

Milliman Lunchtime Webinar

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Agenda

1

Welcome & Introduction

Aisling Barrett

2

10 years of ORSA: Is it adding value to your business?

Sinéad Clarke

3

Process Improvements: Why, how and some practical case studies

Patrick Meghen

4

What happened with Eurovita?

Aldo Balestreri

5

Q&A

All Speakers

6

Wrap Up & Close

Aisling Barrett



10 years of ORSA: Is it adding value to your business?

Sinéad Clarke

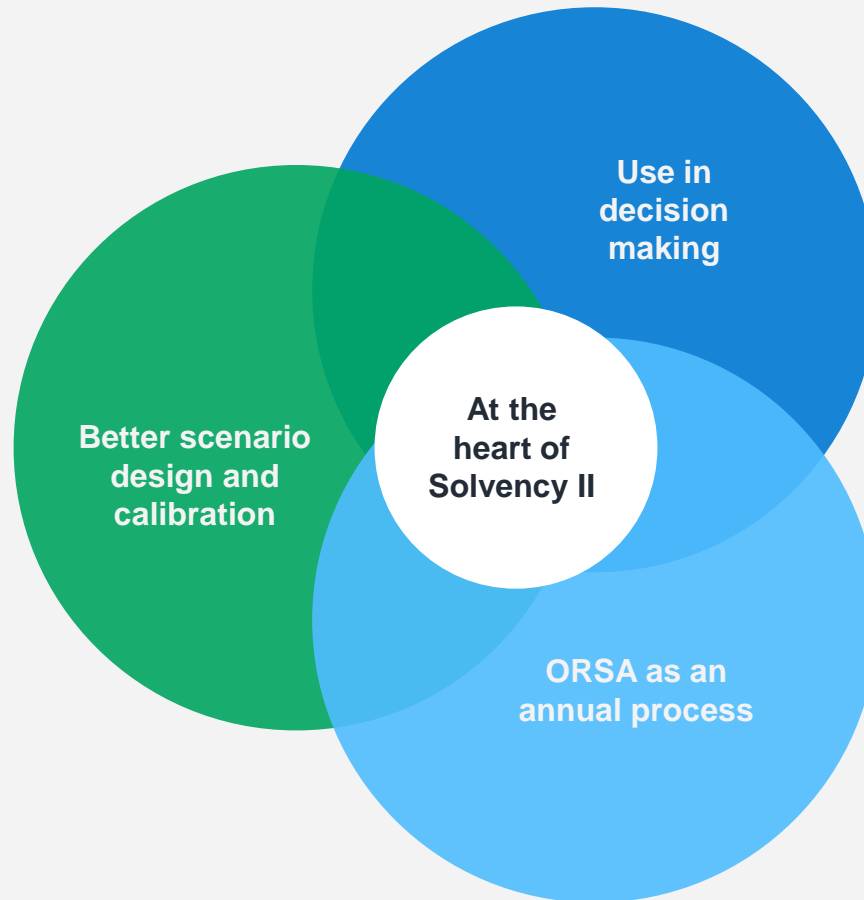
“I always say that the Own Risk and Solvency Assessment is the heart of the Solvency II regime.”

Gabriel Bernardino (chairman of EIOPA), June 2015

Key Areas of Best Practice

The ORSA process has evolved into a sophisticated process since it was initially introduced. There are lots of areas of best practice to call out but we have identified these key topics as areas where the ORSA process has lived up to its original aim of being at the “heart of Solvency II” for Irish (re)insurers.

- **Multi-variate scenarios**
- **Annual recalibration**
- **Qualitative assessments**



- **Integral part of the risk control cycle**
- **Risk and capital management decision making**
- **Wider focus than solvency position**

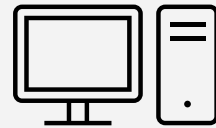
- **Typically a 3-6 month process**
- **Process includes various updates, workshops and reports**
- **Challenge to the business plan**

Areas for further improvement

There is no doubt that the ORSA process will continue to evolve and develop over the next 10 years with further advances in technology and increased maturity of risk management systems.

In addition to use in strategic decision making, we have highlighted the following as areas for further improvement in the ORSA process.

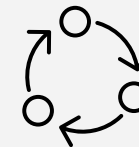
1. Better modelling efficiency for improved decision making



2. Back Testing: Learning from past stress events and adapting for the future



3. Better understanding of operational risk



2024 ORSA Barometer

These views are based on my experience working with clients over the past 10 years, but I would also like to hear from industry so I would like to take this opportunity to launch our 2024 ORSA Barometer



- Quick survey on ORSA (c. 5 mins)
- Access via QR code or [menti.com](https://www.menti.com) using code: **5593 7813**
- Aim is to get a snapshot of industry views across all functions and all types of insurers
- No need to provide your name or employer's name
- Link to be provided following this briefing
- Results will be publicly available

Process Improvements

Why, how and some practical case studies

Patrick Meghen

What's Hot for 2024?



Process Improvements – Why is it Relevant Now?



Process Improvement & efficiencies

Why has this become a hot topic for 2024?



IFRS17 projects closing down

Teams getting redeployed, maybe extra capacity, or perhaps need to tidy up what was built



Regulatory horizon (relatively clear)

No major actuarial or finance builds ongoing – for the first time in a long time



Cost pressures

Increased focus on costs, given inflation environment and closure of large projects



Improvement

Automation and efficiency will be a large theme into the future we believe

Process Improvements – the Benefits

Business Case for Investing

Benefits

Long term cost savings

- Automating and streamlining can reduce headcount on repetitive tasks
- May eliminate need for contractors or certain software licences

Time

- Can bring reporting delivery dates in several days
- Allows more time for analysis
- Quicker re-runs

Reduced operational risk

- Better processes means less chance of costly and embarrassing errors
- Easier regulator and audit interaction

Staff satisfaction

- Reduces long-hours
- Gives scope for the team to focus on more value-add tasks for themselves and the Company

Operational resilience

- Better equip the team to deliver consistently
- Increased regulatory focus on this area – so patched together processes won't cut it.

Better insights & MI

- Facilitates better data harvesting, more time on analysis
- Clearer more concise presentations to management can be built

Process Improvement – Some Types of Solutions we Implement



Practical Advice

How to run valuation processes
Structure, sequence, teams
Industry practice



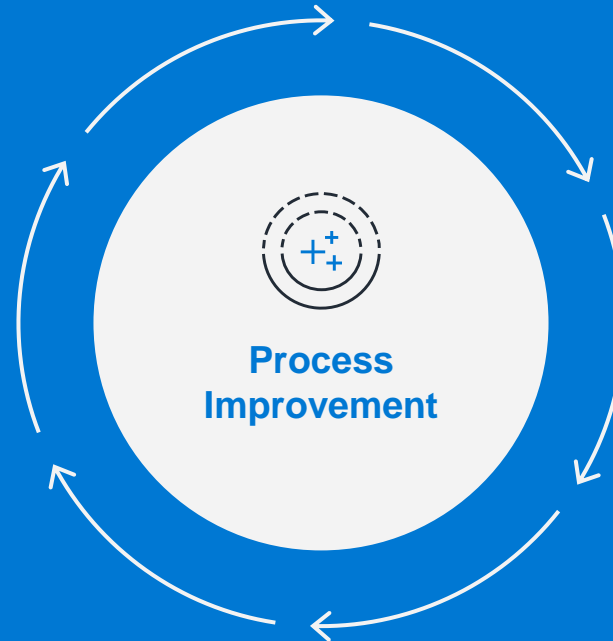
Technical Advice

Simplifications
Alternative methodologies



Documentation

Workflow diagrams
Process docs
Results presentations



New Code

Python, VBA, PowerQuery, R
Replace manual processes
Use new tools like Milliman Mind



Controls

Enhance controls and embed them
at the earliest possible stage of the
process



Simplifying and Standardising

Re-order flows, match tasks to
capacity, standard templates, EUC
across the board, consolidate
files/models

Case Study 1: Tailored automation solutions to load data between systems



Loading data between systems

Cumbersome, slow & manual process



Top-down and bottom-up analysis conducted



Implemented PowerQuery solution



Benefits

- **Less risk**
- **Quicker**
- **Cost savings (one contractor removed)**

Case Study 2: Reporting team reorganisation & overhaul



Reporting team struggling to keep pace with growth

Ad-hoc processes with under-developed controls



Issues with team structure and processes



Reorganized team, re-designed process, built key controls



Benefits

- Meeting deadlines
- Improved accuracy
- Reduced costs

Case Study 3: Milliman Mind harmonised reporting



Over-reliance on Excel

High operational risk, manual processes



Considered solutions and why using excel



Implemented a no-code End-to-End solution using Milliman Mind



Benefits

- **Allows for better controls, audit trail and speed**
- **Keeps link to Excel**

Case Study 4: Centralised results & controls



Extraction of model results causing delays

Reliance on an Excel Add-in which only licence holders had was causing delays and issues



Considered the workflows and dependencies.



Created a “centralised data repository” (a single file with everything needed) and enhanced controls



Benefits

- **Less licences needed**
- **Cost savings**
- **One source of truth**
- **Less bottlenecks**

Case Study 5: Leveraging Generative AI



Data processing system change

Data files were created in Access and needed to move to a modern platform.



Considered the workflows and dependencies.



We used Generative AI to help convert the queries across different languages and into Python.



Benefits

- **Quicker project timelines**
- **Efficient method for conversion**

“Toolkit” Approach

Lots of different methods and tools at our disposal

We deploy the right ones for your problem:

- Cleaning up spreadsheets
- Excel Macros
- Spreadsheet EUC add-in
- Workflow process workshops
- Discovery process software
- Project Management templates (timelines, activity trackers)
- Milliman Mind
- Coding – Python
- PowerQuery



What happened with Eurovita?

Aldo Balestreri

Brief History

2016: Private Equity Fund Cinven buys Ergo Previdenza

2017: Eurovita, a bancassurance company held by PE JC Flowers (previously bought from Aviva) is bought and merged

2018: Skandia Italy is bought from Old Mutual and merged

2019: Pramerica Italy is bought and merged

Brief History

First Problems

First Problems

1 Eurovita due diligence wasn't very accurate (Milliman wasn't involved).

2 One of the main critical points was a portfolio of several hundred million of reserves for whole life products, some with regular premiums, profit sharing products with high guarantees (4%), and guaranteed surrender values.

3 Surrender lapse assumptions were quite unrealistic (assumed 100% lapses after a certain period – e.g. 20-25 years), so BELs heavily underestimated.

4 Having understood this problem and not having the possibility to increase capital (as the Cinven investment funds owning the company didn't have liquidity for this), they decided to buy new companies to 'dilute' the capital need.

Solvency Ratio Trends

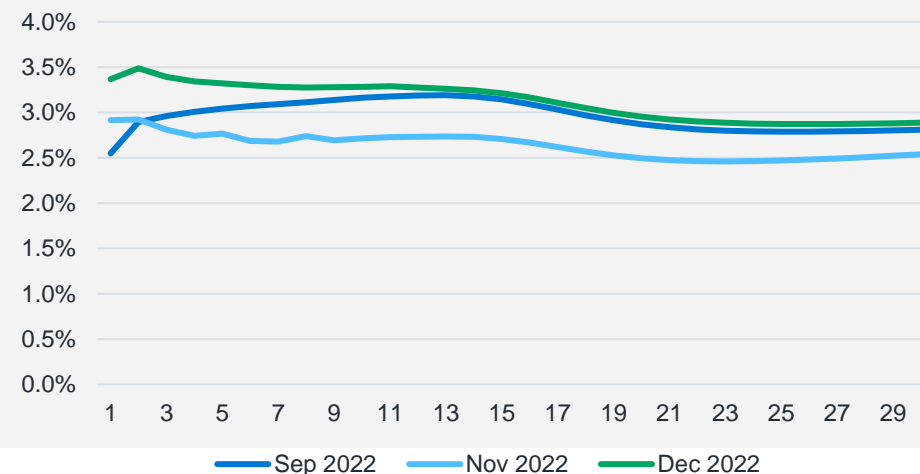
Some recent illustrations about the Solvency Ratio Deterioration (EUR millions)

	Dec 2020	Dec 2021	Sep 2022	Nov 2022	Dec 2022
Own Funds	738	631	444	511	?
SCR	428	471	499	461	?
Solvency Ratio	172%	134%	89%	111%	?

Movements were mainly due to:

- Interest rates
- Spreads on ITA Govies
- Lapse Mass

EIOPA VA Rates Sep - Dec 2022



Recovery Attempts

Cinven tried several times to sell the company, starting in 2020, then 2021, and finally 2022.

There were some interested companies, but offers were not considered adequate.

In Autumn 2022, with the deterioration of the Solvency Ratio, IVASS pushed the shareholder for an increase in capital of at least €200m.

There was a final purchase attempt from another PE firm, with the support of a reinsurer.

Reinsurance approach (based on the introduction of the Matching Adjustment in the market, never applied before) was not refused by IVASS, but they asked for a confirmation from EIOPA.

In the meantime, interest rates moved, and a strong increase in lapses was observed, so the potential buyer was scared and took a step back.

After this, the only solution was to put the company into a resolution phase, close the possibility of surrender to policyholders, and nominate a commissary to manage the situation.

The main insurance companies in the Italian market were asked to save the company.

The Resolution Solution

After a long and complicated journey, the portfolio has been assigned to a Newco, Cronos, owned jointly by Generali Italia, Intesa Sanpaolo Vita, Poste Vita, and UnipolSai, (each with a 22.5% stake) and Allianz (with a 10% stake).

Cronos will manage the portfolio to transfer it back to the shareholder companies within two years.

The 'bad company' Eurovita has been put into "closeout"

Ivass said: "With the authorisation issued today by Ivass, the resolution of the Eurovita affair is proceeding according to schedule with the aim of ensuring the full protection of policyholders' rights and restoring the ordinary course of insurance relations as soon as possible."

The suspension of some policyholder redemption rights remains in place until at least the end of October 2023.

Cinven, the private equity owner of Eurovita, bought back €160m (\$167m) of Eurovita debt to help smooth the deal.

The Solution to Reduce the Lapse Impact

- One of the main concerns in the Eurovita resolution has been the lapse risk.
- Given the guaranteed surrender values and the big unrealised losses (around €1bn), a high level of lapses would have created big P&L losses, given that at the reopening of lapses very high rates of surrender are expected.
- Also, the realisation of a great amount of unrealized losses would have produced very low levels of Segregated Funds returns (i.e. the rates used as a reference to calculate bonus rates that are published) with a strong reputational risk and a potential further increase of lapses.
- So, there was a need for a solution to neutralize this effect.



The Solution to Reduce the Lapse Impact

The solution was the involvement of the major distributor banks.

A complex mechanism of financing has been put in place.

1 When a surrender occurs, assets are not sold, but an amount equal to the surrender value is transferred from the Segregated Fund to the company's assets.

2 The lapse claim is paid with financing coming from the distributor banks (so each bank pays for the surrender corresponding to its portfolio).

3 The financing rate is low (around 2%).

4 This is based on the portfolio sold by the major distributor banks (around 70%) and for a period of eight years.

5 The life of this company is expected to be quite low, the companies expect to transfer a quota of the portfolio corresponding to their company's share in their books, but this has a lot of complexity (starting from 'how to split the portfolio', which is still under discussion).

Q&A





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