



The insurer's journey in developing an Own Risk and Solvency assessment

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Gábor Pásztor

Leader of Task Force Risk Management

Chief Risk Officer of Aegon Hungary

President of Hungarian Actuarial Association



Disclaimer

Presentation includes my own feelings.
Any match to reality can only be a coincidence.
So any comments / extensions / different opinions
are welcomed.



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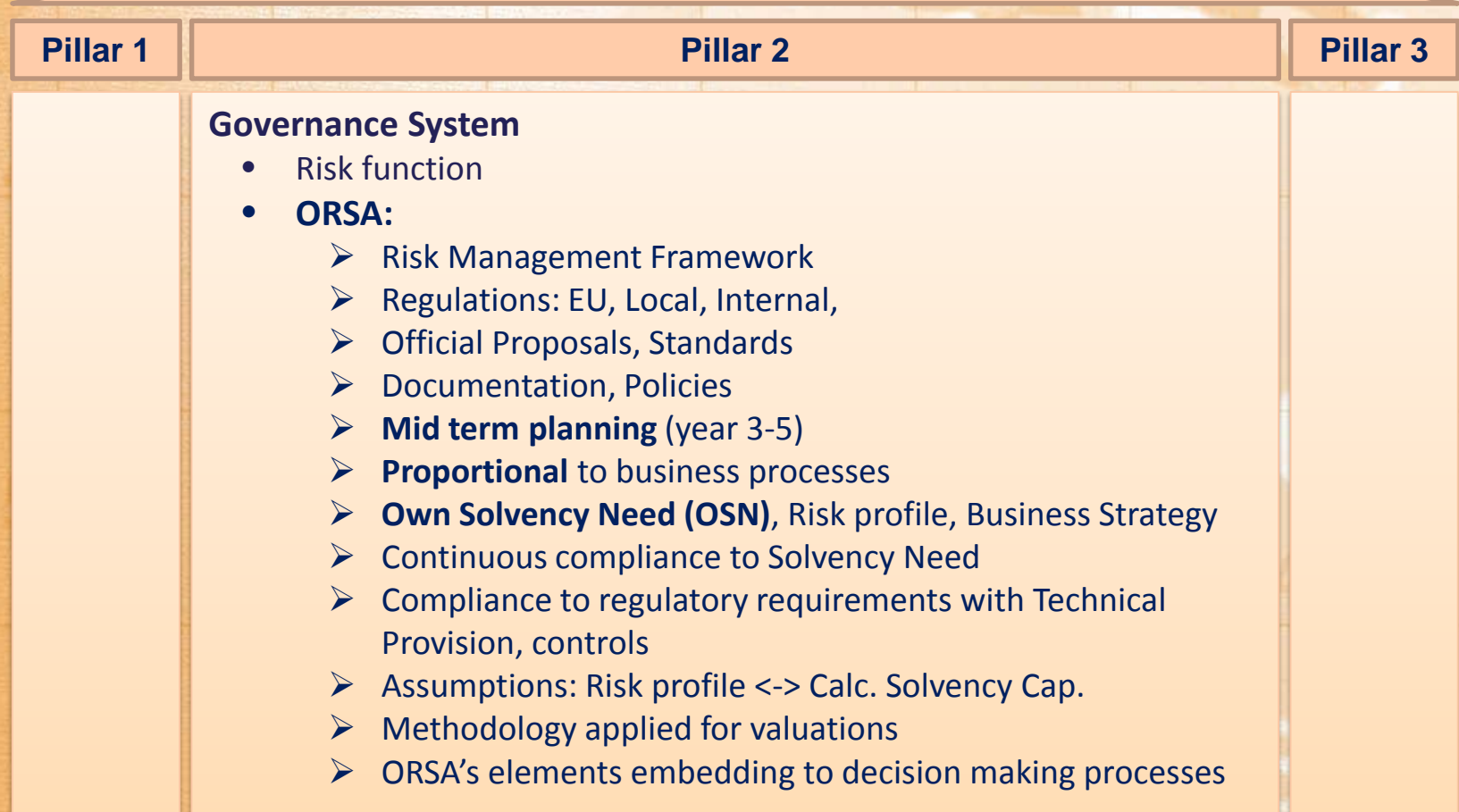


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Most of companies in the 3rd cycle of ORSA



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Forward looking assessments of risks

❑ Quantitative assessments

- Solvency need
- Capital level
- Technical Provision
- Stress Tests, Sensitivities, scenario assessments

Everything in
longer time
horizon
(min yearly)

❑ Qualitative assessments

- Proportionality explanation
- Management measures
- Risk Profile
- Methodology applied
- Current and future business circumstances,
- Assessments of data
- Compliance to regulation(s)
- Changes since last assessments



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Experiences at insurance companies

- ☐ Initial purpose (risk focused business management) is still not reached
- ☐ But developing continuously
- ☐ Lot of additional capacity need, additional workload
- ☐ Lot of documentation need
- ☐ Management still does not feel the need of ORSA
- ☐ Still handled as must to have reporting need
- ☐ Too formal, Too bureaucratic



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Risk Profile

- ❑ Managements accept its formal need, openness for discussion
- ❑ Quantitative and Qualitative elements
- ❑ At complex companies:
 - Risk categories, Risk catalogs/universe
 - Not measureable risks mentioned
 - Changes in risk structure
- ❑ Time horizon handling often weak, risks are not assign
- ❑ Expert judgements often applied
- ❑ Not measureable risks: frequency * severity assessments



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Risk Limits

- ❑ Managements do not want to handle risk such quantitative way, but strong pressure to use it.
 - ❑ Risk limits are handled as formal requirements
 - ❑ Risk measure metrics are never perfect
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- Dividend payment zones
 - Target zones
 - Warning zones
 - Dangerous zones



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Stress tests, sensitivities

☐ Stress test <-> Extreme event scenario:

- Lot of work effort, but never can be comprehensive
- In real life always different,
- Rarely help in real cases

☐ Reverse stress test:

- often only extrapolation exercise, not useful

☐ Sensitivities:

- too sterile,
- never happens, but used by management in practice/decisions

☐ Simplifications, proportionality, assumptions

☐ Uniform part at multinational companies



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Forward looking

- ☐ Min 3 years,
 - existed also earlier in planning, mainly in P&L results
- ☐ Capital planning (SCR, Own Fund, ...)
- ☐ Solvency ratio
 - Continuous compliance, Min 130-170%
- ☐ Management feels it useful, takes seriously



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Standard Formula, Internal Model,

- ❑ Most companies use Standard Formula
- ❑ Extreme volume of documentation of internal models
- ❑ Internal 'Solvency like' risk metrics, but not internal model!
- ❑ Not covered risks (handled differently):
 - Liquidity
 - Reputational
 - Inflation
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Appropriateness of Standard formula

❑ Difficult to prove in practice:

- Bullshits, bla...bla
- Listing risks, where not compliant
- Internal calculations to show 'prudency'
- Assessments of assumptions of Standard formula
 - Several time impossible, or huge effort to investigate



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Technical provisions

❑ A lot of weaknesses:

- Documentations
- Data quality
- Validations
- Model validations

- **Strong focus on Controls,**
Control culture development!



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ORSA triggers, extraordinary ORSA

- ❑ So huge volume of work, so Management does everything to not have extraordinary ORSA
- ❑ Hypothetical triggers
- ❑ Not enough concrete:
 - new, earlier not known risk
 - Significant change in portfolio (liab., asset)
 - Significant change in risk profile
 - Significant change in reinsurance structure
 - ...



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Summary on ORSA experience

- ❑ Huge amount of additional work
- ❑ More supervisory reporting than decision supporting processes
- ❑ Simplified (creative) solutions where possible
- ❑ Already developments in Controls, Strategy thinking, Capital managements
- ❑ Still a lot of development needs:
 - Risk based management
 - Risk metrics
 - Risk limits,
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Discussion

❑ What can be used for Pension Funds?



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