Own risk and solvency assessment

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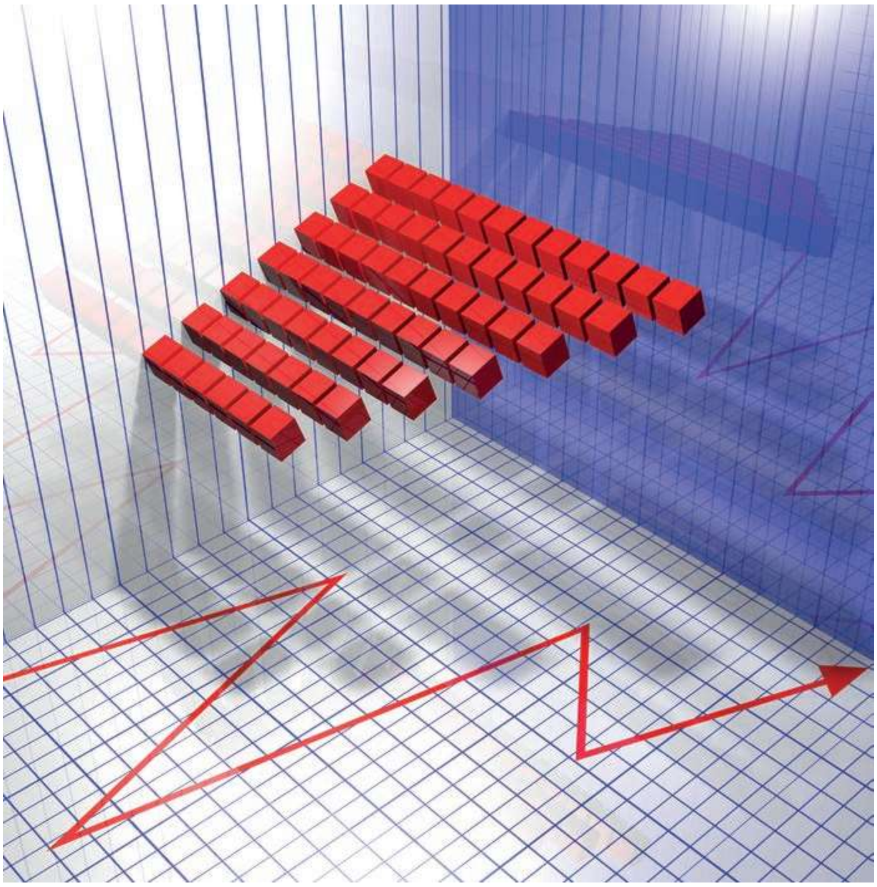
The Own Risk and Solvency Assessment (ORSA) has been seen as a new regulatory reporting tool intended to foster an effective risk management system and provide a perspective on risk and the associated capital required for insurers. *(Part one of this article was published in COVER September.*

Besides the ORSA being an internal process undertaken to evaluate and describe your own risk management framework and strategies and how these risk strategies align with the overall business objectives. The ORSA also requires insurers to assess their current and prospective solvency positions under normal and severe stress scenarios.

The ORSA has also become an important additional tool to carry out a focused analysis on all reasonably foreseeable and relevant material risks that could have an impact on an insurer's ability to meet its policyholder obligations and how these risks are managed and mitigated and ultimately determine the capital required to cover unexpected losses. The ORSA through an internal risk self-assessment process gives an insurer an enhanced view of their ability to withstand financial stresses.

This may seem all wonderful but does an ORSA provide all this? The Comprehensive Parallel Run provided an opportunity to take a "dry run" at completing an ORSA prior to the implementation of the proposed Solvency Assessment and Management (SAM) regime. It was during this process that the true understanding of the "O" in ORSA come about, that it represents your "own" assessment of your current and future risks. This "own" assessment may have been a challenge as there aren't any forms, formats or templates to fill in but rather to create an ORSA that expresses the unique characteristics of your own company. Trying and testing out what works and doesn't in your process makes producing an ORSA an inventive process as you are required to articulate your own judgment about risk management and the adequacy of our capital position.

The Mock ORSA process has definitely improved the understanding of the ORSA requirement and has encouraged management and the Board to have more detailed discussions about capital and to anticipate potential capital needs and to take action before it's too late. The understanding that the ORSA is not a once-off exercise but a continuous evolving process and should be a component of your evolving and maturing risk management framework. It also has got management and the board to understand that the ORSA is just not a document, but a formalised framework for this self-assessment.



Running a Mock ORSA will definitely improve what is produced as an ORSA document and it will make future ORSA exercises easier. The more you practise the ORSA exercise the better the framework of self-assessing the Risk Management, Governance, Compliance and Capital Management will become. A self-assessment has to be unbiased and needs to point out both the strengths and the weaknesses and the plans to improve in areas that are needed.

During the Mock ORSA process one can assess the Risk Culture of an organisation. From the development of risk policies to the review and update of these policies. Sometimes the development of policies may be a challenge. Some policies are much easier to develop than others and this may reflect the risk culture and understanding of that risk and the ability to manage them. So it is vital that the policies that one struggles with are addressed. Gaps in risk management frameworks should be addressed and be plotted with some form of maturity plan with milestones and target dates to be achieved.

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The ability to improve your capital and risk exposure by running stress test and scenarios have proved to be valuable. Management and the board better understand the implications if a risk that your company is exposed to materialises. The ORSA may also identify the operational risks that needs to be addressed to prevent those scenarios from happening in reality and that sufficient measures are in place to monitor and manage those risks.

Having the ability to project capital requirements for the future, together with projecting future profitability can create a link between future capital and profitability. Insurers can now better understand the levels which business needs to perform and the capital position if the required profitability is not achieved.

It is so vital to also do a "dry run" of the Independent review, especially if it is an external party as this prepares the independent reviewer of the requirements and gain an understanding of your company.

Running through a Mock ORSA we have seen the benefits of having an ORSA. The primary benefit has been to foster an effective level of risk management, through which each we identify, assess, monitor, prioritises and report on all material and relevant risk using techniques that are appropriate to support risk and capital decisions.

The ORSA may seem like a demanding task but the value one gains especially for small to medium sized insurers that may not have done this in the past will change your perspective on risk and capital.