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EUROPEAN INSURANCE  
AND OCCUPATIONAL PENSIONS AUTHORITY

# **Own Risk and Solvency Assessment (ORSA)**

## **EIOPA's view of the „1st round“: Reality & expectations**

Frankfurt and Cologne, 26 April 2018

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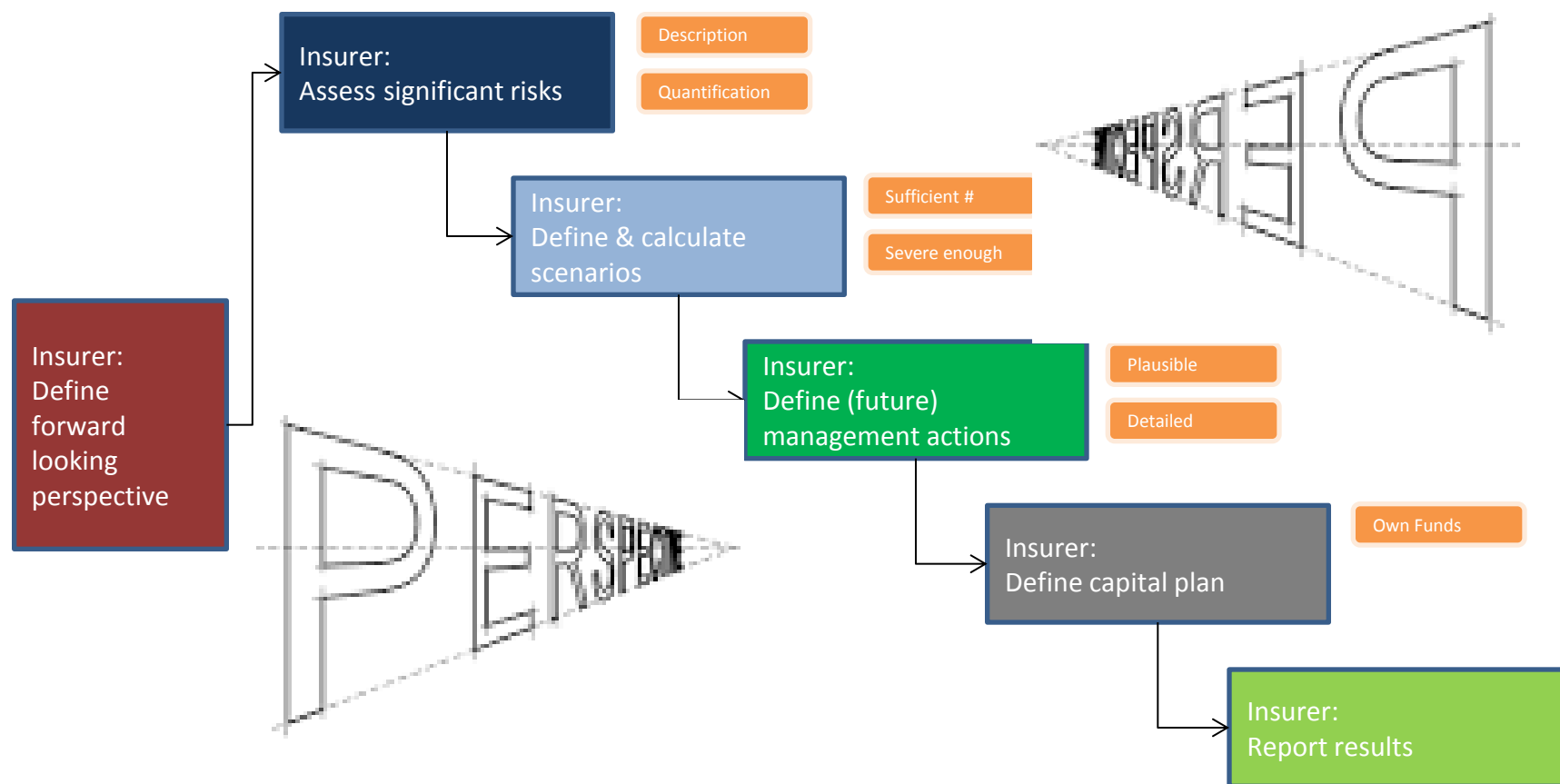
1. Quick reminder on ORSA: What is it and what is its purpose (Art. 45 SII Directive; ORSA GL)?
2. EIOPA's supervisory expectations
  - Risk profile
  - Capital needs
  - Governance tools and processes
  - Group ORSA
3. EIOPA's Supervisory Assessment on ORSA: Reality
4. SFCR Outcomes: ORSA

# 1. ORSA: What is it and what is its purpose?



- ORSA is the undertakings' **own view** of their **risk profile** and **capital needs**
  - o The undertaking needs to consider additional **risks** and to verify the **adequacy of the SF to their risk-profile**
  - o The undertaking needs to adopt a **forward-looking** view of the **capital adequacy** and **plan** how to address unexpected adverse changes in the environment by considering concrete **management actions**

# 1. Steps of the ORSA assessment



## 2. Why is it important to converge supervisory practices?

**Larosière Report (2009):** *"competition distortions and regulatory arbitrage stemming from different supervisory practices must be avoided, because they have the potential of undermining financial stability"*

**EIOPA Regulation (2010):** *"the Authority shall play an active role in building a common Union supervisory culture and consistent supervisory practices, as well as in ensuring uniform procedures and consistent approaches throughout the Union"*

**Report on the operation of the ESAs and the ESFS (2014):** *"the creation of a common Union supervisory culture and the promotion of convergent supervisory practices is necessarily a long term objective"*



## 2. Supervisory Expectations: Overview

### **Main pillars to analyse:**

- Governance
  - o Role of the AMSB
  - o Policy and processes
- Risk profile
  - o Business and market position
  - o Risk identification and assessment
  - o Risk appetite
- Capital needs
  - o Prospective position
  - o Stress and scenario tests
  - o Capital management plan and risk mitigation strategy

## 2. Supervisory expectations: Key messages

### **Governance, process and procedures**

- The term “ORSA outcome” is not, from our perspective, limited to the ORSA regulatory report itself, but is an enlarged notion covering the evaluations, the formalised results and actions taken of these evaluations from both solo and group perspective
- ⇒ *Consider the ORSA assessment not as a stand-alone exercise but in the wider context of the supervisory review process, eventually triggering further supervisory analysis.*
- ⇒ Governance, process and procedures of the ORSA are a key point

## 2.1 Risk profile

### Business and market position



#### Supervisory expectations

A large, solid blue arrow pointing downwards, indicating a flow from the supervisory expectations to the specific points listed below.

- Supervisors to have a view on:
  - o positioning relative to competitors/market share and the geographical markets of operations
  - o in-depth assessment of how the undertaking does business
  - o growth targets
  - o nature of the risks the undertaking is exposed to
  - o undertaking's performance measures to align strategy and risks



## 2.1 Risk profile

### Risk identification and assessment

#### Supervisory expectations



- Supervisors to have a view on:
  - o differences between the undertaking's own view of its risks and the SF (this shall be discussed and justified); this includes a view per risk category of the SF assumptions and the undertaking's own assumptions

## 2.1 Risk profile

### Risk appetite

#### Supervisory expectations



- Supervisors to have a view on:
  - o risk appetite for each risk category
  - o link with capital management and the resulting concrete actions

### Supervisory expectations



- Supervisors to have a view on:
  - o forecast model (planning horizon) and assumptions
  - o stress testing and scenario analysis (e.g. parameter considerations, changes and conclusions)
  - o potential impact of adverse events (e.g. combinations)
  - o funds planning and quality (e.g. in capital management)
  - o feasibility of the undertaking raising additional capital and/or reduce its risk exposures through reinsurance, hedging and other forms of risk transfer including in stress conditions
  - o adequacy of the contingency plans

## 2.3 Governance tools and processes

### Supervisory expectations



- Supervisors to have a view on:
  - validations tools and processes used; the AMSB is expected to challenge the results of the ORSA and follow up on any identified issues; results need to be promptly turned into actions
  - undertaking's ability to react to adverse events
  - robustness of risk management framework including how the undertaking's risk appetite is translated in a set of risk tolerances or limits for individual risk exposures.
  - monitoring and enforcing of risk tolerances
  - ability to quickly identify, measure and manage any emerging risks

### Supervisory expectations



- Supervisors to have a view on:
  - o the group's specific risks (apply the same three modules as on previous slides the group ORSA)
  - o SCR of all the related (re)insurance undertakings of the group and the group consolidated SCR (if adopted the accounting consolidation-based method)
  - o magnitude and credibility of any diversification benefits obtained by the group

### 3. EIOPA's Supervisory Assessment on ORSA: Reality



- First insight into national experiences: EIOPA's Supervisory Assessment of the ORSA (as of end 2016)
  - o Objectives: Achieve a high, effective and consistent level of regulation and national supervision → enhance supervisory convergence across the Union
  - o Undertakings are encouraged to assess their ORSA processes and reports with regard to the identified areas for improvement
  - o Assessment findings show a general trend of supervisory observations
  - o EIOPA continues to monitor feedback given by NSAs to undertakings regarding their performance of the ORSA

### 3. EIOPA's Supervisory Assessment on ORSA (1)



- Key findings
  - o Good progress in implementing the ORSA process for the majority of undertakings
    - Time horizon and involvement of key function holders adequate
    - ➔ Small undertakings to further elaborate on ORSA process incl. ORSA policy and quality of data used in the assessment
  - o Greater involvement of Boards (AMSB) needed
    - Board members expected to follow top-down approach and play an active role in the assessment
    - Board members to use ORSA results in strategic decision-making to enhance overall risk management

### 3. EIOPA's Supervisory Assessment on ORSA (2)



- Key findings (Cont'd)
  - o Scope of risk assessment to be widened and risks analysis to be deepened
    - All current and potential material risks to be assessed, incl. those not quantifiable
      - not always ALL potential risks included
      - in many cases not linked to the business model and strategic management actions
  - o Overreliance on the SF
    - Further improvement of assessment of significance of deviation of risk profile from SCR assumptions in SF
      - Assessment of own/specific risk profile expected when calculating overall solvency needs, taking into account the proportionality principle



### 3. EIOPA's Supervisory Assessment on ORSA (3)



- Key findings (Cont'd)
  - o Quality of stress testing including reverse stress testing and scenarios used in the ORSA assessments to be further improved
    - Appropriate evaluation of potential risks the business may be exposed to in a forward-looking perspective and required solvency in order to manage such risks
    - Further improvement of quality of stress testing needed

- EIOPA's Supervisory Statement on Solvency II: Solvency and Financial Condition Report (SFCR) (Dec 2017)
  - Information on ORSA under the SFCR is by its very nature undertaking-/group-specific
  - undertaking-/group-specific information to be included, even when referring only to the process and not to the outcome
  - Information disclosed to go beyond repeating laws, regulations and administrative provisions on how the ORSA needs to be integrated into the organisational structure and decision-making process (e.g. Board involvement, link to business strategy, timing/frequency)

# Outlook: Undertaking's key success factors



- ORSA is about ***strategy and looking into the future***; it's not just a quantitative exercise
- ***Involvement of board*** and senior management during the process ("all the way")
- Get ***everybody*** on board: Finance, Risk, Actuarial, Strategic, Business and AMSB
- It's the ***process*** that counts, not the end report
- Integrate ORSA in ***business process and steering***
- Stick to the purpose; ***make it 'own'***
- Allow for enough time and expect ***multiple iterations*** before it's good
- Don't hide risks, but ***show how you manage***



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**Thank you for your attention.  
Any questions ?**

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