AFM NED TOOLKIT

YOUR FIRM AND RISK

This themed extract of the AFM NED Toolkit explores Risk Management. Questions preceded by letter A are more suited to new starters, and B to experienced NEDs, though all offer useful issues to explore.

A3.1 What are the main areas of risk that face insurers? How might they be mitigated?
A3.2 What are the key prudential risks your firm faces?
A3.9 What are the key retail conduct risks your firm faces?
A3.8 Why does recovery and resolution planning matter? What responsibility does the Board have? Are you familiar with the key elements of your firm's arrangements?
B3.1 What is the process (or processes) for setting the Board's risk appetite?
B3.2 Do you and other Non-Executive Directors contribute to the setting of risk appetite? If so, what role do you play? Give some examples.
B3.3 Is the three lines of defence working in practice?
B3.4 What do you see as your firm's key operational risks?
B3.5 Do you consider your firm's business continuity management plans fit for purpose? If so, what evidence do you have?
B3.6 Is your risk function adequately resourced?
B3.7 Is your firm operating outside risk appetite in any respects?
B3.8 If not, has it done so in the past? If so, what action was taken?
B3.9 When did the Board last consider a report in respect of risk (e.g. from the Risk or Audit Committee) and what changes, if any, were made as a result?
B3.10 Were the incidents foreseen by the firm's risk log? Were they accurately assessed and recorded?
B3.11 Are you aware of any recent regulatory enforcement cases?
B3.12 Directors might be questioned on various aspects of Solvency 2, such as:

- the firm's capital, levels and quality
- the SCR and MCR
- own solvency needs
- reverse stress tests
- the firm's liquidity position
- the stress tests and results

B3.13 Are the following processes robust:

- product governance
- promotions sign-off
- financial crime prevention
- treating customers fairly
- sales processes
- information security
- distribution relationships
- competition law compliance
- data protection
- consumer contract drafting
- complaint handling
- third-party relationships
- outsourcer relationships
- operational error and cause analysis?

B3.14 What management information is provided to the Board on systems and controls?
B3.15. How is risk management embedded into your firm's business?
B3.16 What access do the risk and compliance teams have to the Board?
B1.17 Does the recent weakening of GB Sterling compared to the Euro have any effect on your solvency position?
B1.18 How is the ORSA co-ordinated into other management activity, such as the Board MI pack, the public disclosure report etc?
B0.01 How is your Board exploring the financial risks of climate changes?

<table>
<tr><td colspan="2">A3.1 What are the main areas of risk that face insurers? How might they be mitigated?</td></tr>
<tr><td colspan="2">Framing your response

This is a general knowledge question. Solvency II sets out the major areas of risk which can be measured. There are then the risks that are harder to measure (strategy, liquidity etc.).</td></tr>
<tr><td><u>Knowledge</u>

There are many sources of risk to insurance firms. Your firm is required to consider all risks in its annual ORSA. The ORSA list may be the best start.

Aside from the typical insurer risks, there will be firm-specific, sector-specific and industry-specific risks. These might be identified by the firm or through industry reading, attendance at events etc..</td><td><u>Understanding</u>

Having reviewed ideas about insurer risk, which ones apply to your firm? How will you measure them, monitor them, manage and report them? How does your firm identify new risks?

What emerging risks has your firm faced? Are its plans to address them sensible?</td></tr>
<tr><td><u>Experience</u>

What experience have you had in the management of the risks that affect your firm? How can you use your experience to help your firm?</td><td><u>Action</u>

What reporting do you expect to see on risk? Are you satisfied with the risk management plans or do you expect improvements? Have you discussed your thoughts with the Chair and Chief Executive, or other relevant people? What have you decided to do as a result?</td></tr>
<tr><td colspan="2">For Other Information

There are many publications about different insurance risks and many industry forums which discuss risks of all types.

<u>Presentations</u> at AFM's Integrated Assurance network and <u>Risk Forum</u> offer useful insight into prudential and conduct risk. The Institute for Risk Management publishes regular reports on risk, including <u>risk culture</u> (a full version available from AFM).</td></tr>
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A3.2 What are the key prudential risks your firm faces?	
Framing your response Prudential risks are those that affect the security of policyholder benefits. Under Solvency II (the primary prudential legislation for insurers), policyholder benefits are secured by having sufficient capital and a sound system of governance. A simplified approach exists for non-Directive insurers.	
<u>Knowledge</u> The Solvency II directive sets out lists of quantifiable risks. It recognises that non-quantifiable risks exist. Prudential risks are mitigated by holding more capital and/or having a sound system of governance. How much capital does your firm hold for each major risk? How well established is its system of governance? The Own Risk & Solvency Assessment (or ORSA) is the Board's examination of all the risks affecting the firm. It identifies how sensitive various risks and combinations of risks are.	<u>Understanding</u> Based on the work that you have seen, are you comfortable with the agreed Board risk tolerances (or risk appetite) statements? How would you respond to an assertion that your firm was taking insufficient risk as its prudence is affecting financial performance? What did you conclude from the ORSA?
<u>Experience</u> What risks have you managed before? What did you learn from their management? How might this experience help your firm (or if there is no obvious way, what generic skills have you acquired from your experience)? Have you seen an ORSA process before? What experience do you have of reviewing an ORSA process?	<u>Action</u> How will/have you communicated your view on risk and the ORSA to the Chair, the Chief Executive or other relevant people?
For Other Information Risks have upside and downside. They affect the asset and liability sides of the balance sheet. Risks might be firm specific, sector-, industry-, product-, distributor- or country/economy-specific.	

A3.9 What are the key retail conduct risks your firm faces?	
Framing your response Managing conduct, to ensure appropriate customer outcomes, a healthy culture and to evidence compliance with regulations is no small matter. Poor conduct can arise from many sources including poor product governance, mis-selling of products, unfair contract terms, competition law breaches, unfair post-sale barriers to customers, deficient complaint handling and poor treatment of customers in financial difficulty. Poor culture and/or deficient systems and controls tend to be at the root of most retail conduct failings. Mitigants can include: • senior management focus on retail conduct risk; • the effective engagement of compliance, risk, and legal in planning and operation; • a clear retail conduct risk appetite statement; and • retail conduct risk metrics.	
Knowledge Your induction should include details of your firm’s conduct policy. Conduct is a wide ranging subject which can include compliance with conduct rules, ensuring safe customer outcomes and culture. The policy should reflect the risks that are experienced as well as the risks that the firm may be subject to.	Understanding Does the policy cover the required ground? Are there conduct risks that you feel are not appropriately covered or which are missing? Does the planned work look like it covers the issues that have been identified? Is conduct being treated properly?
Experience Have you seen conduct problems being handled? Have you seen conduct management in practice? What did you learn from these experiences?	Action Have you shared your views on the conduct management position with the Chair and the Chief Executive?
For Other Information See FCA Business Plan, including risk outlook here. It is worth scanning some of the worst retail conduct cases in the FCA’s fines table.	

A3.8 Why does recovery and resolution planning matter? What responsibility does the Board have? Are you familiar with the key elements of your firm's arrangements?	
Framing your response Recovery and resolution is the currently popular terminology for being prepared for a failure. There should be a plan in place to ensure that the Board understands how an extreme failure might occur and what mitigating action should be taken.	
<u>Knowledge</u> What is your firm's approach to major incidents, small to large, self-caused or caused externally? How well practiced are the plans?	<u>Understanding</u> From the material you have seen, how able is your firm to withstand minor and major disasters? What else needs to happen? Is there a plan? Are you comfortable that the position is properly reported and that the plan is sensible?
<u>Experience</u> What experience have you had in managing through disasters? How can you use this experience to improve your firm's recovery abilities?	<u>Action</u> Have you shared your views with the Chair and the Chief Executive?
For Other Information See Table A (page 63) in the PRA <u>approach document</u>.	

B3.1 What is the process for setting your firm's risk appetite?	
Framing your Response Solvency II talks about Board-approved Risk Tolerances, a phrase that has been shortened to Risk Appetite. The problem is, how to define a risk appetite in any practical detail.	
Surface Considerations	**Detailed Considerations**
This is a readily researched question. There should be plenty of evidence to support your description, in Board or Risk Committee papers. Is the process to set the risk appetite appropriate? Does it work, is it frequent enough?	Is the risk appetite useful? Is it dynamic? Does it reflect changes in risk on a timely basis? If yes to these questions, how will you ensure that it continues to satisfy these requirements? If no, what are the plans to improve process and outcome?
For Other Information Notwithstanding the fact that Solvency II has been implemented for some time, the outputs of risk-related activity remain, in some cases, too distant from the activities of firms. The risk appetite should be a useful summary of how the firm expects to manage its solvency over time, in the face of multiple risks. Often there is work still to be done to achieve this level of usefulness. For more, see PRA's Solvency 2 webpage. Non-directive firms also need to assess their risk appetite, though the regulatory framework is simplified.	

<table>
<tr><td colspan="2">B3.2 Do you and other Non-Executive Directors contribute to the setting of risk appetite? If so, what role do you play? Give some examples.</td></tr>
<tr><td colspan="2">Framing your Response

Again, a factual question, which might cause some reflection.

The risk appetite has to be set by the Board, so it would be very unusual for Non-Executive Directors not to be involved.</td></tr>
<tr><td>Surface Considerations</td><td>Detailed Considerations</td></tr>
<tr><td>Is your risk appetite statement complete enough for you? Does it cover all relevant risks?

How does the Risk Committee, if you have one, develop the risk appetite?</td><td>How is actual performance against risk appetite monitored? Is the reporting frequent enough? Is it forward- or backward-looking?

How does risk appetite tie in with the ORSA?</td></tr>
<tr><td colspan="2">For Other Information

Arguably, risk appetite should emerge from the ORSA process, so this could be a question about the Board’s involvement in the ORSA. The ORSA tests solvency against various risks, this showing the impact of any breaches in risk appetite.</td></tr>
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B3.3 Is three lines of defence working in practice?	
Framing your Response If your firm uses the three lines of defence! It is not obligatory, and may simply not work in smaller firms. Even at bigger firms, its effectiveness will depend on its implementation. The three lines of defence are operational control; operational assurance and control (including compliance, actuarial and risk management); and internal audit. Firms may organise their own control and governance functions to achieve an effective internal control system. Firms must consider the effectiveness of their internal control frameworks in their annual reporting. There should be minutes of the work done to support the opinion reached on internal control (and risk management). Evidence will probably be expected to support your answers.	
Surface Considerations	**Detailed Considerations**
Are there weaknesses in the three lines of defence model (or your chosen governance model), as implemented? How are these being addressed? What reporting and management information does your firm rely on?	If there was to be a failure in internal control, where would it be most likely to occur in your opinion? Have you raised your assessment with the Audit or Risk Committee Chair or the Chief Executive?
For Other Information The three lines of defence model is common: for example, see: Chartered Institute of Internal Auditors. No other model is as well described, but that shouldn't mean that firms feel obliged to implement three lines of defence. Your internal control system should ensure that your activities and reporting are accurate, within acceptable tolerances. Errors should be prevented, based on good high-level material (policies and procedures). Where errors have happened, there should be proactive systems to find them and to correct them safely. The internal control system should operate at all levels: individual transactions, functions, ecosystem (e.g. IT systems, customer care etc) and at overall firm level.	

B3.4 What do you see as your firm's key operational risks? A blunter way of asking the question might be 'what could kill your firm?' or 'what are the three biggest risks to the firm?'. The question might be targeted at a particular Committee, and thus be limited to Audit, Risk etc.	
Framing your Response The ORSA should provide the answers to these questions. Certainly, it would be odd if the ORSA conclusions were very different to your answer (it would suggest that the ORSA is not doing its job). ORSAs now should include reverse stress tests (i.e. deliberately breaking the model). Risks are not just about solvency however.	
Surface Considerations	**Detailed Considerations**
The simple response to this question is a list of risks. How familiar are you with the impact of the risks on your list? With their possible frequency? With the mitigations in place to minimise their incidence or impact? With the controls to direct the impact or understand the impact better.	Are the steps in place to mitigate these risks right? Are the right risks being monitored? Are the risks being measured and monitored appropriately? Is the Board reporting right? Are there sufficient processes in place to identify new risks?
For Other Information Whilst the question asks about operational risks, this is a difficult category to pin down. One definition of operational risk (people, processes, machinery, strategy, reputation) is so wide that almost anything could be included.	

B3.5 Do you consider your firm's business continuity management plans fit for purpose? If so, what evidence do you have?	
Framing your Response Business continuity, or under its new name 'operational resilience', is increasingly important. The regulators have been consulting on this subject in 2018; see here, and new rules may emerge.	
Surface Considerations	**Detailed Considerations**
Is business continuity regularly on the Board's or a suitable Board committee's agenda? Is it subject to internal audit? How often are the plans tested? Is there a plan to develop the business continuity facilities over time?	Business continuity can absorb resources way beyond its impact. How do you know that your firm's approach is proportionate? Are there vulnerabilities that cannot be addressed?
For Other Information Business continuity is a firm-specific issue: no other firm will have the same infrastructure, connections and working method that your firm has. Business continuity approaches have to be tailored for your firm. There is no shortage of consultancy assistance available, but there is also no alternative to an intimate understanding of the issues to be reckoned with, so your own IT and administration people will be central to designing and implementing the appropriate solution. See PRA's 'financial sector continuity' webpage.	

B3.6 Is your risk function adequately resourced?	
Framing your Response How would you know? The requirements of the risk function are set out in Solvency II, but need to be applied proportionality. Perhaps more important is how your risk function works within your firm to add value and insight.	
Surface Considerations	**Detailed Considerations**
How many people are in the risk function? How do they spend their time? What structures support the risk function? Is the risk function a silo, or is it embedded? Are the risk policies fit for purpose?	How is the risk function designed to support the business of the firm? What changes can be made to ensure that risk is considered with every decision (or does this happen already)?
For Other Information There is material around that describes the risk function and how it should work within the business. Yet much of risk management is good management – including common sense. Ring fencing it as a specific function may be necessary in very large firms: in smaller firms, risk has to be a consideration for several areas, with some central co-ordination to ensure the regulatory issues are addressed.	

B3.7 Is your firm operating outside risk appetite in any respects?	
Framing your Response This is a little tricky. Risk appetite changes with prevailing conditions. A breach may lead to a redrawing of the risk appetite, and this option should not be ignored.	
Surface Considerations	**Detailed Considerations**
This should be a factual response, based on regular reporting, or possibly an intra-meeting alert. What happens as a result of operating outside appetite? A good chance to describe some real incidents and how they were managed. Might the appetite be re-drawn? Maybe it was based on an estimate and now it should be adjusted because there is better information.	Acting outside risk appetite may occur because a risk has materialised to an unexpected degree. It could also arise because the definition of the appetite needs improvement. How good is the firm at describing its risk appetite? Does the firm get caught out, as it struggles to express the risks better? Is the risk appetite sufficiently attuned to the firm and its operating environment?
For Other Information The risk appetite is relatively new. A Board could agree its risk appetite only to find that the chosen parameters don't match the sensitivity of the risk. This can work both ways: a tolerance that is never triggered or a tolerance that is triggered too often. It will take time to settle on the right appetite. The ORSA should help, allowing the sensitivity of the firm's solvency to be tailored to its risk appetite.	

B3.8 If not, has it done so in the past? If so, what action was taken?	
Framing your Response This question has sort of been answered above, but…	
Surface Considerations	**Detailed Considerations**
A risk appetite is a broad set of tolerances. Some breaches will be more important than others, or will have irreversible or more damaging consequences. Other breaches may indicate a changing market, suggesting that tactical or strategic plans need to be reviewed.	Does the risk appetite serve a useful purpose in business planning? Or is it a tick box exercise? What plans are there to improve the use of risk appetite, or is it useful already?
For Other Information As discussed, the risk appetite is a relatively new and untried concept. Boards should continue to step back and take an overview of their risk management system and its impact on the business. By challenging the impact, continual improvements should be possible.	

B3.9 When did the Board last consider a report in respect of risk (e.g. from the Risk or Audit Committee) and what changes, if any, were made as a result?	
Framing your Response A bit odd this. Modern governance expects the Committee Chairs to report at each Board meeting, so the answer should be 'every time it meets, as scheduled'. While the setting of risk tolerances (or risk appetite) will probably be a matter reserved for the Board, the Risk Committee might be expected to get on with the rest of it. This may well not be the case in a smaller company with no separate Risk Committee. In that case, risk should be regularly discussed. If the risk function is not to be a silo, it should be part of all business discussions.	
Surface Considerations	**Detailed Considerations**
A factual question.	Does the Board consider risk matters appropriately? Is the Risk Committee doing a good job? How would you know?
For Other Information The risk function is developing and no-one has a complete and correct answer. Continual testing and challenge should allow improvements to be made continually.	

<table>
<tr><td colspan="2">B3.10 Were the incidents foreseen by the firm’s risk log? Were they accurately assessed and recorded?</td></tr>
<tr><td colspan="2">Framing your Response

A slightly odd question. Certainly all risks should be considered by the ORSA, but there are infinite descriptions of risk. At some point, the focus has to switch to the impact of the risk, rather than the innumerable possible causes.

Should a risk log anticipate all types of incidents? Maybe this refers to a risk register? Some risk registers consider the impacts only (at least for some risks), not the causes…in which case, the question can be considered as ‘was the impact foreseen and appropriate steps taken to mitigate’? A different approach might be to consider the category of risk and its potential to cause harm, considering only harm-causing risks.</td></tr>
<tr><td>Surface Considerations</td><td>Detailed Considerations</td></tr>
<tr><td>This is an opportunity to talk about risk management in action. First, does the Risk Management System anticipate all forms of risk incident? Second, does the risk reporting provide proper details, root-cause analysis, preventative and corrective actions and a record of accepted vulnerabilities?</td><td>Is the Risk Management System fit for purpose in practice? If not, have you raised the matter and what is the plan?</td></tr>
<tr><td colspan="2">For Other Information

Much risk material is about what should happen, not how a Risk Management System can be implemented in practice. It is quite important that you can describe how your firm’s Risk Management System works in practice and is suitable for your firm.</td></tr>
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<table>
<tr><td colspan="2">B3.11 Are you aware of any recent regulatory enforcement cases?</td></tr>
<tr><td colspan="2">Framing your Response

Rather a broad question, which is presumably designed to test a Director’s awareness of the governance and industry environment. It may be worth tying this up with the business plans of both regulators. These plans tend to identify the areas of particular regulatory interest.</td></tr>
<tr><td>Surface Considerations</td><td>Detailed Considerations</td></tr>
<tr><td>Worth knowing what cases are progressing or have been concluded which have an impact on your firm’s line of business. Cases might be fought in the courts or announced by the regulator. The more important cases will attract industry comment, which might also be useful.

Your Company Secretary may be able to assist with the required details.</td><td>What steps are you taking to ensure that your firm is not vulnerable to the sort of issues that have led to enforcement action?

What steps have you taken in the light of the PRA and FCA business plans?</td></tr>
<tr><td colspan="2">For Other Information

Exploring what lessons can be learnt from problems elsewhere in the industry is valuable to a firm.

Demonstrating evidence of thought around the issues coming to light should show the regulator that emerging governance issues are being taken seriously.</td></tr>
</table>

B3.12 The Board, or individual members, might be questioned on its/their knowledge of the Solvency 2 position, such as: • **the firm's capital, levels and quality** • **reverse stress tests** • **the SCR and MCR** • **the firm's liquidity position** • **own solvency needs** • **the stress tests and results**
Framing your Response This is essentially a question about the results of the ORSA. It would be quite unfair to be expected to cite numbers, other than perhaps a solvency ratio. You should know the headlines though. Your firm's ORSA report should address the questions listed directly in its executive summary.

Surface Considerations	**Detailed Considerations**
You should know whether your firm is likely, on its current business plan, to run into capital problems: if it looks like it might, you should know the remedies available and the plan if the trend worsens. The liquidity of available capital is an important measure. The ORSA is about stress testing all possible parameters, including trying to deliberately break the firm (reverse stress testing).	Does your firm's ORSA process provide useful insight for the development of the business plan? If not, why not? If it does, what changes have been made as a result of the ORSA results?

For Other Information While much has been written about the ORSA, there is not that much around about what the results might mean for individual firms. In part, this reflects the uniqueness of each firm's ORSA. Your CRO or Chief Actuary should be able to explain the implication of all of the ORSA results on your firm and its future plans.

B3.13 Are the following processes robust:

- **product governance**
- **competition law compliance**
- **promotions sign-off**
- **data protection**
- **financial crime prevention**
- **consumer contract drafting**
- **treating customers fairly**
- **complaint handling**
- **sales processes**
- **third-party relationships**
- **information security**
- **outsourcer relationships**
- **distribution relationships**
- **operational error and cause analysis?**

Framing your Response

If the Board is doing the right job all of these processes will be robust. This is a great list of hygiene factor processes. They should be on the agenda of the Audit Committee if not the Board at least once in a year-long cycle. All of them are important parts of the effective Internal Control System. You will probably only be asked about one, but you should be prepared!

Surface Considerations	Detailed Considerations
Hopefully the answer is always yes, but you will need to explain how you have drawn your conclusion. How do you know? What evidence have you seen? Has internal audit been involved? What incidents have there been? What changes have there been?	How effective is the internal control environment? Where are the planned improvements? On balance, where are the strengths and weaknesses?

For Other Information

This laundry list is a useful aide-memoire. Firms may well keep their own (IDD, bribery act, policy review…and so on could usefully be added). The list might too form part of the universe drawn up for the risk, audit and compliance functions.

B3.14 What management information is provided to the Board on systems and controls?	
Framing your Response On the surface, this is a factual question about the effectiveness of the internal control environment and how it is reported to the Board. As a Director, the bulk of your information comes in management information (MI) and Board papers. Are you asking for the right information to allow you to oversee your firm effectively?	
Surface Considerations	**Detailed Considerations**
Is the management information (sometimes abbreviated to 'MI) sufficient to allow you to assess how effective the internal control environment is? Is it appropriately sensitive, broad, and working for the business? Contrarily, is it sufficiently probing in the right areas to allow you to understand the unfolding situation?	How do you expect the internal control environment to develop over the next three years? How will the management information develop? Will your confidence in the reporting increase, decrease or stay the same?
For Other Information Management information tends to be close-to-unique to each firm, driven not only by the business, but what can be drawn out from the IT systems and the firm's history. But is a well-established set of management information really fit for purpose in a dynamic environment? Are there variables that should be being tracked, to provide additional insight that may be increasingly relevant? Conduct risk management information is a good example. A decade ago, the fuzzy metrics often used would be rare in the Boardroom, whereas now they are mandated. Try asking yourself, for each piece of management information, what does this tell me? What would too high- or too low-level MI look like? What decisions would be prompted by a too high or too low value? What are the things that would be terrible for your firm? How would you know if there was a trend to see them happening in practice?	

B3.15 How is risk management embedded into your firm's business?	
Framing your Response Risk management is a part of insurer governance under Solvency II. It is a required component. You need to be well-versed in your firm's risk management approach. Embedded risk management is a sign of governance maturity. Risk management should be part of 'how we work around here'. If it is not, if risk management happens in a silo, if it is a secondary consideration, if it is tick-box, you may have some way to go. If risk management is embedded, it can be difficult to explain where it happens, because it is part of the everyday!	
Surface Considerations	**Detailed Considerations**
How often are team and function managers asked about their view on risk? What happens to those views? What risk information does the Board use in its decision-making? How have decisions changed because of risk information? Are your firm's risk policies useful throughout the business? How often do employees talk about risk?	Is risk management central to the Board and Committee discussions? Is your firm focused on its solvency and how risks affect its solvency? Does your Board distinguish between internal control and risk management? How does your firm consider operational risk incidents?
For Other Information Much has been written about risk management. Most material tends to be about how things should happen. There is not much around about the practical aspects of embedding risk management or making risk management useful. Firms therefore have to decide for themselves how to strike the right balance – hence this is an interesting question for the experienced NED.	

B3.16 What access do the risk and compliance teams have to the Board?

Framing your Response

It is generally expected that heads of compliance teams have direct and explicit access to the Board, sometimes via the Audit Committee. Risk functions should have similar access. There may be some practical difficulties where these functions are vested in one person who may also sit on the Board, but the principle is worth striving to preserve: these functions exist to help Boards overcome the natural information asymmetry that exists between Non-Executive and Executive Directors.

Some firms formalise the access, by routinely having private conversations between the Non-Executives, or a sub-set of them, and the heads of compliance and risk after every scheduled meeting. By making access routine, it becomes embedded and is perhaps easier for matters of concern to be raised.

Surface Considerations	Detailed Considerations
What happens in your firm? Is it enough? Are matters drawn out? Are sensitive matters raised in a way that illuminates without threatening? The Board could usefully ask the risk and compliance teams about the extent of the internal challenge that is in place and how it is received. The Board may be able to request additional materials and thus underline and ease the importance of the compliance and risk areas ("the Board would like to see the issues log of matters raised and how they were handled").	The underlying question that private contact seeks to address is 'how did your boss and/or the Chief Executive respond when you said this to them?'. The response is interesting culturally as well as structurally. Ideally, compliance and risk areas will be valued business partners, not business prevention departments.

For Other Information

Explicit direct access may be enshrined in the Terms of Reference for the Audit Committee or Board. There may too be requirements to ensure the independence and resourcing of these functions. Testing for these factors is a useful obvious question.

B3.17 Does the recent weakening of Sterling compared to the Euro have any effect on your solvency position?	
Framing your Response The answer to this question depends on whether you have non-Sterling policies and/or non-GBP assets on your balance sheet. The effect should be obvious from the sensitivities in your ORSA. You may decide to take management action to mitigate the financial impact. You need to be prepared to talk about impacts and mitigants.	
Surface Considerations	**Detailed Considerations**
If this is a significant risk for your firm, you should be aware of its scale and the possible mitigating actions.	Should your firm have exposure to non-GBP assets or liabilities? If yes, how do you optimise your exposure? If no, what are you plans to limit the exposure?
For Other Information This question could be asked about any of the major risks tested in your ORSA (so things like new business, lapses, interest rates, mortality, morbidity, investment returns and so on). You should have a broad understanding of the major risks and mitigants (your ORSA report should set these out). You might like to have this to hand.	

B3.18 How is the ORSA co-ordinated into other management activity, such as the Board MI pack, the public disclosure report etc?	
Framing your Response It is a requirement of Solvency II that the ORSA results be shared with senior management. For a smaller firm, this might simply be the Board. For a larger firm, the consequences should be shared more widely. The technical aspects need not be shared. The Board MI pack may include risk and solvency measures. The format of the public disclosure report (the Solvency & Financial Condition Report) is fairly tightly prescribed and includes some risk and solvency information. Your actuary will be able to point out the relevant areas and to describe why the level of detail included is appropriate.	
Surface Considerations	**Detailed Considerations**
Ideally, the ORSA process and report should be useful for the Board and the firm. How is it made useful in your firm? Do the directors value it? Does the business plan depend on the ORSA results?	Is the ORSA useful in your firm? If not, what do you propose to do about it?
For Other Information There is not much research into how to make your ORSA useful, but there are schools of opinion around. Most material is from the actuarial profession. Perhaps the most useful lead is to press your Chief Actuary: Why does this help? What does this mean? What does this suggest the firm should do differently?	

B0.01 How is your Board exploring the financial risks of climate changes?	
Framing your Response PRA rules from 15 October 2019 require all insurers to identify a senior management function responsible for managing financial risks from climate change, and to have in place an initial plan to address PRA expectations.	
Surface Considerations	**Detailed Considerations**
Is your organisation directly affected by physical factors caused by climate change (which might include claims or persistency, for example via flooding or changes in morbidity or mortality)? Or are the transitional effects of greater relevance (such as the impact on your investment portfolio of a move away from carbon emissions or the growth of green energies)? Is the Board actively considering the issue with an individual responsible for developing and monitoring a plan?	This is becoming a mainstream issue and not one a small insurer can assume they have no responsibility for. Under FCA rules and the Shareholders Rights Directive, life companies are expected to have an engagement plan with asset managers, which includes environmental, social and governance (ESG) issues. It is also a factor in the AFM Corporate Governance Code, and there is increasing expectation from consumers that companies take climate and ethical issues more seriously.
For Other Information PRA Policy Statement PS 11/19 is a key reference point, as is their earlier paper 'The impact of climate change on the UK insurance sector'. In addition, EIOPA is taking sustainability issues into Solvency 2. AFM is supporting members with a project on sustainable insurance.	