



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Making the ORSA work for your firm

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AFM Chief Finance Officers' network, 16 May

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Agenda

1. The PRA's expectations of firms
2. Components of the ORSA
3. Continuous considerations ... leading to capital requirements
4. What the ORSA is not
5. The audiences for your ORSA
6. Your ORSA story, telling it and bringing it together
7. Thoughts from the supervisor's perspective
8. Conclusions
9. Questions



1. The PRA's expectations of firms (1/4)

On 12 December 2013, the PRA published Supervisory Statement 4/13 'Solvency II: applying EIOPA's preparatory guidelines to PRA-authorised firms' for all firms within the scope of the Solvency II Directive.

- Section 4 set out the PRA's expectations in respect of the guidelines for the development of a forward-looking assessment of risks based on the own risk and solvency assessment ('ORSA') principles.
- The PRA considers its approach to be compatible with principles 2 (skill, care and diligence), 3 (management and control) and 4 (financial prudence) of the PRA's principles for business.
- Rules and guidance are set out in SYSC14, GENPRU 1.2 and INSPRU 7.



1. The PRA's expectations of firms (2/4)

Paragraph 4.2 stated that:

- 'The PRA will take a pragmatic approach to the way firms intend to develop their ORSA, recognising that developing the disciplines of a forward-looking ORSA will be critical to future compliance with Solvency II.'
- 'The preparatory period is a time of development for firms in designing, compiling and trialling these assessments.'
- 'The PRA will not prescribe the format or content of the ORSA, recognising that they need to reflect the specific risk profile and governance mechanism of each firm and group.'



1. The PRA's expectations of firms (3/4)

Paragraph 4.4 stated that

- 'The guidelines anticipate two annual assessments being undertaken during the preparatory period. Each of these assessments is intended to be an opportunity for firms to demonstrate the progress which they have made towards preparedness for the submission of the ORSA under Solvency II.'
- 'By the second year the assessment is expected to be of a higher standard, based on experience gained in the first year, and reflect the prevailing market conditions and any changes to risk profile.'



1. The PRA's expectations of firms (4/4)

– Paragraph 4.11 stated that the PRA would consider whether it would be beneficial to provide a summary sheet for firms to use when submitting their own risk and solvency assessment (ORSA).

- The PRA has concluded that it will not be asking firms to complete a summary sheet for ORSAs submitted to the PRA during 2014.
- If the PRA considers that as a result of the experience gained in reviewing ORSAs throughout 2014, and that a summary sheet is required for 2015 ORSAs, the PRA will provide further details in Q4 2014.



2. Components of the ORSA

ORSA Documentation	
ORSA Policy Guideline 7*	<ul style="list-style-type: none">• Overview of the processes and procedures in place to conduct the ORSA (see next slide).
ORSA Record Guideline 8	<ul style="list-style-type: none">• Record of the performance of the ORSA• Evidences the performance and outcome
Internal Report on ORSA Guideline 9	<ul style="list-style-type: none">• Report summarising the outputs of the ORSA process to the Board and relevant staff. May link to other more detailed document.• Should be sufficiently detailed to allow the Board to use it within its strategic decision making.
ORSA Supervisory Report Guideline 10	<ul style="list-style-type: none">• Report to the supervisory body summarising the output of the ORSA. This could be the same as the Internal Report on the ORSA.

ORSA Report

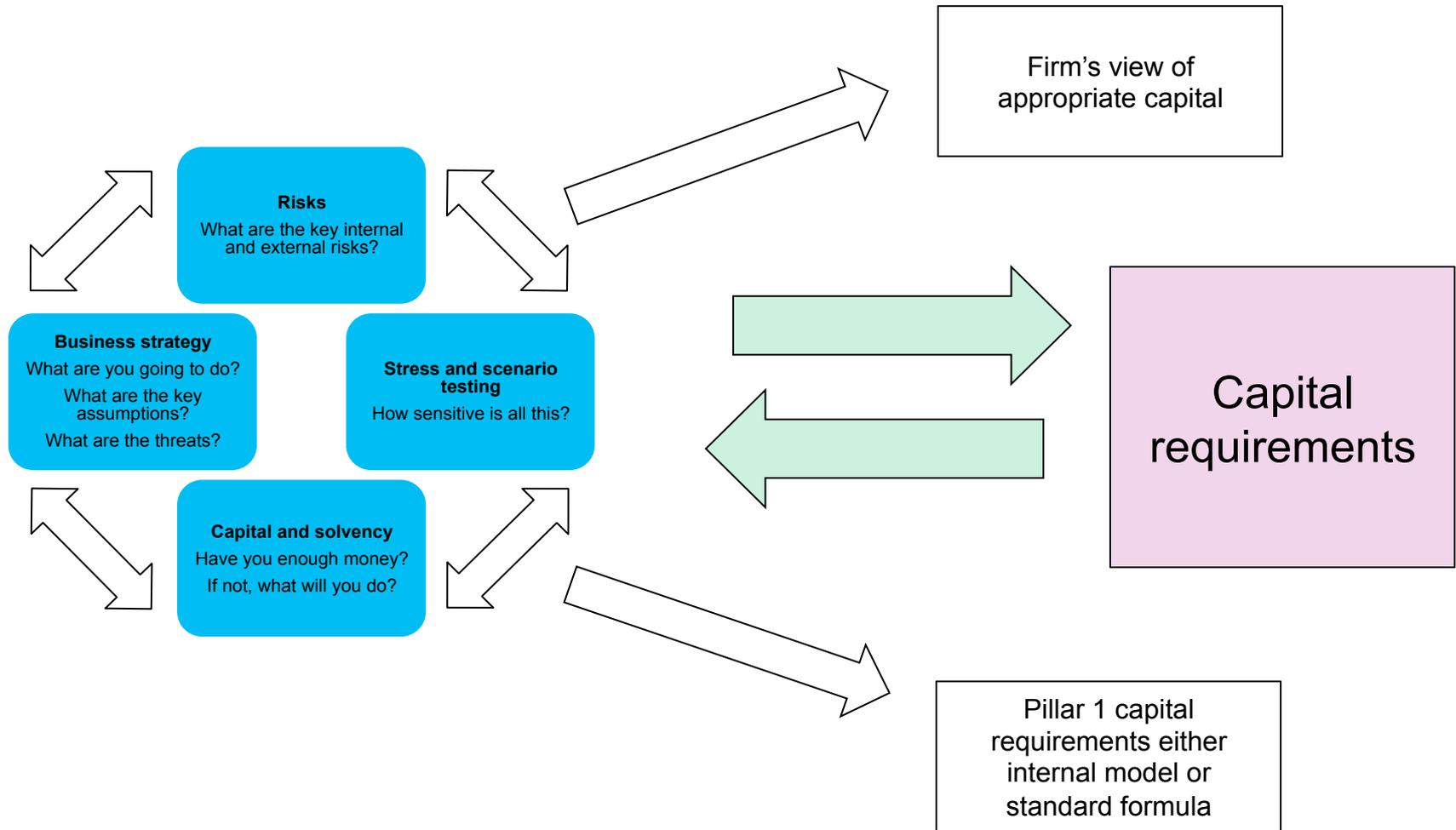
* EIOPA: Guidelines on Forward Looking assessment of own risks (based on the ORSA principles)



3. Continuous considerations... (1/2)

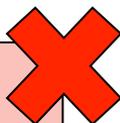


3. ... leading to capital requirements (2/2)

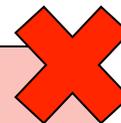


4. What the ORSA is not

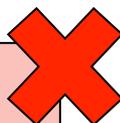
A tick box process



Just a report



A compliance exercise



Your ICA



5. The audiences for your ORSA

Different audiences have different requirements and the ORSA should be communicated appropriately

Internally within
your firm

The Board

The regulator

The Board has the ultimate responsibility for the ORSA



6a. Your ORSA story ...

The ORSA must reflect the specific risk profile and governance mechanism of each firm and group. The PRA will not prescribe the format or content of the ORSA.

Set out your storytelling style in your ORSA policy

Tell your story

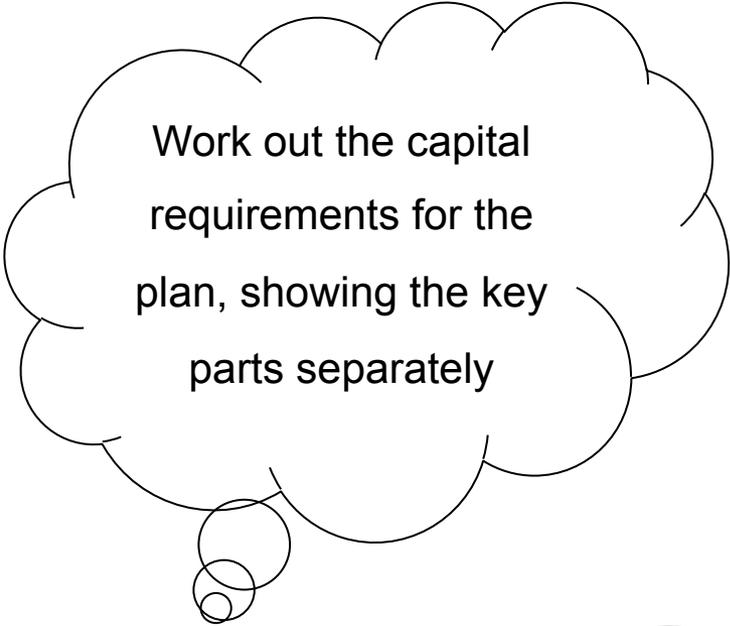
- What is happening
- What is going to happen
- What has happened: impact on now and the future

Set out the story to include:

- Business strategy
- Risks
- Capital and solvency
- Stress and scenario testing



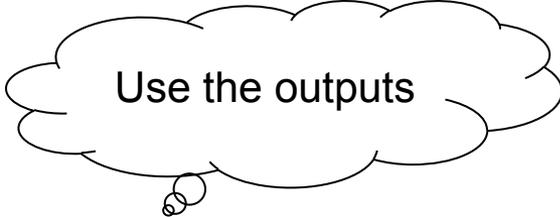
6b. Telling your ORSA story (1/2)



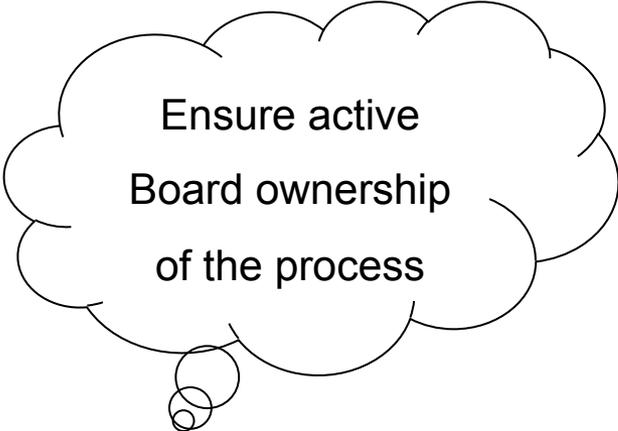
Work out the capital requirements for the plan, showing the key parts separately



Express and agree a risk appetite with the Board



Use the outputs



Ensure active Board ownership of the process



6b. Telling your ORSA story (2/2)

Look at the balance sheet now and over the business plan period

Develop a business plan and link it to the risk appetite

Work out what you're interested in and monitor it



6c. Bringing your ORSA story together

Use the outputs...

- Why do all that work and then not use it?
- Ensure that the output from the assessment forms an important part of the firm's strategic and decision-making processes.' now and over the business planning period (3-5 years)

Board ownership of the ORSA

- Agree the risk appetites and tolerances
- Initial steering on design and documentation – and approve the final process
- Challenge, where necessary, on all aspects of the ORSA report – this should be evidenced for example in Board minutes
- Approve and communicate the final report



7. Thoughts from the supervisor's perspective

- Supervisory approach and objectives
- Evidence the ORSA by demonstrating how it is used in practice and how it is embedded
- Consider the reader
 - Signpost information
 - Make sure it is complete
 - Make sure it is consistent and accurate
 - Make sure it is coherent
- The PRA will review the ORSA and provide feedback to all firms



8. Conclusions

Key messages:

- The ORSA is a process, not just a report
- Use your ORSA to tell your story
- Use the ORSA results
- Ensure Board ownership
- Consider the reader



9. Questions?



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