

At the heart of Solvency II is the ORSA

The latest Solvency II preparatory guidelines published by EIOPA, highlights that as part of the preparation for the implementation of Solvency II, regulators should put in place from 1 January 2014 the Guidelines to be used to perform a forward looking view on the risks to which insurance and reinsurance undertakings are exposed. For this, it is expected that insurance and reinsurance undertakings actively prepare and begin the implementation of the forward looking assessment of the company's own risks.

Pillar 2 includes the Own Risk and Solvency Assessment, the "ORSA" which is at the heart of Solvency II. Firms need to define how they create value for the various stakeholders, to embed their Enterprise Risk Management framework into their governance and decision making process and to demonstrate that the Enterprise Risk Management framework is appropriate to the nature, scale and complexity of the risks within their business.

An ORSA is a bespoke strategic analysis process cycle which links together all pillars

of Solvency II, the outputs of risk, capital and strategic planning, to advise the Board on the continuous sound operation of the firm, the current and future capital requirements from the standard formula/internal model, based on the business strategy, risk appetite and external environment. The ORSA therefore requires a joined up approach across the company.

The purpose of the ORSA is to help the Board make sound strategic decisions, to define the value created and to embed risk awareness throughout the whole organization.

The ORSA has a number of components required to be included in it such as:

The past and present solvency requirements of the insurer, involving analysis of:

- Changes in technical provisions
- Decision-making and mid term planning
- Overall solvency needs
- SCR changes period to period

Future solvency requirements, involving:

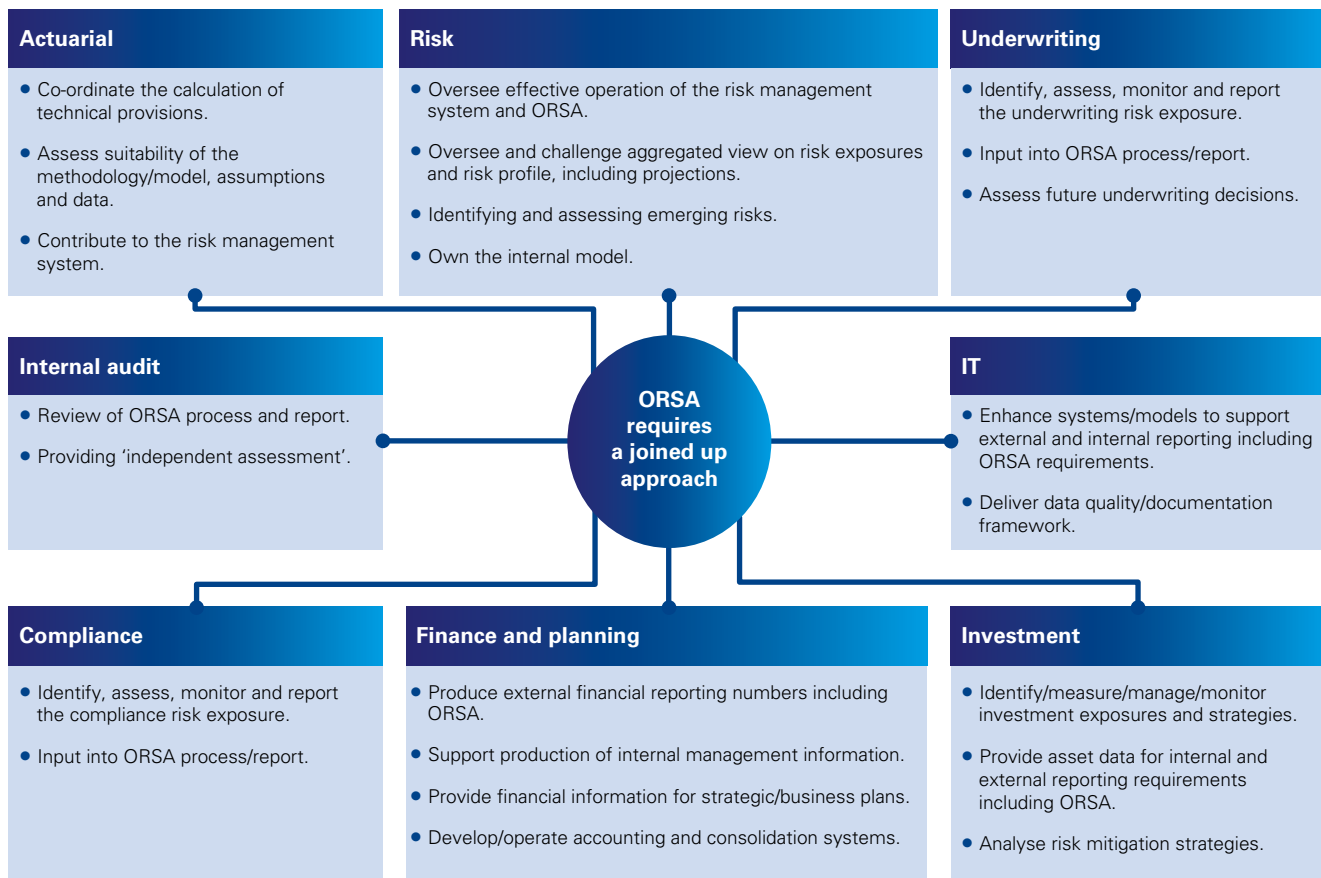
- The insurer's risk profile
- Mid term planning
- Solvency projections
- Links to business strategy
- Stress and scenario tests

The ORSA design:

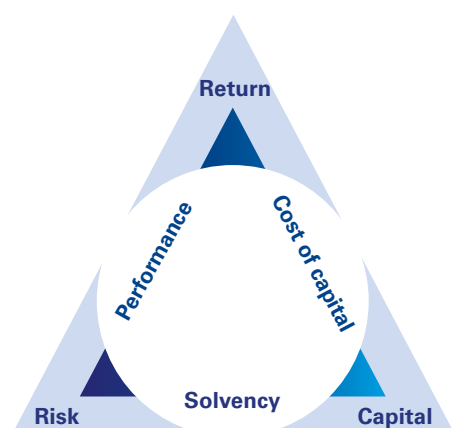
- Standard formula/internal model
- Integration – multi-disciplinary requirements
- Frequency – metrics

Application across the business:

- Proportionality
- Valuation of assets and liabilities
- Independent challenge
- Documentation/ORSA report
- Decision making
- Ownership/governance



Firms need to demonstrate good risk and capital management



Organising your ORSA process to ensure you can demonstrate good risk and capital management are two fundamental cornerstones of the Solvency II regime. Alongside these 'compliance' aspects of the ORSA, it is important to consider the 'business' aspects such as setting the right business strategy to increase return on capital, achieve capital efficiencies and optimise risk positions. This involves:

Identifying your business opportunity scenarios:

- Positioning relative to competitors/market share
- Geographical markets of operation and market share
- Identifying growth targets
- Understanding your performance measures to align strategy and risk

Formulating possible risk appetite criteria including:

- Minimum and maximum solvency ratio (free surplus to own funds)
- Target debt rating
- Capital/Earnings at risk
- Qualitative measures

Formulating a good capital management plan:

- Assessment of actual risk profile and assessment of compliance with internal and regulatory risk/capital requirements
- Capital allocation across the business
- Return on capital targets (MCEV earnings relative to risk based capital, etc.)
- Optimisation of return versus capital
- Fungibility of capital

European preparedness

We have seen a range of preparedness within firms across Europe on ORSA. Typical progress is:

Area	Design	Implementation	Embedding in business
Awareness/Training			
Documentation			
Process Design			
Underlying Components			
Monitoring/Decisions Making			

Challenges firms are currently facing

European supervisors are increasingly looking for evidence of firms development towards ORSA compliance. This poses a range of challenges for firms:

- Defining the purpose of the undertaking in creating value for various stakeholders
- Aligning the ORSA with the strategic planning process within the business
- Integration of ORSA process with existing reporting processes (e.g. embedding in business plan)
- Testing an ORSA process within business as usual
- Development and use of projection methodologies alongside the business plan
- Increasing awareness of ORSA within the business (transformation from process to business as usual)
- Suitability of ORSA report and process:
 - Documentation of parameters, suitability of models and expert judgment
 - Requirements for Group ORSA
 - Role profile and engagement of all functions including Actuarial and Finance
- Suitability of underlying ORSA components specifically:
 - Documentation and development of risk appetite and risk tolerances
 - Stress, Scenario and Reverse stress-testing
 - Risk Framework effectiveness including emerging risk management
- Qualitative risk assessment

Developing a robust process is a key

In order to run an ORSA process firms need to embed detailed processes within the business. Under Solvency II firms will need a strong annual process and the ability to identify the need for and perform an ad hoc ORSA assessments and a robust ORSA process is essential for supporting this.

KPMG have developed an approach to mapping the end to end ORSA process and have successfully embedded this with a range of clients:

Suppliers	Inputs	Assessments	Outputs	Users
<ul style="list-style-type: none"> • Risk • Finance/Investment • Actuarial • Strategy • Boards/Committees 	<ul style="list-style-type: none"> • SII Balance Sheet, incl. Own Funds • EC Balance Sheet • Risk Appetite • Risk Assessments • Strategic Plans • Mid term plan 	<ul style="list-style-type: none"> • Current solvency • Projected position • Review RMS • Overall capital needs • Deviation from original assumptions • Sensitivity, stress and scenario testing • Business decisions 	<ul style="list-style-type: none"> • Record of the ORSA process • Internal ORSA Report • External ORSA report • Sensitivity of business strategy to key assumptions 	<ul style="list-style-type: none"> • Board/Committees • Group Risk • External Stakeholders • Business Functions

Each component part of the ORSA process is developed in detail based on the specificities of a firm. Including:

- Identification of key inputs and outputs required for ORSA.
- Design of ORSA dashboard to support ongoing monitoring within the business.
- Support in conducting an ORSA dry run (full process, ad hoc runs, workshop based or desk based).
- ORSA simulation exercise to increase awareness and understanding of the ORSA process.

KPMG have a range of tools to support component parts of the ORSA process.

Examples of our tools in practice

Projection methodology <ul style="list-style-type: none"> • Use the KPMG ORSA projection tool to help firms understand the forward looking aspects of the ORSA. • Help firms to understand the sensitivities underlying their balance sheet or income statement/assumptions. 	Assurance/review <ul style="list-style-type: none"> • Review individual elements of a firm's ORSA process or the process as a whole. • Provide assurance over a firm's ORSA components with respect to the Solvency II regulations. • Benchmark review of a firm's ORSA report with supporting recommendations.
Sensitivity, Stress and Scenario Testing <ul style="list-style-type: none"> • Identify the risk components the overall solvency is most sensitive to. • Provide insight into the link between projections and stress-testing. • Work with firms to build an understanding of how to generate relevant scenarios. • Help firms define business model failure and its application in Reverse stress-testing. 	Economic Capital <ul style="list-style-type: none"> • Provide assurance over the choice and justification of a firm's ORSA capital measure. • Help firms in analysing 'own funds' including the quantity and quality of capital. • Development of internal models, and supporting processes to improve efficiency.

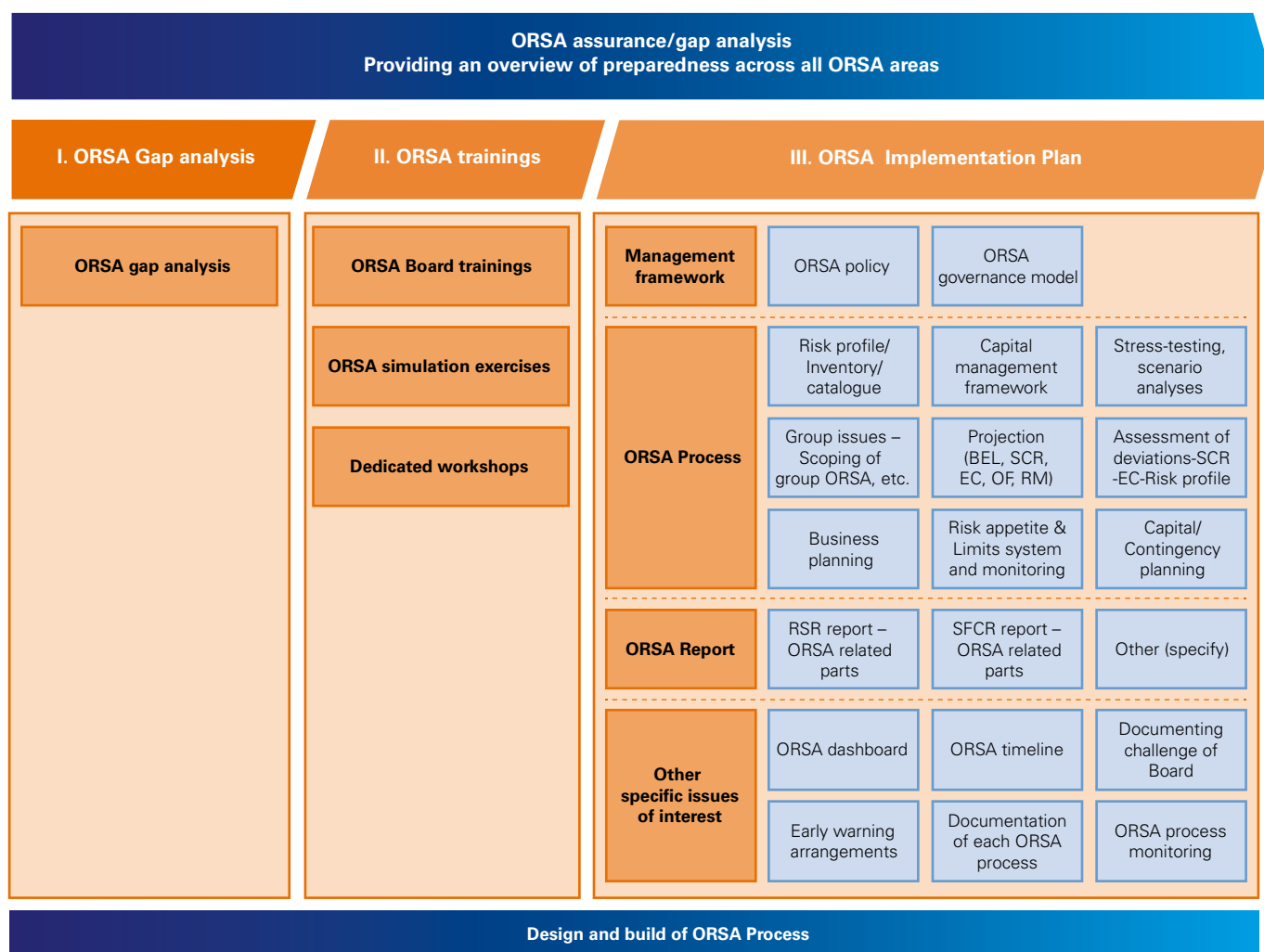
KPMG Experience

Within Europe KPMG has worked with a range of firms to support the development and implementation of ORSA frameworks.

Our knowledge and experience is wide across Europe. KPMG can help your firm in the following issues:

- ORSA gap analysis and Board training.
- ORSA implementation plan, which includes the development of:
 - Management framework: ORSA policy and ORSA governance model.
 - ORSA process: Risk profile, Business planning, Stress-testing and scenario analysis, Capital management framework, Risk appetite & Limits system and monitoring, Assessment of deviations – SCR-EC-Risk profile, and Capital/Contingency planning.
 - ORSA reports: ORSA related parts of the RSR and SFCR reports, ORSA internal and external report.
- KPMG can help in other ORSA related issues, such as documentation, dashboard, control, etc.

We have a comprehensive toolkit which can support all firms in the design and embedding of a high performing ORSA.



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