



**Insight**  
Risk Consulting

ICA to S2 – An Uncertain Journey  
22 November 2012

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# Introduction

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- ▶ Effects of the delay
- ▶ Business as usual



# Effects of the delay

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- ▶ **ICA to S2 to ICA+**
  - ▶ Unclear as to what will happen
  - ▶ Unclear as to when it will happen
- ▶ **How different are the regimes anyway?**
  - ▶ ICA was supposed to be broad too...
  - ▶ Many concepts are the same
  - ▶ Prospect of keeping the ORSA
  - ▶ Formality of development and validation differs
  - ▶ Reporting processes differ



# Effects of the delay

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- ▶ **Where are you now?**

- ▶ Pre submission vs. post submission
- ▶ Programme vs. BAU

- ▶ **Moving the goal posts**

- ▶ Given the ambiguity over the level required for approval, there is room for moving the goal posts
- ▶ This seems a pragmatic approach given the alternative if go live had stayed as 1/1/14 or even 1/1/13
- ▶ Has this been unfair for the industry or just good project planning!



# Effects of the delay

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- ▶ **Likely effects**
  - ▶ More focus on business benefit
  - ▶ Reduction in application specific work
  - ▶ Budget may be compromised
  - ▶ There may be a loss of momentum
- ▶ **Choice of (re)submission date**
  - ▶ Uncertainty of go live date
  - ▶ Work to be conducted beforehand
  - ▶ Do you want to be in the first wave?
  - ▶ FSA learning curve / bar setting



# Effects of the delay

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- ▶ **FSA involvement with companies**
  - ▶ Build relationship
  - ▶ Keep involvement to improve model understanding
  - ▶ Understand any areas of concern
- ▶ **Labour / skills market**
  - ▶ Permanent workforce turnover rate may decrease
  - ▶ Consultant and contractor capacity in this area should improve
  - ▶ Better for in-house retention of knowledge and building of key processes
  - ▶ BAU skill base may be less than that of project team - handover time required



# Business as usual

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- ▶ **Risk based operations**

- ▶ Risk is core to the business
- ▶ The internal model is embedded in the control cycle
- ▶ The uses of the model encourage further model development

- ▶ **Model governance**

- ▶ Executive management will become more familiar with the key governance processes
- ▶ Committee structures and composition should settle down with best practice emerging
- ▶ Model extent will emerge
- ▶ How things interact should become more clear



# Business as usual

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## ▶ Ownership

- ▶ Function and role dividing lines will become more established
- ▶ Risk and assumption ownership will be firmly within the business
- ▶ Teams will understand the role of the risk and modelling functions within the business

## ▶ Data

- ▶ Data process charts will be an accurate depiction of processes and controls
- ▶ Data governance will be stronger with data deficiency and data control remediation activity





# Business as usual

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- ▶ **Model development**
  - ▶ Model development plan
  - ▶ Feedback from validation
  - ▶ Feedback from business use
- ▶ **Model advancement**
  - ▶ More granularity of P&Ls
  - ▶ More alignment with risks for easier measurement
  - ▶ Movement towards structural correlations
  - ▶ More consideration of Earnings at Risk
  - ▶ More consistency of assumptions across the business



# Business as usual

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## ▶ Validation

- ▶ Validation cycles will be targeted to changes and key sensitivities
- ▶ Separation of Internal and external validation will become more clear

## ▶ Documentation

- ▶ The purpose of reports /document will be clearer
- ▶ The tests and standards will be more clearly addressed
- ▶ Documentation version and change control will become standardised



# Business as usual

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## ▶ Feedback loops

- ▶ From use
- ▶ From model development
- ▶ From validation
- ▶ Feedback from business use will become the core driver of change

## ▶ Understanding

- ▶ Improved understanding from all stakeholders
- ▶ Key functions will better understand roles of other teams
- ▶ Better 'socialising' of ideas



# Business as usual

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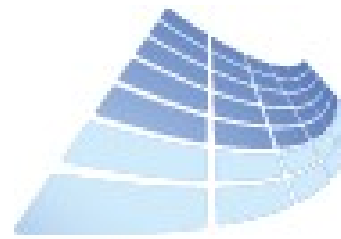


- ▶ **Risk registers and internal model synergy**
    - ▶ They aren't communicating properly.
    - ▶ The current framework of understanding risks needs a new paradigm to help link the two approaches.
    - ▶ Risk register driven from qualitative background risk professionals whilst internal models driven from quantitative background actuaries.
    - ▶ Risk registers were designed for a risk universe not an SCR.
    - ▶ Internal models have come from an ICA background where integration with the risk process wasn't a priority.
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Any questions?

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