# A Tale of ORSA

## Presentation to the ASHK 18th Appointed Actuaries Symposium

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# Are you ready for the journey?

The ORSA Journey

Challenges for newcomers

Benefits for established companies

# The ORSA Journey

Where are we?

IAIS - Insurance Core Principles 16

Key Elements

# Timeline - ORSA

## Where are we around the world in implementing the framework?

Before 2016
2016
2017
2018

In some countries there is already an existing ORSA framework.

# Timeline - ORSA

## Where are we around the world in implementing the framework?

Before 2016

2016

2017

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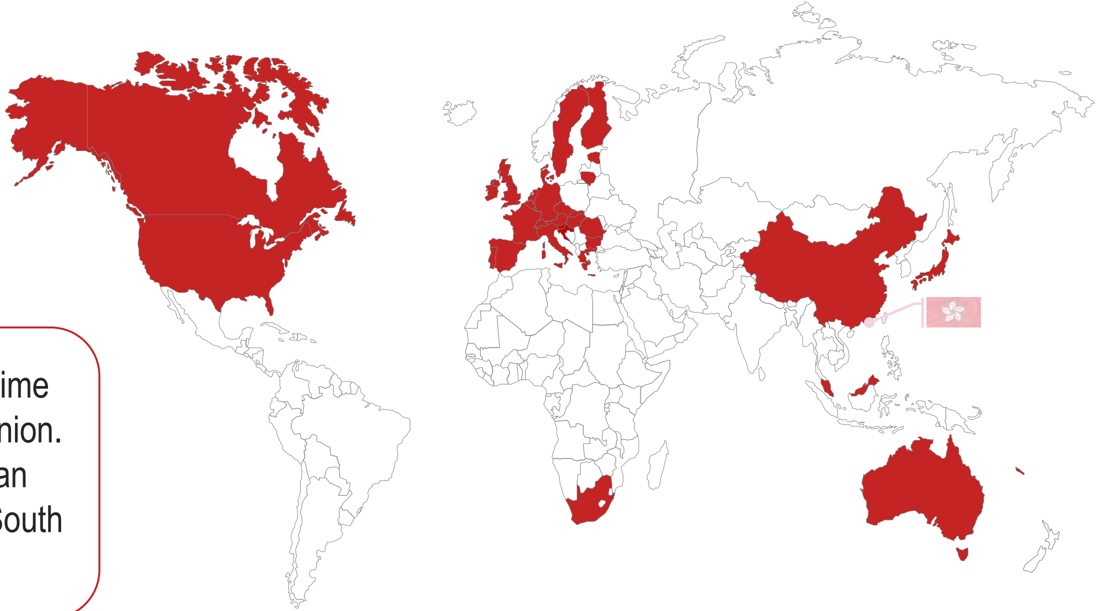

In 2016 the Solvency II regime went live in the European Union. Other countries adopted an ORSA Framework (China, South Africa)

# Timeline - ORSA

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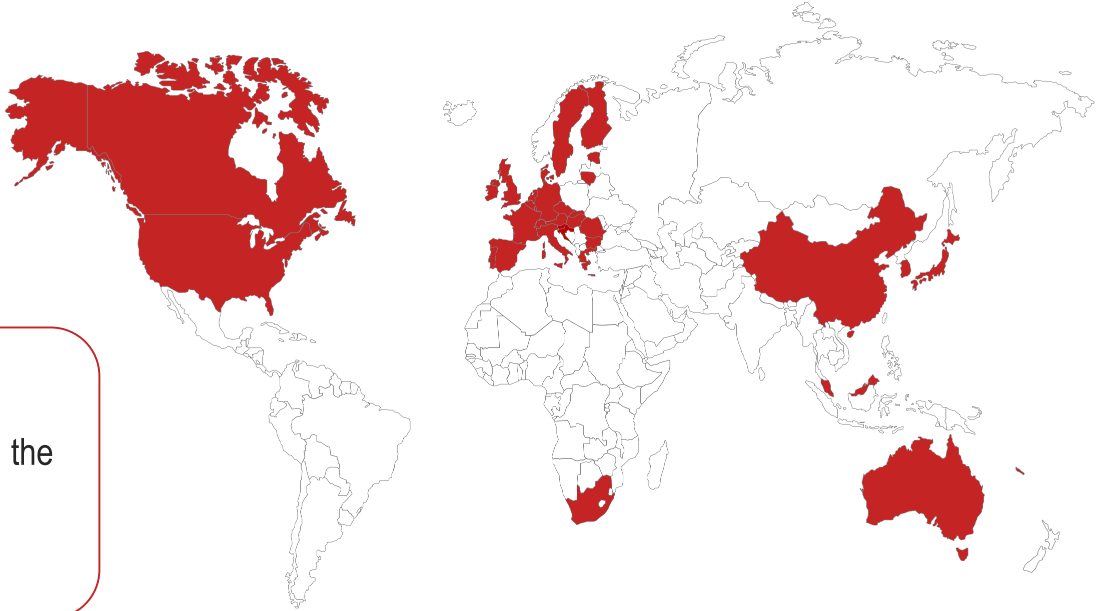

In 2017 South Korea joined the framework

# Timeline - ORSA

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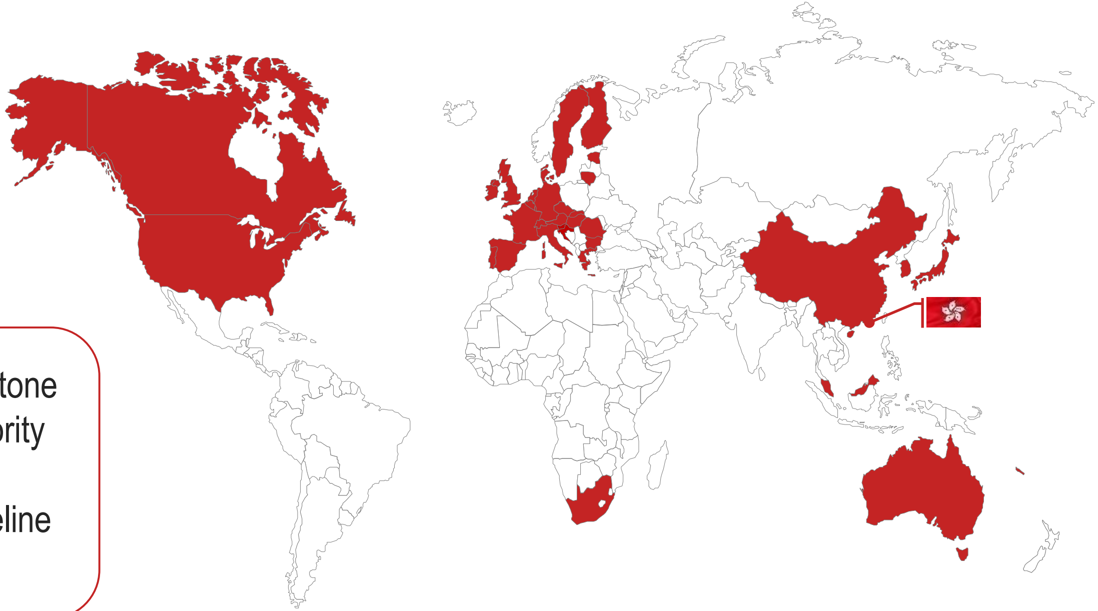


2018 marked another milestone by the HK Insurance Authority with the release of the consultation on Draft Guideline on ERM.

Where are we

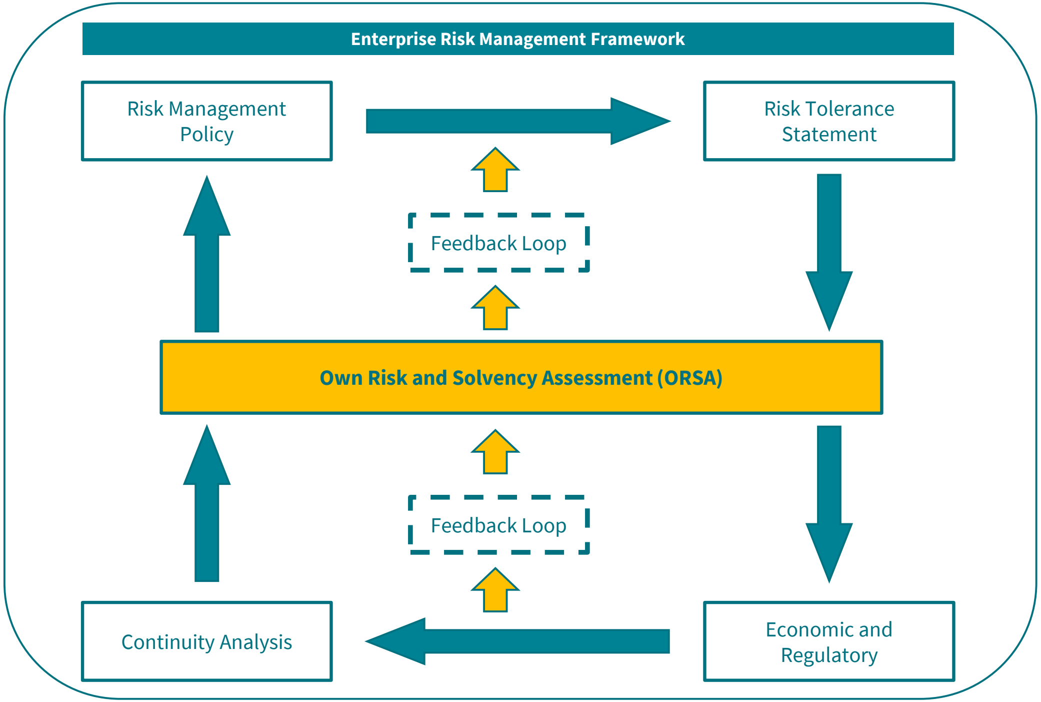
IAIS - Insurance Core Principles 16

Key Elements

# IAIS – Insurance Core Principles 16

**Insurance Core Principle 16**

Enterprise Risk Management for Solvency Purposes that require insurers to address all relevant and material risks.




Source: IAIS Insurance Core Principles

Where are we

IAIS - Insurance Core Principles 16

## Key Elements

# Key Elements 1/2

## Why regulators around the world are implementing the ORSA Framework?

### To assess the Solvability of the Insurance Company

- Assesses the **adequacy of the Insurer's Risk Management**
- Assesses the **adequacy of the Solvency position**, both for **now and in future scenarios**
- Assesses the **quality and adequacy of the capital held by the firm**

### To assess the adequacy of the capital held under future scenarios

- Covers all reasonably foreseeable and **relevant material risks**, and identify **how these risks relate to the capital held by the firm**
- Covers **risks from the current or any future structural changes within the firm**, for example, membership of an Insurance Group
- Contains an **assessment of the financial resources required to manage the business** taking the risk tolerance and business plans and strategy into account

# Key Elements 2/2

## The ORSA Process

### Defines Management Actions and Roles

- Includes information on any **management actions arising from the ORSA assessment**
- Identifies the **Roles & Responsibility** for the Board, the Senior Management, the CRO, ….

### Frequency and Controls

- **It is performed regularly**, **but also immediately in case of significant change in the risk profile** of the Insurer
- Last but not least, to ensure effectiveness of the ORSA process, **adequate controls need to be in place**

**ORSA ~ it is more than a sheer "Report"**

# Challenges for newcomers

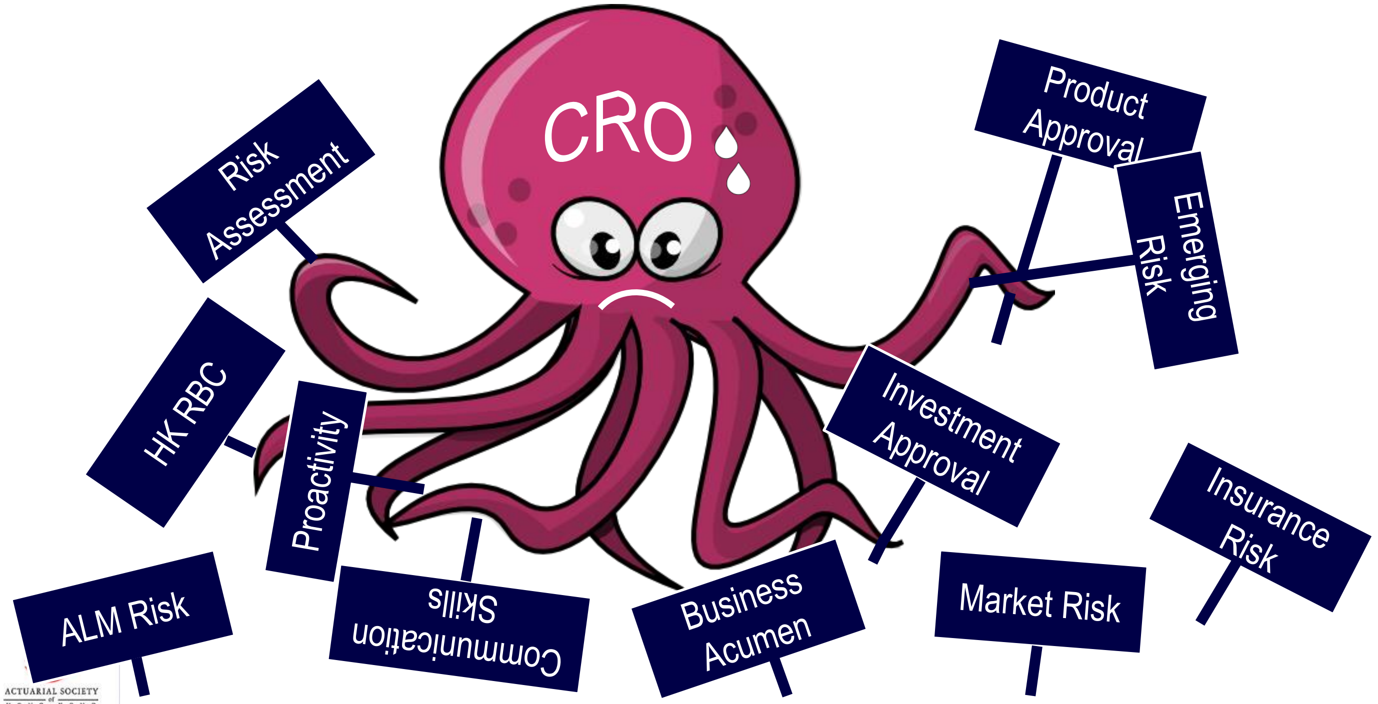
CROs need to be equipped with a broader skillset

ORSA is not a single process and it is complicated

CROs need to manage risks hard to quantify

# CROs need to be equipped with a broader skillset (1/2)

**More skillset is required for Pillar 2 because it is about managing many processes**



# CROs need to be equipped with a broader skillset (2/2)

## Is your risk team ready to take up the ORSA challenge?

**Empower** the team to challenge the 1st line and the business decisions

**Collaborate** with 2nd line colleagues like Compliance to "hold the line"

Striking a **risk & reward balance** when making business decisions

CROs need to be equipped with a broader skillset

**ORSA is not a single process and it is complicated**

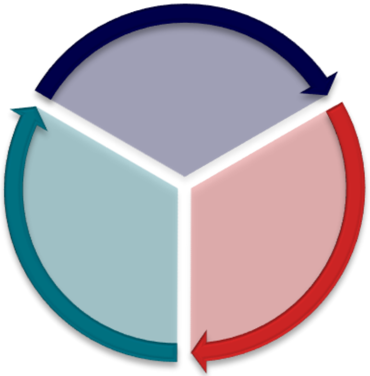
**CROs need to manage risks hard to quantify**

# ORSA is not a single process

## Cannot be done by Risk Management alone!

### On-going Risk Assessment and Other Risks Monitoring

- *All First Lines*
- *Risk Management*



### Monitoring of Solvency, Capital Management, Liquidity requirements etc.

- *Investment, Finance & Actuarial*
- *Risk Management*

### Business Planning, projections and stress tests

- *Business Lines, Product, Investment, Finance & Actuarial*
- *Risk Management*

**…… Apart from people, we need the right governance framework**

# ORSA is complicated (1/2)

## The Board is overall responsible for ORSA, do they understand it?

Risk Framework

Risk Governance Structure

Risk monitoring and mitigation activities

**Quantifiable**

- Description of economic capital methodology
- Economic capital results and analysis
- Consideration of stress scenario / Solvency Ratio Projections

**Non-quantifiable**

Assessment on:

- Liquidity assessment
- Regulatory risk
- Reputation risk
- Conduct risk
- Strategic risk
- Emerging Risks, and

describing the mitigation activities

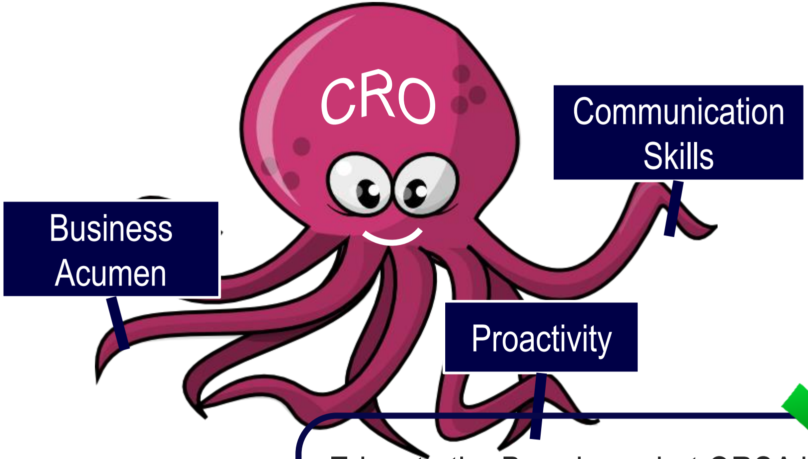
ORSA conclusion
Assessment on Own Risk and Solvency

# ORSA is complicated (2/2)

**On-boarding the Board: convey difficult message in a clear way.**

Do not simply put in front of them the 100 pages of ORSA report and just focus on the numerical part of it, e.g.:

- the Available Financial Resource is $XXX
- the Solvency ratio is YYY%
- we have too much financial or insurance risk




Educate the Board on what ORSA is by making sure that they understand:

- the processes and actors involved
- the value added to the business
- the critical risks being identified and importantly, what are the mitigation actions

CROs need to be equipped with a broader skillset

ORSA is not a single process and it is complicated

**CROs need to manage risks hard to quantify**

# CROs need to manage risks hard to quantify

## What to do with these risks?

- Strategic Risk
- Regulatory Risk
- Conduct Risk
- Reputation Risk
- Emerging Risk

**The wrong approach:**

- I am an actuary, these are not quantifiable so I am not going to deal with it;
- Emerging risks concerning 15 years+ which is beyond the planning horizon, i.e. none of my business;
- Regulatory and Conduct risk, Compliance will handle and I don't care.

**ORSA approach**

**Need to develop internal framework to monitor and control these risks**

# Benefits for established companies

Better risk monitoring, better decision making

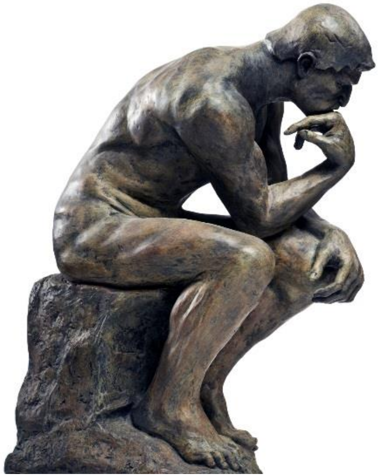
Better understanding of worst case scenarios

Better understanding of the unforeseen

Continuous Improvement

# Better risk monitoring, better decision making (1/2)

## Pondering the Risk exposures for better Risk-Return profile



Are the current risk taking activities optimized? E.g. Product mix, ….. Asset mix,

Which risks are to be hedged?

What is the cost of hedging?
*e.g., interest rate hedging with derivatives at market cost. Will it affect the earnings?*

Is the Company's capital position sufficient for the current business plan?

**Conscious Business Decisions**

# Better risk monitoring, better decision making (2/2)

**Risk Appetite is a decision making tool. But how to set a reasonable limit for each risk?**

**Green Zone**

Zone of **Comfort**

Alert

**Amber Zone**

**Conscious decision** of risk exposure to be taken

Limit

**Red Zone**

Systematic **action plan to leave the red zone**

The Limit and the Risk Appetite can only be set after you know the answers to all these questions (**need inputs from first lines!**):

- What are the key metrics in concern?
- How much stress to apply on a particular risk factor?
- How to aggregate the stress result?
- What is the percentile corresponding to the stress definition?
- What is the risk tolerance / risk absorption capability under the stress?

**Holistic View of the Company's Profile**

Better risk monitoring, better decision making

**Better understanding of worst case scenarios**

**Better understanding of the unforeseen**

**Continuous Improvement**

# Better understanding of worst case scenarios

## Stress testing as a mean to conduct business failure analysis

Generic stress scenarios

**Stress scenarios specific to your Business**

Examples:

- Financial: De-pegging USD/ HKD,
- Catastrophic: Typhoons (Hato & Mangkhut)
- Cyber:  Massive data leakage

Crisis Management Plans

Business Continuity Strategies

**More Resilient Business**

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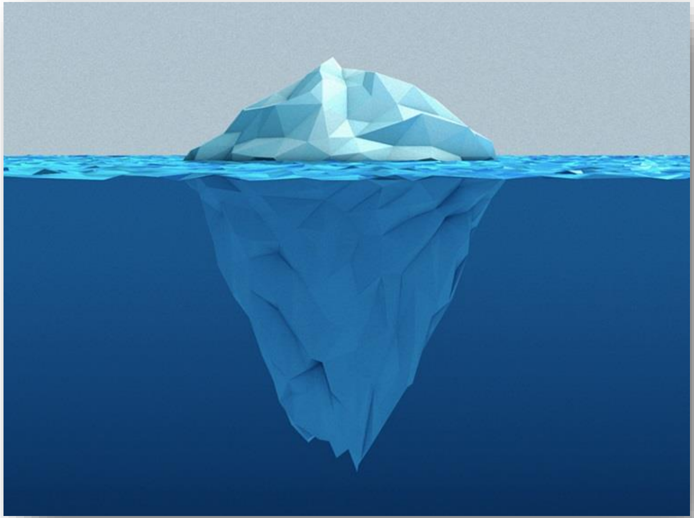
# Better understanding of the unforeseen

**By considering the "emerging risks", we are looking for something not yet happened**



## Examples:

What are the potential changes in the Business Landscape?

- How do they impact your company?
- What is your company's plan to address these changes?

Emerging Risks are hard to quantify.
e.g., How will Insurtech players shape the competitive landscape? Are you ready to compete with them?

Better risk monitoring, better decision making

Better understanding of worst case scenarios

Better understanding of the unforeseen

**Continuous Improvement**

# Continuous Improvement

## Are you comfortable that your ORSA process is effective?


An yearly review is carried out by:

- Internal Control Functions
- External Auditors

**Assurance about the quality and completeness of the process**

# Thank you!