OWN RISK AND SOLVENCY ASSESSMENT

Presentation for:

2016 SAM Workshop

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Agenda

- Mock ORSA Submissions 2015
- FSB Review process
- FSB high level feedback
- PRA’s market feedback
- Mock ORSA Submissions 2016

Mock ORSA Submissions 2015

Purpose of Mock ORSA

- Assist insurers in progressing towards SAM readiness
- Building supervisory capabilities
- Evidence to the FSB regarding readiness
- Consideration for future solo exemptions where a group ORSA is submitted

What was submitted

- Mock ORSA Supervisory Report
- ORSA Policy
- Project Plans for outstanding items
  - Key activities
  - Key milestones
  - Timelines
  - Insource / outsource / no source

What was expected?

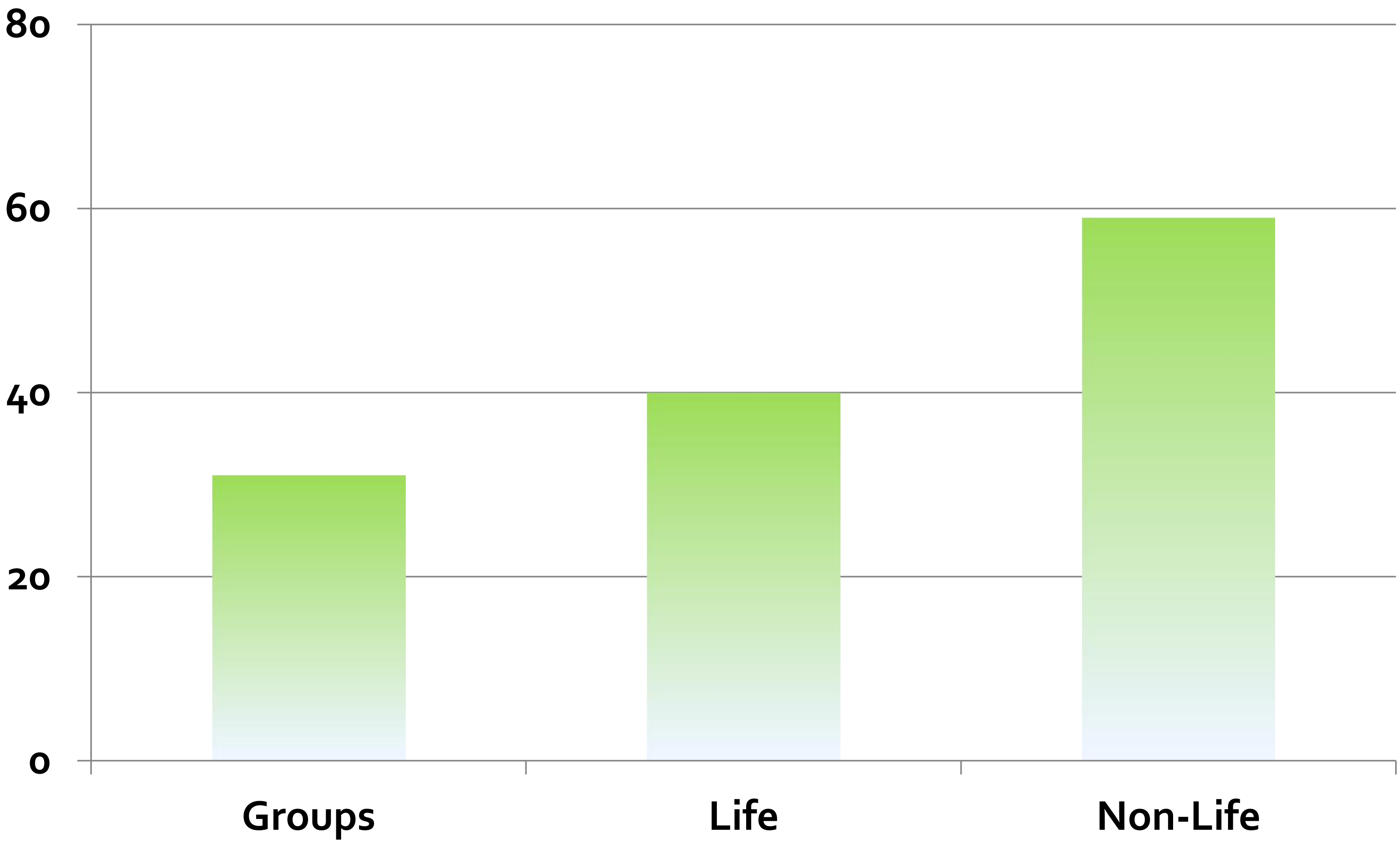
- Own determined date
- No later than 31 August 2015
- Submit as much of the final ORSA requirements as possible, subject to the minimum items needed
- Group to work on the assumption that exemption was given for solo’s

What was not required?

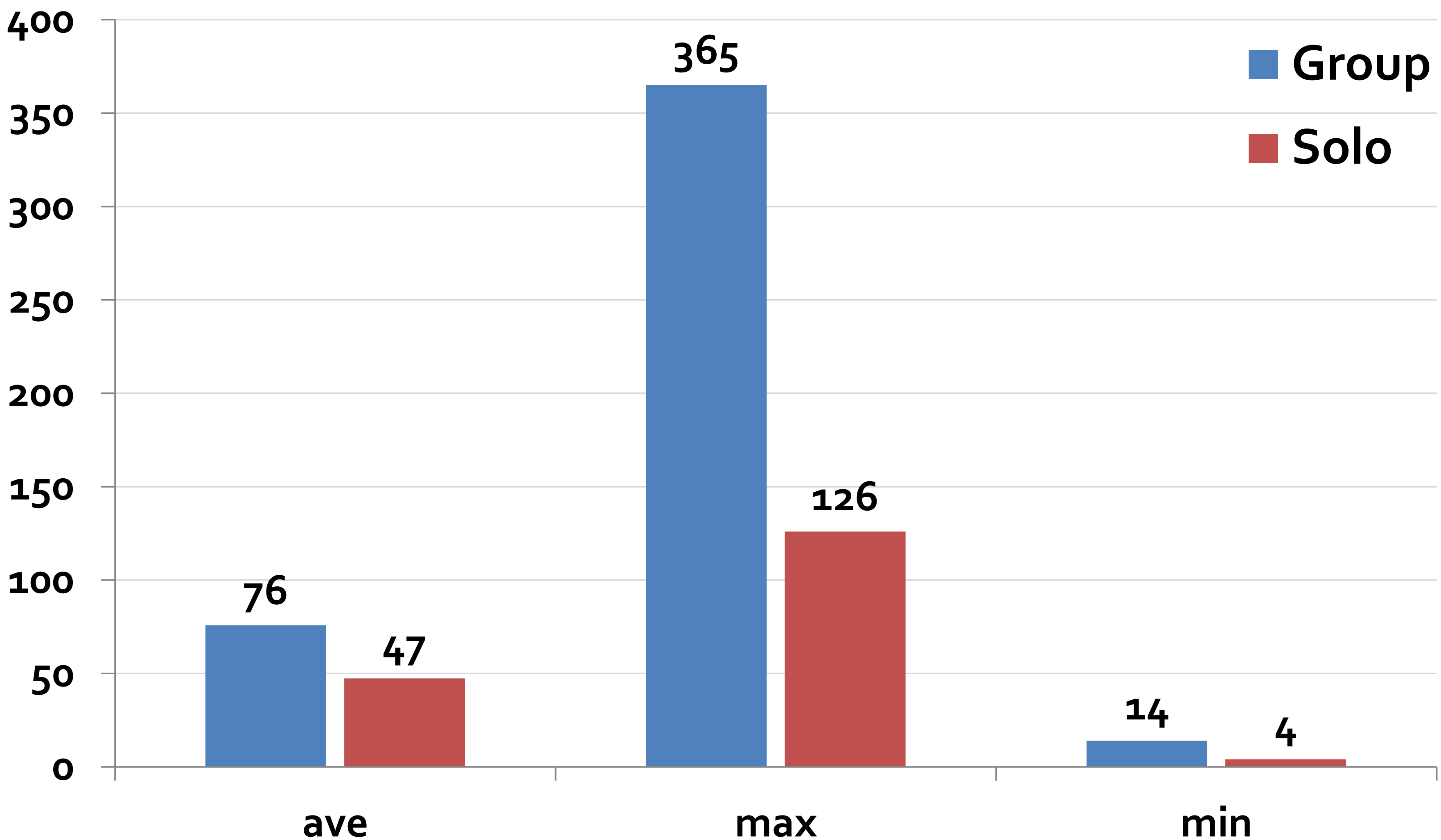
- Embedding of the ORSA in the business
- Continuous compliance with the regulatory capital requirement and Technical Provisions
- Explaining deviations between the standard formula SCR and the entity's assessment of own risk and solvency
- The need to perform an ORSA when there is significant change in the risk profile (out-of-cycle ORSA)
- The independent review of the ORSA

FSB Review process

Number of ORSA reports



Length of ORSA reports



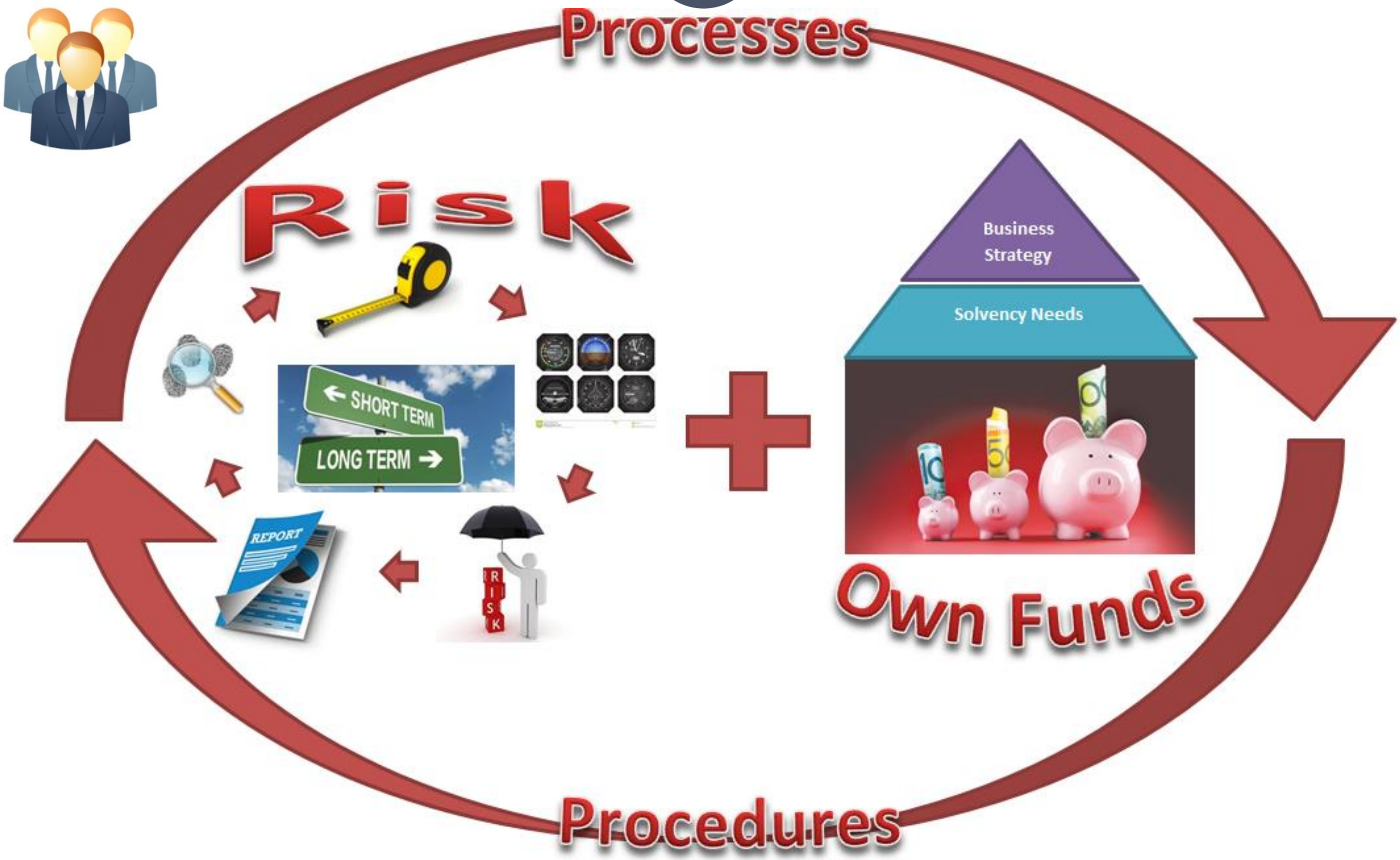
Challenges for the FSB…

- No standard template (!)
- Integrating ORSA information into the overall picture of the insurer
- Developing a supervisory guide
- Limited experience
- Consistency
- Considering insurer/insurance groups uniqueness
- Volume and time needed to assess the ORSA submissions

The review process

- Assisted in building supervisory capacity
- Identifying South African insurance market trends at group, solo entity and an industry level.
- Focus more on the guidelines of the SAM CPR Technical specifications
- Our analysis was also guided by our knowledge of insurer/insurance group
- Provide insurers/insurance groups and in particular the Board of Directors with formal feedback

FSB High-level findings


Processes
Risk
SHORT TERM
LONG TERM
REPORT
RISK
Business Strategy
Solvency Needs
Own Funds
Procedures

Board & Senior Management

Lack of evidence of:

- Roles and responsibilities of key individuals in ORSA process
- Board and Senior Management challenge of various aspects of the ORSA process
- Necessary approvals required regarding capital and capital management and solvency targets

ORSA Policy

- In some cases no stand-alone policy
- Lack details on events that will trigger "out-of-cycle" ORSA
- No information on the frequency and types of stresses (scenario/sensitivity/reverse) to be performed
- Lack specific information on data quality
- No mention of areas that will require independent review
- Roles and responsibilities of key individuals in the ORSA process not included

Business Model & Strategy

Lack of information on:

- Outsourced models i.e. senior management & control functions
- Product offering
- Complete group structure
- Unregulated entities and regulated entities conducting business outside of South Africa
- Interconnectedness within the group
- Materiality of entities within the group

Solvency & Capital Management

Lack of:

- Detail on assumptions used for the projections
- Information on the projections of future capital needs
- Fungibility and transferability of surplus capital, especially in a stress event
- Differences between actual and targeted SCR coverage ratios
- Management actions relating to breaches of SCR target ratios
- Discussion on the quality of available capital

Solvency & Capital Management

- Liquidity management was not addressed
- Economic capital, regulatory capital and IFRS figures provided, but reasons for differences and assumptions not included
- For cell captives, more information should be included to explain the differences between the promoter and cells' views on the risks

Risk Identification

- Risk matrix, which highlights the risks identified as being significant, not included in some cases
- Lack of information about emerging risks
- Non-modelled risks not sufficiently considered

Risk Assessment / Measurement

- More work on reverse stress testing
- For comparative purposes, results of the stress and scenario testing should be compared with the SAM SCR and economic capital base cases
- Stress and scenario testing:
  - Need a description of the different stress and scenario testing performed
  - Need a justification of why particular assumptions for the different stress and scenario tests were used and are relevant

Risk Assessment / Measurement

Scenario testing:

- Need more detail on the process to be followed in identifying the scenarios
- Want to understand what factors were taken into account in the determination of the likelihood and consequence of the scenarios actually happening
- For all the different scenarios the impact on assets, liabilities and own funds should be discussed

Risk Monitoring

- Risk Appetite statements still need to be approved by the board of directors
- Lack of information on:
  - How target risk levels and residual risk ratings are determined
  - The process when a breach in the limits has been identified
  - Risk appetite measures for risks such as brand and reputational risks
  - How group risk appetite is set and how it filters into the different business units

Risk Assessment / Measurement

- Lack of information around management actions
- Where management actions were provided, we have questions around the plausibility of some of them
- The impact of a particular management action on the other assumed management actions is not considered
- Lack of appropriate distinction between management actions to be taken for company-specific event vs market events

PRA's Market Feedback

BANK OF ENGLAND

PRA's Market Feedback*

- Stress tests are weak
- ORSA reports are retrospective
- No balance between quantitative & qualitative information
- ORSA reports are too long and repetitive
- Use graphs and pictures to support analysis
- Need to demonstrate Board involvement and ownership
- Risk mitigation strategies lacking
- Evidence lacking of proper embedding of ORSA
- ORSA reports are not linking the key elements

* Source: Deloitte

Mock ORSA submission 2016

Submission Requirements

- Updated Mock ORSA supervisory report (more detail provided on next slides)
- ORSA policy should be submitted if not already submitted in 2015 or if the policy has been updated since its previous submission
- Project plans addressing any outstanding elements of the ORSA which includes:
  - Key activities and milestones
  - Timelines
  - Insource / outsource / no source

ORSA Supervisory Report

- No prescribed template
- Updated CPR specifications
- When?
  - Insurers and Insurance Groups choose their own dates
  - No later than 30 Sep 2016
  - May apply for a later date but not later than 30 Nov 2016

Exclusions for 2016

- The requirement for the assessment of continuous compliance with the regulatory capital requirement and Technical Provisions as described in Guidelines 10 and 11
- The need to perform an ORSA when there is significant change in the risk profile (out of cycle ORSA)
- The independent review of the ORSA.

Conclusion

- The ORSA is one of the most significant views of the insurer's current and future risk profiles…
- …building something which is meaningful to the insurer's Board and senior management team is a challenge…
- …and extracting full value from them from a regulator's perspective is equally challenging.

Questions?