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# IFoA GIRO Conference 2024

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# **2024 Hymans Robertson ORSA – Value-add or Value-less**

**Muhammad Ali & Krish Kistnassamy**

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***“Risk is like fire: if controlled it will help us; if uncontrolled it will rise up and destroy us.”***

***Theodore Roosevelt***

# Agenda

## ORSA background

- I. Hymans Robertson GI ORSA Survey 2024
  - a) Production routines
  - b) Internal use of ORSA
  - c) Scope and risk coverage
  - d) Stress and scenario testing
  
- II. Perspectives on what good looks like

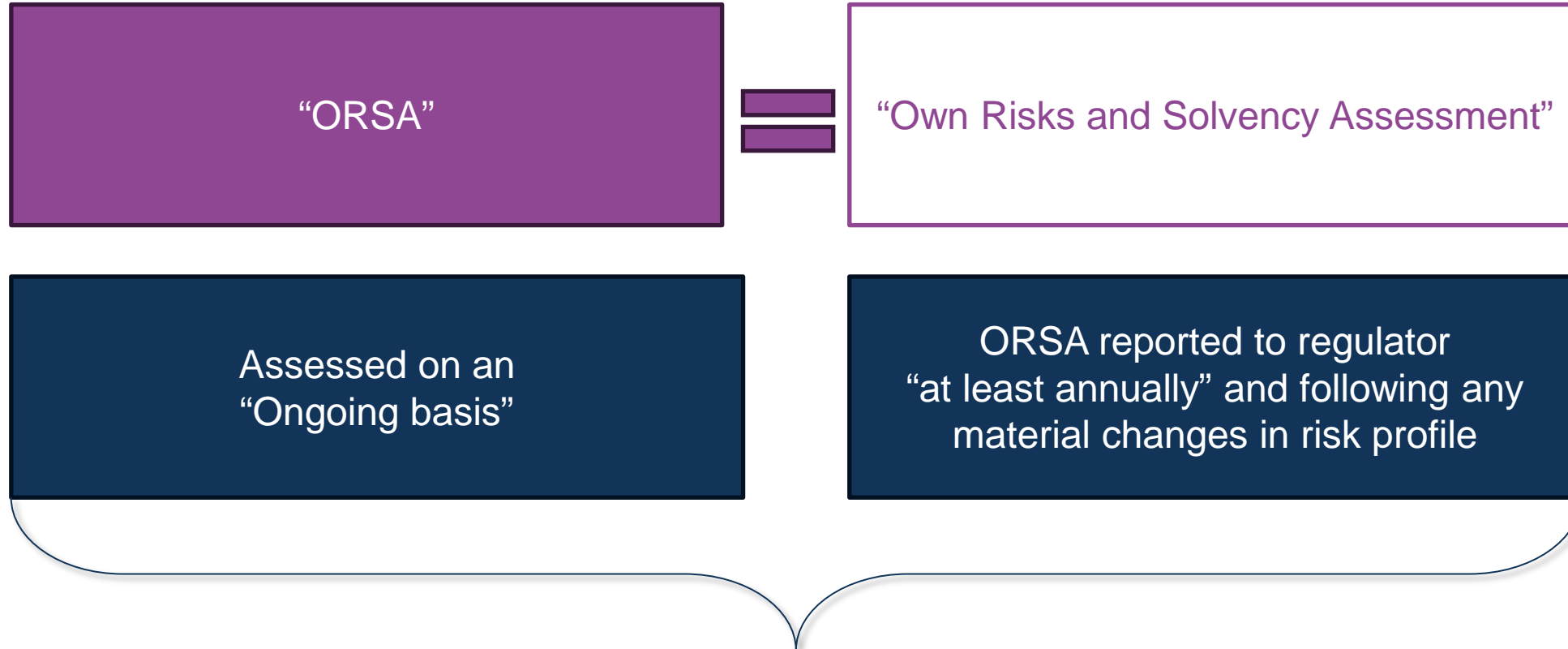


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# ORSA background

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# What is ORSA?



Applicable since 1 January 2016

# Which risks does an ORSA cover?

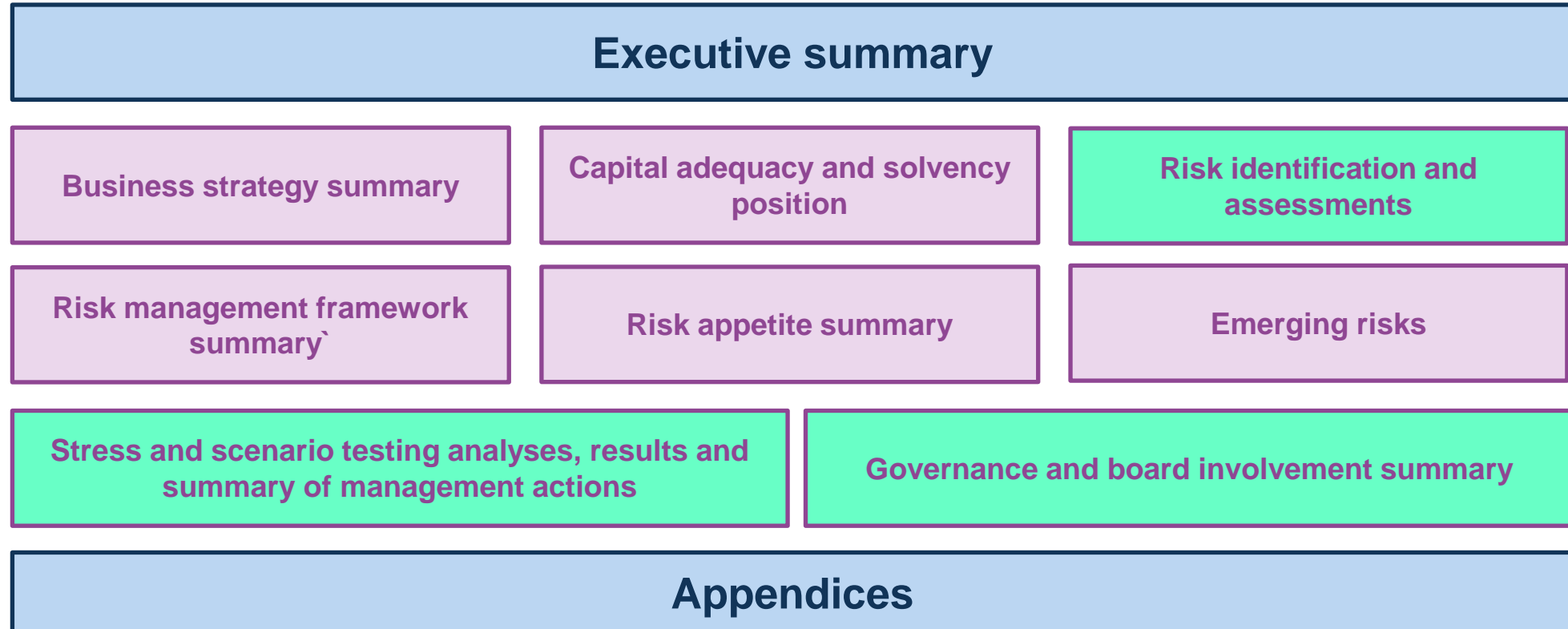
## Quantitative risks

- ◆ Underwriting risk
- ◆ Reserving risk
- ◆ Market risk
- ◆ Credit risk
- ◆ Operational risk
- ◆ Other

## Qualitative risks

- ◆ Business model risk
- ◆ Strategic risk
- ◆ Reputational risk
- ◆ Emerging risk
- ◆ Climate risk
- ◆ Other

# What are the typical sections of an ORSA report?







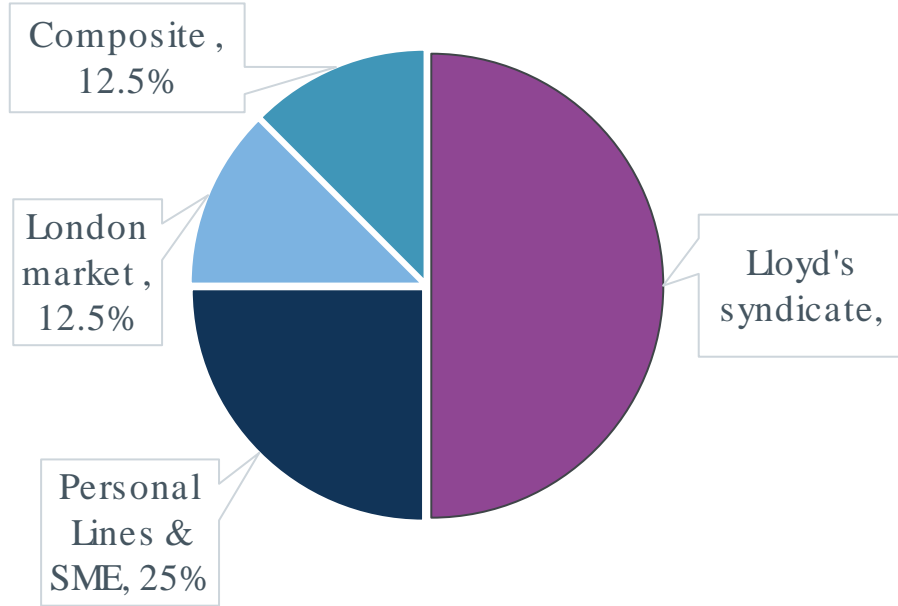
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# I. Hymans Robertson GI ORSA survey 2024

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# Overview of survey

Nature of Respondents



Gross Written Premium (GWP) of Respondents



Production routines

Internal use of ORSA

Scope and risk coverage

Stress and scenario testing

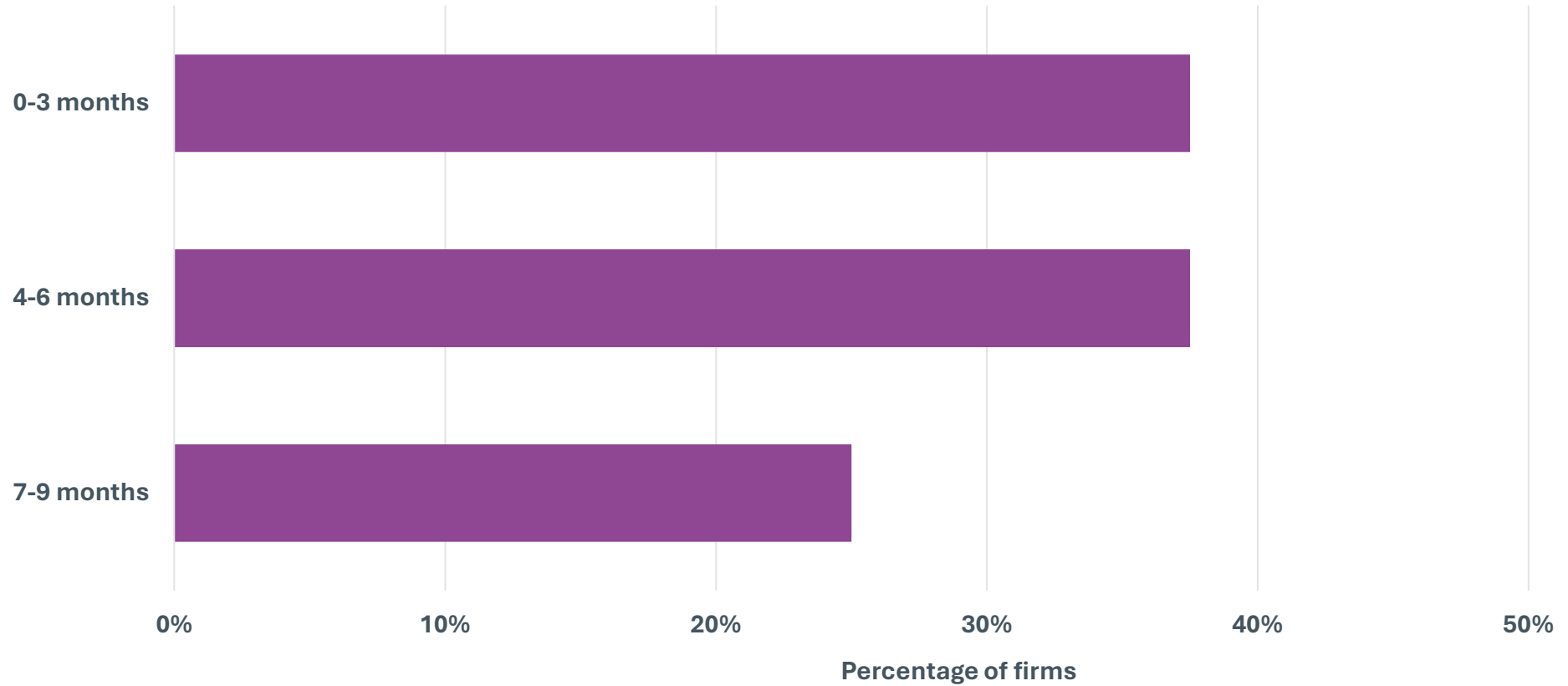


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# a) Production routines

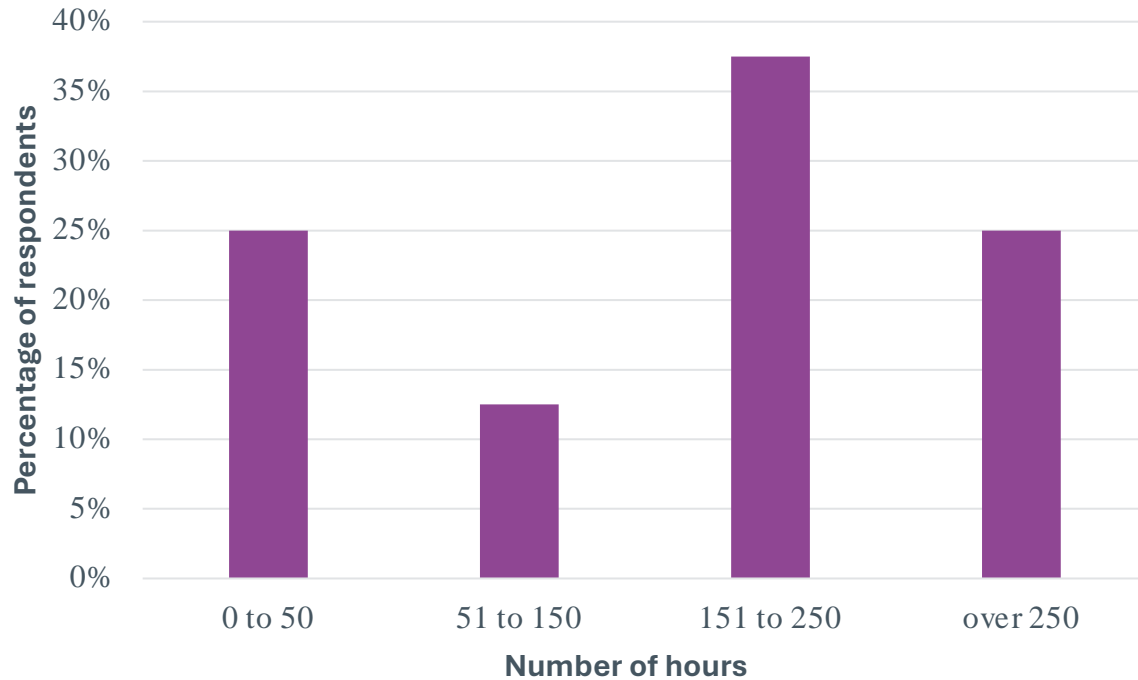
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# End-to-end completion period of ORSA

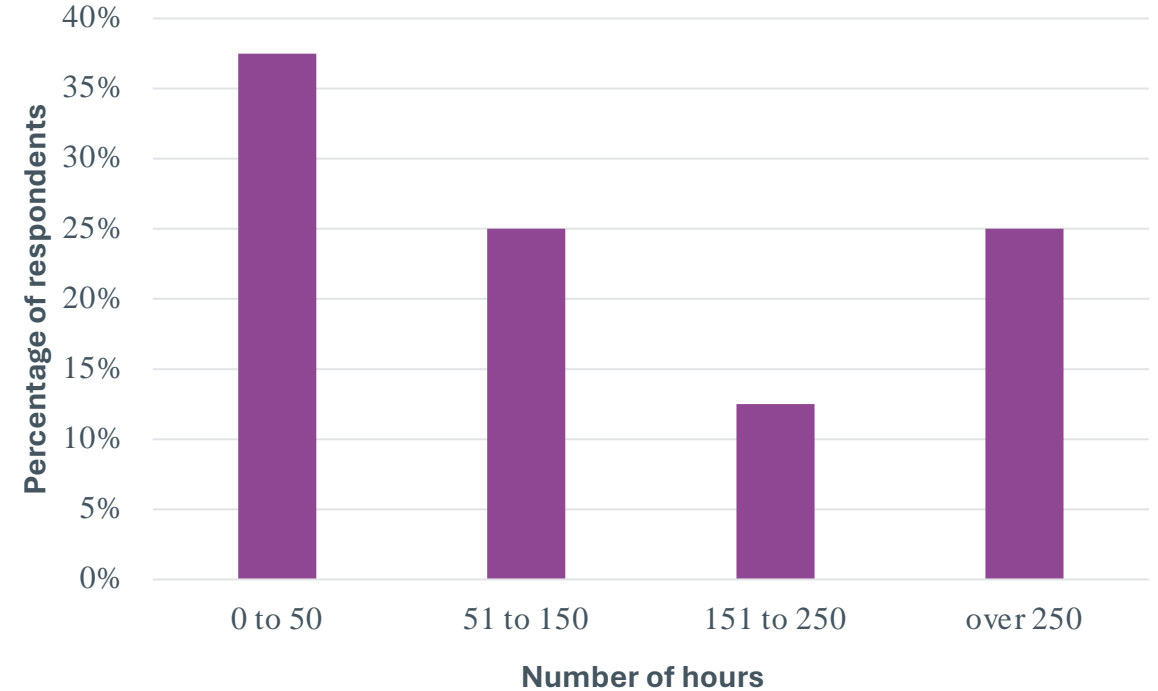


# Time to produce the ORSA analysis and report

## Hours - Analysis

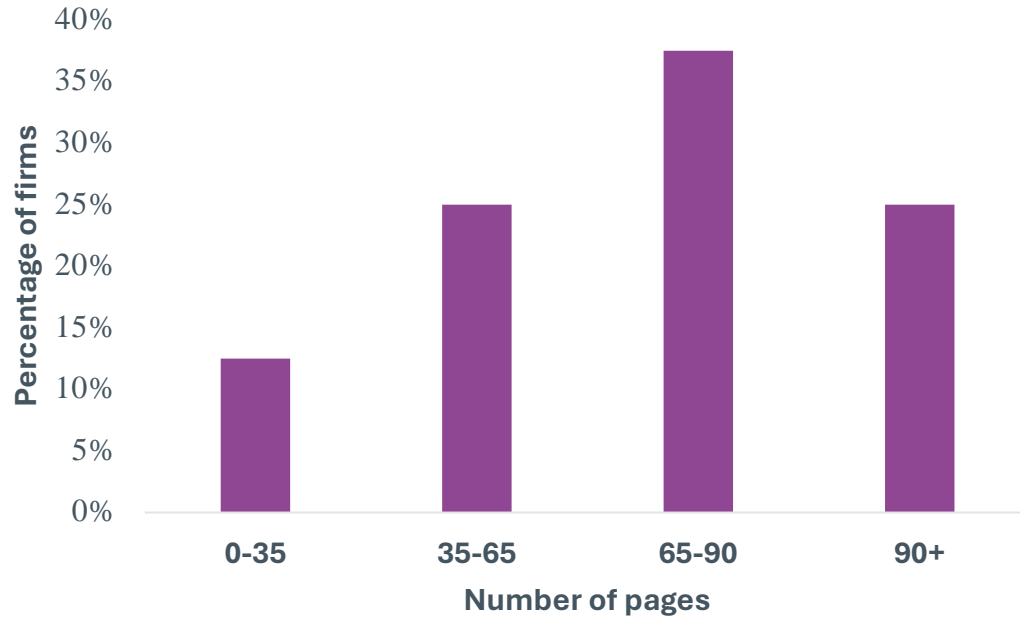


## Hours - Report



# Number of pages within ORSA report

## ORSA Report Length – All Pages



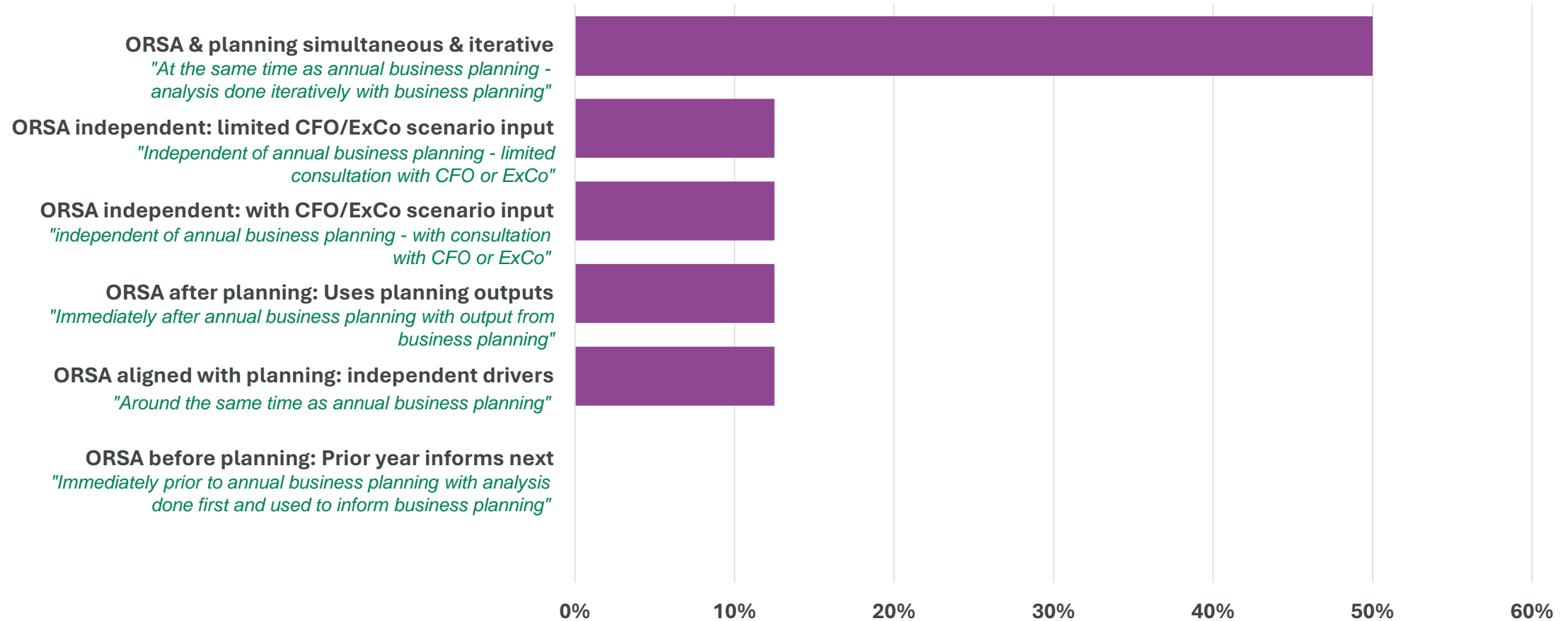
## Appendices



## Executive Summary



# Interaction of ORSA reporting with business planning





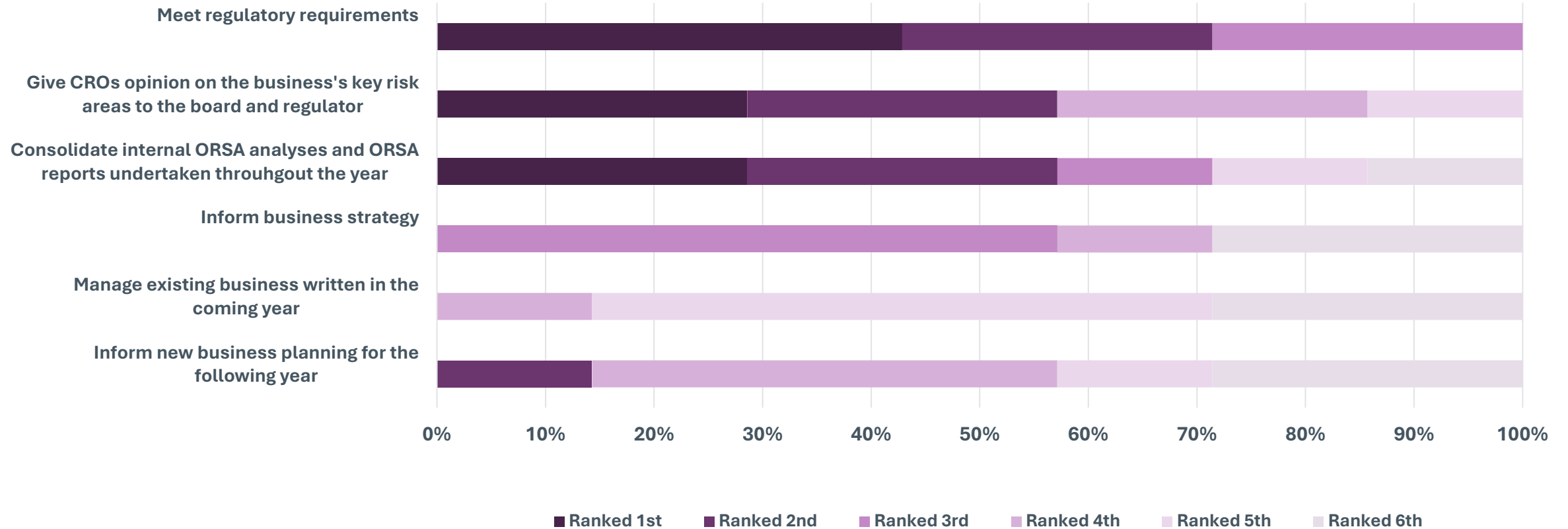
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## **b) Internal use of ORSA**

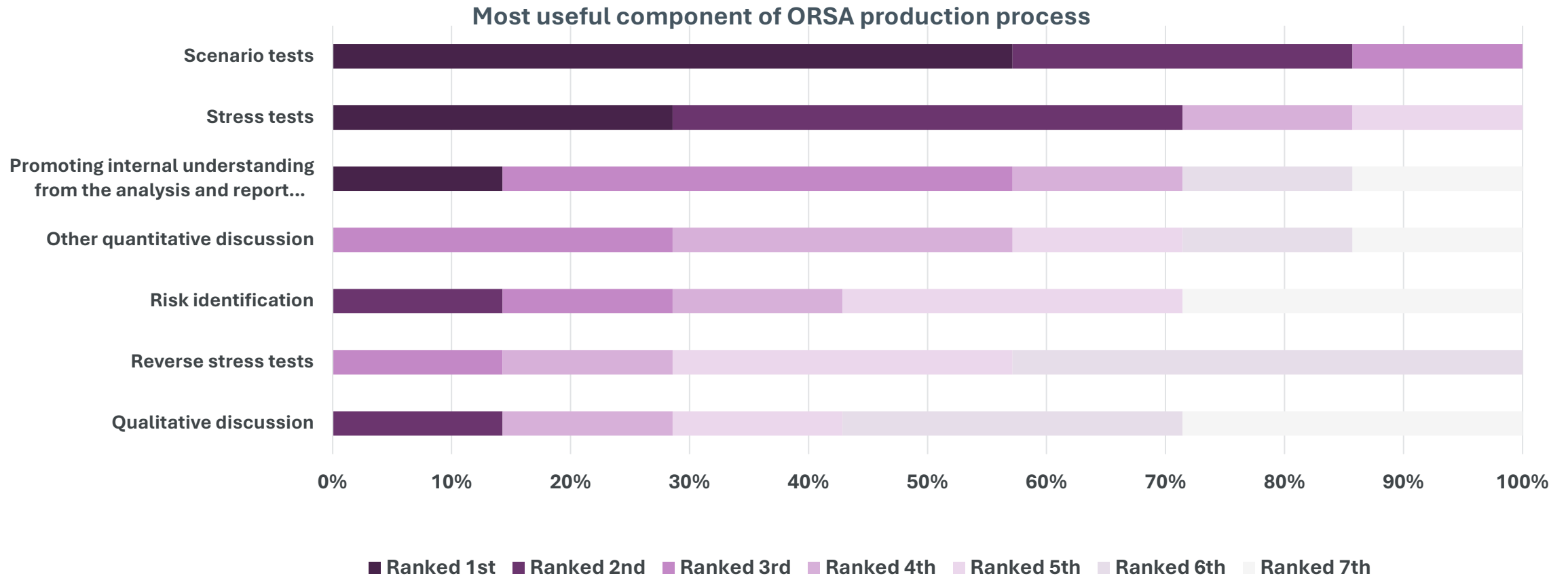
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# Purpose of a firm's ORSA report submission



# Components of the ORSA process firms regard the most useful to their business



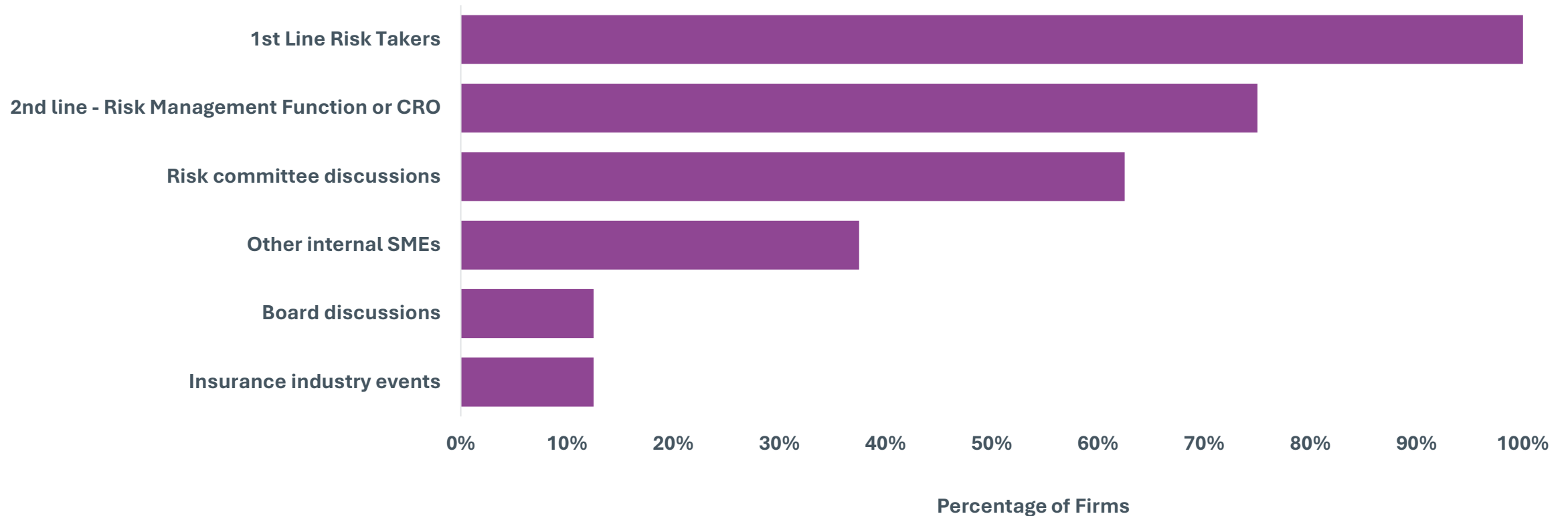


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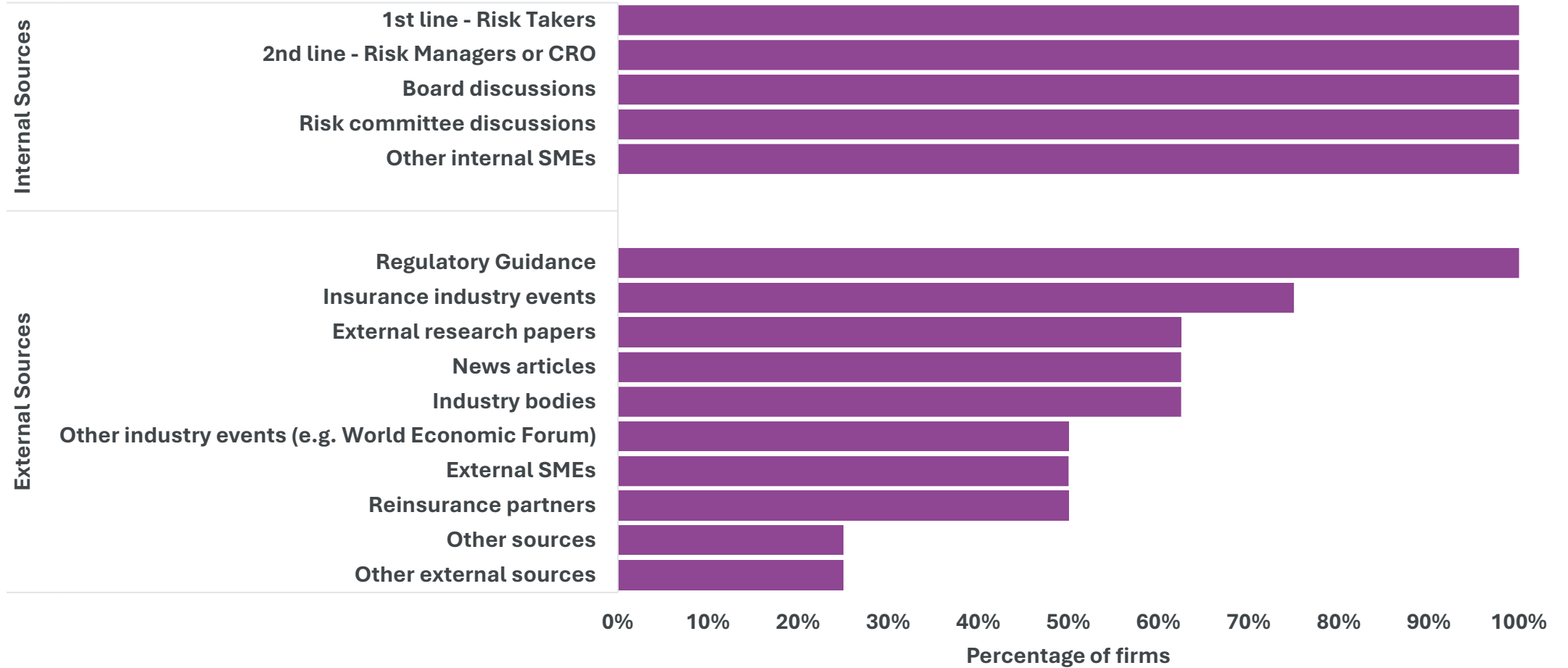
## **c) Scope and risk coverage**

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# Top 3 sources firms place the most reliance on



# Sources of scanning for risk



# Key themes on the approach to managing qualitative risks





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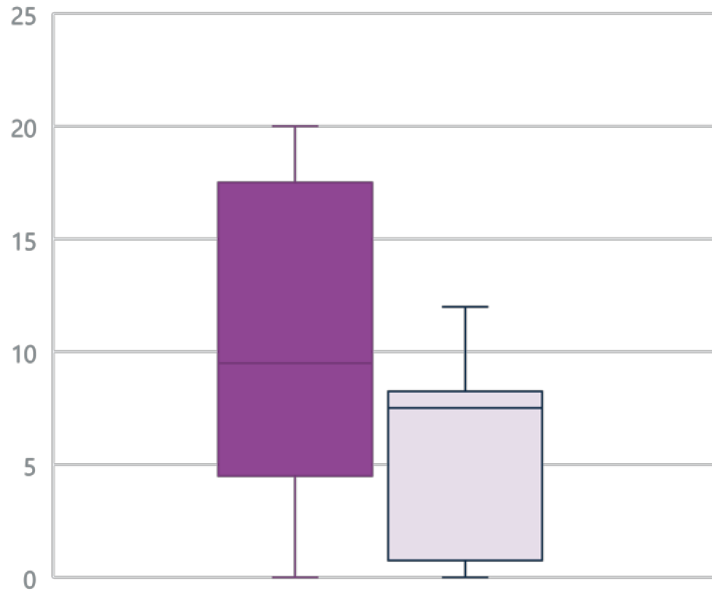
## **d) Stress and scenario testing**

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# Stress and Scenario tests

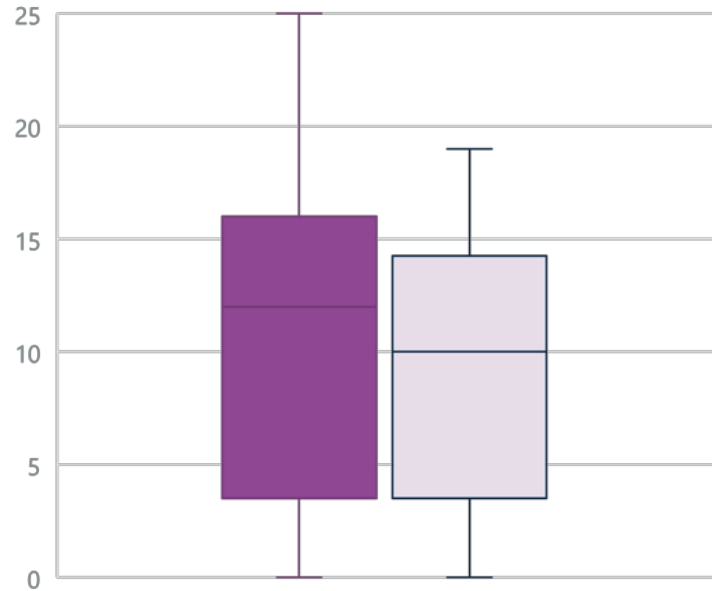
## Stress Tests

■ Modelled □ Reported



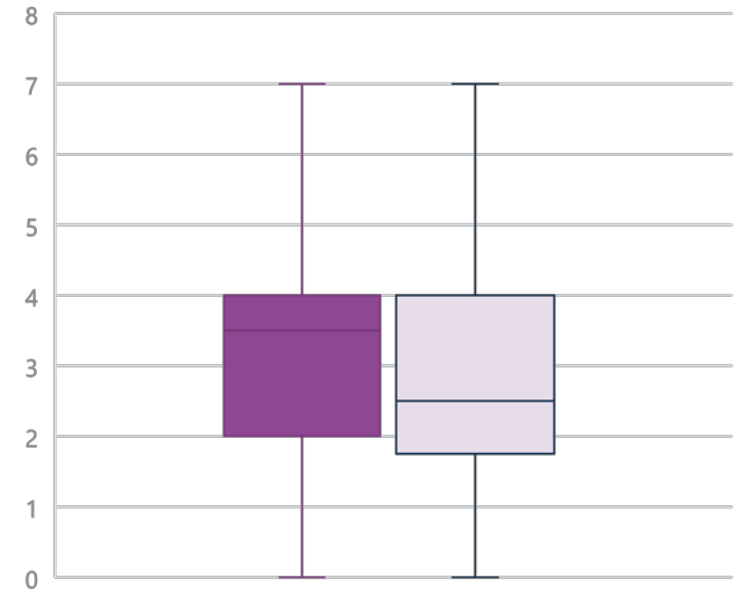
## Scenario Tests

■ Modelled □ Reported



## Reverse Stress Tests

■ Modelled □ Reported







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## **II. Perspective on what good looks like**

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# What does good look like for ORSAs?

## ◆ Captures all key risks faced by the firm

- surprising how many ORSAs are lacking in this respect
- includes both financial risks to capital and the risks to a firm's business model

## ◆ A timeframe of at least 3 years

- projection of income, capital needs (requirements and own view) and sources of capital
- taking into consideration planned changes to mix of business

## ◆ A summary of the firm's risk appetites

- and how they are expected to evolve over time

## ◆ Comprehensive stress and Scenario Testing (SST) component

- some thoughts on SST in next slide
- key is the management actions the firms would take in each SST

## ◆ An ongoing process

- that informs business planning, capital requirements, and considers Group implications
- is updated when risk profile changes and reported annually (but not too long and signposting other docs)

# What does good look like for Stress and Scenario Tests?

## ◆ A comprehensive set of scenarios

- captures the key risks that face the firms as well as emerging risks
- explores a range of return periods e.g. < 1 in 200, ~ 1 in 200 and > 1 in 200

## ◆ A mix of stresses that are same between the years and new stresses

- same stresses can help show the movement between the years (stresses need not be identical)
- new stresses allow an exploration of emerging risks

## ◆ Stresses over various time horizons

- one year time horizon matches IM and SCRs as well as firms' annual business planning
- three year time horizon can better capture some business model risks or risks that emerge slowly over time

## ◆ Realistic management actions

- less good SSTs provide fairly generic management actions such as de-risking underwriting or injecting more capital
- better SSTs detail the de-risking plans or how the capital will be sourced (in line capital management policies)

## ◆ Very good stresses often results in real insight that leads to some action

- e.g. a change in underwriting (avoiding a hotspot) or results in some improvement (e.g. change in reinsurance, a contingent capital instrument, etc.)

# Why firms should do Stress and Scenario Tests

## ◆ Understanding

- an opportunity to better understand what can go wrong whether at the 1 in 200 level, or beyond the 1 in 200 level, or for scenarios that impact earnings rather than capital (1 in 10ish level)

## ◆ Internal Models

- can contribute to getting comfort on the output of an Internal Model
- narrative behind scenarios a useful check to what is or is not captured within a model
- complements and enriches quantitative modelling behind Internal Models

## ◆ Risk management

- it can give comfort to stakeholders that they are operating within set risk appetites
- It can help firms plan and articulate their management actions for the scenario

## ◆ Preparedness

- Firms are better prepared when something similar to the scenario happens!

# Things to think about...

Emerging risks

Climate risk

What would the firm  
do if key risks  
crystallise

ORSA interaction with  
business planning and  
capital needs

Embedded in business and constant improvement



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# Any questions?

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