ICAAP of SNS Bank

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June 2014
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1. SNS REAAL
2. ICAAP
   a) Basic elements and environment
   b) ICAAP stages
   c) Internal governance
Dutch service provider in the banking and insurance sector

Balance sheet total of €125 billion
Dutch state single shareholder as of February 2013
Basic elements and environment

Current balance sheet

External factors
- Financial markets
- Customers
- Analysts/investors
- Rating agencies
- Supervisor
- Regulation

ICAAP capital

Available capital

Risk appetite
- Risk assessment, Risk policy and risk limits
- (reverse) Stress test

Business strategy

Economic Capital

Regulatory Capital
ICAAP stages

Preparation phase I and II
- ICAAP document, scenario’s, assumptions and guidelines

Execution phase
- Risk analysis and (reverse) stress test

Determination phase
- Determination of capitalisation of SNS Bank (with board & experts)
- Finalise ICAAP package (document and attachment)

Evaluation phase
- Internal and external (DNB/SREP) evaluation of ICAAP
Internal governance
ORSA of REAAL Verzekeringen

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June 2014
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1. ORSA process
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3. ORSA organization
4. ORSA evaluation & development
5. ORSA shifting focus in workshop discussions
6. ORSA (internal) intervention ladder
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ORSA Process

See also: Good Practices ORSA, Verbond van Verzekeraars
## ORSA Stages

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<td>Risk Measurement &amp; Analyses</td>
<td>(Internal) Intervention Ladder</td>
<td>Supervisory Review @ Evaluation Process</td>
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### ORSA Evaluation & Development

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ORSA Workshops: Shifting Focus in workshop discussions

From Solvency I via Theoretic Solvency Criterion (TSC) to Solvency II

- The “Metric” is still changing unfortunately

From Risk to Risk/Return

- Without Risk no Return, “there is no free lunch”

From Risk Appetite to Efficacy of Management Actions

- The Risk Appetite may be high(er) if many capital strengthening and de-risking options are available

From Stress Scenarios to Recovery Options / Capacity in different types of stressed situations

- Slow, Fast, Idiosyncratic, System wide

From Compliancy to Understanding vulnerabilities & possible mitigating actions
ORSA (Internal) Intervention Ladder

Internal Intervention Ladder based on own perception of Risk and the possibility that the SCR exceeds Own Funds

Solvency = 150%, Is that OK?

Possibility
Own Funds < SCR = < 1/200

Solvency = 150%, Is (forward looking) not OK in scenario!

Recovery Plan

Forward Looking
ORSA (Internal) Intervention Ladder

Appropriateness Assessment:
Risk is underestimated in Pillar I calculation.

Possibility
Own Funds < SCR = < 1/200

>= 1/200

>= 1/10

>= 1/5

>= 1/3

Recovery Plan

T=0 T=1 T=2 T=3 T=4

SCR
MCR
ORSA (Internal) Intervention Ladder

- De-risking improves solvency in the short term
- Risk Taking improves rate of return in the long term

Possibility
Own Funds <
SCR = < 1/200

>= 1/200

Baseline

>= 1/10

>= 1/5

>= 1/3

Recovery Plan

T=0  T=1  T=2  T=3  T=4

SCR

MCR

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## ORSA versus ICAAP: main differences

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<th>Subject</th>
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<th>ORSA</th>
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<tr>
<td>Horizon</td>
<td>Not prescribed (&gt;= 1 year)</td>
<td>Forward looking (&gt;= 3 years)</td>
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<tr>
<td>Appropriateness Assessment Risk measurement</td>
<td>Optional</td>
<td>Required</td>
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<tr>
<td>Process</td>
<td>Final “chapter” of the Basel framework</td>
<td>Starting point for the Solvency Framework</td>
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<tr>
<td>Focus</td>
<td>Capital</td>
<td>Capital &amp; Risk</td>
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<tr>
<td>Compliancy Assessment</td>
<td>Optional</td>
<td>Required</td>
</tr>
<tr>
<td>Accounting Method</td>
<td>Mainly: Amortized Cost</td>
<td>Fair Value</td>
</tr>
<tr>
<td>Risks covered in Pillar 1</td>
<td>Credit-, Market- &amp; Operational Risk</td>
<td>Market- (single risks), Insurance- (single risks), Counterparty Default-, Operational Risk</td>
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ICAAP versus ORSA

Jeroen van Duren
Sr. manager Financiën & GRC Centraal
Menzis
Global Association of Risk Professionals

June 2014
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Introduction Menzis

Health Insurer (Co-op)

Drivers:
Price, volume and Quality

> 2,1 million people insured
1704 fte medewerkers
€ 5,5 billion GWP
(incl. AnderZorg en Azivo)

Three “Zorgkantoren”:
Arnhem, Groningen, Twente
€ 3,5 billion GWP

’Samen verzekeren wij kwalitatief goede zorg om de leefkracht van ieder menz te versterken.’

mensenlijk
voor elkaar
daadkrachtig
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- Introduction Menzis
- **Risk Framework Menzis**
- ORSA Menzis
- Lessons learned
What is the required level of Solvency to realise our strategic goals and to absorb future (unknown) risks over a three to five years horizon?
Hoeveel risico lopen we?
SRA
ORSA
Risicobereidheid
Specifieke risico’s
Toleranties
Hoeveel risico zijn we bereid te lopen?

Risicoprofiel
Toleranties
“Management actions”

Strategie
SRA
Risicobereidheid
Specifieke risico’s
Toleranties

Aanpasing/herijking strategie
Planning and Control cycle
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- Risk Framework Menzis
- ORSA Menzis
- Lessons learned
From risks to scenarios
From scenarios to capital
Required & desired solvency

- Additional buffer
- Internal buffer
- SCR

- Strategic choices
  - Historic risk
  - Worst Case – strategic scenario

- Regulatory Required Minimum
  - Market risk
  - Underwriting risk
  - Counterparty risk
  - Liquidity risk
  - Operational risk
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• Risk Framework Menzis
• ORSA Menzis
• Lessons learned
Lessons Learned (summary)

• Integral Risk Framework (consistent, related)
• Control & Risk Management (integral steering)
• Set limits (risk tolerance)
• Required (external) versus eligible solvency (intern)
• Entire organisation involved (commitment, widespread support)
• Key input for main decision making (e.g. premium setting)
Creating a culture of risk awareness™

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