



Financial
Services
Board

Own Risk and Solvency Assessment (ORSA)

Klaas van Wyk de Vries
ORSA and Use Test Task Group
SAM Update
23 November 2012

Orsa County - Sweden



Financial
Services
Board



30/09/20010

Page 2

Introduction and Agenda



Financial
Services
Board

1. Overview of the ORSA Concept
2. Overview of ORSA Requirements
3. Next Steps
4. Practical Aspects of the ORSA
5. Developing the ORSA Process
6. The ORSA Report
7. ORSA in Europe – Key Themes
8. ORSA Reference Material
9. Use Test – Position Paper 35

Annexures

1. Proposals for Primary Legislation
2. Position Paper 34 Proposed Requirements
3. Example ORSA Reporting Index

1. Overview of the ORSA Concept



Financial
Services
Board

- The ORSA is defined as:

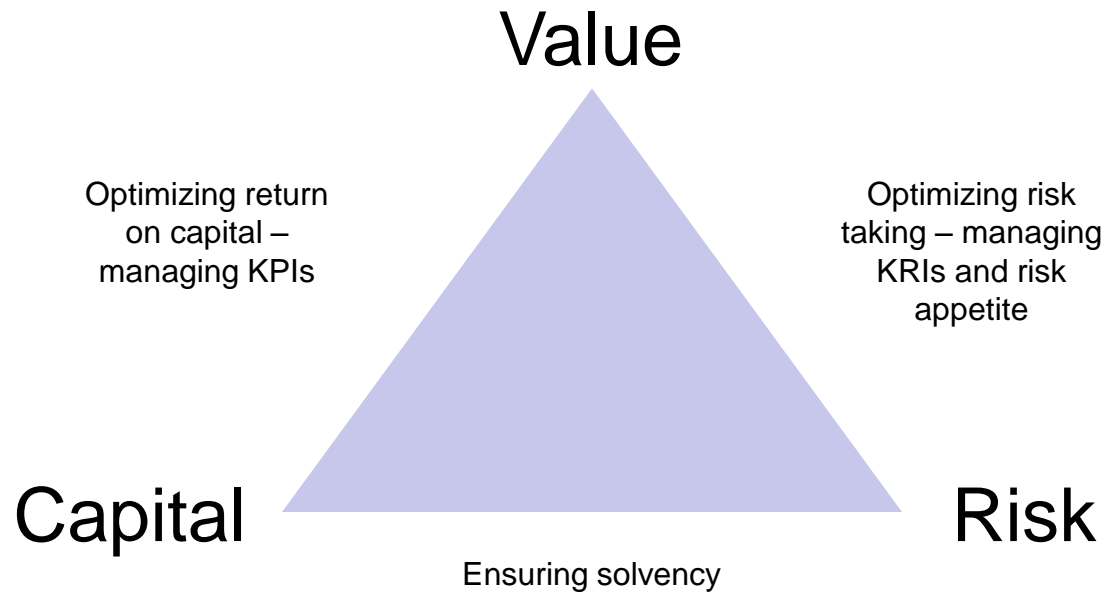
Entirety of the processes and procedures to identify, assess, monitor, manage and report the long and short term risks and determine the own funds necessary to ensure overall solvency needs are met at all times and are sufficient to meet the business strategy.

- The ORSA is **not** a report but an assessment of risk and capital. This assessment comprises:
 - Risk management processes such as risk appetite setting and monitoring and risk profile quantification
 - Capital management processes such as capital allocation and monitoring of Return on Capital
 - Business management processes such as the business planning and underwriting processes
 - The use and embedment of the risk and capital assessment in decision making processes
 - Portfolio of evidence which include management information for decision making and a report to the Regulator

1. Overview of the ORSA Concept



Financial
Services
Board



- Enhance value through effective employment of capital
- Achieve value objectives through appropriate risk taking and risk management
- Ensuring that the business is economically solvent over the business planning period and beyond
- ORSA as a concept is developed against the backdrop of the above

1. Overview of the ORSA Concept



Financial
Services
Board

Key features of the ORSA include the following:

- In performing an ORSA management takes responsibility for considering risk, capital and return coherently within the context of its own business strategy, forward looking from the current situation.
- The main elements of ORSA include the business strategy, an assessment of the risks and an assessment of the solvency needs (according to the internal model and/or standard model).
- The ORSA should form an integral part of the strategic management process by regularly taking a holistic view on all relevant risks that threaten the achievement of strategic objectives in relation to (future) capital needs. (I.e. “Can we afford our business plan?”)
- The ORSA process should provide reasonable assurance to the Board, that their objectives will be met given the risk appetite.
- More specifically, it should deliver the insight that available capital, based on the risk appetite, meets the required risk capacity under a wide range of relevant scenarios.

2. Overview of ORSA Requirements



Financial
Services
Board

Summary of primary and secondary proposals

Governance

- Accountability lies with the Board
 - Approval
 - Challenge of SCR
- Evidence the assessment appropriately
- Documentation requirements, for example (guidance):
 - Policy
 - Record of ORSA process
 - Internal ORSA reports (MI)
 - ORSA report to the Regulator
- Independent assessment of the ORSA report focused on compliance with policy and Act. Independent review, not necessarily external.

Strategic nature

- Forward looking tool
- Assessment of risk and capital over the business planning time horizon
- Stress and scenario testing to understand solvency resilience
- Feedback loop into the business planning and budgeting process
- Embedment of risk and capital management in the business
- Assessment of all material current and future risks

2. Overview of ORSA Requirements



Financial
Services
Board

Summary of primary and secondary proposals

Valuation basis

- Quantitative assessment of risk and capital is required
- Valuation basis need not to be overly complex
 - Valuation basis used to run the business
 - Need not to be different from SCR standard formula
- Assessment of appropriateness of the SCR to the insurer's risk profile
- Reconciliation of various valuation bases

Compliance

- Demonstrate continuous compliance SCR and Technical Provisions requirements
- Continuous compliance does not mean real time calculation capabilities – but rather what is appropriate to the risk profile of the insurer
- Perform ORSA on going concern assumption unless not applicable
- Reporting requirement
 - Solo
 - Group

Refer to Appendix for proposals for primary and secondary legislation

3.Next Steps – Develop Guidance



Financial
Services
Board

- Development of non-binding guidance based on EIOPA CP008
- Principles based guidance (approx. 22 principles) including:
 - Proportionality
 - Documentation
 - Valuation and recognition basis
 - Consideration of risk in assessing overall solvency needs
 - Forward looking nature of the ORSA - in line with business planning time horizon
 - Continuous compliance – technical provisions and solvency
 - Assessment of the appropriateness of the standard formula, given the risk profile of the insurer
 - Further guidance for internal model users
 - Further guidance for group ORSA

4. Practical Aspects of the ORSA



Financial
Services
Board

What do insurers need to have in place?

- Senior Management and Board understanding of the interaction between value, risk and capital.
- Processes whereby the business is managed in a sound and prudent manner taking risk and capital into account
- Calculation capabilities
- Documentation and portfolio of evidence
- ORSA report and the processes to produce the report

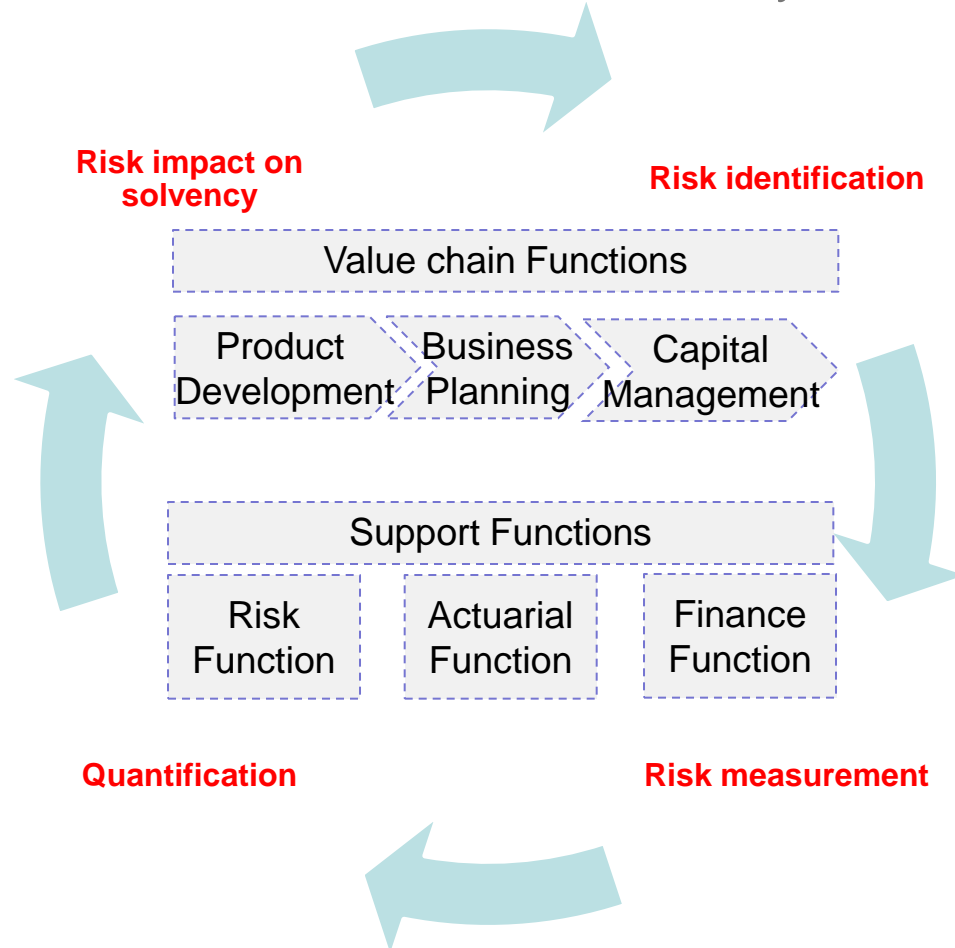
5. Developing the ORSA Process

Outcome of the process:

1. Comprehensive and forward looking assessment of risk profile
2. Plans to maintain solvency based on various scenarios



Financial
Services
Board



Taking into account the outcome of the ORSA process:

- How does current value chain processes take risk and capital into account for business decision making?
- Is this adequate to meet ORSA requirements?
- How do the business support functions (optimally) support the value chain:
 - Specialist calculation and interpretation
 - Management reporting
 - Facilitation of risk management processes (risk appetite, risk profile, etc)
- Stand-alone ORSA process?

6. The ORSA Report

No plans to prescribe standardized reporting format

Report need to align with management of the business

Consider the following items for the ORSA report (example):

- Quantitative
 - Solvency as at date
 - Regulatory: SCR vs Own Funds
 - Economic basis (if different). Consider items such as company specific risk adjustments, risks not quantified by SCR and target credit rating
 - Forward looking solvency (regulatory and economic)
 - Link risk and capital – risk measurement metrics
 - Stress and scenario tests (now and forward looking)
 - Sensitivities v scenarios v stresses (including reverse stress)



Financial
Services
Board

6. The ORSA Report



Financial
Services
Board

- Qualitative
 - Static type risk information (e.g. policies, frameworks, risk mitigating techniques and management actions, etc)
 - Fluid risk information
 - Risk appetite
 - Changes in risk profile
 - Exceptions
 - Description of application of risk mitigation techniques and management actions
 - How risks are managed
 - Key decisions and impact on capital
- Frequency of the assessment
 - Start of the business planning period
 - After business planning
 - Year end

7. ORSA in Europe – Key Themes



Financial
Services
Board

- Background – ICA capital regime already required insurers to calculate and report capital on an economic basis for some time (FCR reports)
- Iterative approach to development of the ORSA - Boards are questioning the value of ORSA reports because it does not contain new information
- How firms are dealing with the process requirements of the ORSA
- How firms are dealing with additional reporting requirements
- Most firms have base-line ORSA process and report in place. Focus now on:
 - Links between their risk appetite and required capital (based on risk profile) on a current and forward looking basis
 - Develop approaches to stress and scenario testing, specifically reverse stress testing
 - Tightening up on controls over models and model development
 - Developing a calendar for ORSA and ORSA-type information

8. Reference Material



Financial
Services
Board

- SAM: Draft 2 of Primary legislation article 27
- SAM: Position Paper 34
- EIOPA: CP008
- Accenture: Unlocking Business Value through ORSA Implementation
- Dutch Association of Insurers: Vision on own risk and Solvency Assessment – Good Practices

© Original Artist

Reproduction rights obtainable from

www.CartoonStock.com



search ID: rj00566



Financial
Services
Board

Questions



**Financial
Services
Board**

ANNEXURES

Annexure 1

Proposals for Primary Legislation



Financial
Services
Board

Article 27

Requirements

Section 1 Main requirement

The board of directors and senior management must as part of its risk-management system, regularly and when its risk profile changes, undertake an own risk and solvency assessment to assess the adequacy of its risk management and current, and likely future, financial soundness position.

Section 2 Scope of the ORSA

An own risk and solvency assessment must, at least, encompass all reasonably foreseeable and relevant material risks including, as a minimum, underwriting, credit, market, operational and liquidity risks and, where relevant, additional risks arising due to the insurer being part of an insurance group.

Section 3 How to do an ORSA

An ORSA should include

- a) the insurer's overall financial soundness needs taking into account its specific risk profile, risk tolerance limits and its business strategy;
- b) the insurer's compliance, on a continuous basis, with the capital requirements and requirements regarding technical provisions provided for under this Act;
- c) the significance with which the insurer's risk profile deviates from the assumptions underlying the solvency capital requirement, calculated with the standard formula or its approved partial or full internal model, and in the manner prescribed;
- d) analyse an insurer's ability to continue in business, and the risk management and financial resources required to do so over a longer time horizon than typically used to determine regulatory capital requirements; and
- e) such other matters as may be prescribed.

Annexure 1

Proposals for Primary Legislation



Financial
Services
Board

Article 27

Requirements

Section 4
Use of the ORSA

An insurer must take into account on an ongoing basis the results of its own risk and solvency assessments when taking strategic decisions.

Section 5
Reporting

An insurer must inform the Registrar of the methods used in and the results of each own-risk and solvency assessment as part of the information reported under section 52 of this Act.

Section 6
Restriction

Despite subsection (3), an own-risk and solvency assessment may not be taken into consideration in calculating the solvency capital requirement under sections 57, 58 or 59.

Annexure 2:

Proposals for Subordinated Legislation



Financial
Services
Board

- Position Paper 34
 - Final Position Paper approved by SAM Steerco
 - Recommendations for subordinated legislation
 - Recommendations for further guidance (level 3)
- Definition of the ORSA:

Entirety of the processes and procedures to identify, assess, monitor, manage and report the long and short term risks and determine the own funds necessary to ensure overall solvency needs are met at all times and are sufficient to meet the business strategy.
- Requirement to perform and ORSA
 - Document the methodologies, rationale, calculations and results of the assessment
 - Minimum requirement to perform ORSA at solo (legal entity) level and group
 - Potential dispensation to produce on consolidated report to Regulator
 - Consider results of operating units vs legal entities
 - Assessment at least annually or when risk profile changes significantly

Annexure 2: Proposals for Subordinated Legislation



Financial
Services
Board

- Scope of the ORSA
 - Purpose of the ORSA – to provide the Board and Senior Management with an assessment of the risks and resultant solvency position.
 - Consider all material current and foreseeable risks
 - Going concern assumption
 - Assess capital adequacy over longer time horizon (e.g. 3-5 years)

- Governance of the ORSA
 - Accountability resides with the Board. Board to approve the assessment.
 - Board and Senior Management is responsible for embedding the ORSA in the business and decision making
 - Board to conclude on the accuracy and completeness of ORSA calculations, assumptions and data used as input
 - ORSA should be appropriately evidenced and documented
 - ORSA report to be independently assessed

Annexure 3: Example of ORSA Reporting Index



Financial
Services
Board

Static ORSA documentation	Quantitative ORSA information
<p>1 DESCRIPTION OF THE UNDERTAKING</p> <ul style="list-style-type: none"> 1.1 Position within the Group 1.2 Management structure and key personnel 1.3 Business structure 1.4 Significant lines of business 1.5 Strategic management process including <p>2 RISK MANAGEMENT FRAMEWORK</p> <ul style="list-style-type: none"> 2.1 Risk universe 2.2 Risk methodology 2.3 Risk governance 2.4 Risk policies, among others the ORSA Policy including ORSA process description 2.5 Risk exposure process 2.6 Quality assurance <p>3 CAPITAL MANAGEMENT FRAMEWORK</p> <ul style="list-style-type: none"> 3.1 Capital management philosophy 3.2 Capital management policy <p>4 EMBEDDING</p> <ul style="list-style-type: none"> 4.1 Product development and pricing 4.2 Performance metrics 4.3 Incentives 	<p>1 ORSA MANAGEMENT OVERVIEW</p> <ul style="list-style-type: none"> 1.1 ORSA executive summary <p>2 BUSINESS STRATEGY: RISK-RETURN TRADE-OFF</p> <ul style="list-style-type: none"> 2.1 Business scenarios, including stress scenarios 2.2 (Updated) Risk Strategy 2.3 (Updated) Risk Appetite Statements 2.4 (Expected) Risk Profile 2.5 Management considerations 2.6 Business Strategy <p>3 CAPITAL MANAGEMENT</p> <ul style="list-style-type: none"> 3.1 Appropriateness assessment of Standard/Internal model 3.2 Analysis of current capital position and quality of capital 3.3 Used MVBS and SCR projection technique 3.4 Results of (reverse) stress testing 3.5 Capital projections <p>4 MANAGEMENT ACTIONS</p> <ul style="list-style-type: none"> 4.1 Current needed management actions 4.2 Contingency management actions for worse scenarios