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Preparing for an Own Risk & Solvency Assessment

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1. ORSA challenges

Life insurers will face a number of key challenges in meeting the US ORSA requirements

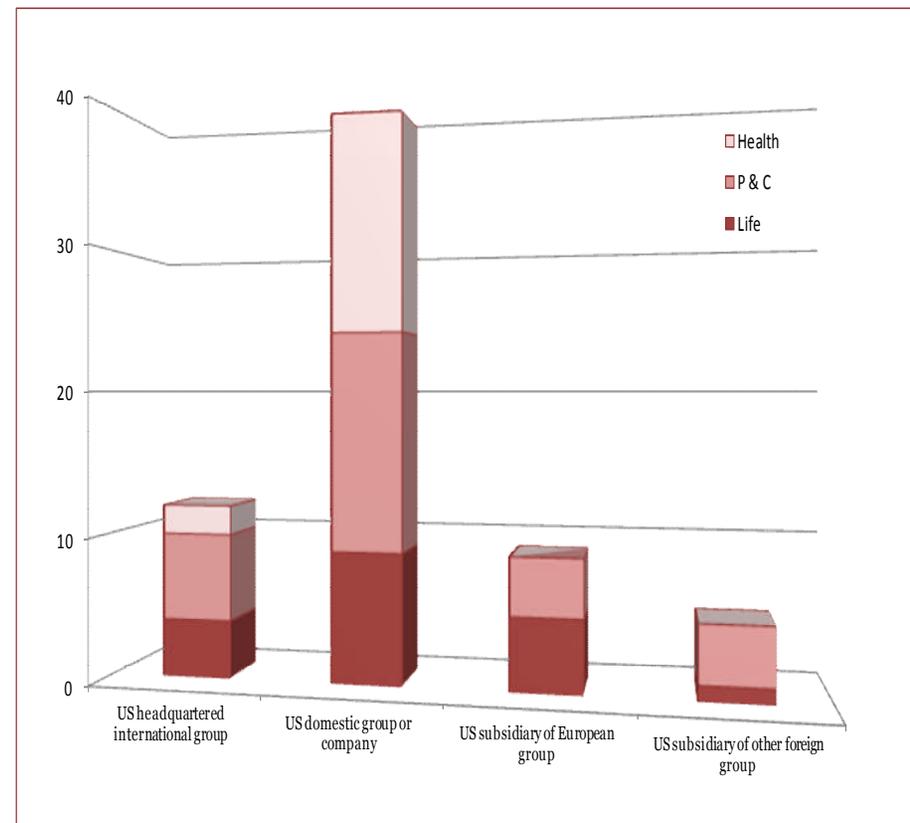
Risk culture and governance	<ul style="list-style-type: none"> • Achieving high engagement by the Board and buy in from Senior Management • Shifting from informal to formal risk culture and demonstrating “use” • Establishing clear roles and responsibilities – on-going accountability
Risk appetite	<ul style="list-style-type: none"> • Defining Risk Appetite and linking to business strategy • Cascading approved Risk Appetite down to tolerances and limits
Reporting and communication	<ul style="list-style-type: none"> • Lack of comprehensive risk information which is readily produced and accurate • Inconsistency of risk reports across enterprise making aggregation and escalation difficult • Achieving high comfort with the quality and timeliness of management information to support confident, timely decision making– addressing model risk and process
Assessment of risk exposures under normal and stressed environments	<ul style="list-style-type: none"> • Choice of risk measurement framework • Measurement required across each major risk category • Approach to stress testing • People, process and technology constraints
Group capital and prospective solvency	<ul style="list-style-type: none"> • Choice of enterprise-wide risk measurement framework • Projection of risk measures over business planning period • Reflecting management’s actions

2. ORSA readiness and preparations

PwC's 2012 US insurance ERM & ORSA survey

A continuation of PwC's two previous global ERM surveys, but in this case, targeted exclusively at the US insurance market.

- 65 companies, approximately 1/3rd of the market
- Mix of life, P&C and health, direct and reinsurance
- US headquartered groups, US companies and US subsidiaries of foreign groups
- 45 companies need to comply with other regimes including Solvency II, Canadian, Bermudan and Federal Reserve supervision
- Face to face interviews with CRO's



Key remarks on ORSA readiness

35% of companies indicated they do not have a fully implemented risk appetite with tolerances linked to business strategy.

38% of company boards are reported to either not be engaged or only passively engaged in risk management.

And, yet, 82% of respondents believe existing ERM processes are largely or already adequate for the ORSA.

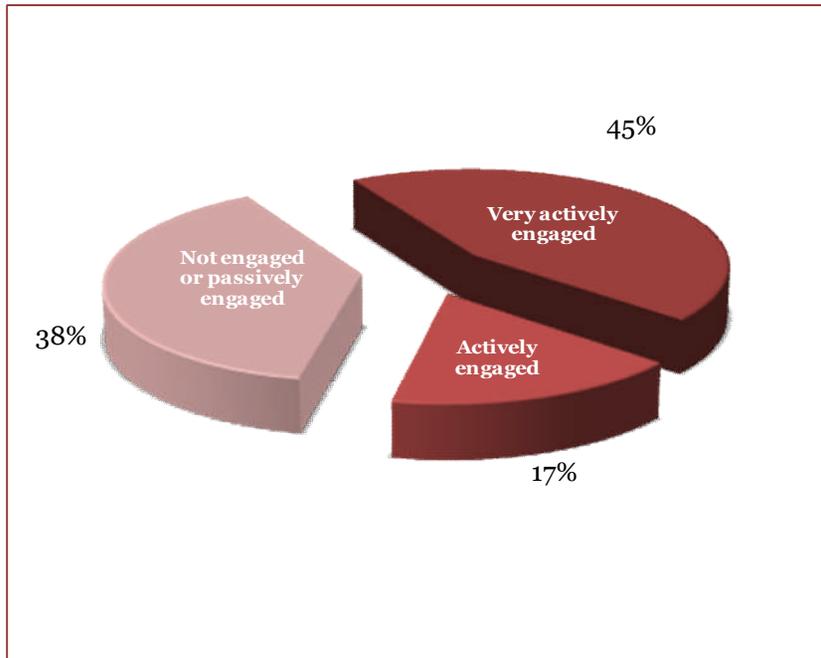
Key finding: A potentially significant gap appears to exist between the perception of preparedness to implement the ORSA and the actual completeness of the underlying risk management framework.

Risk culture & governance

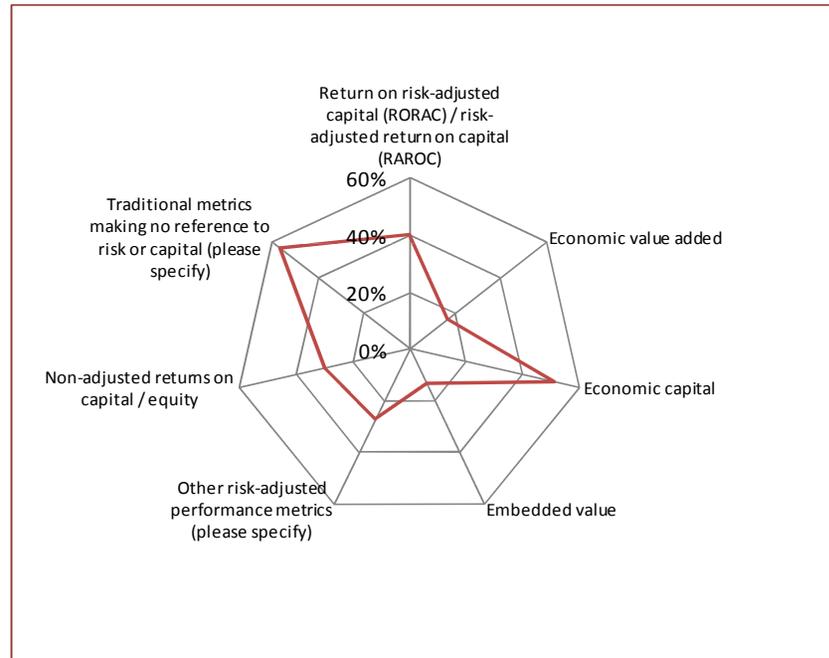
Risk culture and governance

- Achieving high engagement by the Board and buy in from Senior Management
- Shifting from informal to formal risk culture and demonstrating “use”
- Establishing clear roles and responsibilities – on-going accountability

How actively engaged is the board in risk management?



Use of risk adjusted performance metrics?

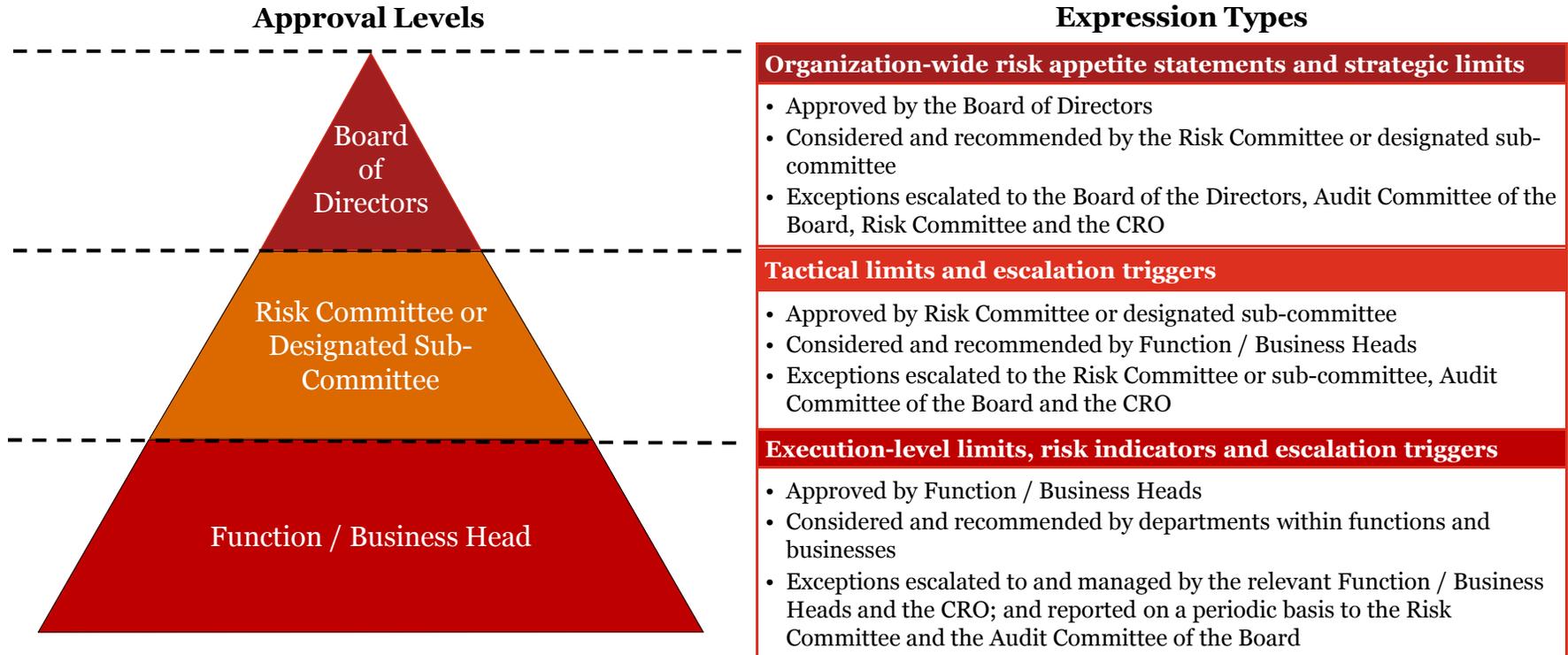


A governance structure based on a “three lines of defense” model is emerging as best practice in the industry. Senior management should be accountable and responsibility for “top tier” risks and clear risk management policies and procedures should exist for managing all material risks.

Risk culture & governance

Risk culture and governance

- Achieving high engagement by the Board and buy in from Senior Management
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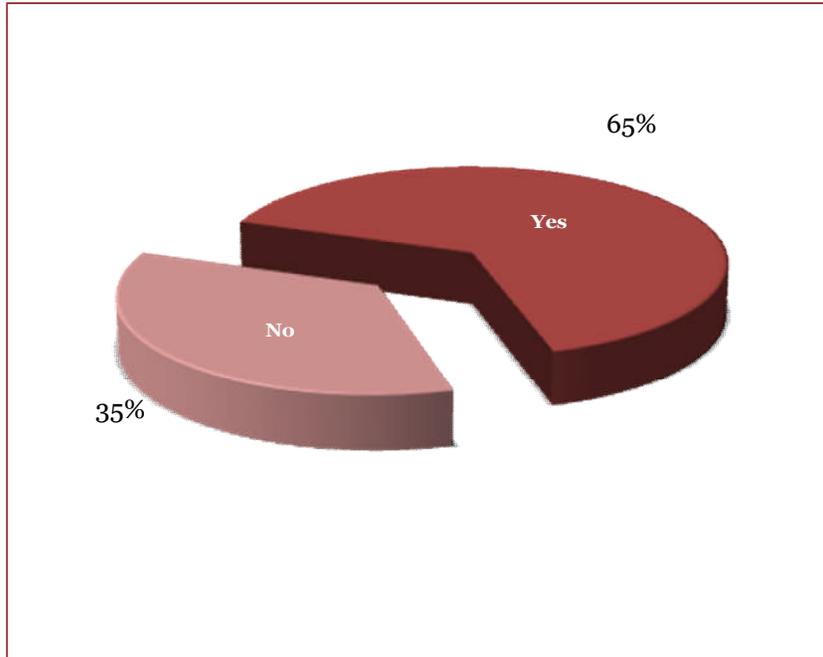


Risk appetite

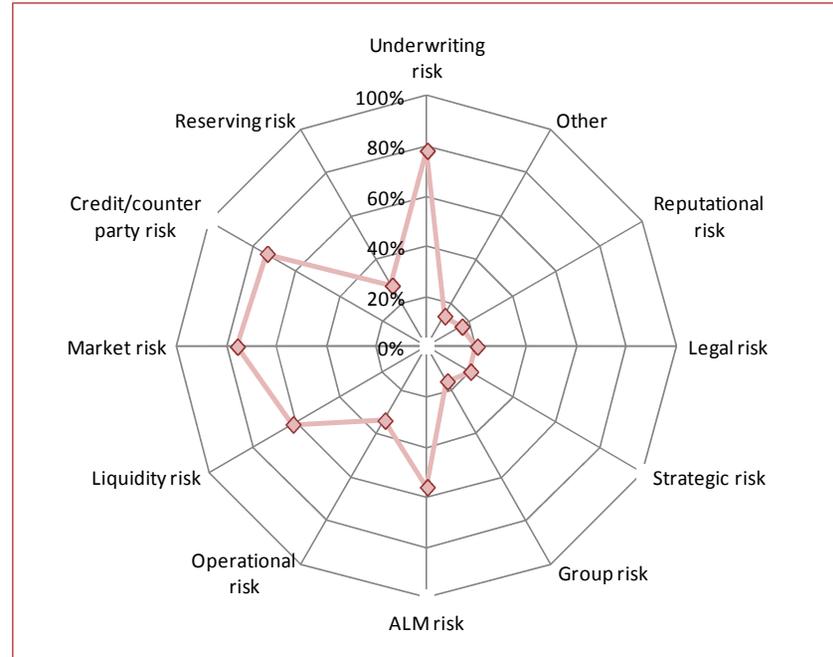
Risk appetite

- Defining Risk Appetite and linking to business strategy
- Cascading approved Risk Appetite down to tolerances and limits

Do you have a clearly articulated risk appetite statement?



Where is the risk limit framework most advanced?

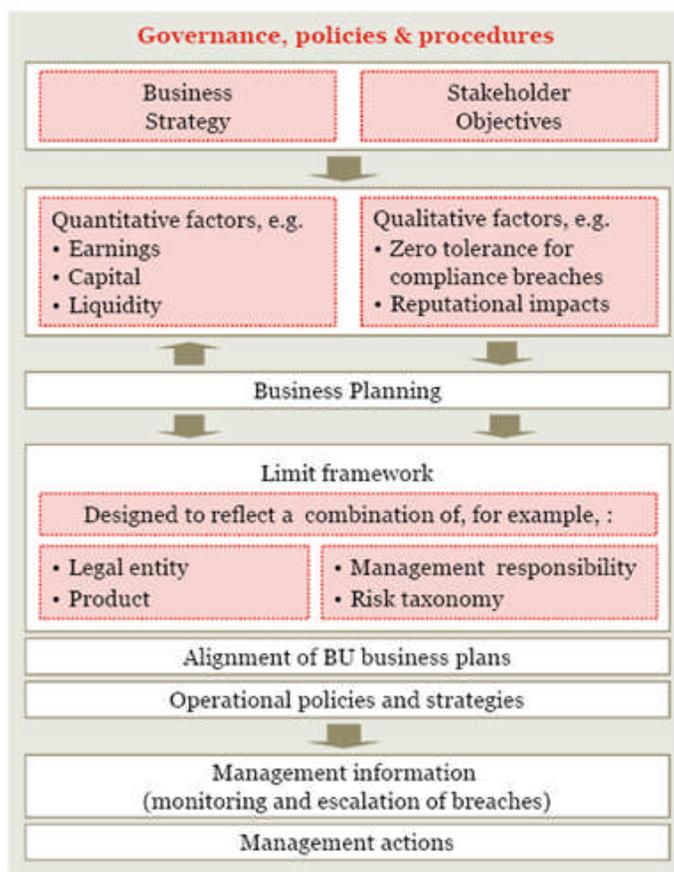


Risk appetite should be clearly articulated and reflect the organization's risk carrying capacity, business strategy and financial goals. Processes and procedures should be in place to manage risk on an enterprise wide basis within defined boundaries without stifling day to day operations.

Risk appetite

Risk appetite

- Defining Risk Appetite and linking to business strategy
- Cascading approved Risk Appetite down to tolerances and limits



- Articulation of key stakeholders expectations
 - What kinds of risks are we expected to bear
 - How much of that risk can we take

- Define risk appetite statement at a group level along dimensions defined by stakeholder expectations and business strategy
 - Risk : return expectation
 - Capital strength

- Embed risk appetite into group and divisional planning
- Implement appropriate limit framework to cascade risk appetite in to the business
- Update management process and policies to embed 'zero tolerance' thresholds

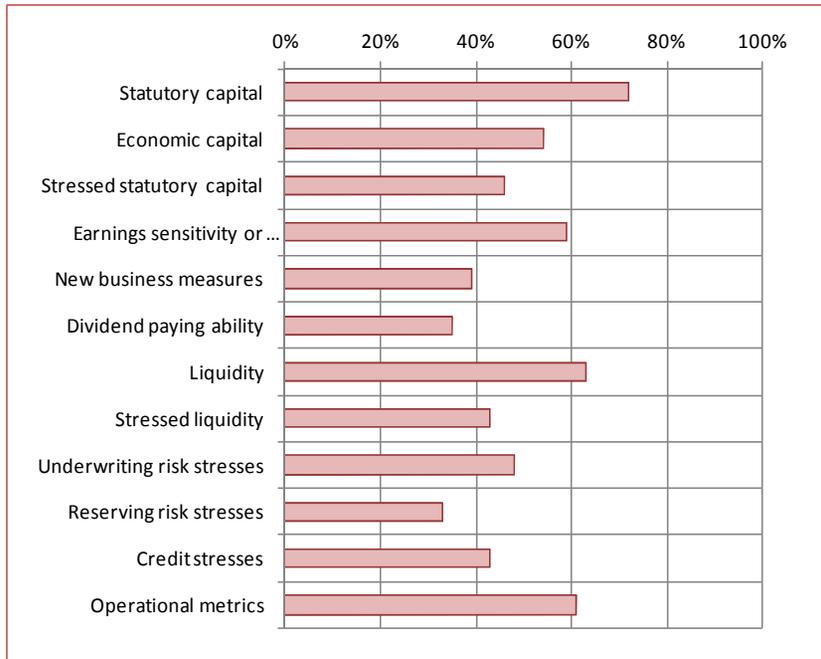
- Regularly monitor risks against thresholds and limits
- Ensure "management actions" are taken, ideally prior to breaches occurring

Risk reporting

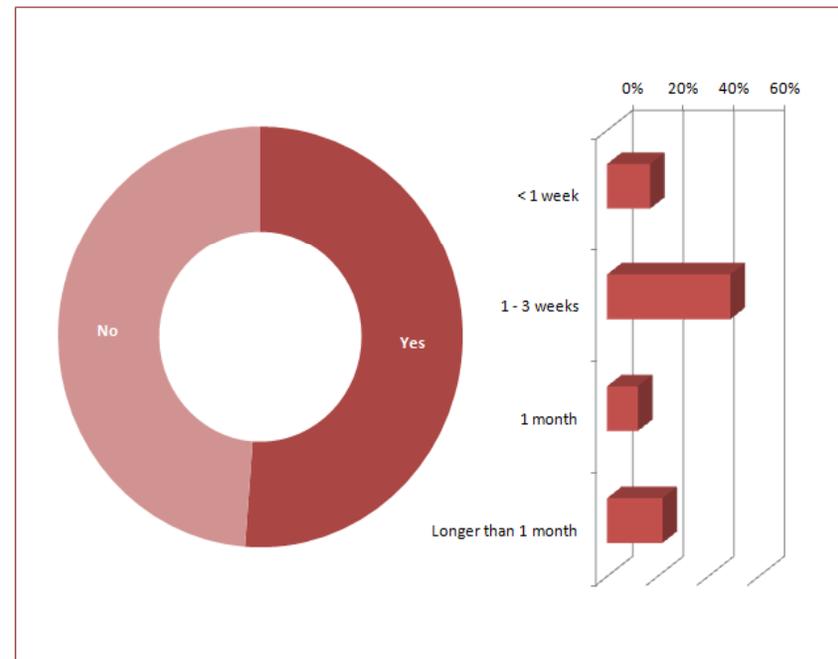
Reporting and communication

- Lack of comprehensive risk information which is readily produced and accurate
- Inconsistency of risk reports across enterprise making aggregation and escalation difficult
- Achieving high comfort with the quality and timeliness of management information to support confident, timely decision making– addressing model risk and process

Which metrics are included in your risk dashboard?



Data issues and time to produce?



Risk management information to monitor exposures and performance against appetite should be appropriately tailored to roles, responsibilities and authority levels.

Risk reporting

Reporting and communication

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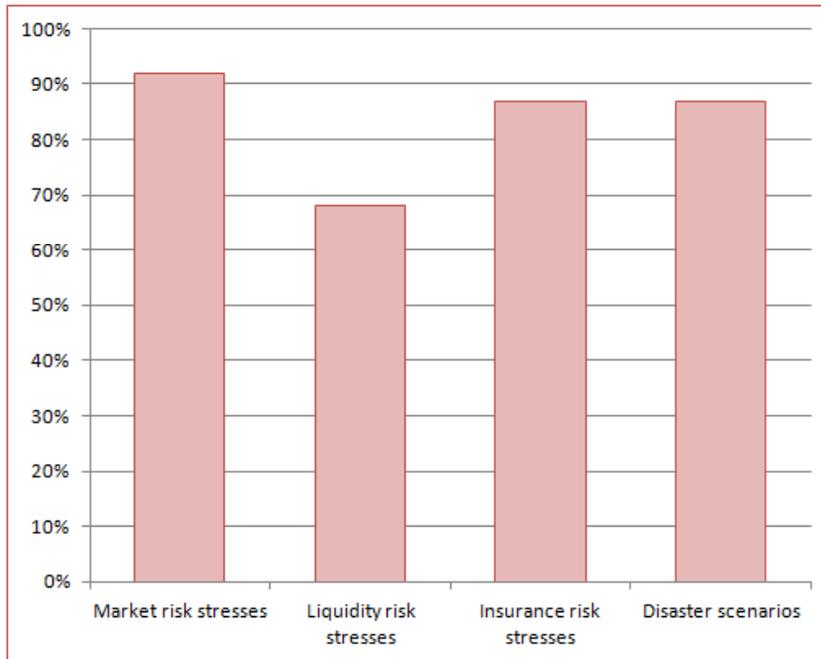
Principle	Description
Strategic	Strong link between KPIs and strategic objectives.
Informing	‘Too much data’ should be avoided
Dynamic	Indicators guide the reader using exceptions rather than detail.
Decision Enabling	Analysis is designed to make decisions more rapid and informed.
Clear and Graphic	Giving the right messages – fast. Use of insightful presentation.
Action based	Easy to determine the key management actions arising from KPI results.
Integrated	Pooling key aspects around financial, risk and operational. More holistic.
Predictive	Leading indicators which would enable forward-looking management.
Risk-aware	Bringing together risk, performance and non-financial measures
Robust & Timely	Governance around MI should be well-controlled and delivered on-time.
Balanced	Needs to create a balance across multiple dimensions in the firm.

Risk exposures

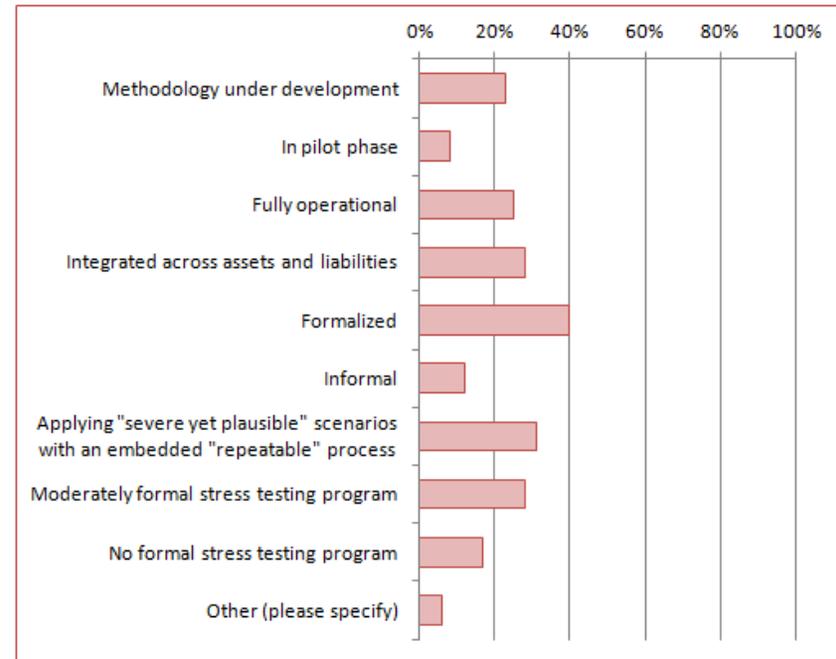
Assessment of risk exposures under normal and stressed environments

- Choice of risk measurement framework
- Measurement required across each major risk category
- Approach to stress testing
- People, process and technology constraints

Which stress tests are performed regularly?



What is the level of maturity of stress testing?

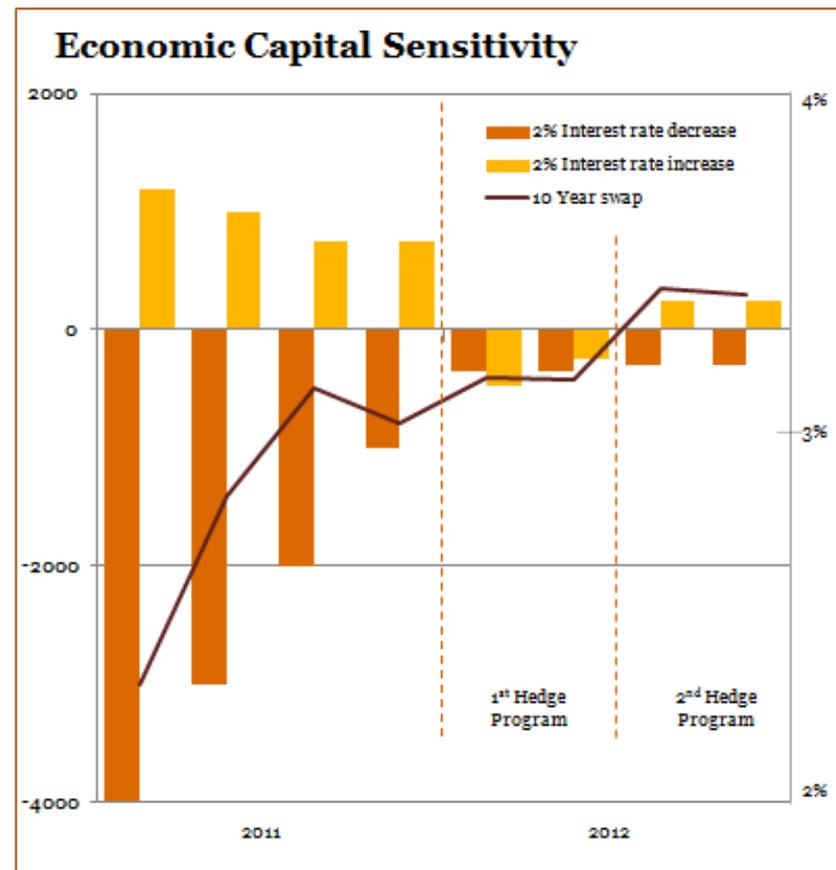


A robust stress and scenario testing process is an essential part of a risk management framework. The ORSA process is an ideal opportunity to perform a comprehensive stress and scenario exercise. When properly orchestrated, the ORSA will be performed in conjunction with the organizations business planning process.

Risk exposures

Assessment of risk exposures under normal and stressed environments

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- Measurement required across each major risk category
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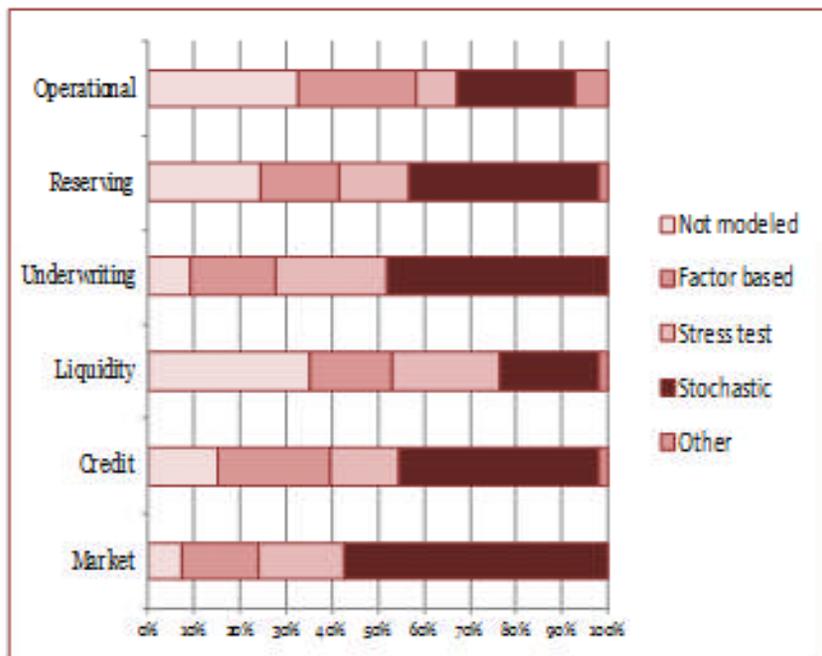
- Capture all enterprise risks
- Integrates risks impacting assets and liabilities in one consistent framework
- Considers scenarios as well as simple stresses
- Considers scenarios that cause insolvency – reverse stress tests
- Covers risk specific exposures as well as current and future capital impacts
- Both gross and net of mitigating actions
- Formalized and linked to business planning
- Allows for the potential for unknown events

Capital and prospective solvency

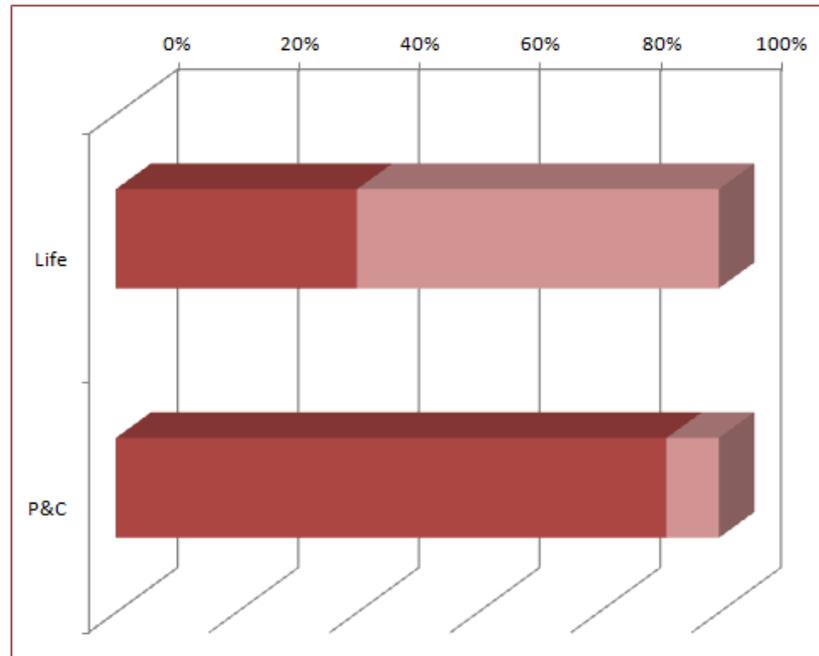
Group capital and prospective solvency

- Choice of enterprise-wide risk measurement framework
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- Reflecting management's actions

How do you model capital?



Ability to project a risk sensitive capital metric?

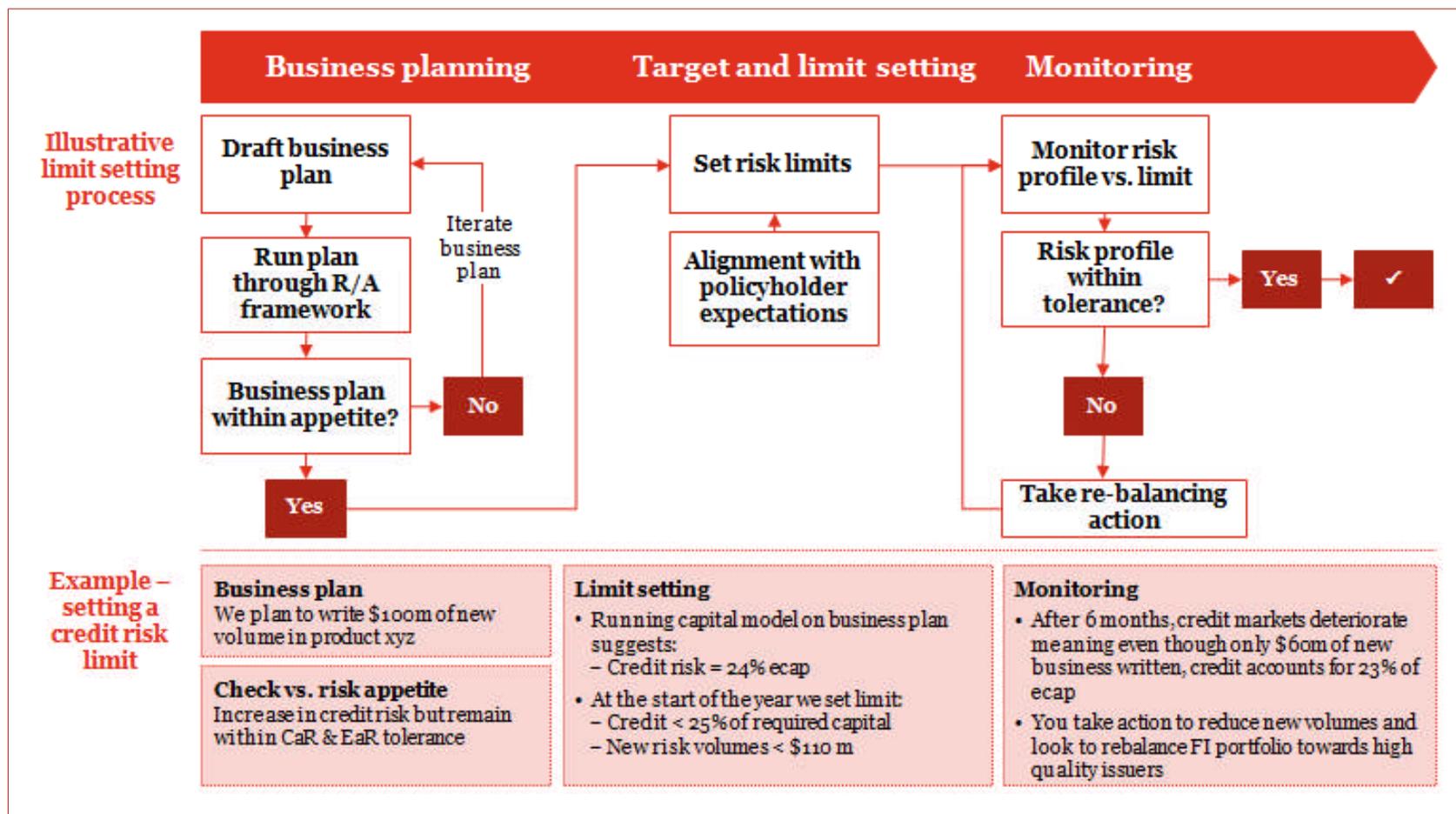


Internal risk and capital models are at the heart of an ERM framework. Models need to meet the highest quality standards, be appropriately calibrated (“real time”) and fully tested and documented. Models need to be subject to independent scrutiny and validation.

Capital and prospective solvency

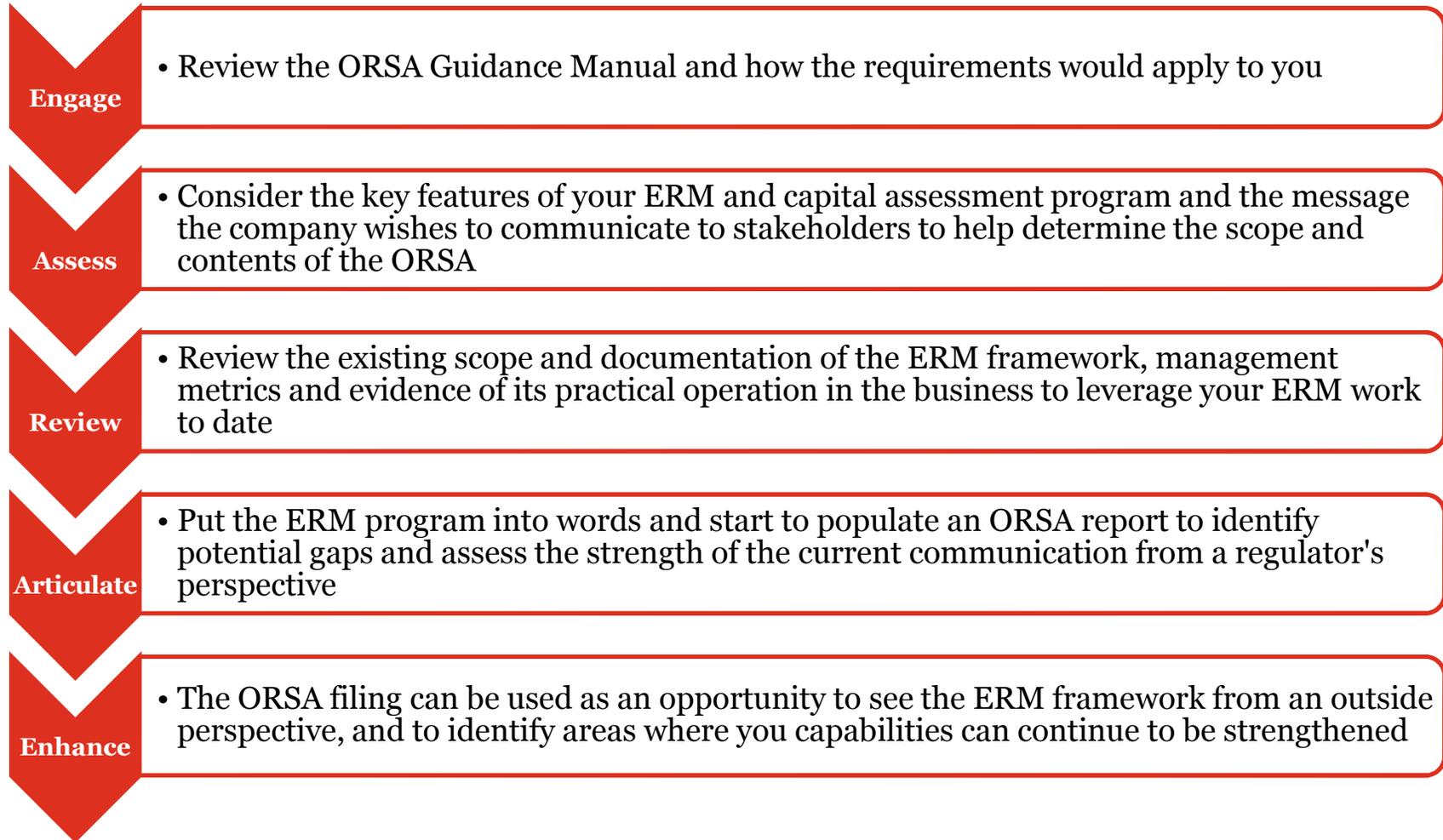
Group capital and prospective solvency

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Implementation considerations

A five stage approach to deliver the ORSA:



Questions

Thank you...

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