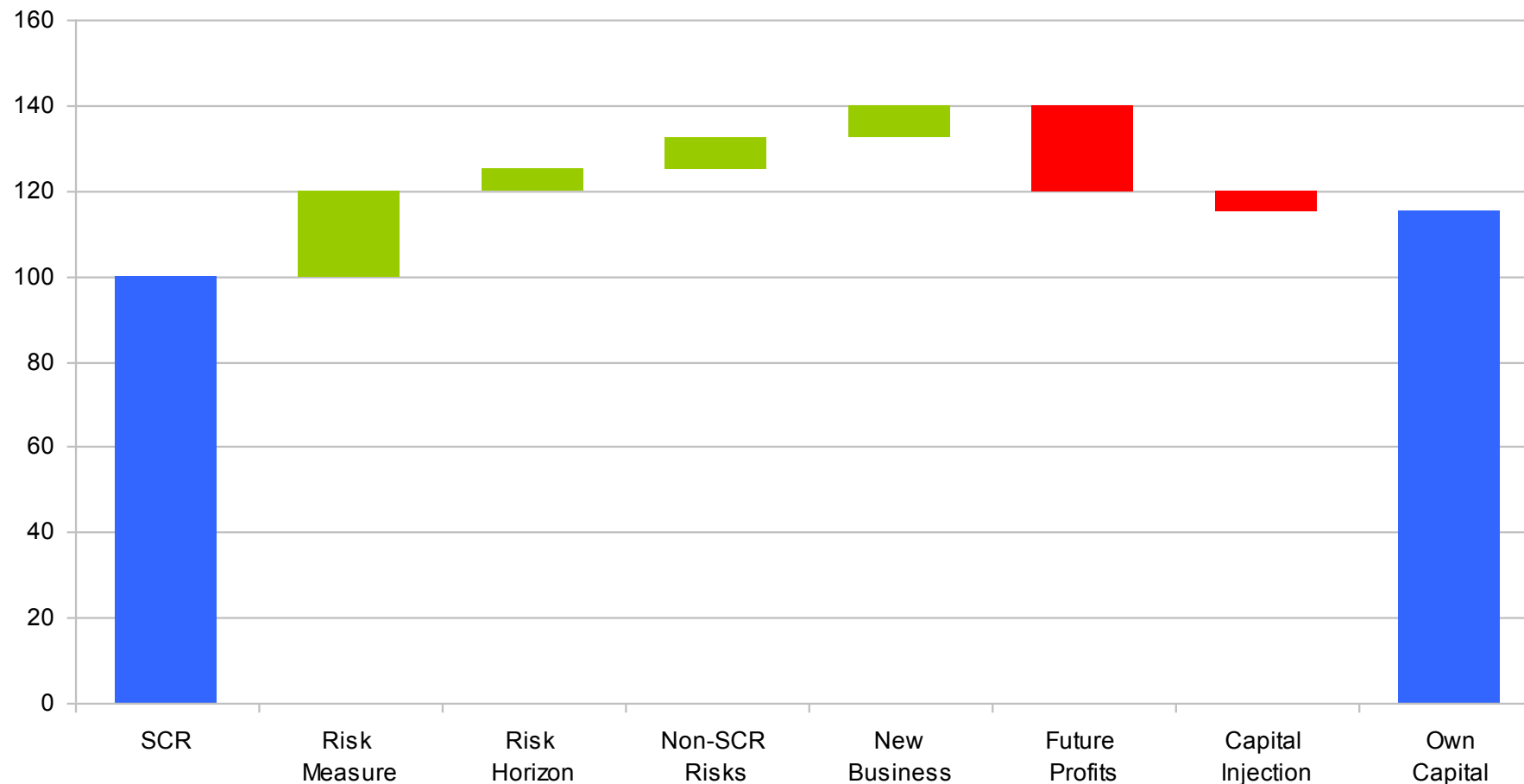
Capital plan: the heart of the ORSA



A forward looking perspective on capital and solvency

How the undertaking's 'own' risk profile deviates from the SCR

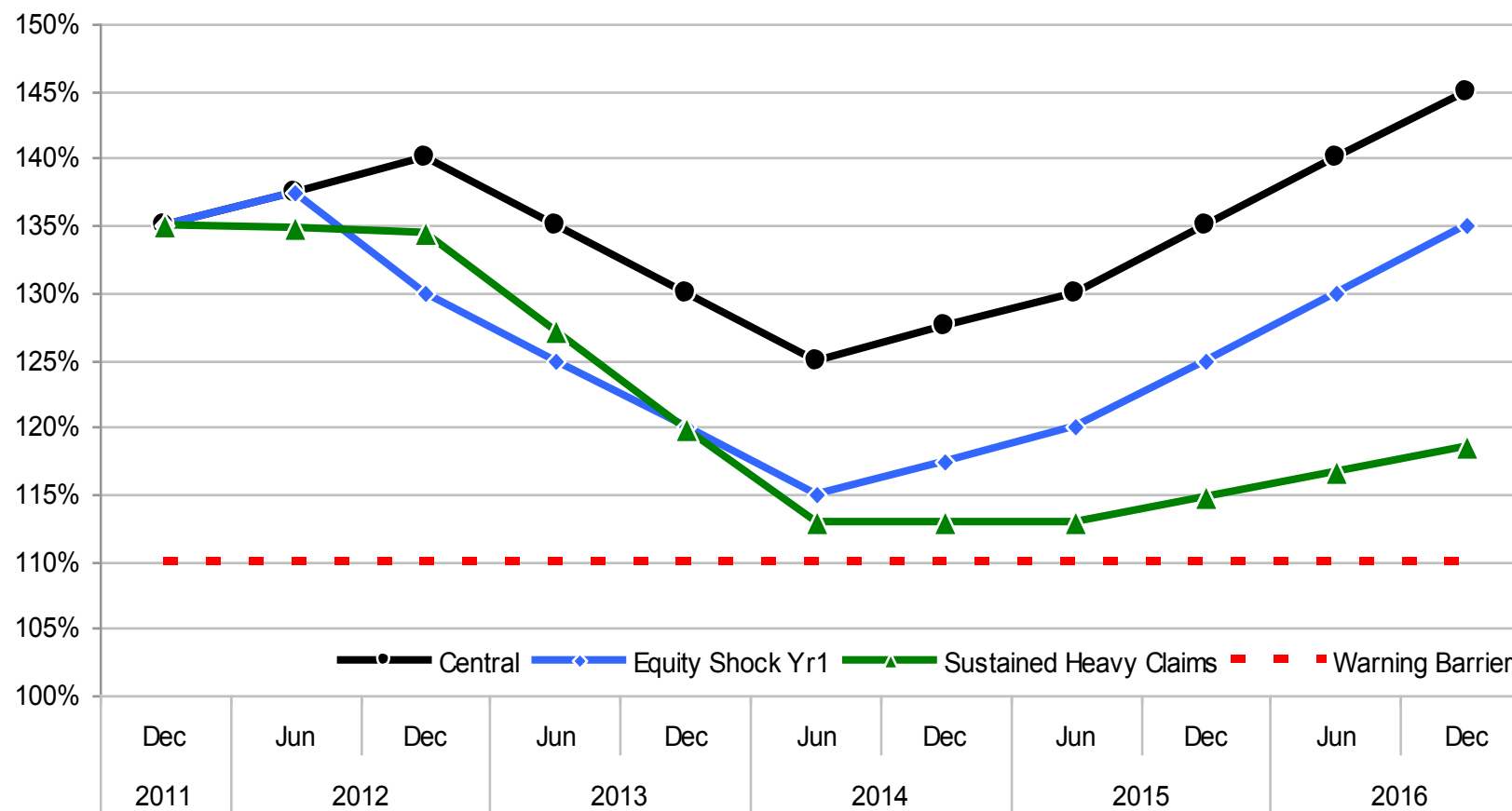
Reconciling 'own' capital requirements to regulatory capital requirements



A forward looking perspective on capital and solvency

Projected regulatory capital & solvency over planning horizon

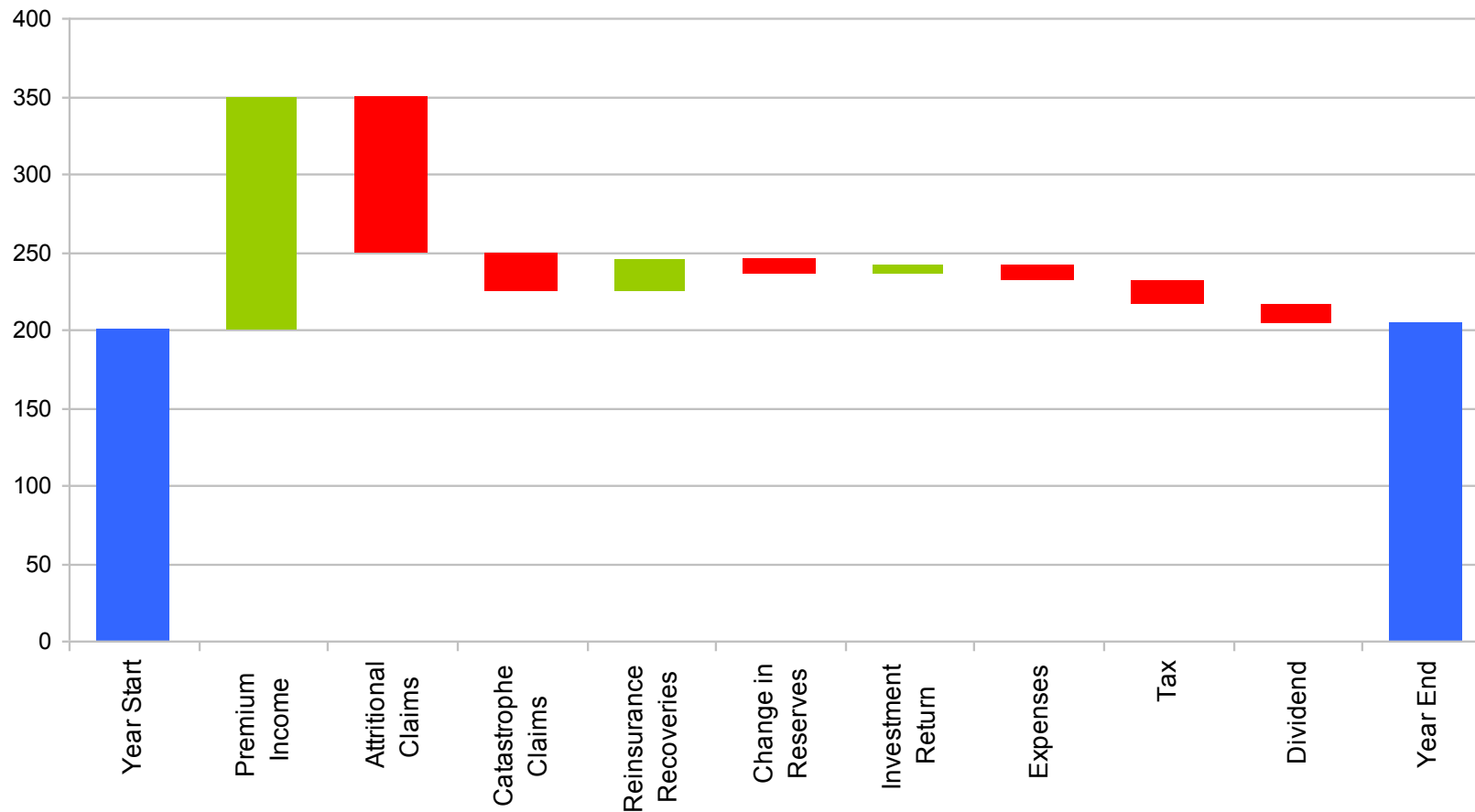
Projected Solvency Ratio (Own Funds / SCR)



A forward looking perspective on capital and solvency

Integrating business planning and capital planning

Analysis of change in own funds



Bringing the ORSA alive

Summary

- A forward looking capital plan is a key part of the ORSA
- Provides an integrated approach to risk management
 - Capital strategy and business planning aligned
 - Focuses on both **own economic capital** and **regulatory capital**
 - Identifies and quantifies future risks to capital
- Provides a benchmark to measure against
- Improves communication of risk within the company
- Not just an actuarial or finance exercise but an integrated risk and solvency assessment

Contact

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