

ACTUARIAL ASSOCIATION OF EUROPE

ORSA and ESAP3 – Introduction
(Dr. Clemens Frey)

Agenda

- Requirements and objectives of ORSA
- Typical process and involved parties
- Observed challenges

ORSA is not about a report

*ORSA is the entirety of the processes and procedures employed to identify, assess, monitor, measure, manage, and report the **short and long term** risks, both quantifiable and non-quantifiable, a (re)insurance undertaking faces or may face and to determine the own funds necessary to ensure that the undertaking's overall solvency needs are met **at all times**.*

- Based on CEIOPS Issues paper May 2008 -

Objectives...

Risk management of short and long term risks.

Continuous assurance of complete coverage of the overall solvency needs.

Determination of necessary own funds.

... Content

Continuous analysis of the own risk profile and the resulting capital needs.

Connection of risk and capital management and active involvement of the AMSB*.

Valuation of (non-) quantifiable risks.

*AMSB = Administrative, Management, Supervisory Body

*... brings forth a **holistic view on the risk profile** and understanding of how risks affect the future solvency situation.*

ORSA within the Solvency II Directive

(Art. 45)

General requirements

Not a basis for the SCR calculation

Processes for **identification** and **evaluation** of all potential risks (in the short and long-term perspective)

Explanation of **valuation methods**

Model calibration is to be made in a timely manner with the valuation, if an **internal model** is used

Integration into **business strategy** and strategic decisions

Submission of all necessary information to the supervisory authorities for the **purposes of supervision** (Art. 35)

Valuation requirements

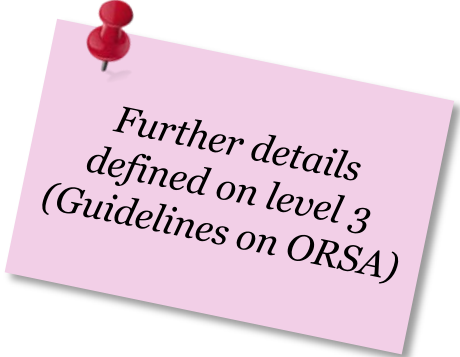
Overall solvency needs taking into account the specific risk profile, risk tolerance and business strategy

Continuous compliance of **capital requirements** and requirements for technical provisions

Significance of the difference between the risk profile and the assumptions underlying the SCR calculation

Frequency requirements

To be made **regularly** and **without any delay** following any significant change in the **risk profile**



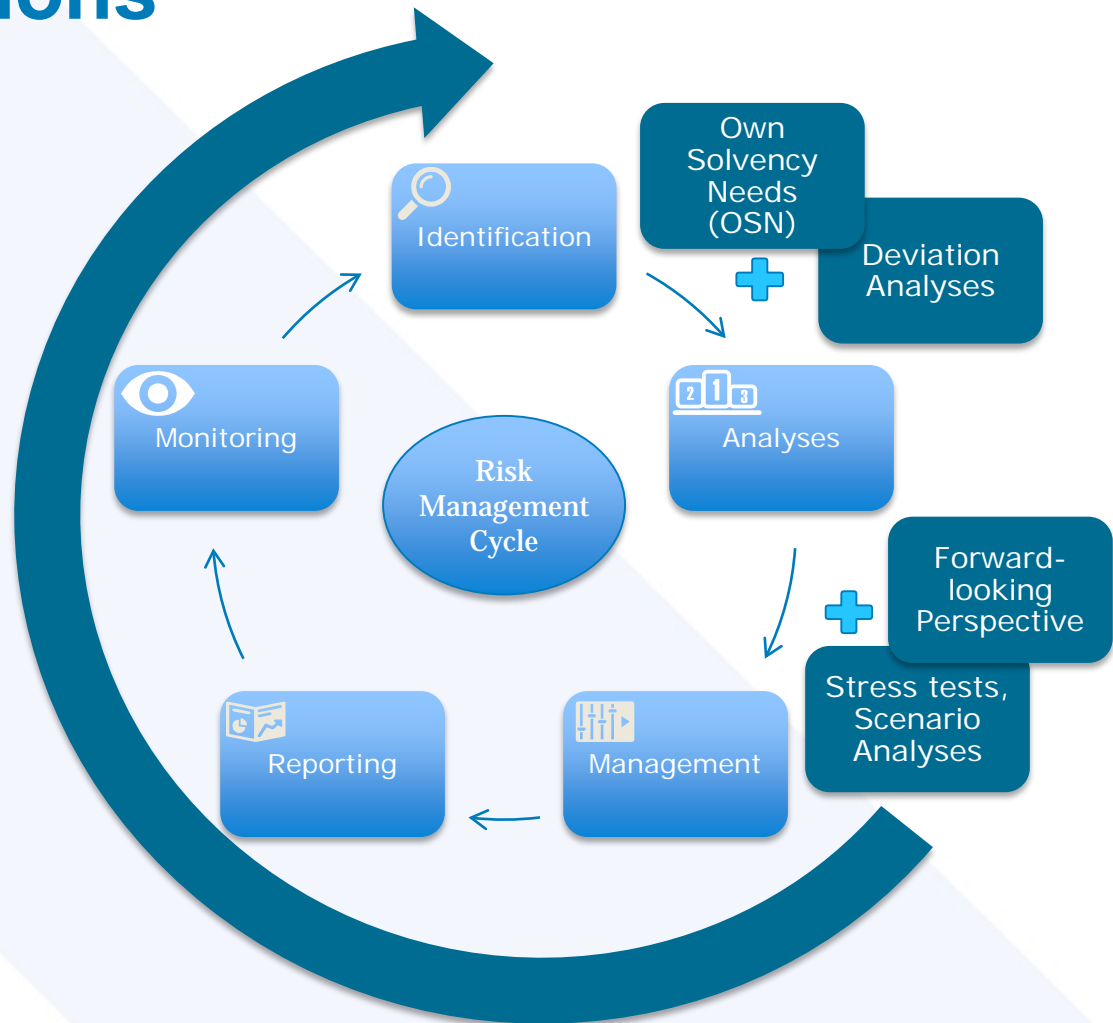
*Further details
defined on level 3
(Guidelines on ORSA)*

Consideration of the principle of proportionality

Risk management cycle with integrated ORSA Specifications

Establishing ORSA should not be about creating a new process on top of everything else ...

...it's about bringing together existing and developing risk, capital and value management processes and the relevant stakeholders.

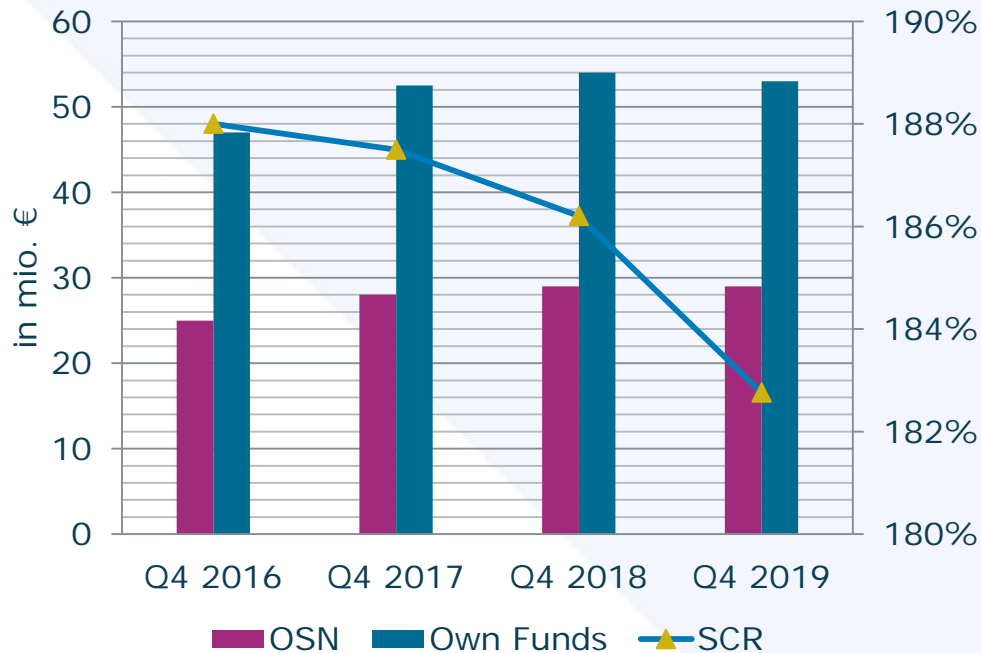


How it is done in practice

» Forward-looking Perspective



What does the undertaking's future solvency situation look like?



Assessment of the influence of planning figures on the solvency situation. Projection of own funds, OSN and SCR over a time horizon of at least three years (business planning period)



Communication of involved parties is a key factor to ensure consistent and adequate projection

How it is done in practice

» Overall Solvency Needs

?

Which risks shall be included into the determination of the OSN and which capital requirements result?

What is the undertaking's OSN?

New requirements

Analyses and Determination of the undertaking's risk-bearing capacity for setting the scope of risk identification

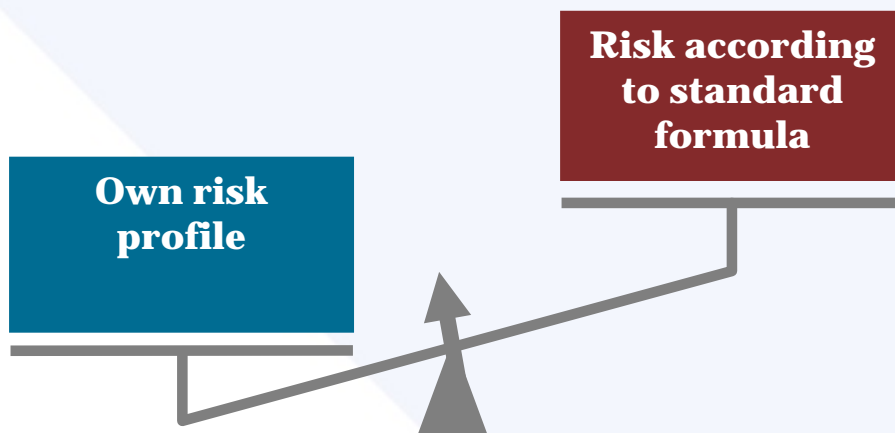
Setting up an own view on specified risk profile and available risk capital with a mid- and long-term perspective

The OSN captures all material risks including a forward looking perspective in line with the business planning-period. A range of scenario analyses are applied in order to identify specific risks of the undertaking

How it is done in practice

» Deviation Analyses

? Does the standard formula pose an adequate approach for the undertaking's risk profile?



➔ Adopt adjustments to the standard formula for the OSN!

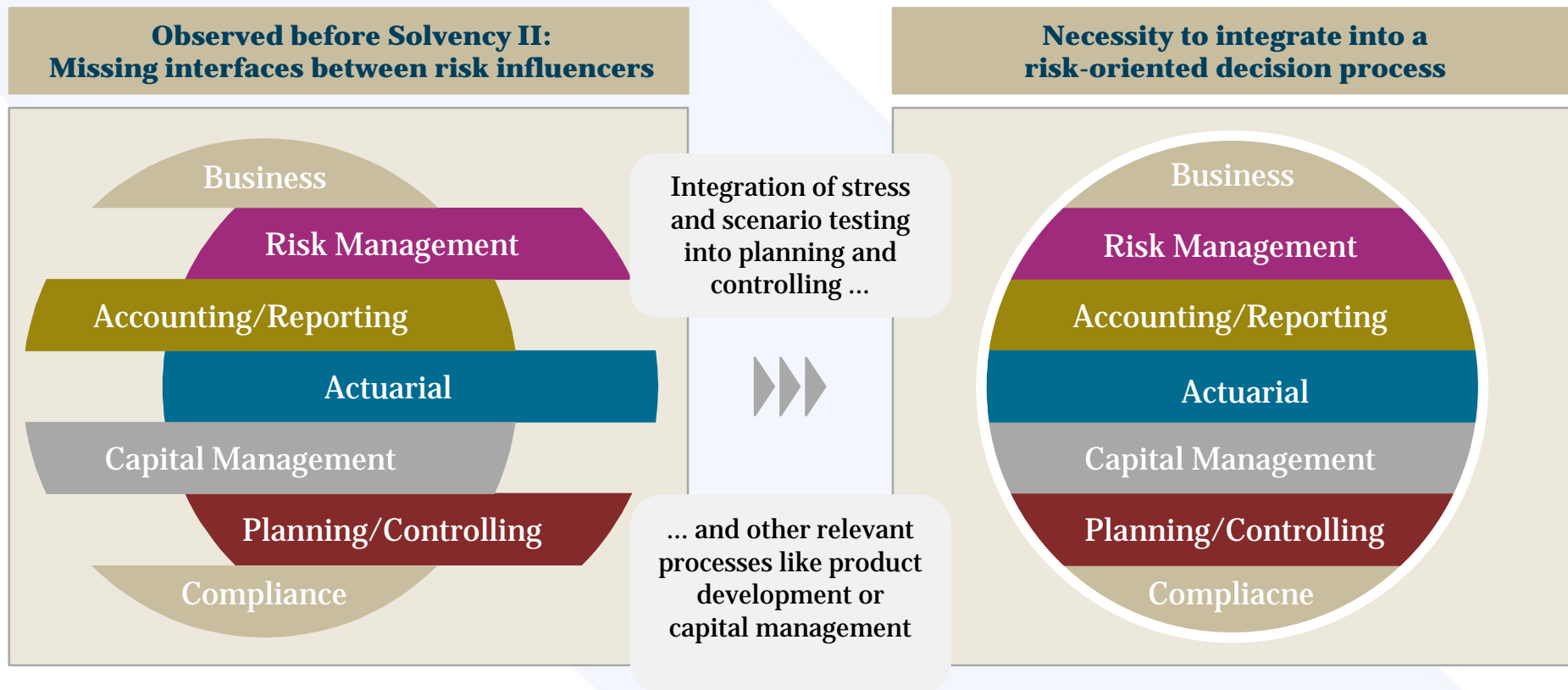
I. Assumptions of the standard formula

Assessing if all material risks have been covered

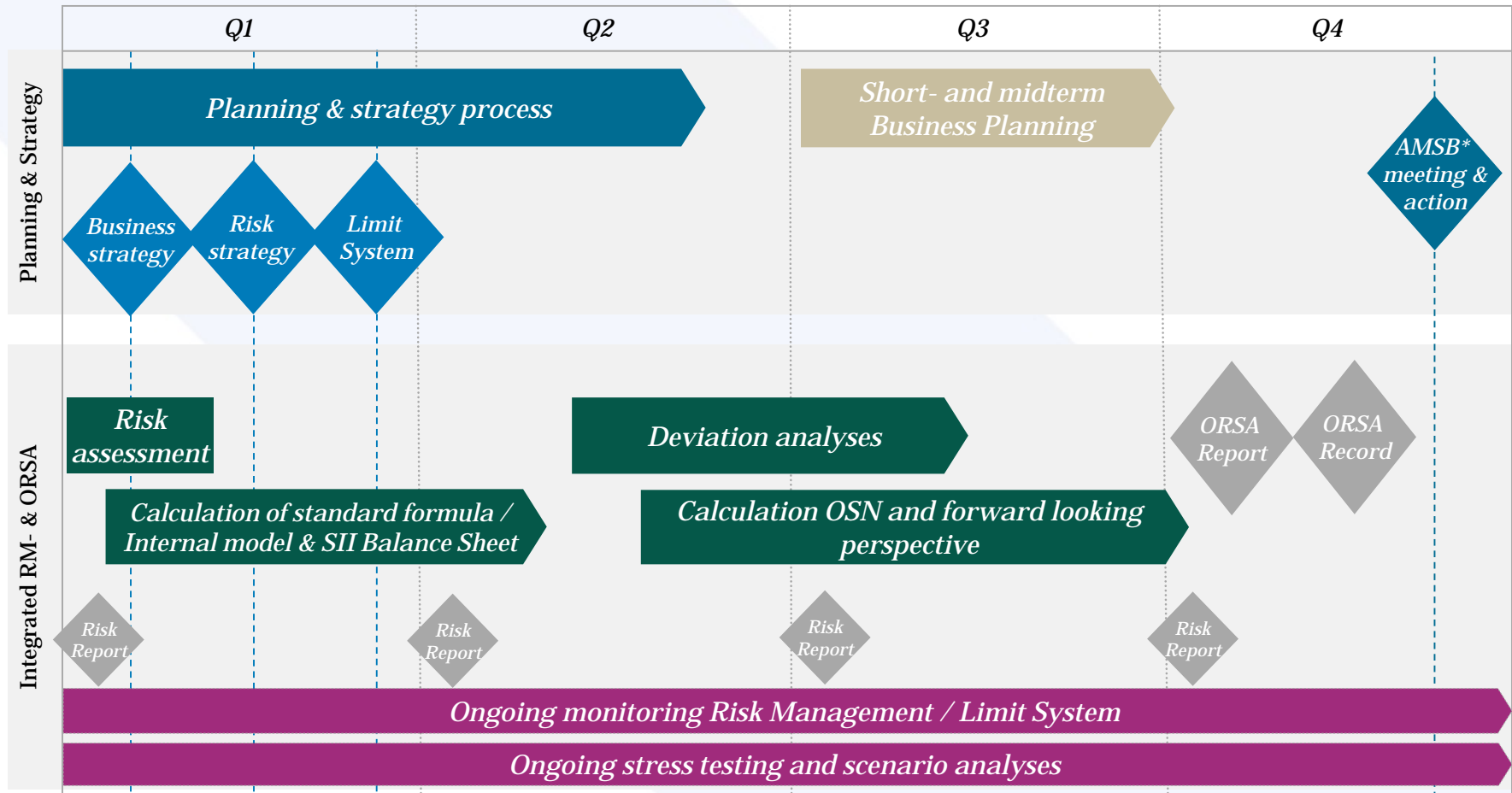
II. Appropriateness of the standard formula

Are those risks adequately recognized?

Who needs to be part of the ORSA process?



Integration of the ORSA process into the planning/controlling cycle



Source: PwC Germany

*AMSB = Administrative, Management, Supervisory Body

There are still many challenges

***Capturing all
(additional) risks***

***Consistent structuring the
ORSA across a group***

***Connecting ORSA results
within the business planning
& strategies and involvement
of the AMSB***

***Scale of the ORSA
documentation***

***Deviation
analyses***

***Capturing and monitoring
the difference between
SCR and OSN***

Ad-hoc processes

***Adherence to risk
philosophy/risk governance***

***Modelling the projections,
stress tests & scenarios***

***Comprehensive reporting on all
methods, assumptions and processes***

***Implementation of new
technology***

***Continuous reflection of new
products, business models,
risk transfers etc.***