

ORSA and SII: Challenges and Opportunities for the Industry

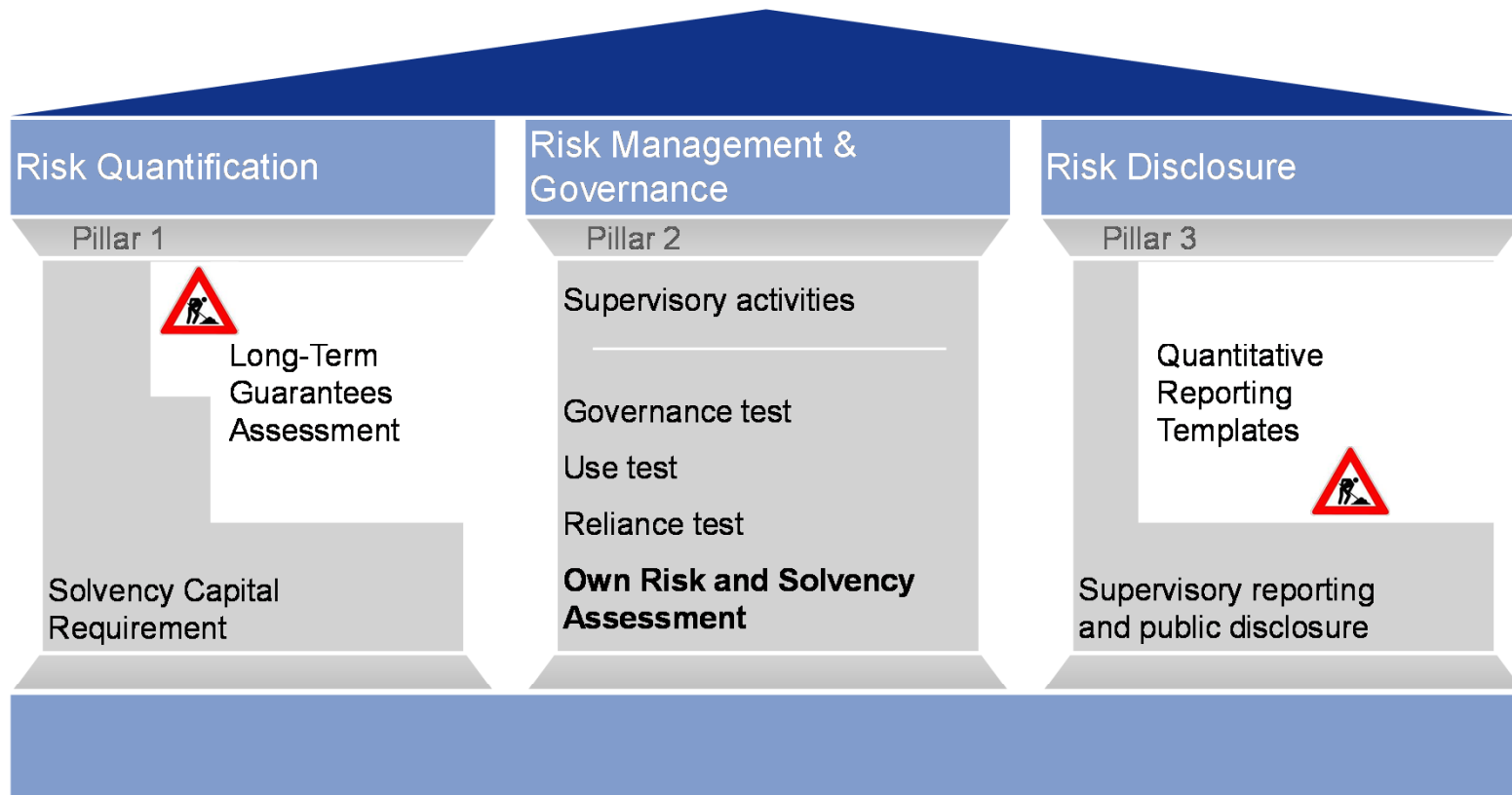
A presentation to the Casualty Loss Reserving Seminar
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September 17, 2013

Fireman's Fund Insurance Company®

A company of Allianz 



Status Quo Solvency II



▶ Own Risk and Solvency Assessment (ORSA) will come for sure

Main ORSA principles under SII

1. ORSA is the responsibility of the undertaking and should be regularly reviewed and approved by the undertaking's administrative or management body¹⁾
2. It shall encompass all material risks that may have an impact on the undertaking's ability to meet its obligations under insurance contracts²⁾
3. It shall be based on adequate measurement and assessment processes and form an integral part of the management process and decision-making framework of the undertaking³⁾
4. It shall be forward-looking, taking into account the undertaking's business plans and projections⁴⁾
5. The related process and outcome should be appropriately evidenced and internally documented as well as independently assessed⁵⁾
6. It is required to develop an ORSA policy as part of the risk management policy⁶⁾

ORSA is the processes and related documentation within the risk framework to ensure solvency needs are met at all times and it is therefore the responsibility of executive management

All requirements based on current draft of Level 3 Guidelines on ORSA

¹⁾ "Role of the management body (top-down approach)" - Guideline 2

²⁾ "Overall solvency needs" – Guideline 8

³⁾ "Link to management processes and decision-taking framework" - Guideline 16

⁴⁾ "Forward-looking perspective" - Guideline 10

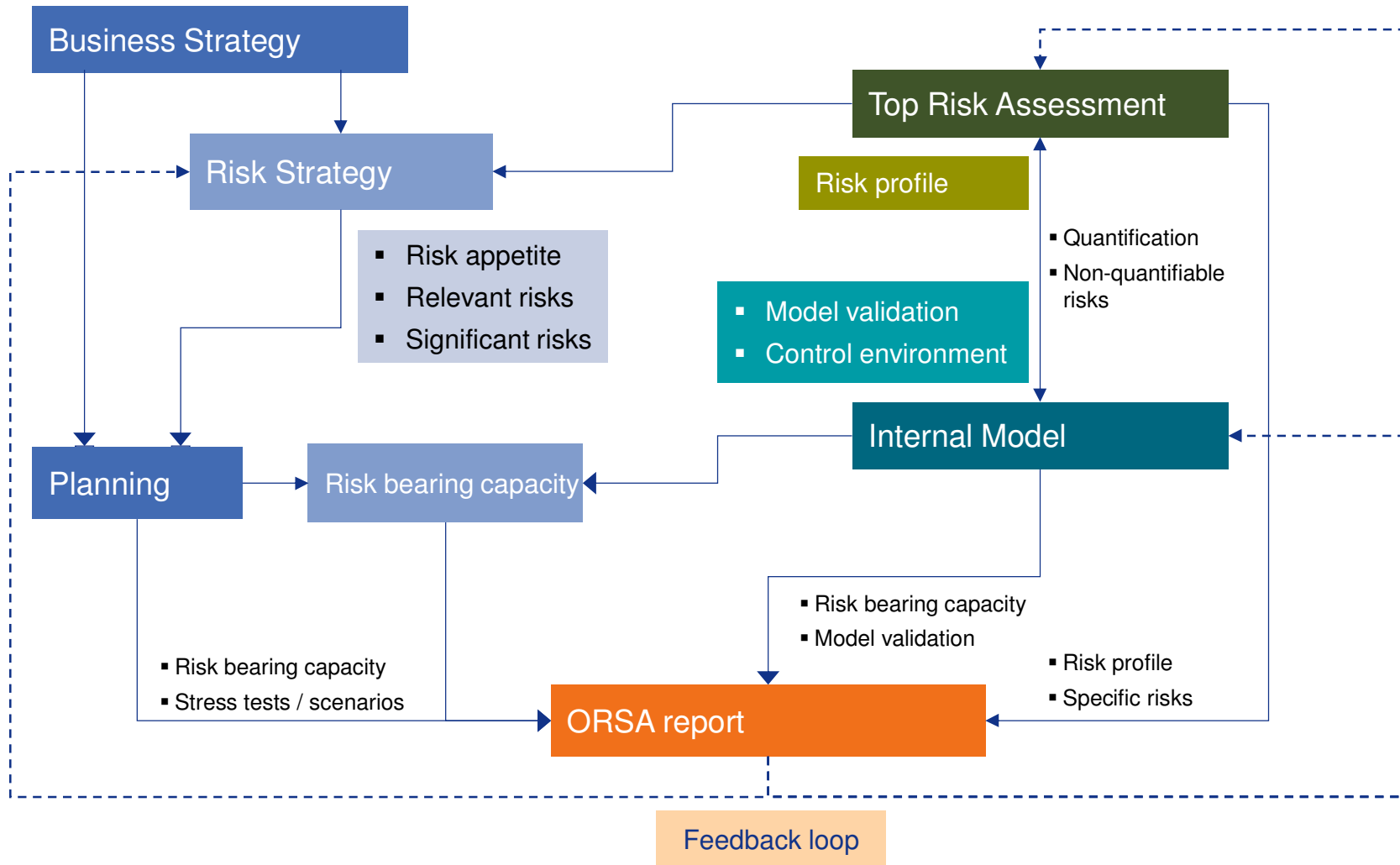
⁵⁾ "Record of each ORSA process" - Guideline 5

⁶⁾ "ORSA policy" - Guideline 4

The Allianz ORSA process is based on existing and well established components and aligned with the regular reporting cycle

- **Regularly update and align risk strategy with its business strategy and risk strategy**
- **Strategic Dialogue and Planning Dialogue to:**
 - Demonstrate compliance of future business activities within **risk appetite and limits** (risk strategy)
 - **Project own funds, risk capital and solvency ratios under base and stress scenarios**
 - Identify **key strategic risks** as relevant
- **Top Risk Assessment** under specific consideration of results of:
 - Assessments of **all quantifiable risks** based on the internal risk capital model
 - **Additional risk assessments for quantitative risks** which might not be covered with the internal capital model and analysis of **non quantifiable risks** (e.g. reputational risks) based on qualitative criteria
 - Assessment of **Emerging Risks**
- **Regular Internal Model and Risk reporting process**
- **Report Internal Model results** and additional Risk and Solvency related issues at least quarterly to Executive Management and RiCo.
- **Analyze appropriateness of the SCR calculations and assess the Solvency situation** based on the Internal Model or Standard Model
- **Assess deviations between risk profile and assumptions underlying the calculation of the SCR and quantify the significance of the deviation.** Assess whether any internal model update and/or potential capital add-on is required as a result of this analysis and the TRA process.
- Integrate risk relevant results and **management decisions in the ORSA reporting as relevant**
- **Express the overall solvency needs in quantitative terms and complement the quantification** by a qualitative description of all material risks.

Interaction of different ORSA Processes



Risk Policy defines roles and responsibilities of the ORSA Process

Board of Management

- Challenge and approve ORSA process / report

Internal Audit

- Conduct regular and independent review as part of regular audit plan.

Legal & Compliance

- Support Top Risk Assessment

CRO Function

- Coordinate and annual implement ORSA process
- Prepare ORSA report for local RiCos and BoM

Risk Committee

- Monitor implementation of ORSA process
- Review and discuss ORSA report
- Present ORSA report to BoM

Actuarial function

- Support Top Risk Assessment and Model validation
- Adequacy of Technical Provisions

ORSA Documentation

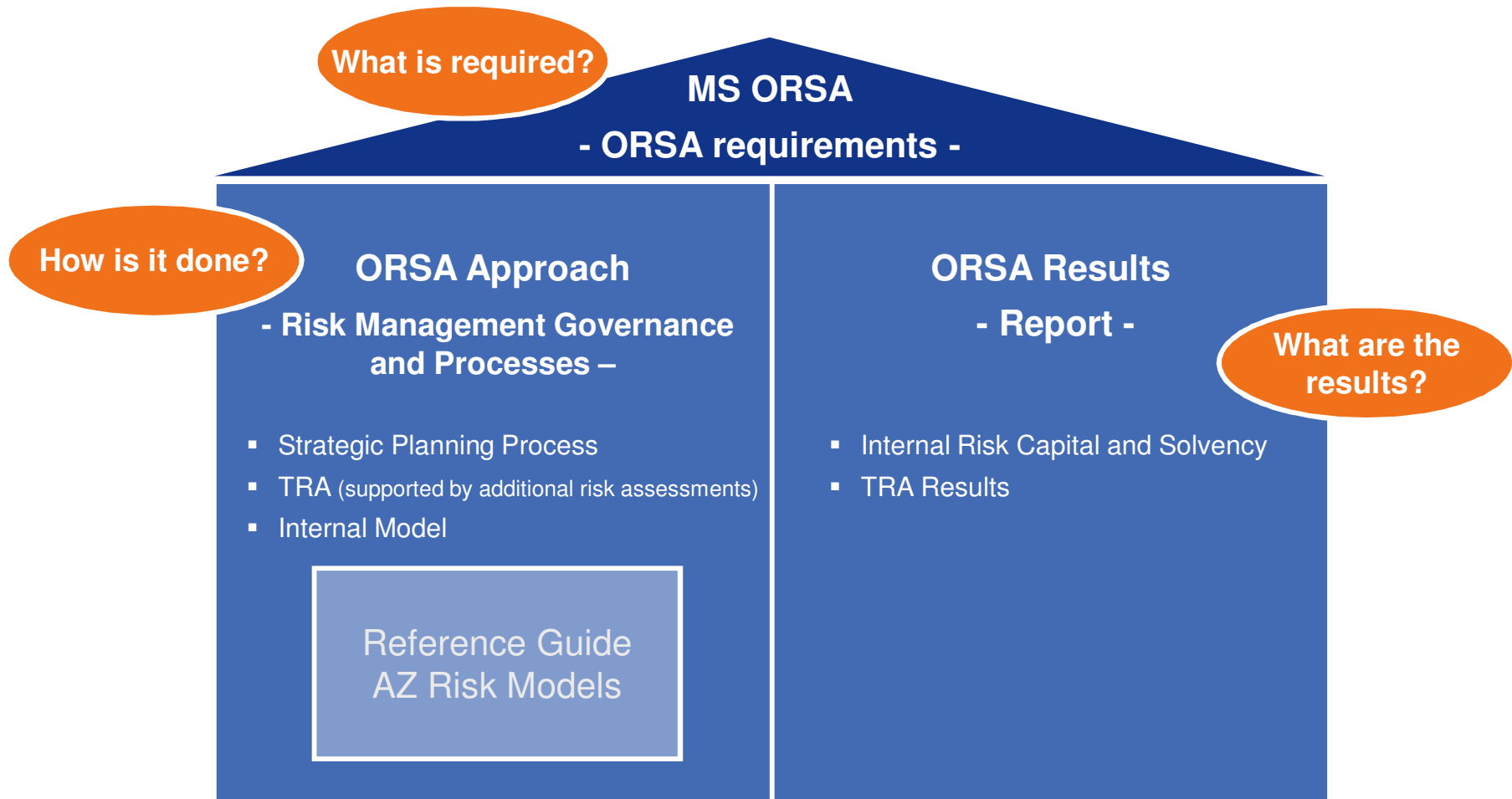


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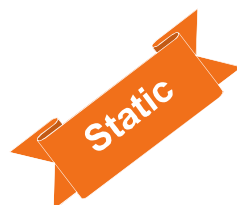
4 Specific Risk Management Framework for Insurance Business

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