SAM ORSA Requirements

ORSA

ORSA is a key component of **SAM**: a risk-based regulatory regime for the prudential regulation of both long-term and short-term insurers in South Africa.

The **ORSA** is defined as "the entirety of the processes and procedures employed to identify, assess, monitor, manage and report the short and long term risks an insurance undertaking faces or may face and to determine the own funds necessary to ensure that insurer (and groups) overall solvency needs are met at all times and are sufficient to achieve its business strategy."

Governance of the ORSA (Position Paper 34)

The ultimate accountability of the ORSA resides with the Board who should approve the ORSA. When evaluating the ORSA, the Board and Senior Management should assess the adequacy of the current and future solvency position. In addition the Board and Senior Management are responsible to ensure that the ORSA is embedded in the business and decision making processes.

The Board and Senior Management should also, through direct review and challenge and through reliance on the governance process, conclude on the accuracy and completeness of the ORSA calculations, assumptions and data used as input to the ORSA.

The ORSA should be appropriately evidenced and documented.

The ORSA document should be subject to an independent assessment either internally (e.g. Internal Audit) or externally. This review must be carried out by persons different to those performing the ORSA.

ORSA Requirements 2015, 2016 and 2017

The full set of ORSA requirements and guidelines are set out in Position Paper (PP) 107 v6. Insurers were encouraged to make progress with a subset of these requirements in 2015, and are encouraged to progress towards full compliance with the additional requirements in 2016 and all requirements by 2017.

2015 Mock ORSA

The first mock ORSA report was required to be submitted to the FSB by 31 August 2015. Our view is that the focus for this ORSA was to design and implement underlying processes and produce documentation to comply with the applicable requirements. We understand that the FSB has provided high level verbal feedback to some firms and is planning to provide high level individual written feedback in the next few months. No overall industry feedback on quality has been provided to date.

Our expectation is that this first cycle will be used as a lessons learnt by individual companies to improve future cycles. Particularly with respect to ensuring ownership, engagement and challenge from Senior Management and the Board so that they clearly understand and can effect their obligations once SAM is live.

2016 Updated Mock ORSA

The additional requirements for the 'Updated Mock ORSA' were released on 31 March 2016. While not unexpected, the requirements are significant in terms of the time and effort involved. The bar expected by the FSB will be a lot higher than last year.

2016 Updated Mock ORSA (cont.)

For 2016, insurers are required to submit the following to the FSB by 30 September 2016 (or can apply for an extended deadline of 30 November):

- An Updated Mock ORSA;
- Its ORSA Policy if not already submitted in 2015 or if the policy has been updated since its previous submission; and
- Project plans for addressing any outstanding elements of the ORSA, based on the complete set of ORSA principles and guidance in PP 107 v6. The project plan must detail key activities, key milestones and timelines. The project plan should also highlight which activities are to be conducted using internal resources and which are to be outsourced. The company to which any element of the project is outsourced should be disclosed in the project plan.

The additional requirements for 2016 are (PP107 v6): paragraphs 1.34g, 1.35 to 1.38, 1.73 to 1.83, Guideline 16, paragraph 1.106. Most of these requirements are onerous and will require a significant amount of consideration and planning to deliver if not already in place:

- Under Guideline 5: "The ORSA and its outcome should be appropriately evidenced and internally documented." Paragraph 1.34g states "Details on the conclusions and the rationale for them from the assessment of the continuous compliance with the requirements of regulatory capital and technical provisions". Insurers should understand what this entails and how close their 2015 ORSA was to enable this, what conclusions were made and what additional work is required for 2016.
- Paragraphs 1.35 to 1.38 cover Management Information ("MI"), embedding the ORSA into business decisions and demonstration of the Use Test. In order to comply, our view is that insurers should have already designed ORSA MI, or have done so by the end of Q2 2016 at the latest, so it can be delivered and implemented into MI cycles from Q3 2016. Further, paragraph 1.38 states "…. If the insurer (group) considers that the internal reports have appropriate levels of details also for supervisory purposes then the same reports may be submitted to the supervisor." Our view is in an end state this will be a best practice approach where effective risk management and business decision making is the primary objective and compliance with regulatory requirements an outcome.
- Many companies have adopted the Standard Formula as their ORSA capital basis. Paragraphs 1.73 to 1.83 require that insurers assess deviations from its risk profiles and the assumptions underlying the SCR calculation on a qualitative basis and quantify the significance of deviations.
- Regardless of the basis chosen (SCR or own Economic Capital basis), the exercise to meet compliance with these requirements or to demonstrate the appropriateness of the chosen basis is a technical exercise and will require a large amount of work from technical experts. This needs to be properly understood and planned for.
- Guideline 16: Where only solo entities produced an ORSA for 2015, for 2016 a Group ORSA is also required for groups. If the approach chosen was to only submit a group-wide ORSA, for 2016 Groups can still assume they have a dispensation to only produce a group-wide ORSA for regulatory compliance purposes. However, they will need to ensure that the report also covers all requirements for solo reporting and have a back-up plan in the event that they do not get dispensation for 2017. In addition, local entity management should ensure that their ORSA reporting is adequate to meet effective risk management and business decision making regardless of the approach chosen.
- Paragraph 1.106 is relevant to internal model users and so is not applicable to most SA insurers.

2017 ORSA in a live SAM environment

Additional requirements for 2017 (which are set out in PP107 v6) cover areas such as the Board challenging and signing off on assumptions and methodology, out of cycle ORSAs and independent reviews.

Compliance with the full set of ORSA principles and guidelines will be required when the SAM framework is implemented. This is currently scheduled for 1 January 2017.

Malcolm Jewell
Partner

Mobile: +27 82 683 5505
E-mail: Malcolm.Jewell@kpmg.co.za

Susan Hunt
Associate Director

Mobile: +27 71 686 4968
E-mail: Susan.Hunt@kpmg.co.za

Joana Abrahams
Manager

Mobile: +27 82 450 1344
E-mail: Joana.Abrahams@kpmg.co.za