ORSA & ERM

Maryellen Coggins

Agenda

- Evolution of ERM in the Insurance Industry
- What is ORSA?
- Insurance Supervision and ERM
- Assessing Risk and Capital Adequacy
- Actuaries and ORSA

ERM in the Insurance Industry

- The last 10 years have witnessed important advancements in the development, use and application of sustainable ERM frameworks within insurance organizations.
- Historically, insurance organizations managed risk in silos. ERM introduced enterprise wide consistency in risk management practices, and paved the way for the use of advanced risk based analytics in support of business strategy.
- Requirements for the disclosure of ERM practices to external stakeholders have accelerated these advancements, requiring insurance organizations to focus on those practices that provide the greatest value.

What is ORSA?

- An ongoing process by which an insurance organization assesses its own risk and solvency position, providing a declaration of the organization’s assessment of its position in terms of profit, risk and capital, both now and in the future, under different scenarios and relative to the organization's appetite for risk.
- While ORSA considers regulatory and rating agency requirements, it fundamentally reflects an insurance organization’s own view of risk and solvency, not the expectations of the industry or sector as a whole.
- ORSAs are conducted routinely, and in particular when the insurance organization experiences significant changes in its risk profile or when major strategic decisions are being made.
- ORSA processes themselves need to be assessed over time to ensure they are appropriately aligned with the insurance organization’s needs.

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Insurance Supervision and ERM

- ICP 16: Enterprise Risk Management for Solvency Purposes requires insurance supervisors to review insurance organization's risk management processes (including the ORSA) and take actions to strengthen an insurance organization's risk management processes where necessary. ERM frameworks are expected to:
  - Provide for the identification and quantification of risk;
  - Be guided by risk management policies;
  - Establish and maintain risk tolerance statements setting out overall quantitative and qualitative risk tolerance levels; and
  - Respond to changes in the risk profile and the environment via feedback loops.
- Looking ahead:
  - Supervisory use of ORSA information to inform macro views of risk.
  - Avoiding ORSA prescription over time.

Assessing Risk and Capital Adequacy

- Risk and capital adequacy assessments may be conducted using a variety of quantitative techniques and tools, such as economic capital modeling and stress and scenario testing. Each type of quantitative approach has its strengths and weaknesses.
- Significant risks to an insurance organization need to be assessed and communicated by the drivers of risk rather than strictly as aggregated statistical outcomes.
- Alignment between risk assessments and capital adequacy assessments is essential.
- Transparency is fundamental to the clear communication of and comfort with the results of both quantitative and qualitative ORSA assessments.
- Looking ahead:
  - Using ORSA to motivate consistency in financial and business models.

Actuaries and ORSA

- Actuaries, recognizing the importance of ERM and ORSA, have focused on further developing the skills necessary to support ERM and ORSA. A selection of actuarial professional milestones include:
  - Enhancements to continuing education;
  - Chartered Enterprise Risk Analyst (CERA) designation;
  - Actuarial professional standards on ERM; and
  - Actuarial papers, studies, and other thought leadership.
- Looking ahead:
  - Will the actuarial profession set standards for actuaries involved in ORSA?

Thank you

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