CASE STUDY

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Own Risk & Solvency Assessment - ORSA
Case Study

The client Liz Taylor Risk Consulting was engaged by a group of small insurers who are working together on a collaborative basis to prepare and respond to the requirements of Solvency II. Between them, they write more than €50bn of annual premiums.

The challenge This group has undertaken the first "pillar" of Solvency II in that they have worked out whether they are using the standard formula for the Solvency Capital Requirement (SCR) and have undertaken QIS 5 (Quantitative Impact Study) and submitted their results to the regulator. The next stage is to undertake the second "pillar" of Solvency II and that is to prepare their ORSA or Own Risk & Solvency Assessment. They wanted to be able to visualise what this would entail and collaborate to save reinventing the wheel by all doing the research.

> The ORSA is about the SCR and the wider world of risk, business, influences and governance which surround it or as the FSA says;
> "ORSA is the name given to the entirety of the processes and procedures employed by a (re)insurance undertaking to identify, assess, monitor, manage and report the short and long term risks it faces or may face and to determine the own funds necessary to ensure that the undertaking's overall solvency needs are met at all times."

The response Liz Taylor Risk Consulting's approach was to summarise the requirements of Pillar 2 in a single document creating an overarching framework for the ORSA. This was arrived at from examining over twenty documents and guidance notes, including the Regulation itself, the guidance from CEIOPS and other guidance and opinions from other organisations.

This draft framework was taken to the Regulator and examined line by line before submitting to the client.

The Regulator ratified the basic framework and suggested some amendments and re-emphasised a number of areas. These included the overall concept that the ORSA is about the larger world around the SCR, its governance, the assumptions that have gone into it, the risks that have been included and those that have not, the business and business drivers and how this process of governance is embedded in the organisation. Most of all the ORSA needs to be forward looking – beyond the period in time that is addressed by the SCR.

A workshop of representatives from the insurers was held so that they could critique the draft framework and review it in the light of the comments from the Regulator. This workshop incorporated several additional educational elements including Enterprise Risk Management, Risk Appetite, Stress Testing and Reverse Stress Testing. All of this was conducted in a neutral way in order for there to be no threat to commercial confidentiality.

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The outcome

The group of insurers has now a basic framework for the ORSA that they can follow and use to prepare for the next phase of Solvency II. This will act as a guide and a checklist for them as they develop their governance processes to incorporate into business as usual that which is required under Solvency II when it comes in on 1st January 2013. It will further help them prepare the evidence for the regulator as Pillar 3 approaches and it will also help the regulator; there will be some consistency between the structures of this collaborative group's submissions although the individual submissions may be entirely different.

Key points

- Collaboration does not mean compromising commercial confidentiality
- An independent expert can enable a collaborative group to save time and money by
    - conducting the research just once and then sharing the result
    - gaining approval of the output from the Regulator on behalf of all the participants

November 2010