SAM focus

Helping insurers understand and manage change

Insurers can expect the application of the Own Risk and Solvency Assessment (ORSA) to be a critical and valuable output from SAM

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Feedback from European (Solvency II) and South African (SAM) implementation efforts indicates that insurers are starting to realise the potential value flowing from a focussed ORSA development and implementation effort.

More than just a regulatory requirement, the ORSA has come to be seen as part of a continuous process and a key management tool that brings together many of the essential features of an ERM framework. It cuts across all the key elements of risk and value management; including risk appetite, risk assessment, capital management and business strategy.

The lack of regulatory ORSA guidance provides insurers with the opportunity to develop a fit for purpose risk and capital oversight framework.

What you need to know

1. The ORSA can be defined as the entirety of the processes and procedures employed to identify, assess, monitor, manage and report the short and long term risks an insurance and reinsurance 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.
2. Regulatory guidance on ORSA has been light touch (and principle based) to date, providing the opportunity for insurers to develop their own ORSA capabilities that are proportional and fit for purpose.
3. The ORSA aims to enable the board to monitor and manage its company's risks and determine its overall solvency needs. The assessment should take into account the company's risk appetite, risk profile and business strategy; covering both present and forward looking risks.
4. The forward looking view required under the ORSA takes many firms beyond their normal capital allocation horizons, and it should align these more closely with the time frame over which the board makes strategic decisions, typically considered to be around three to five years.
5. The ORSA requires insurers to ensure continuous compliance with regulatory capital requirements. Not only does this mean making sure that the company is solvent today, but also solvent over their business planning period and between reporting dates.
6. The ORSA goes beyond simply providing warning lights for capital adequacy. It also helps senior management understand how potential difficulties can be dealt with proactively.
7. Stress and scenario testing will be critical in helping to identify potential threats to the business and preparing plans to alleviate the worst of the impact and/or de-risk the balance sheet.
8. In severe circumstances, stress and scenario analysis will enable companies to assess ways to recapitalise the business, or when all else fails, ensure an orderly run-off.
9. Developing an ORSA therefore links some of the biggest issues that insurers are tackling right now, including:
   - Articulating, embedding and linking risk appetite and capital management;
   - Development of modelling capability – particularly economic (or required) capital;

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- Designing management information that gives a clear and forward looking picture of the risk profile and resilience of the capital position; and
- Meeting internal model approval requirements – ORSA provides an excellent basis for completing the anticipated internal model application process.

What you need to do

1. Establish an ORSA work stream under the SAM implementation structure to oversee ORSA development (as opposed to taking ownership of all elements of delivery, which could create duplication of efforts and uncertainty).
2. Understand the full scope of the regulatory ORSA requirements (Solvency II Level 3 guidance will supplement requirements during H2 2011).
3. Leverage local and international industry good practice and developing own standards.
4. Develop an ORSA framework, specifying its key components.
5. Develop a detailed ORSA process which includes interaction of business strategy, risk strategy and appetite, core risk management activities, capital modelling, as well as governance and oversight activities.
6. Understand operational requirements and implications, including people, processes, data and systems.
7. Identify business requirements in order to deliver the ORSA, including specification of economic view of capital versus regulatory (or SCR) requirements.
8. Develop an ORSA policy and capabilities to turn the ORSA policy into practice.
9. Develop modelling requirements to support the ORSA including projection of capital requirements, assessing continuous capital requirements are met and ORSA stress and scenario testing.
10. Develop an ORSA output and reporting outline while ensuring linkage with other reporting requirements, including management information and other Pillar 3 regulatory reporting requirements.
11. Ongoing allocation of work and oversight of ORSA related activities within other SAM work streams.

If you wish to discuss how we can help you, please call your regular contact or alternatively:

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PwC global thought leadership on Solvency II

The following link provides access to a range of thought leadership pieces produced by the firm on Solvency II.

http://www.pwc.com/gx/en/insurance/solvency-ii/index.jhtml