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ORSA Challenges

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ORSA Definition

The Fundamental Principle...

- **SAM Definition**

  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 name implies ORSA is an assessment, yet the definition says it is largely Enterprise Risk Management.

- **Emphasis is on "OWN"**

  The ORSA process and reports should be designed primarily to cater for own needs.

  - Focusing on (speculated) regulatory requirements could lead to a sub-standard management tool.

  The ORSA results should represent the company's own assessment.

  - Valuation basis and correlations, for example, can deviate from Pillar 1 specifications.

- **"Risk and Solvency Assessment"**

  Despite the definition, the most crucial aspect of the ORSA report is the internal assessment of risk and solvency.

  - Other aspect of the ORSA are less volatile and can merely be referenced.

  The focus when implementing an ORSA should not be the reports.

- **Possible Approach to ORSA**

  Implement an effective Enterprise Risk Management program incorporating an Economic Capital model.

  - Make minor tweaks to framework to meet ORSA requirements.

"Show me a Template..."

How not to think about ORSA

- ### The Bad

  Usually tempts one to ask "So how can we populate this template."

  Less emphasis placed on internal ORSA requirements.

  Limited ownership with something not home-grown.

  - Explanations of various ORSA aspects invariably involve "because the ORSA template provided by X..."
  - Gives the impression of following the herd without being sufficiently critical.

- ### The Good

  Potential source of ideas and insights one had overlooked.

  Template makes the notion of an ORSA more concrete.

  It makes the ORSA plan easy to understand.

- ### Recommended Approach

  Come up with the template after examining internal reporting requirements and benchmarking to best practices.

Generating Buy-In

▪ Inter-company, Multi-level and Cross-function Cooperation

- Not all involved parties will naturally have ORSA/risk management as their top priority.
- Performance measures may not be linked to.

▪ Justification Should be Based on Merits

- Using regulatory requirements as primary reason makes it a compliance exercise.
- Level of cooperation likely to be higher if viewed as a compliance exercise, but quality of cooperation will be poor.

Deviations from assumptions underlying the SCR

The (re)insurance company should assess the deviations between its risk profile and those underlying the SCR calculation. Where the assessed difference is material the (re)insurance company should quantify the significance of the deviation.

- **Understanding the standard formula**
  - Good starting point for considering the variety of risks for the ORSA
  - What is an average South African (re) insurance company?
  - What are the assumptions underlying the standard formula?

- **Everyone is unique**
  - But what is a material deviation from the average?
  - Beyond the differences in time horizon, management actions, confidence level and risk measure
  - Devil is in the tail…but the data is not!

- **A possible place to start**
  - Qualitative analysis of risks that are not included in the standard formula
  - Qualitative analysis of the nature scale and complexity of the risks
  - Analysis of the risks that should be excluded
  - Analysis of sensitivity of the standard formula to the changes in risk profile

ORSA Report

Three different views to be addressed

Understanding the rationale of the ORSA Report

ORSA Report has to bring clarity about projected risk profile and solvency needs to **3 different stakeholders** who may have competing expectations.

It explains the rationale behind the information to be gathered within the ORSA Report.

ORSA REPORT

Stakeholder	Management	Shareholders	Policyholders/Debtors
Interest	**Performance targets, capital planning, and Risk Appetite**	**Potential losses and need for additional capital**	**Risk of bankruptcy**
Answer in ORSA Report	▪ Clarification of whether critical risk exposures will remain within Risk Appetite boundaries. ▪ Sensitivity and scenario test results. ▪ Major drivers of the risk profile.	▪ Results of shocks and own solvency capital requirement. ▪ Capital needs over the Financial Planning time horizon. ▪ Projected solvency position.	▪ Projected SCR on the time horizon of the Financial Planning. ▪ Projected Solvency Ratios. ▪ Risk mitigants and sources of capital.

ORSA

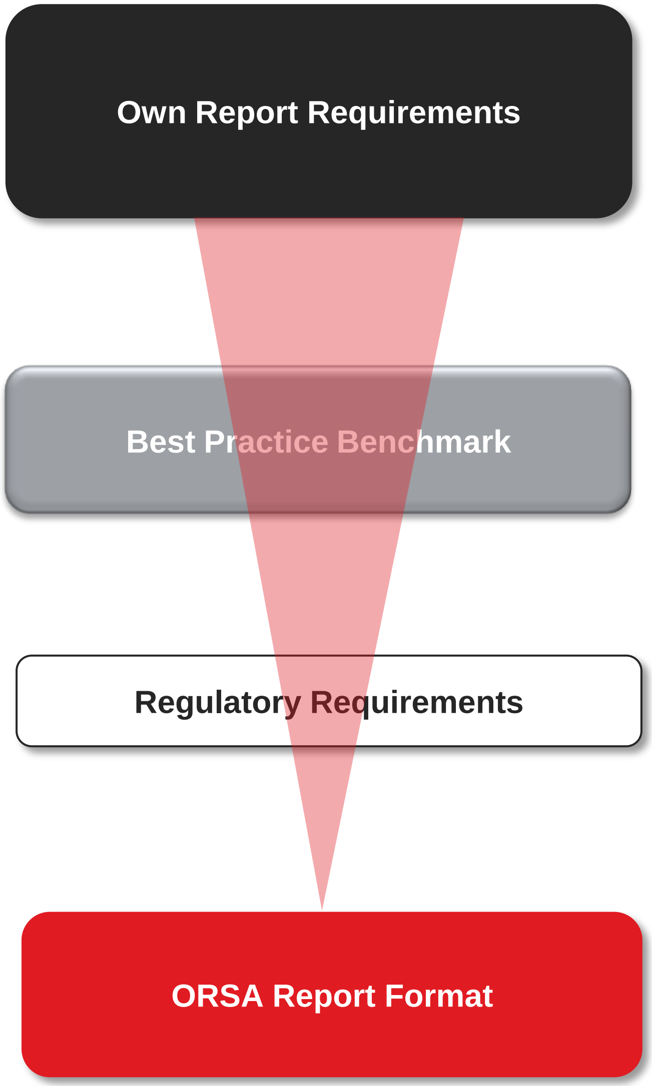
Process for Determining ORSA Report Content

Wrong Track

- Inadequate emphasis on "OWN"
- Focusing on the ORSA report instead of overall governance
- Following a template-based approach.
- Using a minimalist or data-dump approach.

Recommended Approach

- Primarily base content on management information needs.
- Benchmarking to industry and global best practices.
- Reflecting additional regulatory requirements.



ORSA Process

ORSA Report Mechanics – Baseline/Standard Formula

A company calculating its Pillar I Solvency Capital Requirement with the Standard Formula does NOT necessarily need to recalibrate VaRs to perform its Own Risk & Solvency Assessment.

Work Process	Define Stress Scenarios	Stress Financial Plan	Assess Prospective Solvency Needs	Produce ORSA Report
Key Activities	▪ Project MCR/SCR. ▪ Assess prospective risk profile. ▪ Assess suitability of standard formula. ▪ Define (reverse) stress scenarios.	▪ Stress base case. ▪ For each stressed case, project the MCR/SCR. ▪ Project internal capitalisation targets.	▪ For each stressed case, identify potential mitigation actions. ▪ Project MCR/SCR and internal targets. ▪ Identify future capital gaps and potential capital sources.	▪ Comment on stable aspects of the Governance and ERM Framework ▪ Compile other ORSA key items. ▪ Analyse and condense results. ▪ Build conclusions
Deliverables	▪ Base Case (GAAP) ▪ Stress scenarios ▪ Deviations from standard formula ▪ Reverse stress scenarios	▪ Stressed cases including solvency positions. ▪ Major risk drivers.	▪ Mitigation action plan ▪ Deviations from Pillar I ▪ Capital planning	▪ ORSA report ▪ Updated risk appetite and/or strategy

Thank You

Any Questions?