Proposed EAN on the ORSA to support ESAP 3

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”