AAE Insurance Committee Copenhagen

Esko Kivisaari

September 21-22, 2017

European agenda – some remarks

Esko Kivisaari

CAPITAL MARKETS UNION

Mid-Term Review June 2017

- European **start-up and scale-up firms** need more risk finance to invest in innovation and growth. There is a need to develop and strengthen new forms of emerging risk capital alongside bank credit.
- The size of EU **public equity and debt markets** lags behind other developed economies, especially in some Member States. Accessing public markets is costly and complex, especially for small and mid-cap companies.
- The necessary efforts made by EU banks in the aftermath of the financial crisis to reduce excessive exposures to risk and leverage have contributed to a **contraction in new loans to EU businesses**. Capital markets can offer powerful solutions to help banks manage their balance sheets more efficiently, and fund their lending to businesses and households.

…continued

- There is not enough investment by insurance companies and pension funds in **risk capital, equity and infrastructure**. More private capital must be mobilised to fund sustainable investment, the transition to a low-carbon economy and investment to meet important social needs.
- Engagement by **retail investors** with capital markets remains low. EU households are amongst the highest savers in the world, but the bulk of these savings are held in bank accounts with short maturities. More investment into capital market can help meet the challenges posed by population ageing and low interest rates. This, however, will not happen unless retail investors have access to attractive investment propositions on competitive and transparent terms.
- Many long-standing and deep-rooted obstacles stand in the way of EU **cross-border investment**, undermining the efficiency of the EU economy. Barriers deter investors from diversifying their portfolios geographically, reduce market liquidity, and make it harder for companies to scale up.

CMU achievements

- Over the past 18 months, in accordance with the original timetable, the Commission has **delivered more than half the measures** (20 out of 33) announced in the CMU Action Plan.
- A particular effort has been made to increase the sources of risk finance as firms gradually scale up, and make these more widely available across the EU.

Now three legislative proposals

- **1. A legislative proposal on a Pan-European Personal Pension Product (PEPP) by end June 2017.** This will lay the foundations for a safer, more cost-efficient and transparent market in affordable and voluntary personal pension savings that can be managed on a pan-European scale. It will help meet the needs of people wishing to enhance the adequacy of their retirement savings, address the demographical challenge, complement the existing pension products and schemes, and support the cost-efficiency of personal pensions by offering good opportunities for long-term investment of personal pensions;

…Continued…

- **2. A legislative proposal specifying conflict of laws rules for third party effects of transactions in securities and claims in Q4 2017.** Differences in the national treatment of third-party effects of assignment of debt claims complicate the use of these instruments as cross-border collateral and make it difficult for investors to price the risk of debt investments. By removing the uncertainty about the applicable law which gives rise to costs and risk, this proposal will promote cross-border transactions. It will draw on the work of a specially mandated expert group and the results of the on-going public consultation7. The proposal will provide clarity on which law applies to the third party effects in cases of transactions in securities and in claims;

…Continued

- **3. A legislative proposal for an EU-framework for covered bonds in Q1 2018**. This will aim to create a more integrated covered bond market in the EU, without undermining the quality of existing covered bonds**.** Covered bond markets are an important channel for the long-term financing of the real economy; In parallel, the Commission will explore the possibility of developing European Secured Notes as an instrument for SME loans and infrastructure loans.

Additionally

- **Amendments** to the **Delegated Regulation supplementing Solvency II** in **2018** to review the prudential treatment of private equity and privately placed debt, where prudentially justified, from a risk-based supervisory perspective;
- **Recommendation on private placements** (*building on the experience of well-functioning national regimes*).8 Markets for private placement of debt can broaden the availability of finance for unlisted medium-sized companies. The recommendation will be informed by the results of a study, to be published in **Q4 2017**;

…Additionally…

- **Communication on a roadmap for removing barriers to post-trade market infrastructure** (*building on the recommendations of the EPTF – the European Post Trade Forum*) – in **Q4 2017**. Post-trade market infrastructure plays a vital role in securities markets, ensuring the orderly transfer of ownership, payment and exercise of rights flowing from securities.9 On average, cross-border trades are still substantially more expensive than domestic trades. An efficient post-trading environment can reduce such costs. On the basis of the EPTF report, the Commission services will soon launch a public consultation to collect stakeholders' views on where they see the need for further improvements in the post-trade area, to achieve better integration;

… Additionally

- **Communication on corporate bond markets** (*building on the recommendations of the Expert Group on Corporate Bond Market Liquidity*) – in **Q4 2017**. Corporate bond markets are an important funding channel for larger companies. The Commission is reviewing how these markets function, with a focus on how secondary market liquidity can be improved;
- **Code of Conduct** to simplify **withholding tax procedures, with a focus on refunds** – by **end 2017**. The Commission is working with national tax experts to share best practice and agree on a code. This will be a practical step towards more efficient operational solutions for recovering withholding taxes.

Commission adopts the ESAs package (20 September 2017)

STRONGER SUPERVISION OF FINANCIAL MARKETS

In a Nutshell

WHY ARE CHANGES NEEDED?

- More seamless supervision promotes more integrated financial markets in the Capital Markets Union
- ESAs' mandates need to deliver uniform application of EU rules across the EU
- Decision-making in ESAs and ESRB needs to ensure best outcomes for EU as a whole
- The EU should develop and integrate capital markets further in the context of the UK's exit
- Cross-border risks between EU and rest of the world have to be addressed effectively
- ESAs need adequate funding for their increasing tasks

WHAT ARE THE MAIN CHANGES PROPOSED?

Better coordination of supervision across the EU

More efficient decision-making with clear EU focus

Enhancing the means for effective supervision

First steps towards a single capital markets supervisor

ESAs to be funded not only by taxpayers but also by industry

ESAs to promote work on FinTech and sustainable finance

A more effective European Systemic Risk Board

MEANWHILE IN BANKING

Background

- On 23 November 2016 the European Commission presented the «Risk reduction package»
- The package covers proposals for amendments in:
  - CRD IV
  - CRR
  - BRRD
  - SRMR
- EBF, ECBC and ESBG have carried out extensive work in order to assess the proposals and suggest changes

Core elements – CRD V / CRR II

- **Leverage ratio:** minimum requirement 3%
- **NSFR:** minimum requirement 100% / some changes to the calculations
- **New Basel standard for counterparty credit risk (SA-CCR), incl. simplifications based upon proportionality**
- **New Basel standard for counterparty credit risk (FRTB), incl. simplifications based upon proportionality**
- **New Basel standards for equity investments in funds and exposures on central counterparties**
- **TLAC for European G-SIBs**
- **SME supporting factor:** continuation and extension
- **Infrastructure investments:** 25% reduction in the capital requirement
- **Interest rate risk in the banking book (IRRBB)**
- **Principles for Pillar 2 and MDA**
- **Pillar 3:** simplifications based upon proportionality
- **IFRS9:** transitional rules
- **Large exposures:** limits based upon T1 capital only
- **Remunerations:** simplifications based upon proportionality

An extensive package – nearly 500 pages of new regulation to the banking sector

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CRR II
(Capital Reguirements Regulation)

- TLAC (Total Loss Absorbency Capacity)
- Bindinhg leverage ratio
- Reformed methodology to assess then market risk of the trading book
- Binding NSFR (Net stable Funding Ratio)
- Renewed regulation for the treatment of large exposures
- Use of the Proportionality principle
- Risk weights of SME loans relieved

CRD V
(Capital Reguirements Directive)

- Financial holding company structures
- Treatment of the EU parents of third country banks
- Renewal of Pillar 2 regulation
- Renewal of interest risk regulation
- Renewal of remuneration regulation

BRRD II
(Bank Recovery and Resolution Directive)

- Definition of the crisis management group and unit
- Calibration of the MREL (minimum requirement for own funds and eligible liabilities) requirement
- Internal MREL requirement
- Regulation for supervisory cooperation
- Application of bail-in for instruments emitted under third country legislation
- Moratorium powers

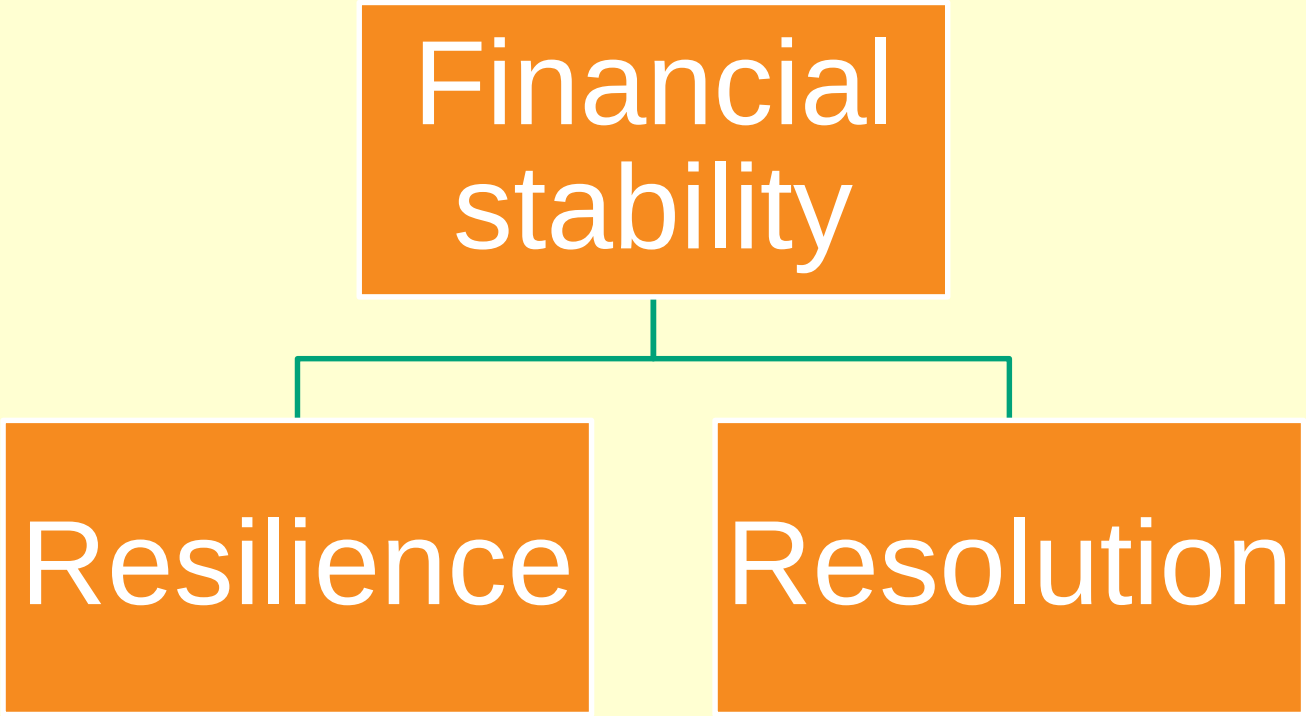
SRMR II
(Single Resolution Mechanism Regulation)

- To a large extent similar changes as those done for BRRD

Velkojien etusija-järjestys
(BRRD II)

- The priority ranking of holders of bank senior unsecured debt

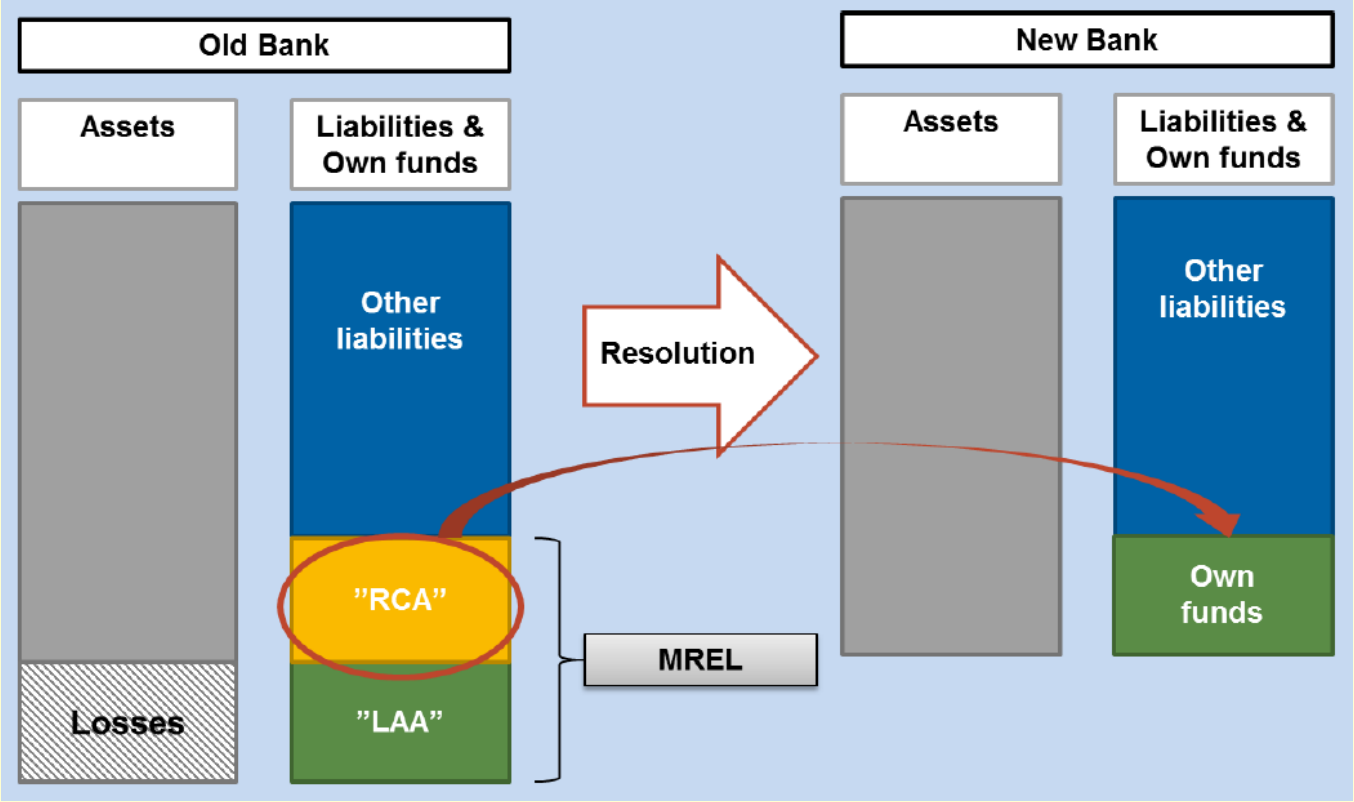
Framework for financial stability



MREL – purpose and function

RCA = Recapitalisation amount

LAA = Loss absorption amount



Source: *Swedish National Debt Office (SNDO)*

Update Basel IV - not much new on details and still uncertainty about final output floor

Basel IV – Next meeting of BCBS 4 – 5 October 2017.

Final Compromise ?

- General overall output floor 70 – 75 % ?
- Revisions to proposal for new Standardised Approach ?
- Revisions to proposed IRBA restrictions ?
- Transitional provisions until 2027 ?

European Deposit Insurance Scheme, EDIS

- Commission proposal on November 24, 2015 on EDIS
- At the same time the Commission promised a proposal for actions to reduce risks in the banking system ->Risk Reduction Package of November 23, 2016
- EMU Discussion Paper, May 31, 2017: decision on EDIS needed as soon as possible
- Re-insurance 2017-2019, co-insurance 2020-2023, full insurance 2024 -

Future of Euribor

- The Euro Interbank Offered Rate (Euribor) is a daily reference rate, published by the European Money Markets Institute, based on the averaged interest rates at which Eurozone banks offer to lend unsecured funds to other banks in the euro wholesale money market (or interbank market) – earlier published by Euribor-EBF
- Due to fear of manipulation there are thoughts to base the definition on realised deals – but creating the new definitions has proved to be difficult
- Only one thing certain – the future of Euribor is uncertain

HIGH LEVEL EXPERT GROUP ON SUSTAINABLE FINANCE

General orientation

- **While EU reforms following the financial crisis managed to stabilise the financial system, the challenge is now to improve its contribution to sustainable development:**
  - The EU has been leading on the global sustainability agenda, which seeks to combine economic prosperity with environmental and social sustainability.
  - The EU also recognises that the goal of sustainability must be supported by a financial system that promotes growth in a way that is sustainable over the longer term.

The interim report of the HLEG identifies two imperatives for Europe's financial system.

- The first is to strengthen financial stability and asset pricing, by improving the assessment and management of long-term material risks and intangible factors of value creation, including those related to environmental, social and governance (ESG) issues.
- The second is to improve the contribution of the financial sector to sustainable and inclusive growth, notably by financing long-term needs such as innovation and infrastructure, and accelerating the shift to a low carbon and resource-efficient economy.

Processes and participants in the financial system

- **Fiduciary duty and related concepts:** The responsibility of directors and investors to manage long-term sustainability risks should be enshrined in their relevant duties, whether it is through fiduciary duty in common law or its equivalent in other legal systems.
- **Disclosures:** Clear, comprehensive and comparable disclosure of information on sustainability are essential to success
- **Putting sustainability at the heart of the financial system:** To deliver systemic change, ESG factors and long-term sustainability risks and opportunities will be needed in corporate governance, core indices, accounting standards and credit ratings. They will also need to be reflected in the role played by the European supervisory agencies (ESAs), such as through common guidelines and, subsequently, supervisory convergence on ESG disclosure

…Banks

- **The role of banks:** As the largest asset pool, banks have an essential role in the transition towards a sustainable financial system. To date, however, their potential contribution to sustainable development has not reached its full potential.
  - green-supportive factors or brown-penalising factors could be investigated;
  - the appropriateness of the capital framework for project finance and specialised lending should be assessed;
  - pillars II and III of prudential regulation could be strengthened with regard to sustainability.

…Other institutions

- **Insurance companies and pension funds:** Prudential regulation for institutional investors will also have to be reviewed.
- **Asset managers:** Embedding sustainability into stewardship codes and asset management agreements, and requiring asset managers to disclose how they integrate ESG factors into their strategy and vote on ESG issues.
- **Credit rating agencies and stock exchanges:** It is time for long-term sustainability risks and opportunities to move from an 'add-on' consideration to a 'built-in' feature in ratings. While EU stock exchanges are global leaders when it comes to disclosure of ESG factors, much more can be done to promote sustainability.
- **Global financial centers:** EU could establish a network of EU sustainable financial centres to exchange best practices, align standards and achieve market scale.

Mobilising capital for a sustainable economy

- Action on two fronts:
  - Shifting the current capital allocation from an unsustainable pathway to a sustainable one;
  - Filling the investment gap to ensure that objectives are achieved on time.
- A coherent policy strategy is urgently needed to translate sustainable development ambitions into investment opportunities.
- Agreeing an EU classification system of ‘sustainable’ assets would boost investor confidence and give firms a better understanding of which assets qualify as sustainable investments.
- The EU should encourage the development of sustainable financial products. This could be pursued by considering new political risk guarantees for sustainable infrastructure, and support for the development of green and social bond markets, as well as that of new sustainable financial products and services that use technology to deliver sustainable outcomes.

…

- **Fostering infrastructure:** To support and facilitate these investments, the EU could create ‘Infrastructure Europe’, a dedicated organisation responsible for developing and structuring infrastructure projects and matching them with investors. This new entity would be responsible for match-making infrastructure projects…
- **Wider society:** Last but by no means least, enabling greater engagement of society by increasing literacy on sustainable finance issues, which will stimulate informed demand. The EU should support the creation of a set of publicly available corporate sustainability league tables, ranking firms on their performance against the Sustainable Development Goals.

Early Recommendations

- Develop a classification system for sustainable assets
- Establish a European standard and label for green bonds and other sustainable assets
- Clarify that fiduciary duty encompasses sustainability
- Strengthen ESG reporting requirements
- Introduce a 'sustainability test' for EU financial legislation
- Create 'Sustainable Infrastructure Europe' to channel finance into sustainable projects
- Enhance the role of the ESAs in assessing ESG-related risks
- Unlock investments in energy efficiency through relevant accounting rules

ICS

ICS Timeline

- The IAIS has developed the ICS Version 1.0 for extended field testing which was published on 21 July 2017.
- ICS Version 2.0 is due to be completed by the end of 2019 for adoption by the IAIS along with the remainder of ComFrame.
- Implementation is scheduled to begin after the end of 2019.

What is expected from ICS Version 2.0?

ICS Version 2.0 for adoption within ComFrame (2019 ICS version): The goal for this milestone is the delivery of an ICS that is fit for implementation by supervisors:

- that will achieve an improved level of comparability compared to ICS Version 1.0 but possibly not the level of comparability envisaged by the ultimate goal
- may still include the two valuation approaches but aspires to reduce differences in valuation
- may allow for both the standard method for calculating the ICS capital requirement and other methods of calculation including:
  - the use of internal models (partial or full)
  - external models
  - variations of the standard method.

IFRS

In Preparation Since 2001

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History of IFRS 17

Date	Development	Comments
September 2001	Added to the IASB's agenda	
September 2004	Insurance Working Group appointed	Fresh start on the project
3 May 2007	Discussion Paper *Preliminary Views on Insurance Contracts* published	Comment deadline 16 November 2007
30 July 2010	Exposure Draft ED/2010/8 *Insurance Contracts* published	Comment deadline 30 November 2010
Fourth quarter 2010	Roundtables	
20 June 2013	ED/2013/7 *Insurance Contracts* published	Comment deadline 25 October 2013
18 May 2017	IFRS 17 *Insurance Contracts* published	Effective for annual periods beginning on or after 1 January 2021

Initial recognition

Key components

Fulfilment cash flows

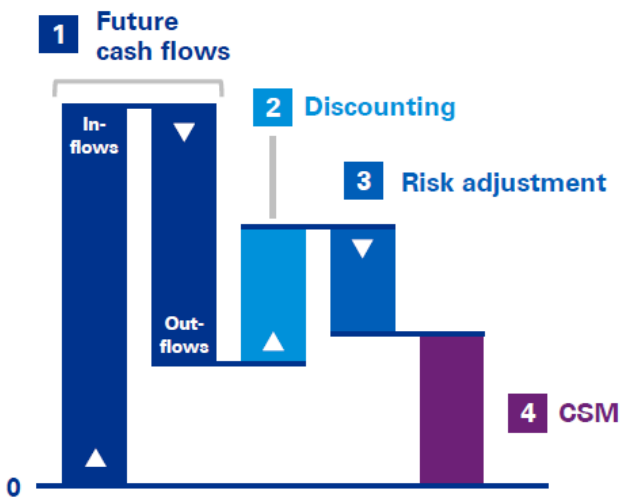
Risk-adjusted present value of future cash flows – e.g. premiums, claims

1 2 3

Contractual service margin (CSM)

Represents unearned profit – results in no gain on initial recognition

4



Net cash outflows result in no CSM – a loss is recognised immediately

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Subsequent measurement - Composition

Total liability of a group of insurance contracts

Liability for remaining coverage (LRC)

Fulfilment cash flows related to future services, plus **CSM (unearned profit)** remaining

+

Liability for incurred claims (LIC)

Fulfilment cash flows for claims incurred, but not yet paid

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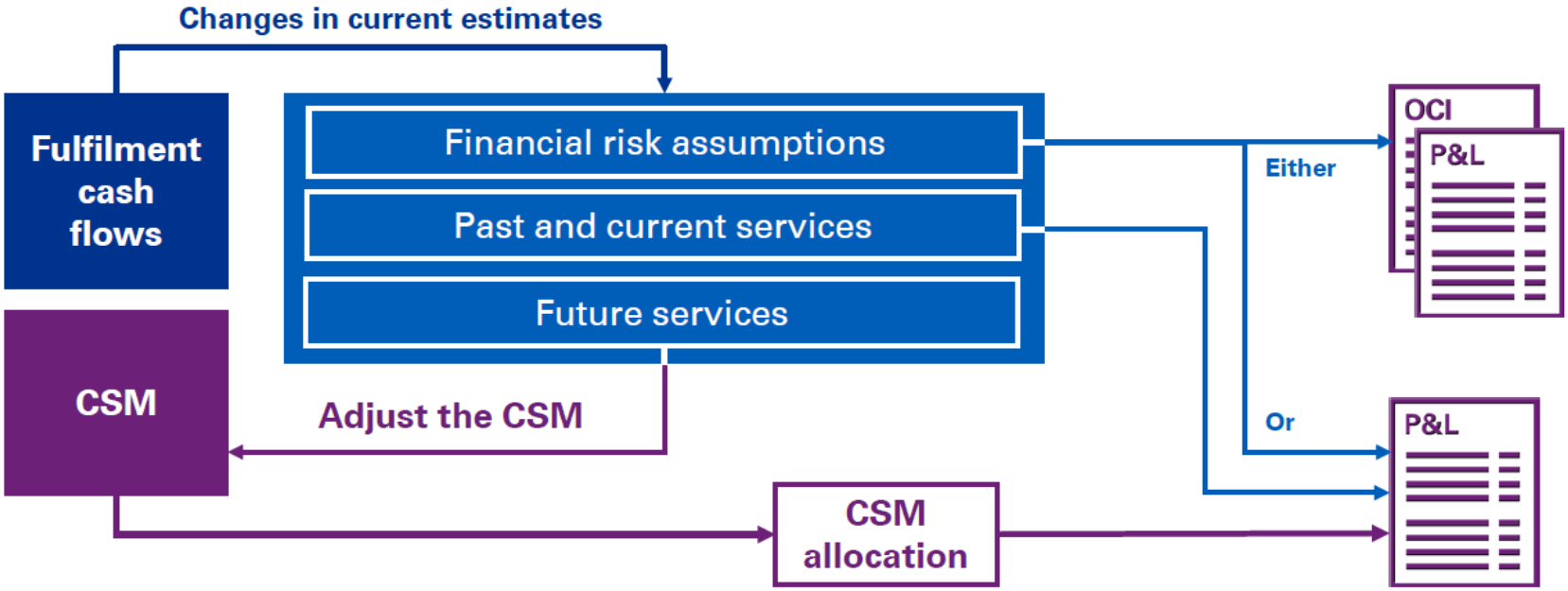
Subsequent measurement



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➢ Publication of IFRS 17 on May 18, 2017:

After several years of work by the International Accounting Standards Board (IASB), the "Insurance Contracts" standard - IFRS 17 - was published. Its purpose is to prescribe the principles of the accounting treatment, valuation and presentation of insurance contracts that fall within its scope. Its provisions supersede those applied in accordance with IFRS 4 currently in force. First time application is 01/01/2021 (with compulsory comparative 2020-exercise).

IFRS 17 – What is going on?

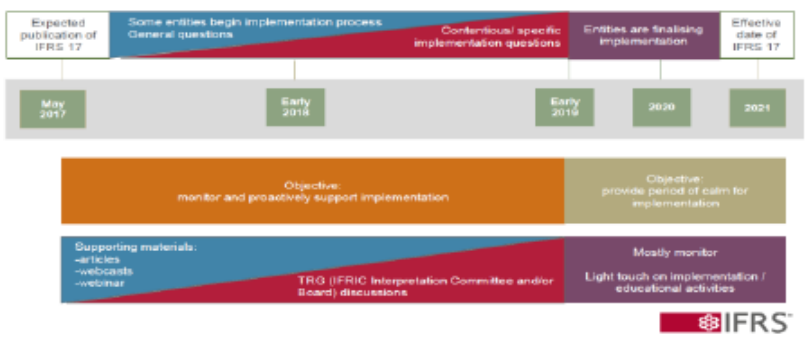
➢ Transition Resource Group (TRG):

IASB will soon nominate the members of this group, who will discuss questions from stakeholders about the new accounting requirements in IFRS 17. The purpose of the TRG is to:

- ✓ provide a public forum for stakeholders to follow the discussion of questions raised on implementation; and
- ✓ inform the Board in order to help the Board determine what, if any, action will be needed to address those questions.

Possible actions include providing supporting materials such as webinars, case studies, and/or referral to the Board or Interpretation Committee.

The TRG will have around 13 members and 3 observers. Because of the focus on accounting implementation questions, preference will be given to candidates who are preparers or auditors. Our understanding is that IASB is seeking preparers having actuarial and accounting skills; however IAA is not expected to be a member per se.



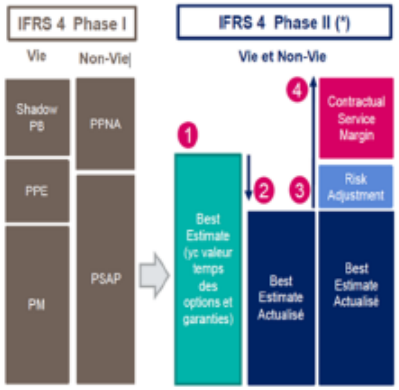
➢ Building Block Approach :

1 **Best Estimate (contracts in progress) :**
Current, unbiased, market estimates consist of and weighted by their probability of future cash flows from contracts in progress
Fulfilment value ≠ fair value

2 **Time value is integrated since the discount rate:**
- ✓ Discount rate based on observable market data
- ✓ Reflecting the characteristics of the liabilities

3 **Risk Ajustement :**
- ✓ The margin required to manage risk
- ✓ Cost of uncertainty overcoming and timing of future flows

4 **Contractual Service margin (CSM) :**
- ✓ Calibrated margin on the premium paid by the insured in such a way as not to result in the subscription of the contract
- ✓ Can't be negative (Charge if expected future loss)



TVOG : Time value of options and guarantees included in actuarial liabilities

The European endorsement mechanism

- The EU Accounting Regime requires that IFRSs be adopted individually for use in the European Union. The adoption process is sometimes referred to as 'endorsement':
  - EFRAG (the European Financial Reporting Advisory Group) holds consultations with interest groups in order to deliver its advice to the Commission whether the standard meets the criteria of endorsement;
  - Based on the advice of EFRAG, the Commission prepares a draft endorsement Regulation;
  - ARC (Accounting Regulatory Committee) votes on the Commission proposal. The qualified majority rule applies;
  - If the vote is favorable, the European Parliament and the Council of the European Union have 3 months to oppose the adoption of the draft Regulation by the Commission.

- EFRAG's analysis assesses whether the new IFRS:
  i. is not contrary to the principle of true and fair view;
  ii. meets the technical qualitative criteria (understandability, relevance, reliability and comparability);
  iii. is conducive to the European public good.
- By notably conducting an impact analysis.

EFRAG Board

The EFRAG Board is responsible for:

- all technical positions of EFRAG, after having considered the technical advice provided by EFRAG Technical Experts Group (EFRAG TEG) and supporting working groups;
- ensuring EFRAG has an open and transparent due process including a public consultation process with European constituents on draft EFRAG positions on items such as discussion papers, draft comment letters, draft consultation documents and draft endorsement advices.

The EFRAG Board has 16 members in total: eight members each from European stakeholder organizations and national standard setters.

EFRAG TEG

The EFRAG Technical Experts Group (EFRAG TEG) provides technical advice to the EFRAG Board:

- It provides its own professional judgement, arguments and technical analysis based on its technical expertise and on EFRAG's due process;
- It also provides input for the EFRAG research activities in the financial reporting arena in active projects launched by the EFRAG Board.

EFRAG IAWG

The role of the Insurance Accounting Working Group is to support EFRAG's ability to influence the development of IFRS standards and interpretations that address specific insurance issues and their application within Europe through analysis technical consultation and consultation with representatives of this sector.

Its 18 members represent mainly the industry, the audit profession, the users, the actuaries and academics.

On going educational sessions of the Board about IFRS 17:

The Efrag board currently consults some preparers (Allianz, AXA, Prudential, Generali). Analysts, investors and auditors could also be invited in the coming months.

The role of the AAE

- Apart from the IAA's work who can, for instance, answer to any IASB's consultation, the AAE can play a **specific role by interacting with EFRAG**:
  - The endorsement process is specific to the European Union;
  - Currently, the actuarial industry is represented by one member within the IAWG;
  - At least, two others actuaries seat within the IAWG. They, however, represent the preparers and the insurance industry (Prudential, CNP Assurances).

- It is proposed that AAE offers to the EFRAG Board to participate in one of its future educational sessions to:
  - Testify about the complexity of the news standard and its implementation process;
  - Demonstrate how and why it is different from Solvency 2 even though some concepts are similar and some synergies can be looked at.
- However, the purpose of this education (e.g. listing technical ways to implement options and requests of IFRS 17) shall not be prescriptive:
  - Interpretation is the responsibility of the IASB through the TRG (preparers & auditors with supervisors and market authorities as observers), if necessary IFRIC and finally IASB.

State of the Union 2017:

CYBERSECURITY: COMMISSION SCALES UP EU'S RESPONSE TO CYBER-ATTACKS

Building EU resilience: A strong EU Cybersecurity Agency

- **An EU Cybersecurity Agency:** Building on the existing European Agency for Network and Information Security (ENISA), the Agency will be given a permanent mandate to assist Member States in effectively preventing and responding to cyber-attacks. It will
  - improve the EU's preparedness to react by organising yearly **pan-European cybersecurity exercises** and by ensuring better **sharing of threat intelligence and knowledge** through the setting up of Information Sharing and Analyses Centres.
  - help implement the **Directive on the Security of Network and Information Systems** which contains reporting obligations to national authorities in case of serious incidents.

Stepping up the EU's cybersecurity capacity

To reinforce the EU's cybersecurity capacity, the Commission and the High Representative are proposing:

- **A European Cybersecurity Research and Competence Centre** (pilot to be set up in the course of 2018).
- **A Blueprint for how Europe and Member States can respond quickly**, operationally and in unison when a large-scale cyberattack strikes
- **More solidarity**: In the future, the possibility of a new Cybersecurity Emergency Response Fund could be considered for those Member States that have responsibly implemented all the cybersecurity measures required under EU law
- **Stronger cyber defence capabilities**: Member States are encouraged to include cyber defence within the Framework of Permanent Structured Cooperation (PESCO) and the European Defence Fund to support cyber defence projects.
- **Enhanced international cooperation**

IDD

Final delegated acts (DAs) for the Insurance Distribution Directive (IDD)

The European Commission published September 21 the final delegated acts (DAs) for the Insurance Distribution Directive (IDD):

- DA on conduct of business rules for the distribution of insurance-based investment products
- DA on conduct of business rules for the distribution of insurance-based investment products

DAs are now subject to the right of the European Parliament and of the Council to express objections, in accordance with Article 290(2) of the TFEU.

Actuarial Association of Europe

GDPR

- why should actuaries care?

Kirsten Sasady

September 2017

GDPR – what is it?

General Data Protection Regulation

- Any company handling European citizen data will have to comply with this incoming regulation by May 25, 2018.
- It provides greater levels of data regulation and compliance to ensure data is used and held responsibly and in a transparent manner, with the full understanding of the customer.
- New rules around customer consent, profiling, data portability and the customer's right to be forgotten.
- Insurance companies will have huge exposures under the new data protection laws.

GDPR – what is it?

Core elements

Consent: Insurers will have to make sure that consent exists to use and profile a customer's data. Insurers should also state how they intend to use the data.

Data portability: The customers have ownership and control of their own personal data, allowing them to reuse their data for their own purposes. Insurers should therefore accept that access to this customer data is only temporary.

Right to be forgotten: Customers will be entitled to ask insurers to delete their personal data where it is no longer required for its original purpose, or where they have withdrawn their consent.

GDPR
– why should actuaries care?

Potential issues

- Need for strict regulation of data access – no more quick fixes with a SQL-call into costumer data. All data use need to be documented, have a purpose and be secure.
- Data use has to have a documented purpose - it has to be necessary to run the business and there's a need for costumer consent. (*Maybe it is possible to use elements such as audit trail and data for technical provision as an argument to hold data - as long as there is a risk of resumption / development..?*)
- Full data for pricing can be flawed if costumers leave with their data. There is a need to anonymize data in such a way, that you can keep it with violating the GDPR, but still granular enough for pricing, capital modelling and so on….

Proposed EAN on the ORSA to support ESAP 3

Samuel Achord, 2017-09-22

The purposes of the EAN are:

To aid the interpretation of the ESAP: to expand on what was in the minds of the ESAP3 drafting team when they wrote particular sections of the ESAP, by providing clarifications and examples for specific sub-sections and individual points.

To support the effective implementation of the ESAP: to presenting suggestions for the types of issues that might need to be considered, manners by which to approach common ORSA-related actuarial or business issues. To aid the actuary in fulfilling the requirements of certain aspects of ESAP3. To help bring the ESAP into the real world by providing real, tangible examples. We want member associations to adopt it and for actuaries to utilise it and thus ensure the ESAP supports high quality actuarial work.

To facilitate the sharing of best practices for the ORSA: amongst actuaries by including examples of ideas and approaches that have proved effective for those actuaries who already have experience of relevant ORSA-related work. In part, to help actuaries connect the Solvency II regulation and the ORSA to the realities of business faced by insurers.

The EAN currently consists of following chapters:

Preface & introduction. EAN is explained, what it is and how actuaries should deal with it.

Notes to ESAP text. This is the main body of the EAN, going through one-by-one all the articles from ESAP3 (3.1 to 3.2.2), giving additional explanations and providing examples of good/best practice in order to help better understanding and application of the standard. Not all articles are covered, particularly where they are self-evident. There is also some linking into Solvency II regulation, where we have chosen not to add to it in the ESAP itself.

Other subjects relating to ORSA work. In the ESAP3 revisions, a considerable amount of material was removed from the previous ED. As well as re-using this, as appropriate, the WG has also produced extensive additional material, with the aim of providing help to actuaries when completing the ORSA.

Appendix. We anticipate ending up with several Appendices that set out the educational material that covers the “how to” detail of carrying out the ORSA-related work. We expect that these will be subject to review and updating from time to time as more best practice examples emerge across the insurance industry in various member states.

Notes to ESAP text – highlights

- ORSA-triggering events—examples and ideas for setting thresholds
  - Links to risk appetite, risk limits, and risk tolerances (or any such related measures)
  - Risk movements: changes in quantifiable risk exposures, isolated or combined
  - Monetary Loss: actual, expected or potential losses quantifiable in money terms
  - Non-Monetary Damage: actual, expected or potential damage not quantifiable in money terms
  - Changes in the world, macro environment or business environment
  - Breaching limits: e.g. SCR ratio, MCR, internal risk limits
- Projections & Assumptions: SII versus ORSA
  - Vital point: real-world in the ORSA and business planning period, risk-neutral in the future valuation of liabilities
  - Differences in methodology, modelling, and assumptions
  - Discussions around choosing the capital framework for the ORSA: SII, SII with minor changes, IM, EC, etc
- Discussion of ORSA time frames:
  - Liability-related timeframes: actuarial projection horizon, horizon for long-term considerations
  - ORSA-related timeframes: ORSA projection period, ORSA projection horizon
  - Business planning timeframes: business planning period, business's strategy horizon
- Considerations for stress testing, reverse stress testing and scenario testing
- Dealing with qualitative risks comprehensively and coherently (SST, ID & assessment aggregation, etc)

Other subjects relating to ORSA work – highlights

- Thinking about the ORSA as an ad hoc, there-when-you-need-it toolbox
- Supporting understanding and distinctions between the “real world” and the “modelled world”
- Discussions around the ORSA interactions within the business
- The ORSA run: set-up, reproducibility, and documentation
- The importance of *feedback loops*:
  - ORSA design, use & monitoring
  - Methodology, modelling, model output, and risk coverage
- Assessing the effectiveness of the ORSA, and its supporting models, as risk management tools
- Thoughts around *establishing a structured and documented approach to uncertainty*
- Interactions and dependencies of risks and risk exposures, including dependency modelling
- Risk maps, the “ORSA risk coverage map”, ORSA and risk feedback maps
- Supporting increased risk awareness through the ORSA while combatting “documentation fatigue”