

ORSA

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- ❖ Demystifying ORSA
- ❖ ORSA: Process or Report?
- ❖ The Five Key Elements of ORSA
- ❖ The Aviva Experience
- ❖ The Economical Experience

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Demystifying ORSA

- ORSA (Own Risk and Solvency Assessment) is an enterprise-wide process for determining consistency of insurer's capital needs and internal capital targets with risk appetite, business plan, risk profile and operating environment.
- As regulatory capital requirements are based on simplified assumptions calibrated for the whole insurance industry they don't adequately capture the specific risk profile of an individual insurer.
- Under ORSA insurers must conduct their own risk and solvency assessments and set capital aside for all material risks they face in the pursuit of their strategic objectives.
- ORSA can provide business value by enabling better decision-making by senior management and the board through a forward-looking integrated process aligning risk assessment, capital requirements and strategic planning.
- A well-executed ORSA process will allow greater understanding of the risks an insurer faces, the robustness of its oversight and the control designed to manage risks.
- It should not be viewed as only as a regulatory compliance exercise.

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ORSA: Process or Report?

The process to generate the report

ORSA Process The process describes the activities and updates due in order to complete and ORSA as part or BAU process	Risk Description	Business Context Legal and organizational structure, core business activities and market environment	Use test explanation How risk and capital management activity is integrated into operational activity	Risk Management strategy and appetite How risk management strategy supports business
	Risk D	Stress and Scenario tests Future capital/solvency under downside stress and scenario stress	Capital and Liquidity plans Capital and liquidity plans under base case and stress and scenario tests	ORSA position Assessments during the period driven by material changes or risk indicators
		Forward-looking capital and solvency Projected capital and solvency position over business planning period 93 to 5 years)	Capital and Liquidity position Point in time (reporting date) capital and solvency on economic and regulatory basis.	Risk management process Process and procedures for identifying, assessing, controlling and prioritizing risks.
	Production	ORSA Process The governance process around the ORSA, including challenge and debate.	Independent review Independent review report on the ORSA process	Dynamic vs. Static ORSA Results of on-going solvency assessment (dynamic) vs. Description of standing ERM information (static)



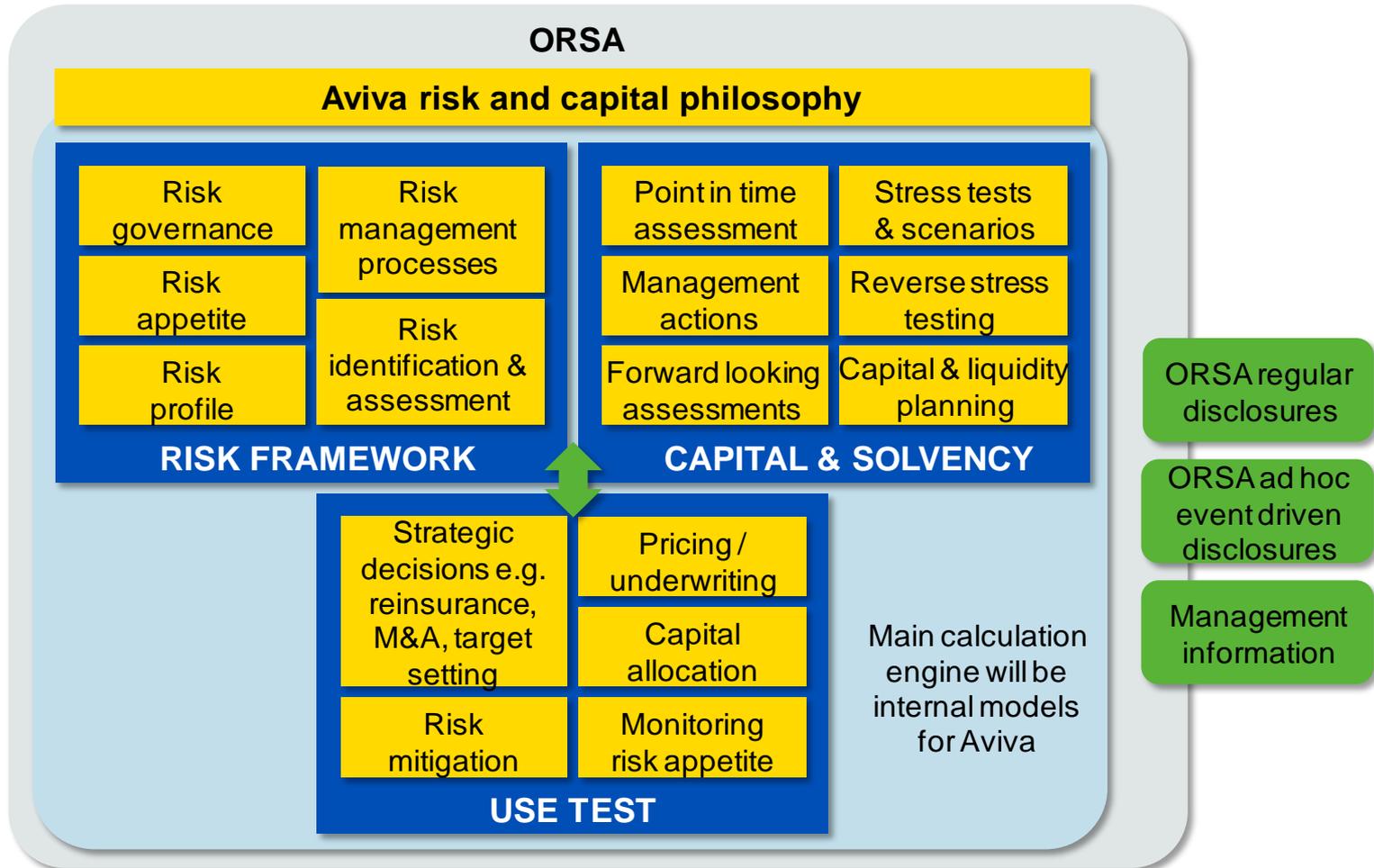
The report itself

ORSA Report	
1.	EXECUTIVE SUMMARY
2.	RISK MANAGEMENT SYSTEM SUMMARY
3.	SOLVENCY ASSESSMENT & RESULTS
4.	4. CONSIDERATION OF OTHER MATERIAL RISKS
5.	PROJECTED FINANCIAL POSITION
6.	ORSA USE TEST
7.	PLANS FOR FUTURE IMPROVEMENTS
8.	APPENDIX

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The Five Key Elements of ORSA

Elements	What needs to be accomplished
1 Comprehensive identification and assessment of risk	<ul style="list-style-type: none"> ➤ Formalize/enhance a risk identification process, including materiality definition/criteria and risk appetite framework. ➤ Identify material risks, develop and document quantification methodology for their assessment. ➤ Assess mitigation and risk management effectiveness ➤ Strategic risk appetite, limits and tolerances for each identified material risk.
2 Relating risk to capital (setting own “internal targets” for capital)	<ul style="list-style-type: none"> ➤ Formalize/enhance a capital management framework to assess the required capital to support current and planned operations under normal and stressed conditions. ➤ Set internal targets for capital ratios in light of the above. ➤ Define contingency plans in case of internal target breaches.
3 Board and senior management oversight	<ul style="list-style-type: none"> ➤ Implement all required elements for sound corporate and risk governance and align with the insurer’s strategic objectives. ➤ Define and document the governance around ORSA and its subcomponents, including an approval process. ➤ Provide adequate training on a periodic basis to the board, senior management and all oversight functions.
4 Monitoring and reporting	<ul style="list-style-type: none"> ➤ Assess the effectiveness of the systems used to identify, monitor, report risk exposures and evaluate impact of changes in the levels of risk on required capital. ➤ Review risk reporting hierarchy, risk report content and escalation processes when identifying and resolving issues. ➤ Formalize ORSA production schedule and reporting template.
5 Internal controls and independent review	<ul style="list-style-type: none"> ➤ Establish an oversight function providing an effective challenge of ORSA assumptions and results and complying with regulatory requirements. ➤ Establish a validation framework to provide an independent opinion on the reasonableness of quantification methodologies for risk assessment and stress testing. ➤ Design and implement an information management framework to ensure data quality and integrity.





IMMMR - Characteristics

- Proportionate
- Dynamic
- Ongoing improvement
- Supportive
- Transparent

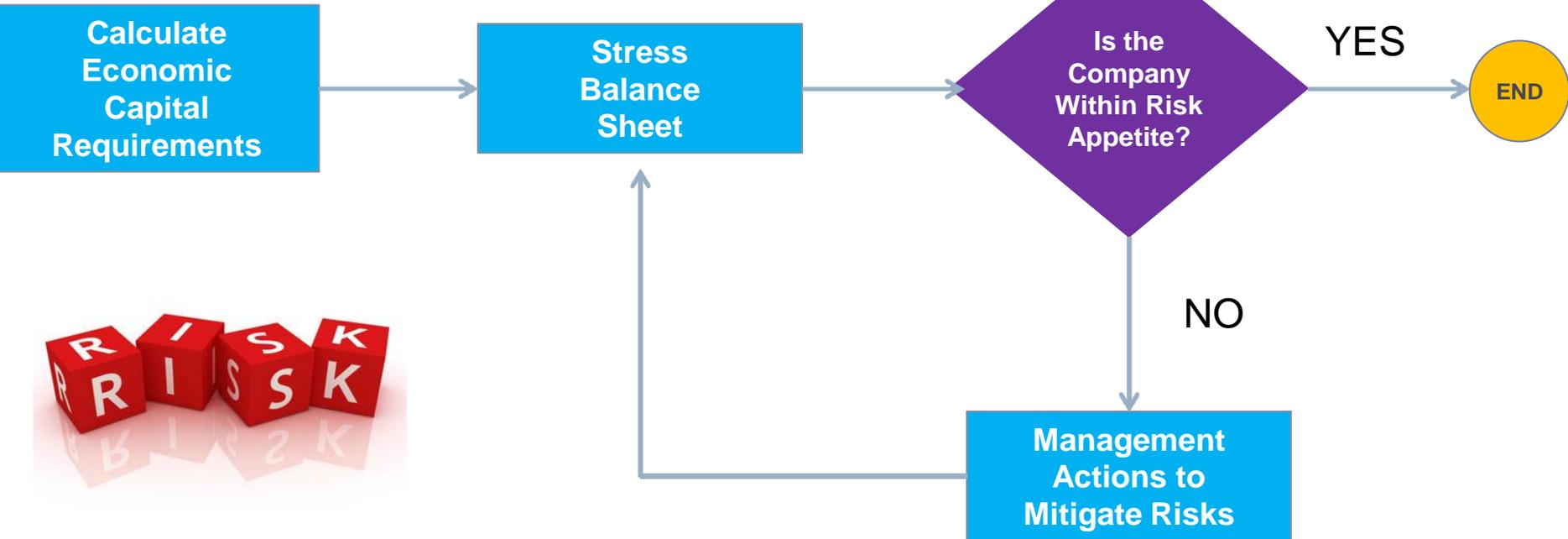
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The Aviva Experience – ERM Supporting Risk Modelling

ERM provides a suite of Top-down and Bottom-Up Risk Identification Processes that support the definition of stress events to be simulated in the Economic Capital Model.



Stress Events
1:10
1:50
1:200



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The Aviva Experience – ERM Supporting Decision Making

ERM Processes

- ❖ Risk Appetite
- ❖ Risk Identification
- ❖ Risk Monitoring
- ❖ Risk Reporting



EC Quantification

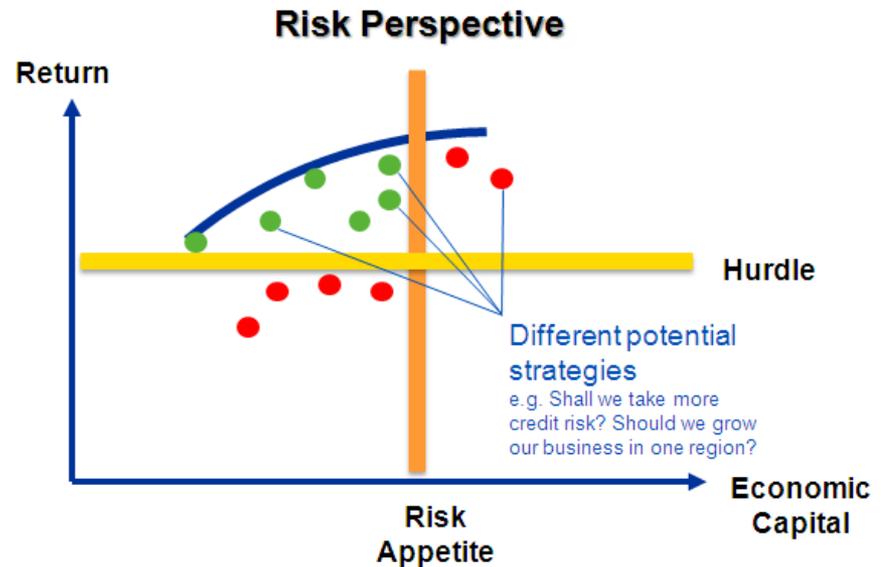
- ❖ Capital Requirements
- ❖ Stress & Scenario Testing
- ❖ Reverse Testing

Enhanced Understanding of the interrelationships between the risk profile and the capital needs.

Integrated considerations of risk and capital in key management decisions, including:

Strategic Plan
Insurance Pricing
Reinsurance Purchasing

Business Plan
Strategic Asset Allocation
Hedging Programmes



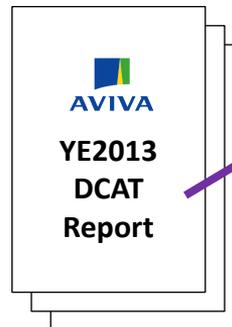
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The Aviva Experience – The ORSA Report and the DCAT Report

ORSA is embedded in our ERM Framework, which includes a robust, continuous process to identify, measure, manage, monitor and report on our risks. ORSA adds structure to the measurement step of our ERM.



The report will include a current state of the risk profile as well as a forward looking view of the risks that should be taken into account in the planning process.



The report will continue to identify plausible threats to the satisfactory financial condition of the company; actions which lessen the likelihood of those threats and the actions that would mitigate a threat if it materialized.

Starting in 2014, the ORSA Report and the DCAT Report will be published just prior to the strategic planning cycle to provide insights to senior management and the Board while they are devising and approving the Strategic Plan, Capital Plan and Business Plan of Aviva Canada.

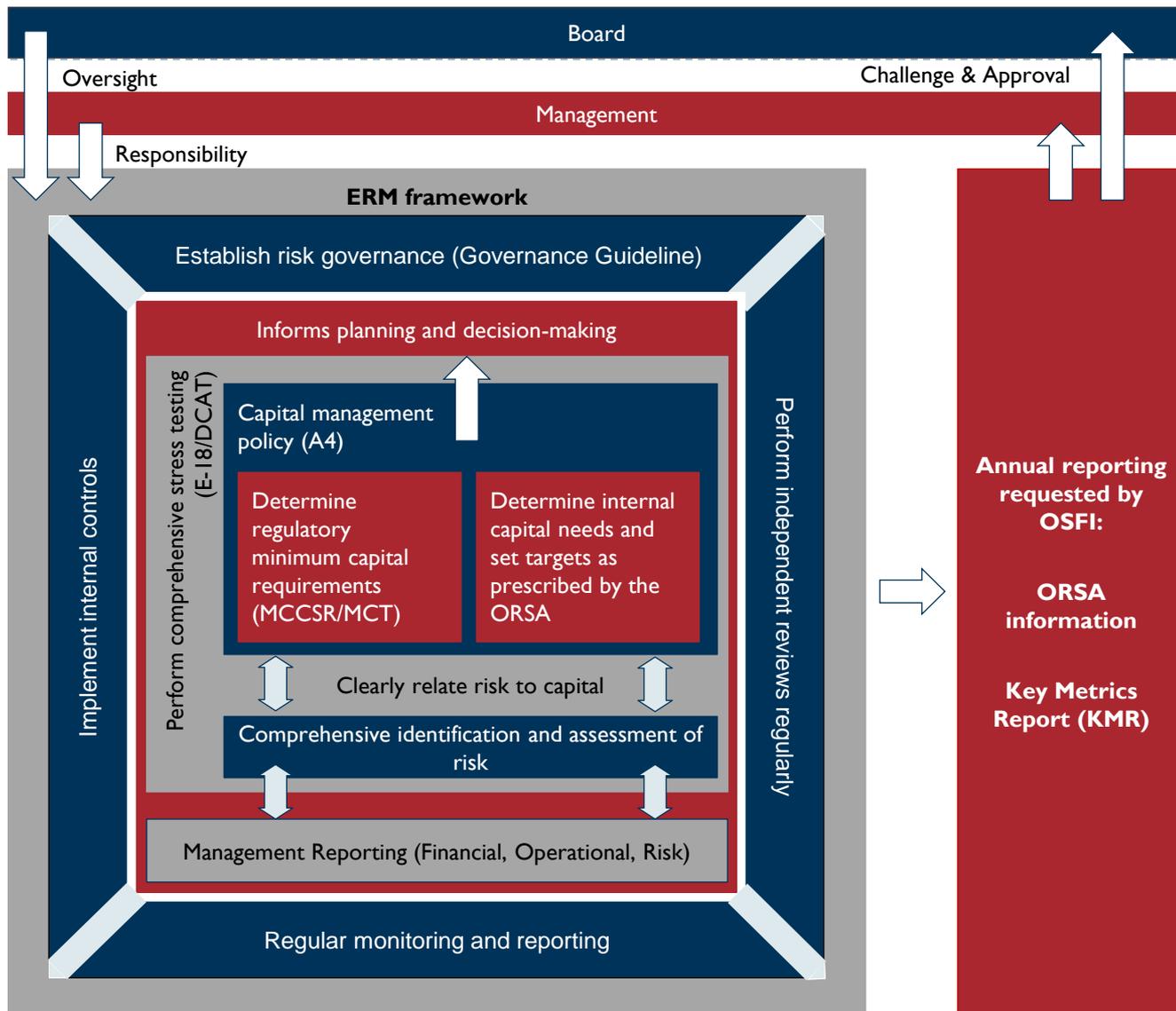
- ❑ Completeness of the Risk Assessment
- ❑ Relevance of Metrics
- ❑ Adding Value
- ❑ Alignment of all the Processes
- ❑ Ownership of the Report
- ❑ Developing/Deploying the Internal Model

Enterprise Risk Management Function

- Building formal and centralized risk identification, monitoring and reporting structure
- Developing process to identify and assess risks at enterprise level
- Align “top down” with “bottom up” risk identification and assessment
- Enhancing enterprise-wide monitoring and reporting of significant risks and risk appetite metrics
- Formalizing our company’s enterprise-wide risk culture

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The Economical Experience – ORSA framework



The ORSA guideline links various OSFI requirements specifying some of the existing requirements in more detail:

- Roles and responsibilities are defined up to the level of the Board
- Regular reporting is required and can be requested by OSFI on an annual basis
- Regular monitoring of the capital requirements needs to be performed during the year
- Leverage in management decision making

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The Economical Experience – The new reality

- ORSA is not once and done – it is a new reality
- Regular monitoring and reporting
- Continuous improvements are expected:
 - Refining KRI and models
 - Define new metrics
 - Improve efficiency through leveraging new tools and integrating ORSA in the development of new processes
 - Enhance monitoring and reporting to support management decision making



- ❑ Ownership of the ORSA Process
- ❑ Determining the appropriate approach to ORSA – how much is enough for 2014?
- ❑ Developing the internal model
 - Relevance of KRIs and other metrics
 - How to reflect non- quantitative risks
- ❑ Integrating ORSA into other processes/reports
- ❑ Tight time lines

- Two companies – two approaches reflecting the nature, scale and complexity of the business
- Same fundamental building blocks
- Same goals:
 - Long-term solvency
 - Improve the understanding of the relationship between risk and capital requirements
 - Support management decision-making

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