



Own Risk and Solvency Assessment

Updates, Issues, Opinions, Debates — A Socratic Dialogue

Casualty Loss Reserve Seminar

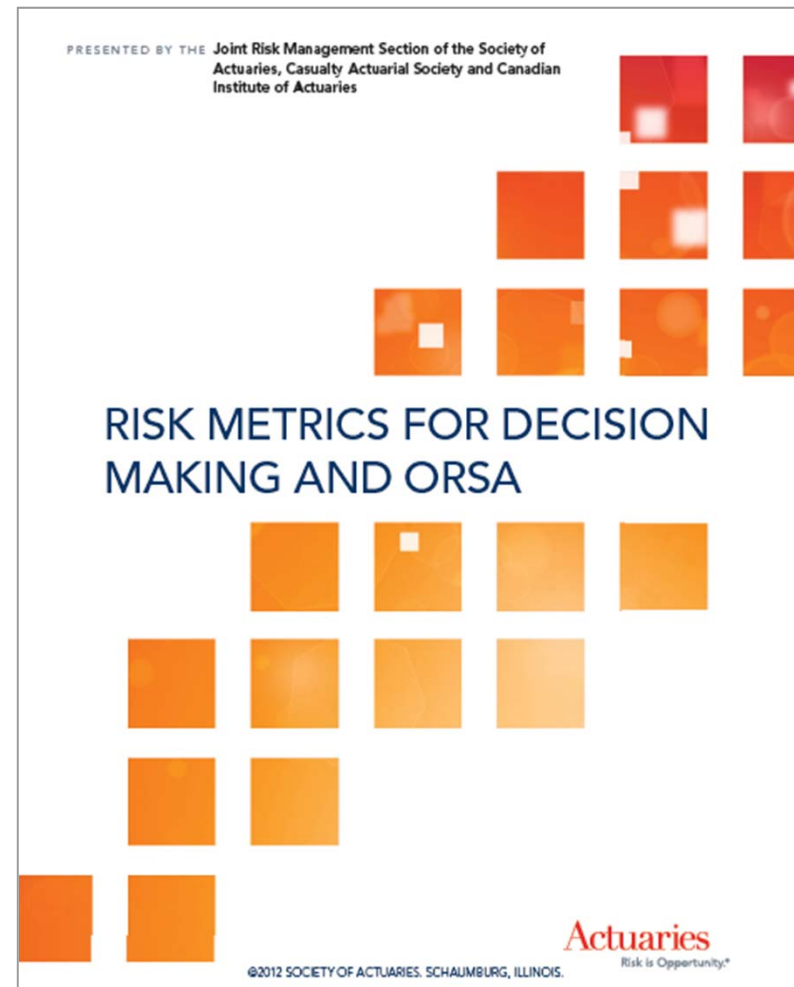
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TOWERS WATSON 

Summary of Key Points — “Understand ORSA Before Implementing It”

- ORSA requirements are evolving globally based on IAIS ICP 16
- At its core, ORSA is a **management process** — not a “tick-box” regulatory requirement
- Extracting value hinges on using the ORSA experience/output to make **better risk-based decisions**
- ORSA implementation can be used as a catalyst for implementing/embedding ERM
- ORSA should balance quantitative and qualitative assessment techniques

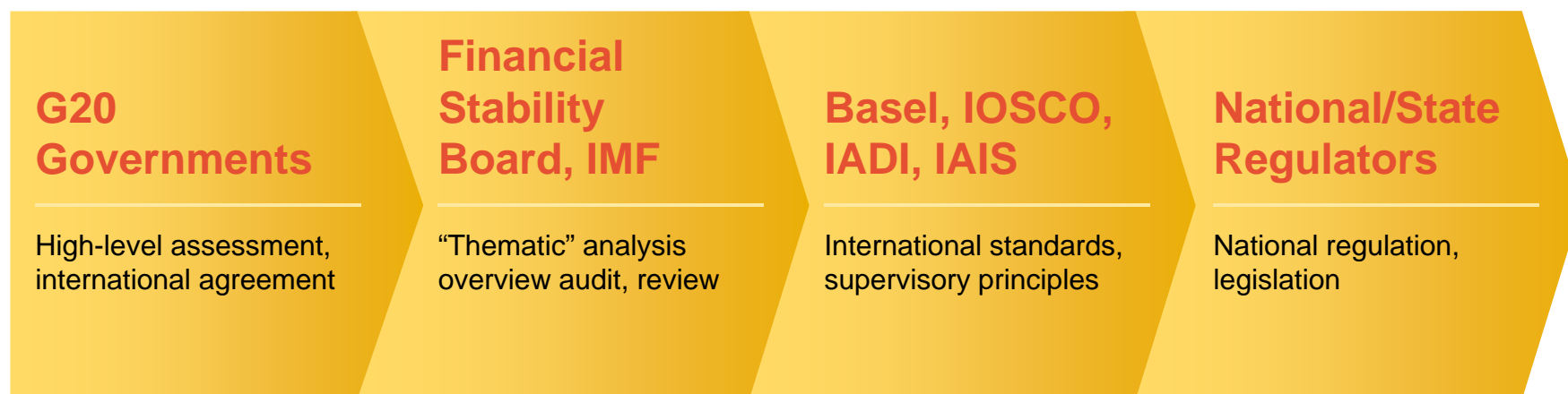


The demands for more rigorous risk and capital management continue to grow



Large financial institution governance failures have led to tighter cross-border financial services regulation

The Global Regulatory Process



- Financial institutions are regulated locally, but principles and standards are developed globally
- Financial regulation generally flows from coordinated international standard setting bodies consisting of regulators from member nations

Source: Davis, Kevin, Regulatory Reform Post the Global Financial Crisis: An Overview. March 2011.

The IAIS sets standards for insurance regulators worldwide by promulgating “Insurance Core Principles” or “ICPs”

- 190 members, 140 jurisdictions
- 22 signatories of Multinational Memorandum of Understanding
- Global insurance principles, standards and guidance papers
 - **Principles:** “are fundamental to effective insurance supervision...Identify areas in which the supervisor should have authority or control.”
 - **Standards:** “set out best practices for a supervisor... Describe the practices an insurer should follow... Assist supervisors in assessing the practices that companies have in place.”
 - **Guidance:** “an adjunct to principles and standards, designed to assist supervisors and raise the effectiveness of supervision.”

ICP 16.11 — The supervisor requires the insurer to perform its own risk and solvency assessment (ORSA) regularly to assess the adequacy of its risk management and current, and likely future, solvency position.

ORSA involves a self-assessment of the insurer's risk management framework and solvency position

- ORSA is a process that examines the full scope of the insurer's enterprise risk management framework
- The “own” in ORSA places the onus on management — to self assess the risk and capital management framework, given current and future risks
- The ORSA output is a set of documents that demonstrate the results of management's self-assessment



The ORSA results in a richer view of the insurance group's capital and risk management framework



The ORSA improves the regulator's view of risk and capital

- Risk-based capital will remain as the key determinant for minimum legal-entity regulatory capital
- The ORSA will provide the regulator with the insurer's view of its group risk capital and risk management based on proprietary factors and analysis
- The combination of the two will allow regulators to key in and focus on the most important issues for policyholder protection/security

The Summary Report: Information in three sections

Section 1:

Description of Risk Management Framework

- A high-level summary of the insurer's risk management framework

Section 2:

Assessment of Risk Exposures (Quantitative and Qualitative)

- Detail showing the insurer's process for assessing risks, including stress tests

Section 3:

Group Risk Capital and Prospective Solvency Assessment

- Demonstration that current and future capital is sufficient to support risks identified

It is important to *reiterate* the difference between ORSA as an internal process and as an external reporting requirement

What an ORSA is

- A continuous process
- Determined by firm (i.e., “own”)
- Own risk profile and risk appetite
- Short- and long-term risks
- Both qualitative and quantitative
- Overall solvency needs
- Over business planning period
- Adequacy of capital
- Continuous compliance

What an ORSA is not

- A point-in-time activity
- Pre-defined by regulator
- A regulatory report, a template or form to complete
- Just a mathematical calculation
- A requirement to develop an economic capital model
- A new group capital requirement
- Just a process to tick a regulatory box

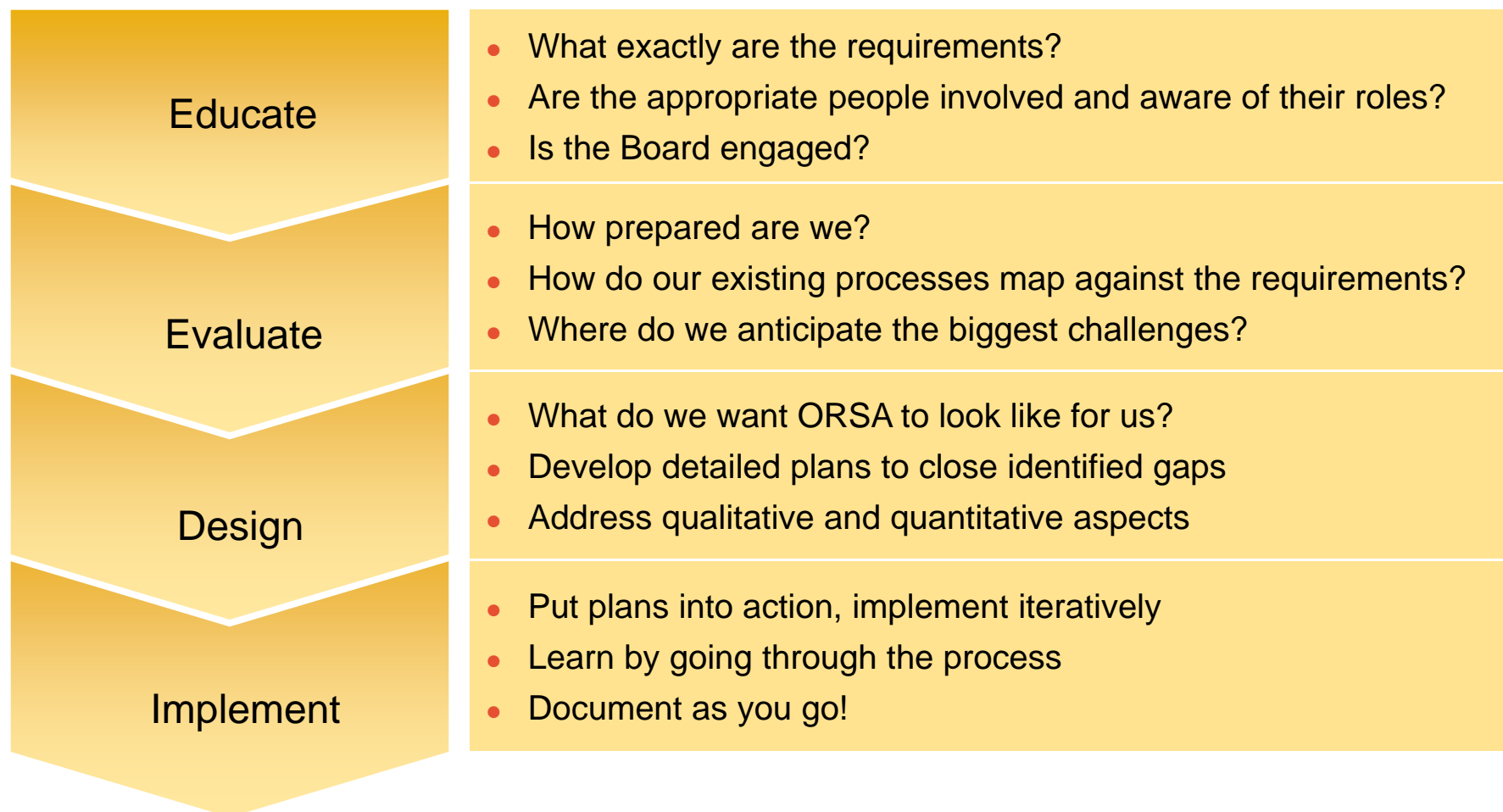
ORSA as a business process requires ongoing cross-functional communication and collaboration...

*“A business process is a series of steps designed to produce a product or service. Most processes (...) are cross-functional, spanning the ‘white space’ between the boxes on the organization chart. Some processes result in a product or service that is received by an organization's external customer. (...) Other processes produce products that are invisible to the external customer but essential to the effective management of the business”**



*Rummler & Brache (1995). Improving Performance: How to manage the white space on the organizational chart. Jossey-Bass, San Francisco.

While companies are at various stages, most will follow a similar path to implementation



The NAIC has just completed a pilot ORSA exercise

- About a dozen insurers have submitted ORSA reports for regulatory review
 - Comments being developed that will go back to each participating company, presumably with further dialogue
 - Pilot generally viewed as a success on both sides
 - Some reports “looked like skeletons,” outlining approach and built from multiple areas in the organization (body parts)
- Given that implementation will not occur until 2015, there is room for additional testing/pilots in 2013
 - A healthy development process, with both sides learning and contributing to the development of something quite new



Thank you!



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Questions