



eiopa
EUROPEAN INSURANCE
AND OCCUPATIONAL PENSIONS AUTHORITY

Own Risk and Solvency Assessment (ORSA)

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

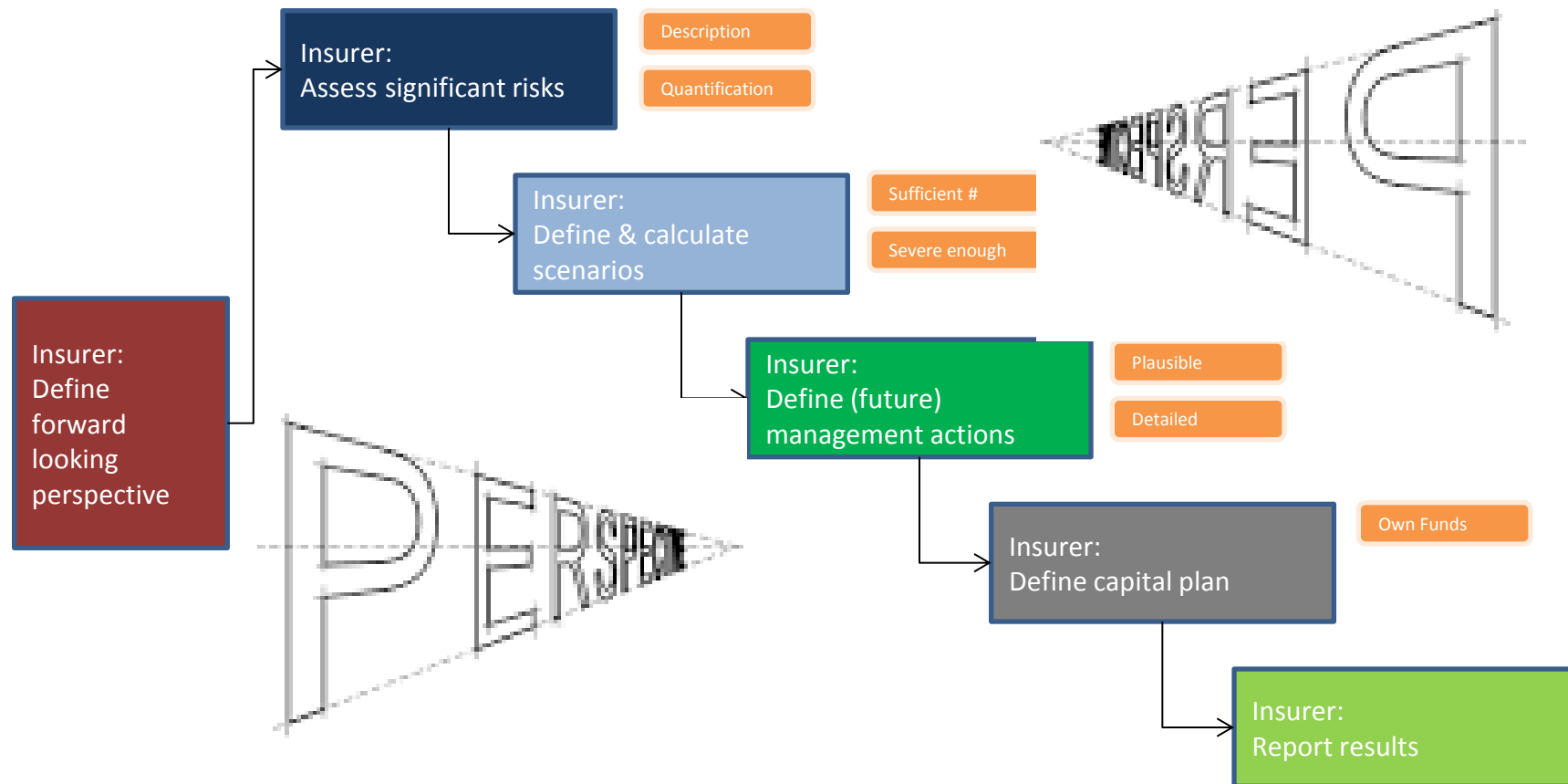
Dublin, 14 June 2018
Society of Actuaries in Ireland (SAI) - ERM Forum

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
5. Outlook & future challenges

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. Supervisory Expectations: Overview

Main pillars to analyse:

- Governance
 - Role of the AMSB → use ORSA for decision-making
 - Policy and processes → NOT “just a report”
- Risk profile
 - Business and market position → e.g. fast growth / performance measures indicating alignment strategy & risks
 - Risk identification and assessment → Δ own views \leftrightarrow SF
 - Risk appetite → for each risk category & link to capital management
- Capital needs
 - Prospective position → planning horizon / assumptions
 - Stress and scenario tests → data quality !
 - Capital management plan and risk mitigation strategy → contingency plans

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, blue, downward-pointing arrow is positioned below the heading, indicating the flow of information from the heading to the list of expectations 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 & 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

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)
 - o 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)

3./4. ORSA - Summary:

Undertaking's key success factors

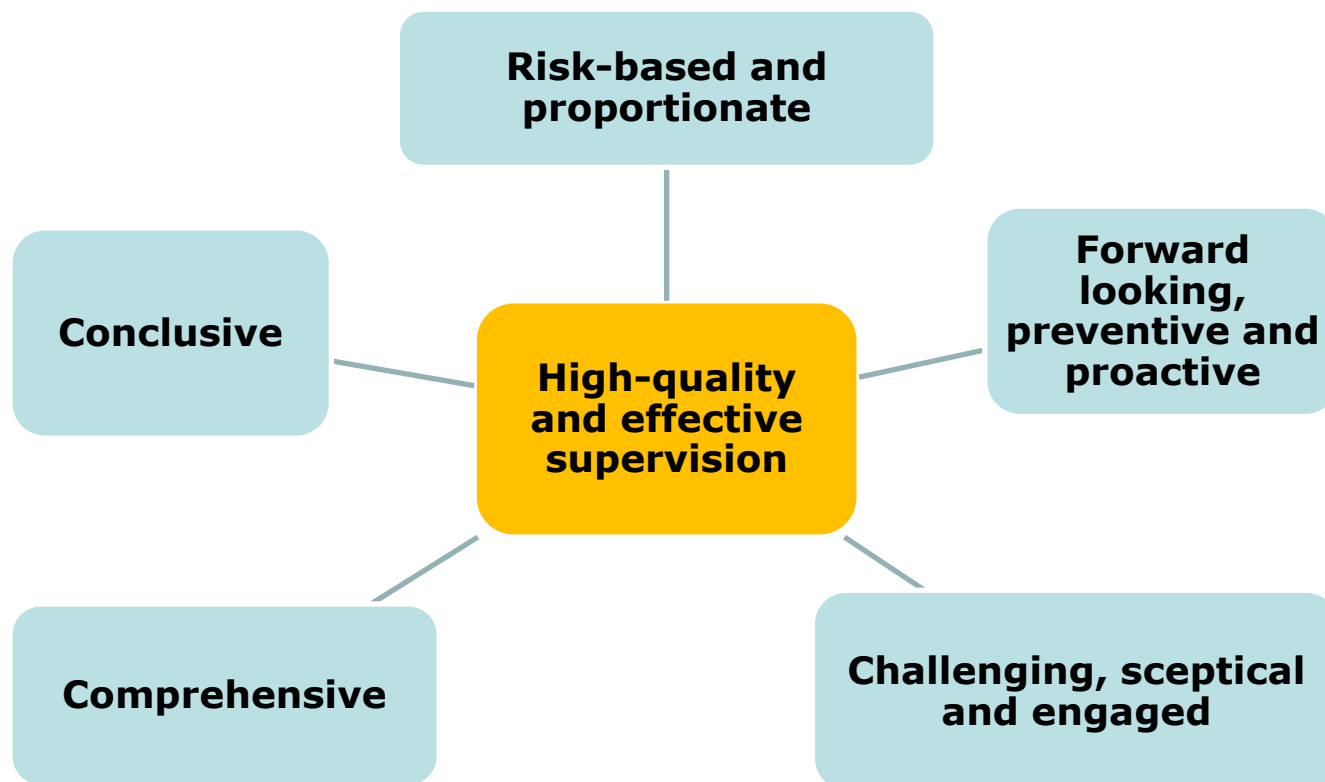
- ORSA is about **strategy and looking into the future**; it's not just a quantitative exercise
- **Involvement of board** and senior management during the process ("all the way")
- Get **everybody** on board: Finance, Risk, Actuarial, Strategic, Business and AMSB
- It's the **process** that counts, 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**

5. ERM: Actuaries are crucial for a sound implementation of risk-based regimes

- They know best about key drivers of the companies' risks and their proper reflection in underwriting and capital management
- Standards of actuarial practice ensure top professionalism, independence and knowledge
- EIOPA benefited significantly from the close engagement with the Actuarial Associations → key for SII implementation
- Dialogue with supervisors: to properly understand actuaries' concerns & views and ensure standards of actuarial practice are in line with supervisors' expectations
 - o Effective communication of analyses and assessments; active interaction with Executives
 - o Contribution to product design & oversight
 - o Important role in the strategic decision making processes by providing a comprehensive understanding of the insurers' overall risk situation

*Technical provisions
Data quality
"future developments"
Risk culture*

5. Outlook: A common supervisory culture



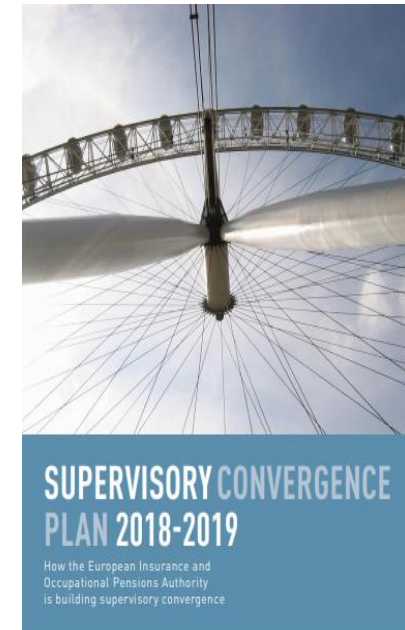
5. Outlook: EIOPA's Supervisory Convergence Plan



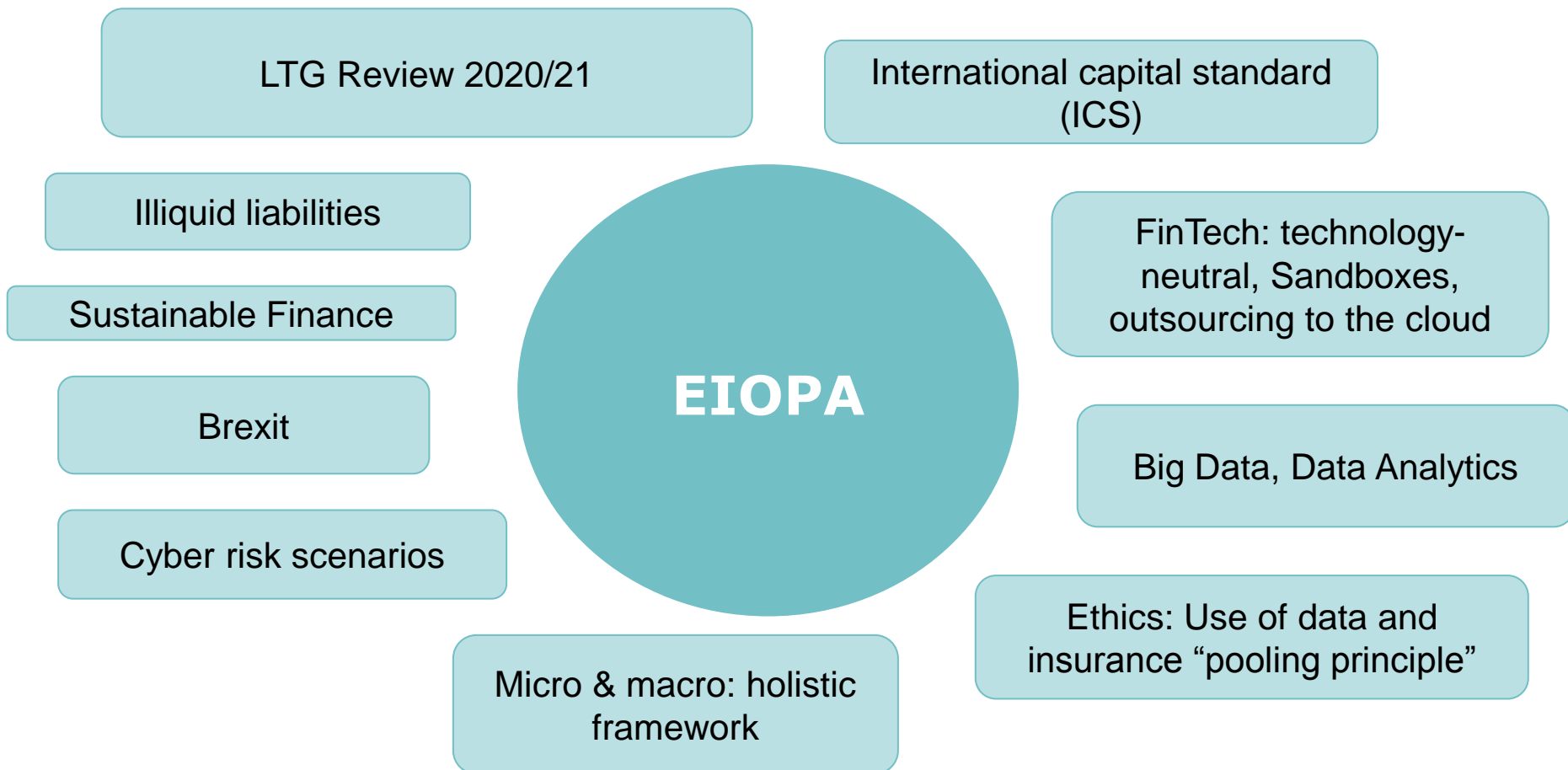
o Supervisory Convergence Plan

- How EIOPA is building Supervisory Convergence
- How priorities are defined
- Supervisory Plan 2018-2019

Published April 2018



5. Future challenges in European regulation and supervision





eiopa
EUROPEAN INSURANCE
AND OCCUPATIONAL PENSIONS AUTHORITY

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

Dr. Manuela Zweimueller & Yvonne Schmerfeld

EIOPA Policy & Oversight and Supervisory Convergence
Departments

Manuela.Zweimueller@eiopa.europa.eu

Yvonne.Schmerfeld@eiopa.europa.eu
