

# Internal Audit's role in reviewing the ORSA

**KPMG Risk Consulting**  
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## What is required of firms?

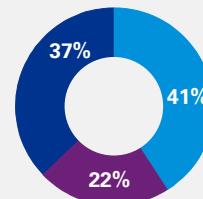
Introduced as part of the Hong Kong Insurance Authority's ("HKIA") Guideline 21 ("GL21") on Enterprise Risk Management ("ERM"), the Own Risk and Solvency Assessment ("ORSA") is an integrated assessment of a firm's risk management and current, and likely future, solvency position within the context of its business strategy.

All authorised insurers are required to conduct an ORSA at least annually, to submit their ORSA Report to the HKIA and to perform an independent review of the ORSA. The independent review should evaluate the effectiveness of the ERM framework, including processes and controls underlying the ORSA preparation, with review results to be included within the ORSA report.

## Industry perspectives on the review

Based upon a survey conducted by KPMG covering over two-thirds of the Hong Kong insurance market, the majority of participants intend to perform their first independent review by early 2021 to provide assurance ahead of the inaugural ORSA report being submitted to the HKIA later in the same year. As shown below, the majority of participants intend to rely upon Internal Audit or external advisors to perform the review, with some having resources available at their Group Office.

### Parties Engaged to Support an ORSA Independent Review



- External Advisors
- Group Office
- Internal Audit

Source: KPMG analysis

## Why Internal Audit is well-positioned to lead the independent review



01 The second line of defence functions, such as risk management and compliance, are generally responsible for proposing and implementing ERM frameworks, which may leave them conflicted from performing a truly independent assessment of the same framework or its underlying ORSA processes.

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02 The GL21 mandates that the independent review of ORSA shall be performed by an individual who reports directly to, or are themselves members of the Board. Typically, the Internal Audit as the third line of defence function, has such a direct reporting relationship with the Board or Audit Committee with the highest level of independence and objectivity within the firm.

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03 The independent review is best performed by stakeholders with a deep understanding of the business, its existing control deficiencies and are able to apply a holistic perspective. Internal auditors' specialized competencies about risk management and internal control, in conjunction with appropriate communication skills and their familiarity with the business operations, enables them to take up this role in leading the independent review.

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# Common challenges faced in performing the independent review

## Specific expertise

Expanding on the need for actuarial expertise to ensure that the target capital and forward looking analysis, as well as economics of the business are appropriately reflected in the ORSA outputs.

## External perspectives

Availability of an “outside in” dataset to inform perspectives on the relative positioning and practices adopted by the firm against industry peers and other leading examples.

## Completeness

Ensuring that the ORSA report has captured all the material outputs of the underlying processes and is in compliance with internal policies and GL21 requirements.

## Stakeholder buy-in

Obtaining buy-in from business stakeholders to support internal audit efforts, including provision of information, attendance at walkthroughs, responding to follow-up clarifications and reviewing draft findings.

## Scope of the independent review

Results of the ORSA are captured within the **ORSA Report**. The auditor should focus on if the report presents a “story” detailing how the firm can “afford” its business strategy considering the risk profile and capital required.

The **ORSA Policy** defines the firm’s approach to drafting the ORSA Report and performance of the ORSA Process. The auditor should focus on the policy design with regards to the ORSA scope, governance, process, communication and reporting.

### ORSA Report



### ORSA



### ORSA Policy



### ORSA Process

The **ORSA process** is comprised of a set of underlying activities performed to comprehensively assess the risk profile and capital need on a current and future (projected) basis.

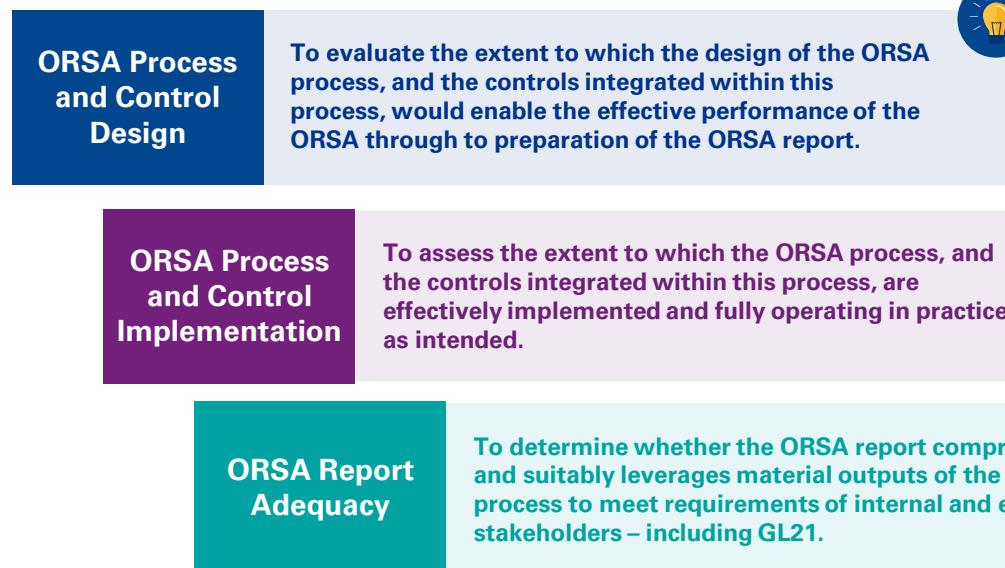
### The auditor should focus on the following key ORSA processes and activities:

#### Examples of potential audit procedures

	<b>Business Planning</b>	Understand if the analysis has been performed against business strategy and what is the impact on the risk profile and risk appetite
	<b>Risk and capital management</b>	Evaluate how capital management incorporates risks on both a current and forward looking basis
	<b>Risk strategy and appetite</b>	Validate if the risk appetite statement has been reviewed and approved by the Board at least annually
	<b>Material risk assessment</b>	Understand the adequacy of the process to identify and assess the materials risks (incl. both quantitative and qualitative risks)
	<b>Capital assessment</b>	Analysis the reasonableness of the solvency position on both a regulatory capital requirement basis and a Target Capital basis
	<b>Modelling capabilities</b>	Review whether the models used for ORSA purposes have been subject to appropriate validation and testing for robust outputs
	<b>Risk analysis</b>	Understand the risk exposure of the business and the approaches taken to manage those risks
	<b>Reporting</b>	Review if the ORSA report has been approved with comprehensive documentation to demonstrate challenge and discussion

# KPMG co-sourcing approach

Underpinned by our tried-and-tested Internal Audit methodology, KPMG is uniquely positioned on provision of internal audit co-sourcing given our technical knowhow, experienced team, Hong Kong Risk-based Capital ("HKRBC") expertise and understanding of the Insurance business. Our three stage approach is outlined below:



We also provide optional modules, including but not limited to (a) the broader ERM Framework effectiveness review, (b) the in-depth review of particular ORSA activities, e.g. the model validation, data quality; and (c) customised training on HKRBC requirements.

## Contact us



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