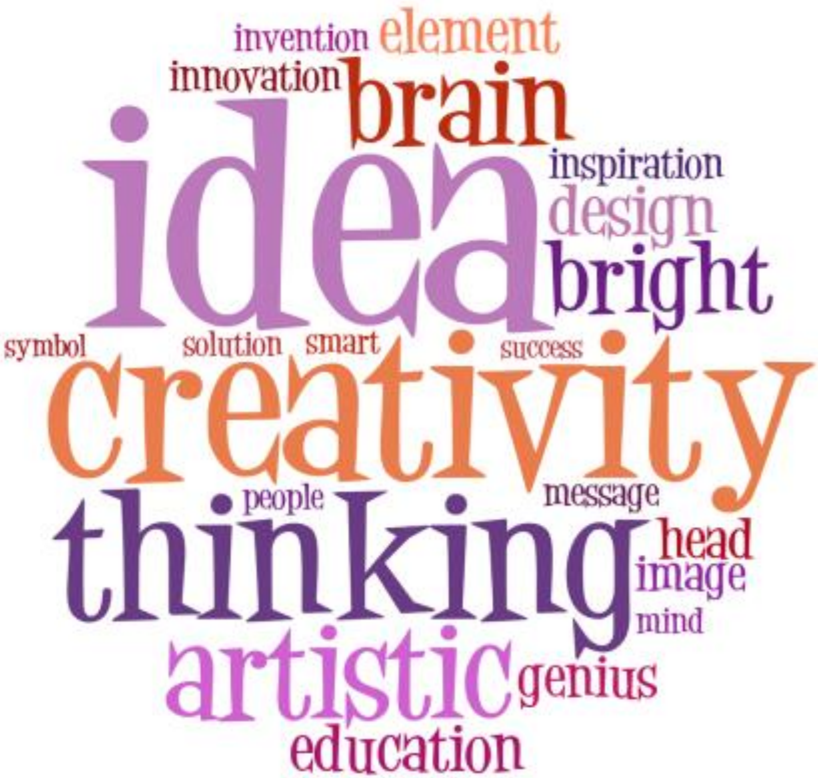
ACTUARIAL SOCIETY OF SOUTH AFRICA

QUANTIFYING RISK, ENABLING OPPORTUNITY

OPTIMAL ORSA OPERATIONALISATION

RIYADH MAYET FASSA FIA
STANDARD BANK
11 AUGUST 2014


focus


invention
element
innovation
brain
idea
inspiration
design
bright
symbol
solution
smart
success
creativity
people
message
thinking
head
image
mind
artistic
genius
education

Understanding Risk Management

"A Maserati is probably safer stored in the manufacturer's warehouse … but that's not what a Maserati is made for"

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Optimal ORSA Operationalisation

Optimal

Best or most favourable approach

ORSA

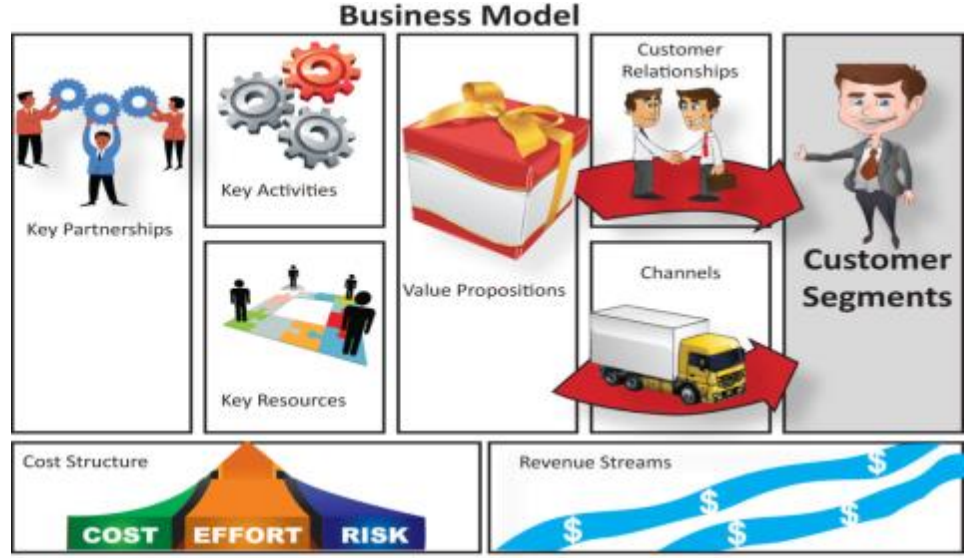
"The **entirety** of the **processes and procedures** employed to **identify, assess, monitor, manage, and report** the short and long term **risks** an insurance undertaking (and insurance group) **faces or may face** and to determine the **own funds** necessary to ensure that insurers' (and groups') overall **solvency needs** are met at all times and are **sufficient** to achieve its **business strategy**"

Operationalisation

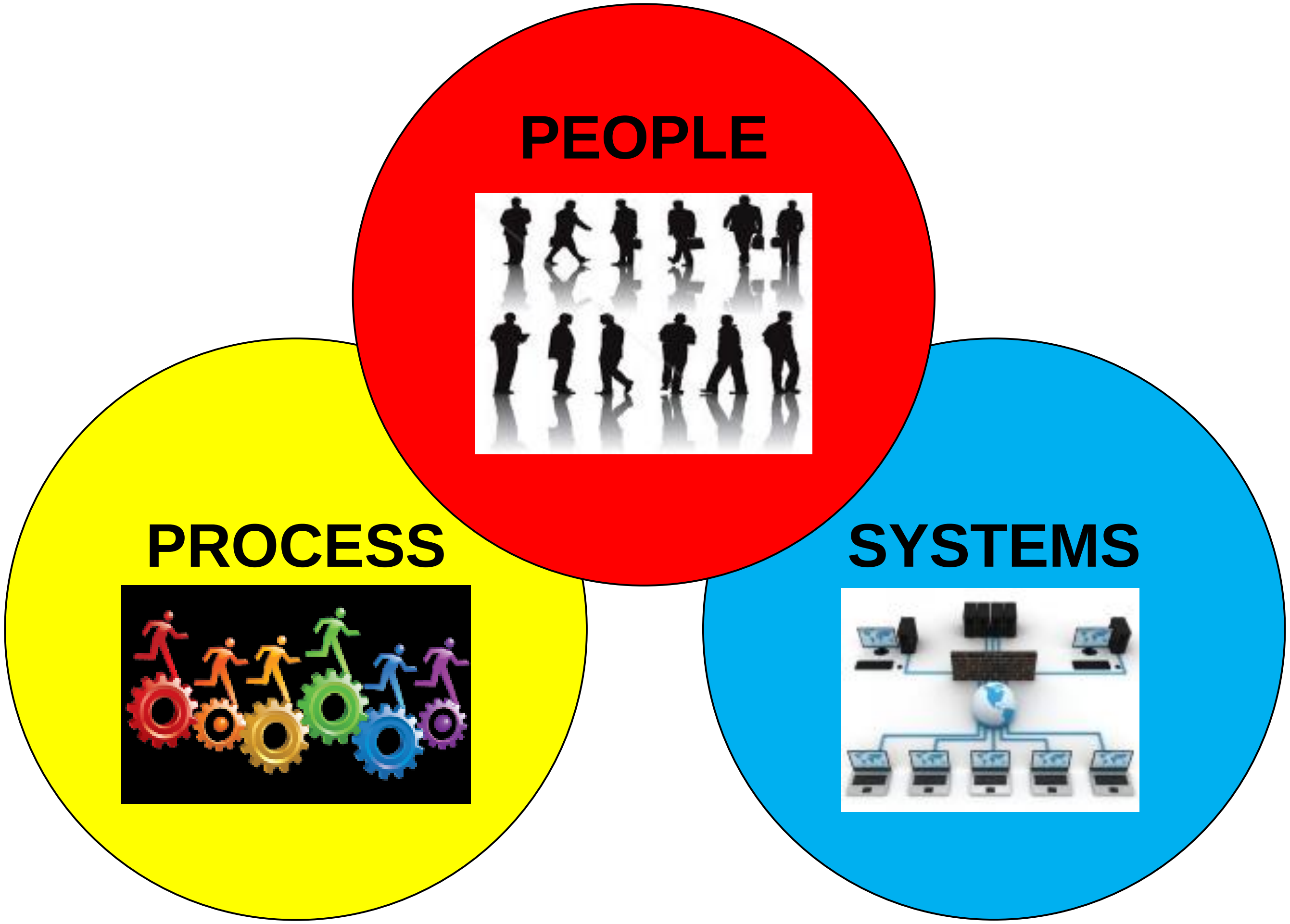
Converting concepts into workable measured outcomes

“Some say ORSA is the Heart of SAM
I say ORSA is the Brain of SAM”

Benefits of ORSA



Operational Elements



People

“Company culture eats strategy for breakfast, lunch & dinner”

Influencing Culture

- Strong cultures enhance organisational performance
  - They improve performance by energising employees
  - Strong cultures boost performance by shaping and coordinating employees' behaviour

- Need for the selection of people for right fit
  - Company Level
  - Project Level

- Office environment and rules influence the culture
- Managing Culture through Socialisation & Training
- Managing Culture through the Reward System

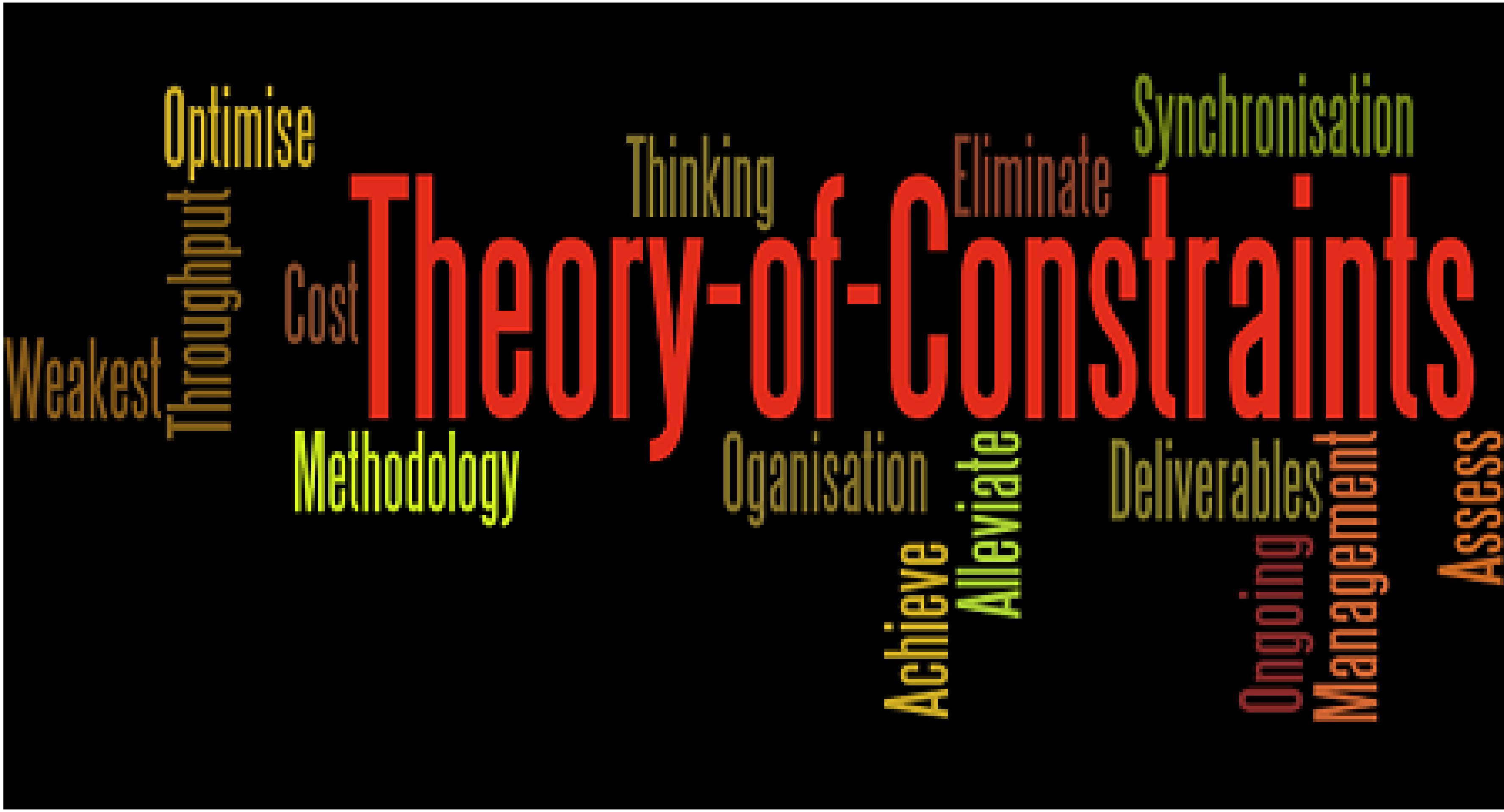
Team Dynamics

1 + 1 + 1 = 5

Socialisation

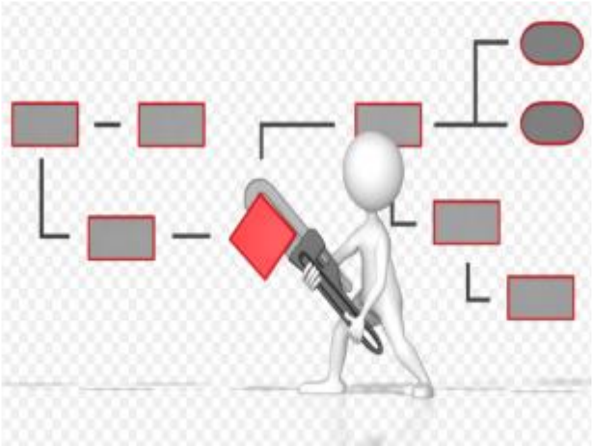
"Do not ask someone's opinion if you are not going to take their advice into consideration"

Process Optimisation


Theory-of-Constraints
Optimise
Thinking
Eliminate
Synchronisation
Throughput
Cost
Weakest
Methodology
Oganisation
Alleviate
Achieve
Deliverables
Ongoing
Management
Assess

Process Prioritisation

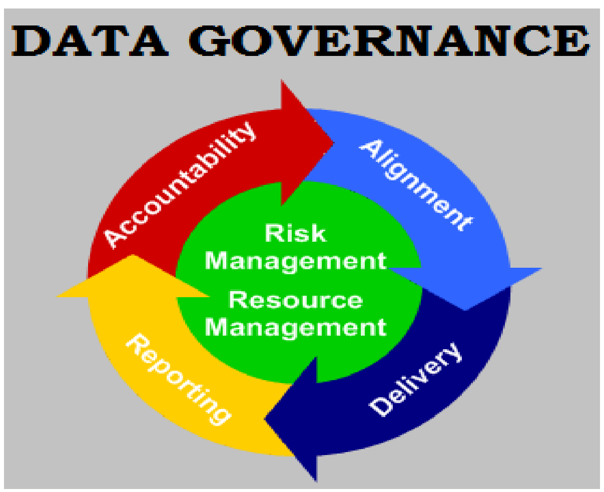
- Not all calculated numbers are worthy of inclusion in an ORSA report
- Need to filter on the useful ones
- Have standard things that need to go in; however, we need the numbers to inform decisions

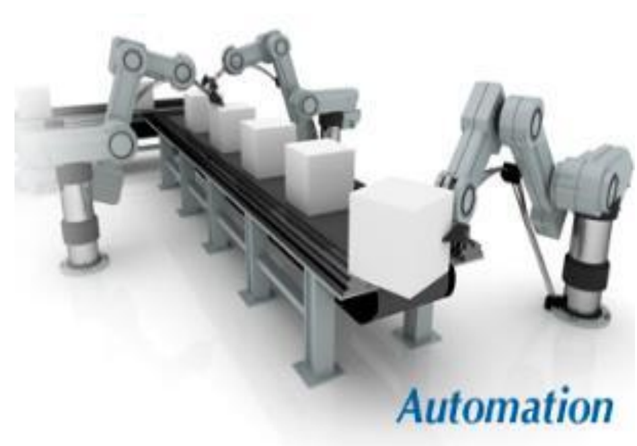


Systems

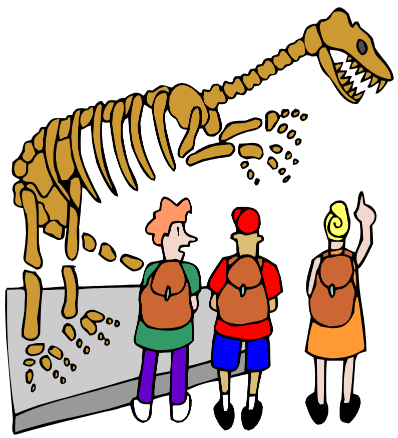
- Knowledge is information in action
  - Until information is used, it is not considered knowledge

- Focus on the systematic efforts to enable info and knowledge to grow, flow and create value





System Issues



Ownership & Tone of Report

- To pass the Use Test probably need to ensure more than just risk management of the business has a material say in the report
- Board approved but risk may be delegated to ensure its execution
- Need to ensure risk management type insights are inherent in those reporting

~~Sufficient Capital~~	Efficient Use of Capital
~~Generating Profits~~	Optimal ROE & Sustainable Strategy
~~Have Liquid Assets~~	Optimising Profits
~~Have new Products developed~~	Are these Products Part of Overall Strategy

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ORSA Report Format

ICAAP Basel Example (Swiss)

Description of the company's ERM

- Risk Culture & Governance
- Risk Identification & Priorities
- Risk Appetite, Tolerances & Limits
- Risk Management & Controls
- Risk Reporting & Communication

Company's Assessment of Risk Exposure

Assessment of Risk Capital and Prospective Solvency Assessment

ORSA Guidance (Lloyds, UK)

Executive summary confirmation statement

- Overview of the high level strategy in context of the overall risk profile

Summary of ORSA Process for the period

- Governance, internal model, model validation, assumptions, management actions

Capital and Solvency Position and stress testing

Forecast Capital and Solvency position

Risk Management information

- Risk profiles, key & future risks, risk mitigation

Standing information to support ORSA

Getting Started

Use Test

Cost
Risk
Benefit
CONFIDENTIAL
TRANSPARENCY
Yes
No
Maybe
Improvise
Adapt
Overcome

“ORSA IS NOT A REVOLUTIONARY PROCESS BUT RATHER AN **EVOLUTIONARY** PROCESS”

Use Test Example

- Describe sub-process and why it is relevant
  - Risk Appetite: To ensure the business sets and monitors acceptable levels of risks taken on. This is in order to ensure the strategy can be achieved sustainably.
- Describe the method of evaluating the sub-process
  - Performance metrics from YTD management accounts figures
  - Projected capital and earnings from the ECap model
- Display the results
  - Net Assets is, say, 2 times our target risk appetite level
  - Liquidity = 80% of target risk appetite level
- Interpret the results
  - Exco approves business is well capitalised, but has liquidity issues
- Action items/conclusions
  - Board approves conversion of equities into liquid form of assets
  - Risk management instructed to monitor and report back regularly

Principle Based Legislation

ORSA Alignment to Actual Risk Profile of the Business

Other Regulatory Developments

Treating Customers Fairly (TCF)

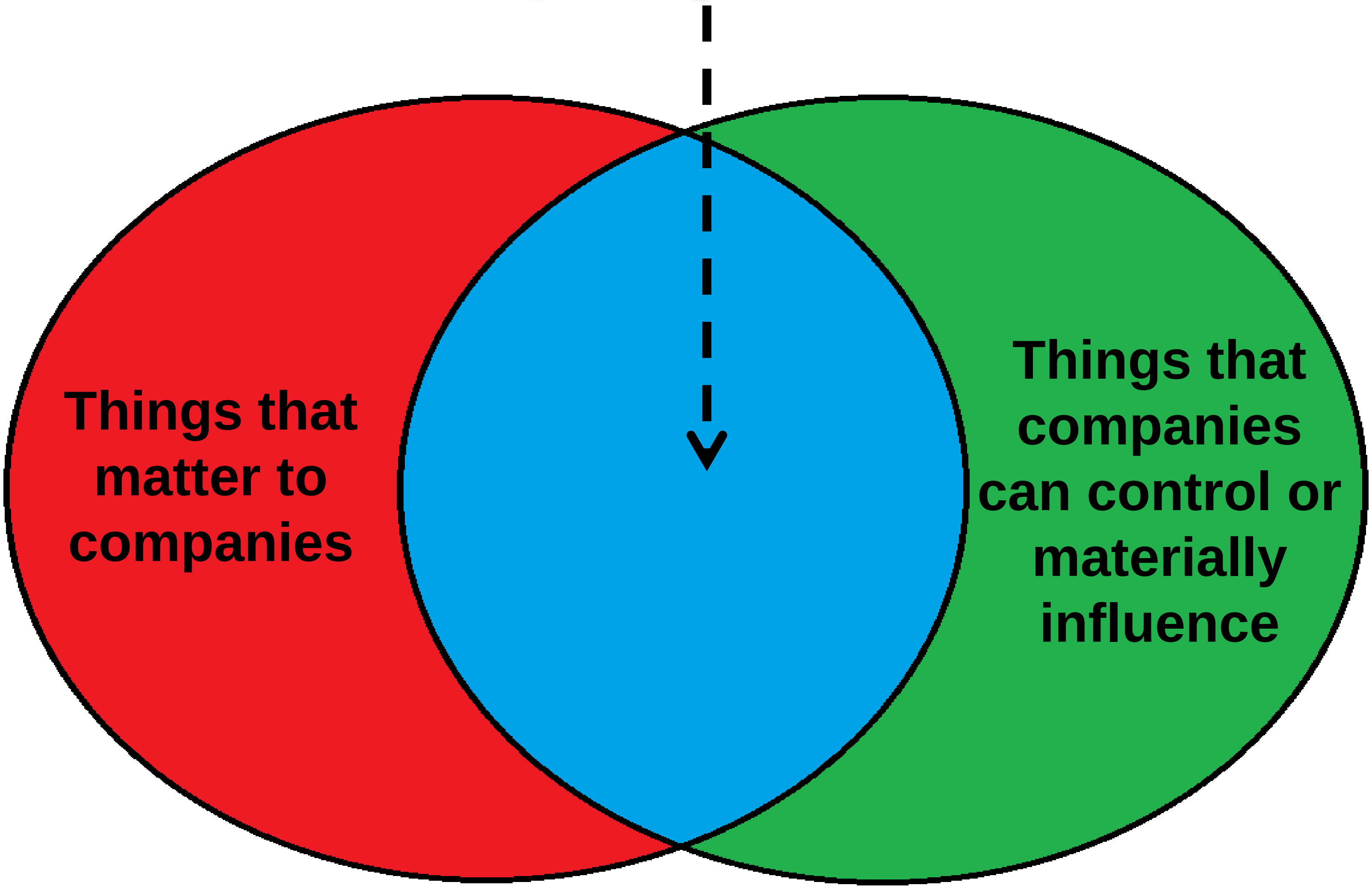
Protection of Personal Information (PoPI)

Binder Regulations

Twin Peaks

MicroInsurance etc.

What the company should focus on



Change is the only thing constant - Embrace change

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Final Remarks

- ORSA is an ART
- It is about:

  Accountability

  Responsibility

  Teamwork

- Embrace the change it brings and go out there and produce that masterpiece

Thanks
Any Questions or Comments?

RIYADH MAYET FASSA FIA

Senior Risk Manager

Standard Bank

riyadh.mayet@standardbank.co.za