



# 24th XBRL International Conference

**“Transparency: with Available, Reliable, Comparable and Re-usable Data”**

**March 20-22, 2012  
Abu Dhabi, UAE**

ORSA1: Exactly what is ORSA? Why does it matter?  
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Wednesday, March 21, 2012

# Solvency II Overview – the ‘3 Pillars’

## Pillar 1

### *Quantitative capital requirements*

- Market-consistent valuation (balance sheet)
- Own funds (avail. capital)
- Economic risk-based capital requirements
  - minimum (MCR): fixed
  - solvency (SCR): SF/IM
- Treatment of Groups (diversification benefits)

## Pillar 2

### *Qualitative supervisory review*

- Internal controls and risk management
- Required functions (governance)
- Own Risk & Solvency Assessment (ORSA)
- Supervisory review (entity & group level)
- Capital add-ons

## Pillar 3

### *Market discipline (reporting)*

- Transparency
- Disclosure (link with IFRS)
- Solvency and Financial Condition Report (SFCR)
  - solo
  - group

## Compliance and Audit

Source: KPMG Netherlands

# Objectives of Solvency II

Better protection of insurance policyholders

Harmonization within Europe – create level playing field

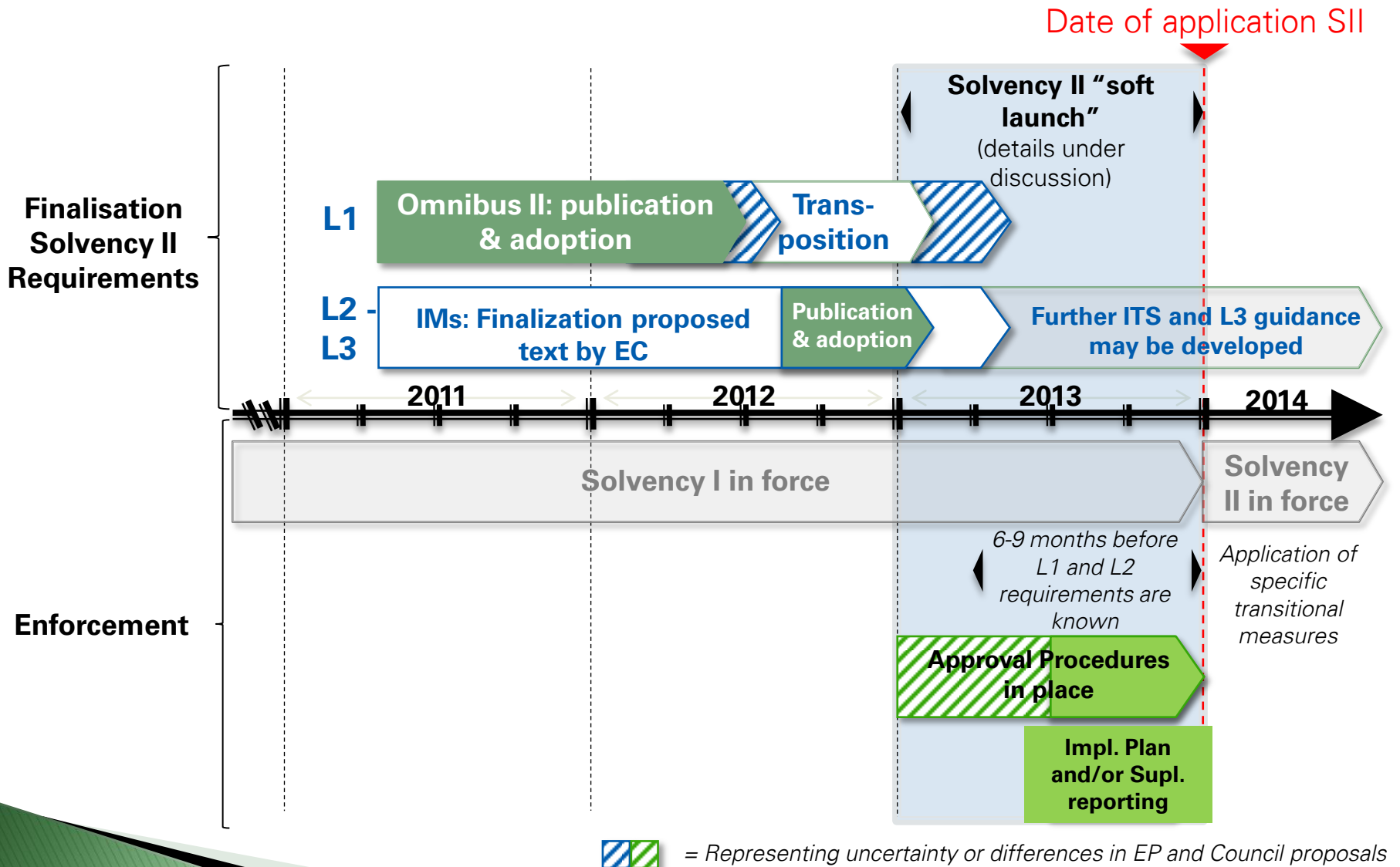
Risk-based supervision – encourage better risk management

# Overview of Solvency II regulation

Level 1	Solvency II Directive (EU-approved)
Omnibus II	Amendments to Solvency II Directive (post-crisis)
Level 2	Delegated acts (implementation measures)
Level 3	Implementing technical standards
	Final guidelines (incl. non-binding technical standards)

Source: KPMG Netherlands

# Solvency II Timeline



# Areas of on-going discussion

Insurance contract boundary

Expected profits in future premiums (EPIFP)

Matching / counter-cyclical premium

Impact on long-term guarantees

Non-life catastrophe risk

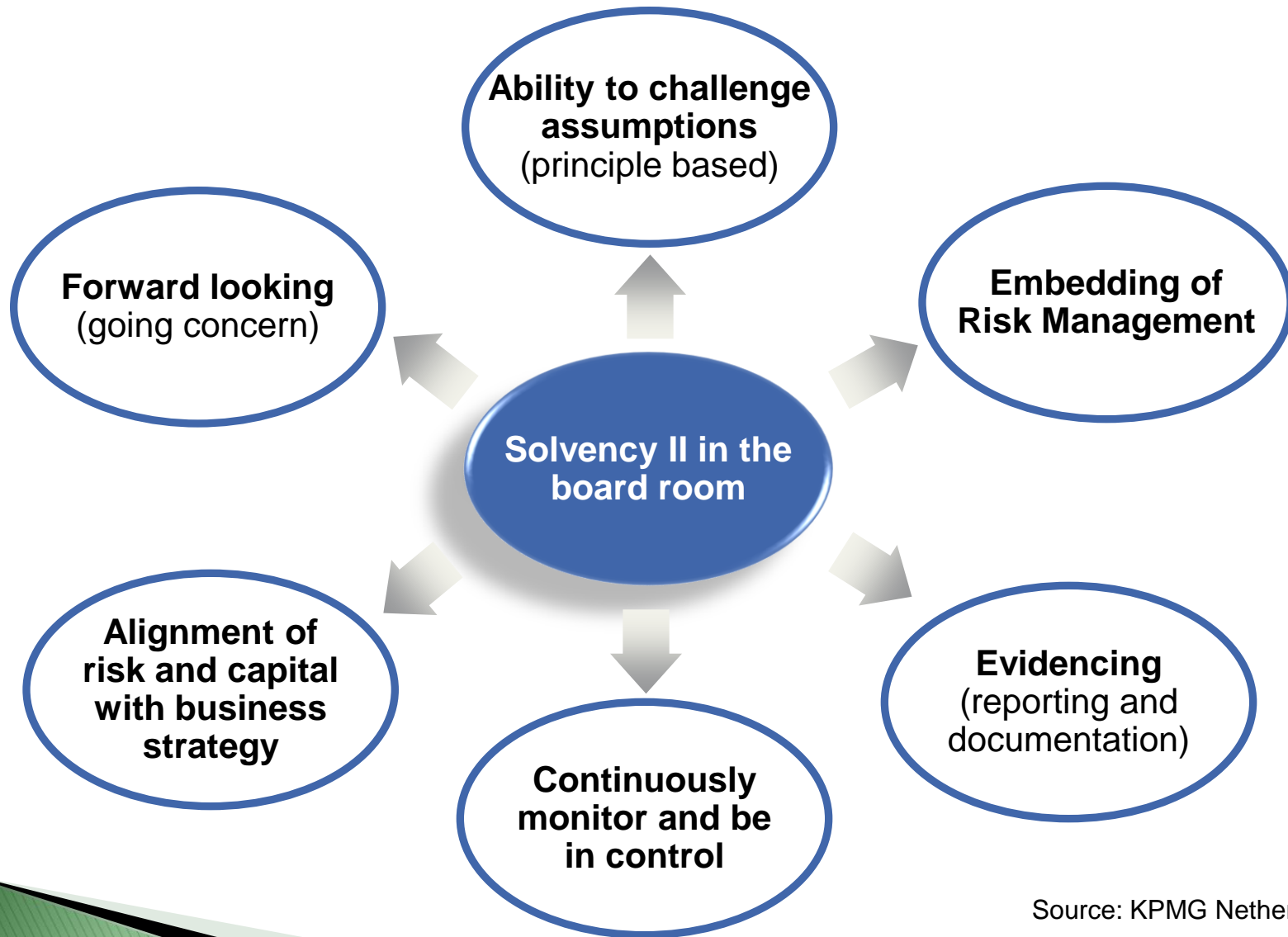
Non-life and non-SLT health calibration

Scope and timing of ORSA reporting

Transitional measures

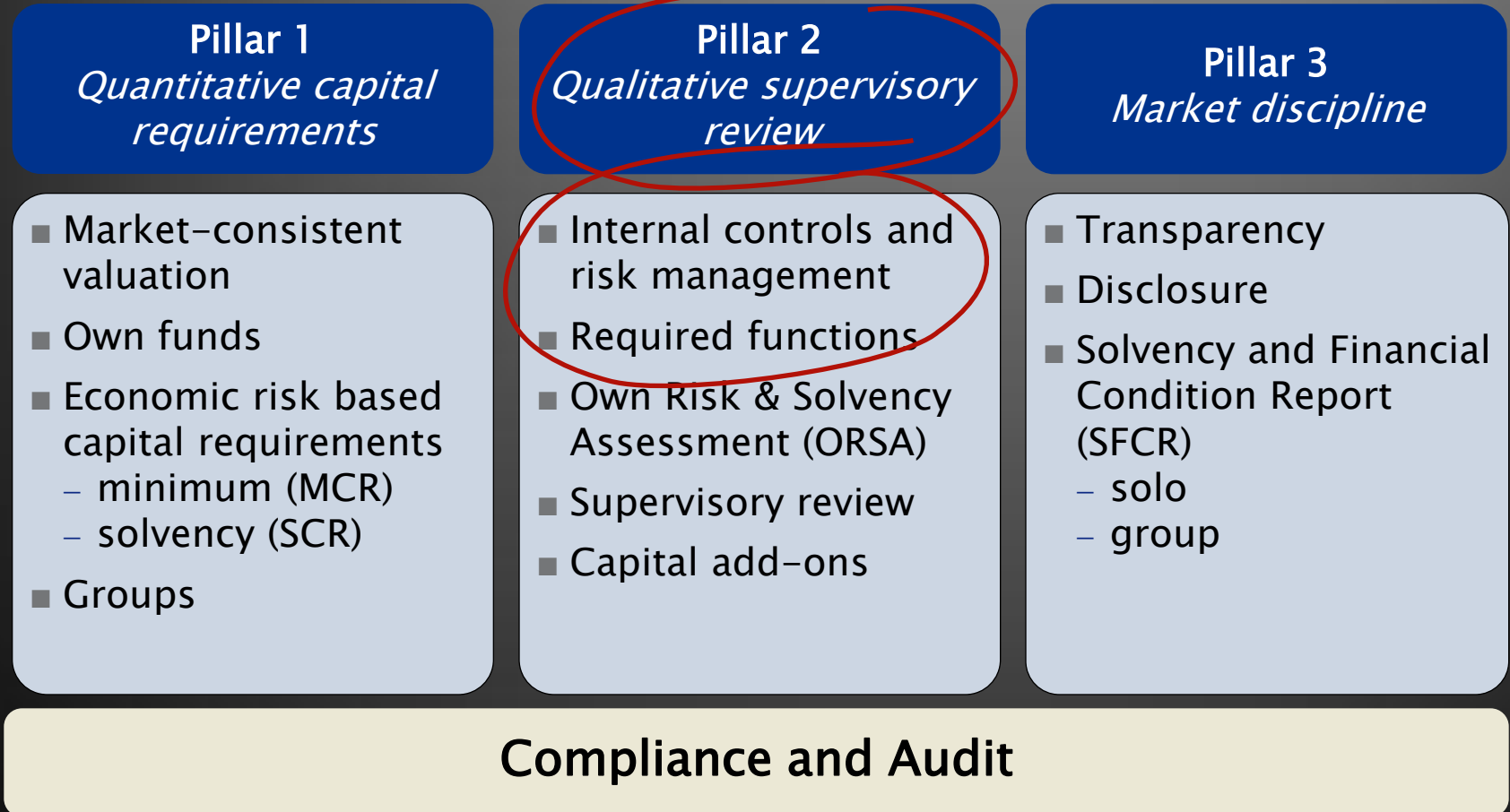
Audit requirements

# Solvency II – key aspects to keep in mind



Source: KPMG Netherlands

# Solvency II Overview – Pillar 2



Source: KPMG Netherlands



# System of governance

Solvency II Directive

Article 42

**Fit and proper requirements**

Article 43

**Proof of good repute**

Article 44

**Risk management**

Article 45

**Own Risk and Solvency Assessment (ORSA)**

Article 46

**Internal control (Compliance function)**

Article 47

**Internal audit function**

Article 48

**Actuarial function**

Article 49

**Outsourcing**

Some risks are better addressed by determining new governance standards and not just by setting additional quantitative risk management requirements

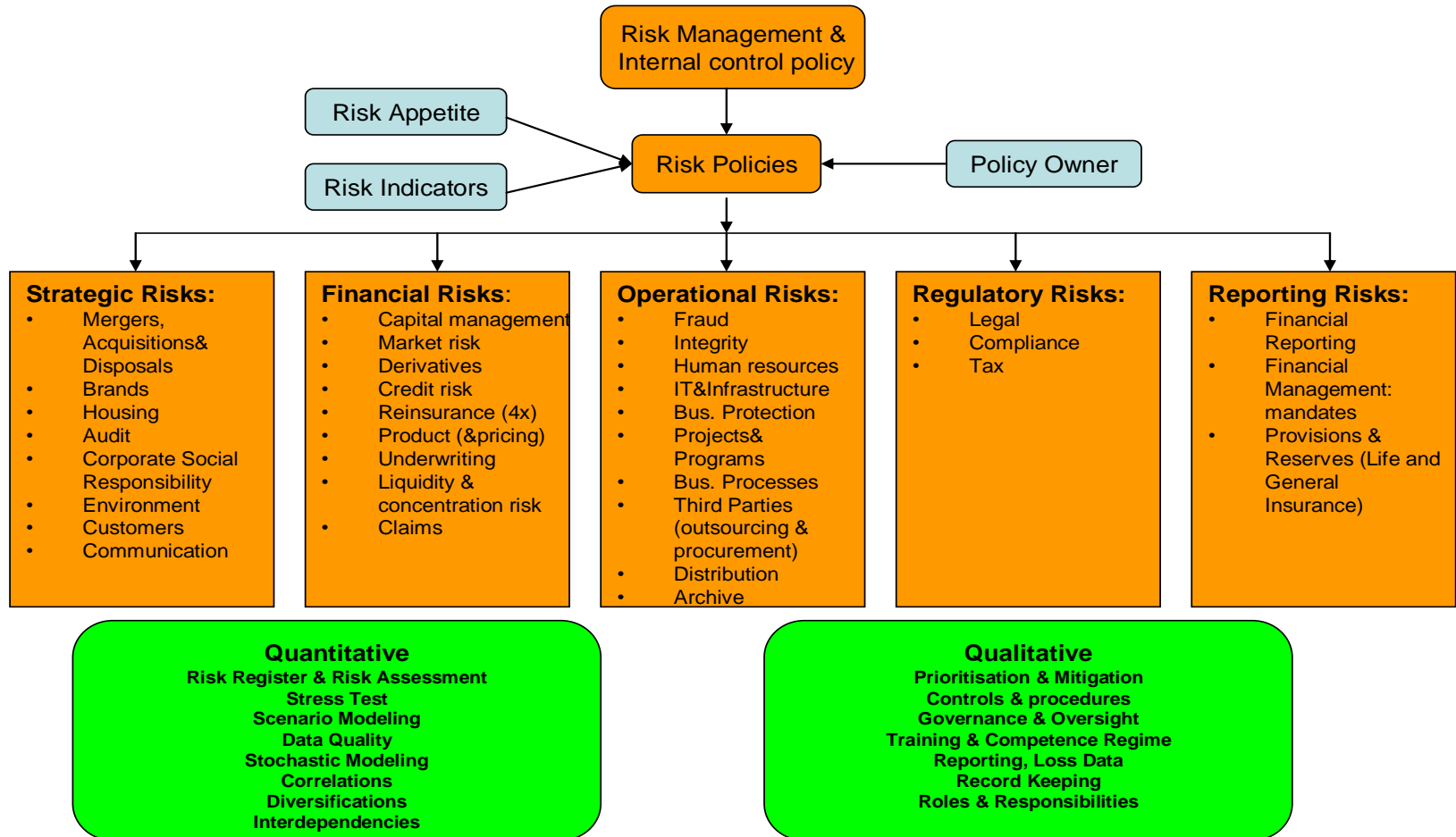
# Risk types – taxonomy example from a business model perspective

	Examples	SCR	Risk Management tools include
<b>BUY/SELL RISK</b> <i>Inherent in insurance products</i>	<ul style="list-style-type: none"> <li>■ Mortality &amp; longevity</li> <li>■ Non-life</li> <li>■ Equity / interest rate</li> <li>■ Liquidity</li> </ul>	<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> <li>✓</li> <li>x</li> </ul>	<ul style="list-style-type: none"> <li>• Hold capital (reserves)</li> <li>• Monitor realisation vs expectation</li> <li>• Monitor exposure, apply limits</li> <li>• Sound pricing</li> </ul>
<b>TAKE RISK</b> <i>Add to balance sheet</i>	<ul style="list-style-type: none"> <li>■ Credit risk</li> <li>■ Equity (investments)</li> <li>■ Real Estate</li> </ul>	<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> <li>✓</li> </ul>	<ul style="list-style-type: none"> <li>• Hold capital</li> <li>• Monitor exposure, apply limits</li> <li>• Hedge</li> <li>• Transfer excess risk</li> </ul>
<b>ACCEPT &amp; MITIGATE RISK</b> <i>Result of operation</i>	<ul style="list-style-type: none"> <li>■ Operational risk</li> <li>■ Strategic risk</li> <li>■ Reputation risk</li> <li>■ Compliance risk</li> </ul>	<ul style="list-style-type: none"> <li>✓</li> </ul>	<ul style="list-style-type: none"> <li>• Hold capital</li> <li>• Control framework</li> <li>• Self-assessments</li> <li>• Clear governance</li> </ul>

Source: KPMG Netherlands

# Risk types – taxonomy example

## Risk Management Qualitative & Quantitative



Source: KPMG Netherlands

# Risk Management needs to cover all aspects of the business cycle

Environment

Infrastructure

Processes

Strategy

Business objectives and strategy

Value propositions

Risk strategy

Risk appetite

Validation/  
re-assessment

Risk awareness/  
Identification

Risk assessment/  
Response

Operations

Measurement and  
Control

Reporting

Organisation and  
people

Limits and  
controls

Methodologies

Systems

Data

Policies

Reporting

Culture

Training

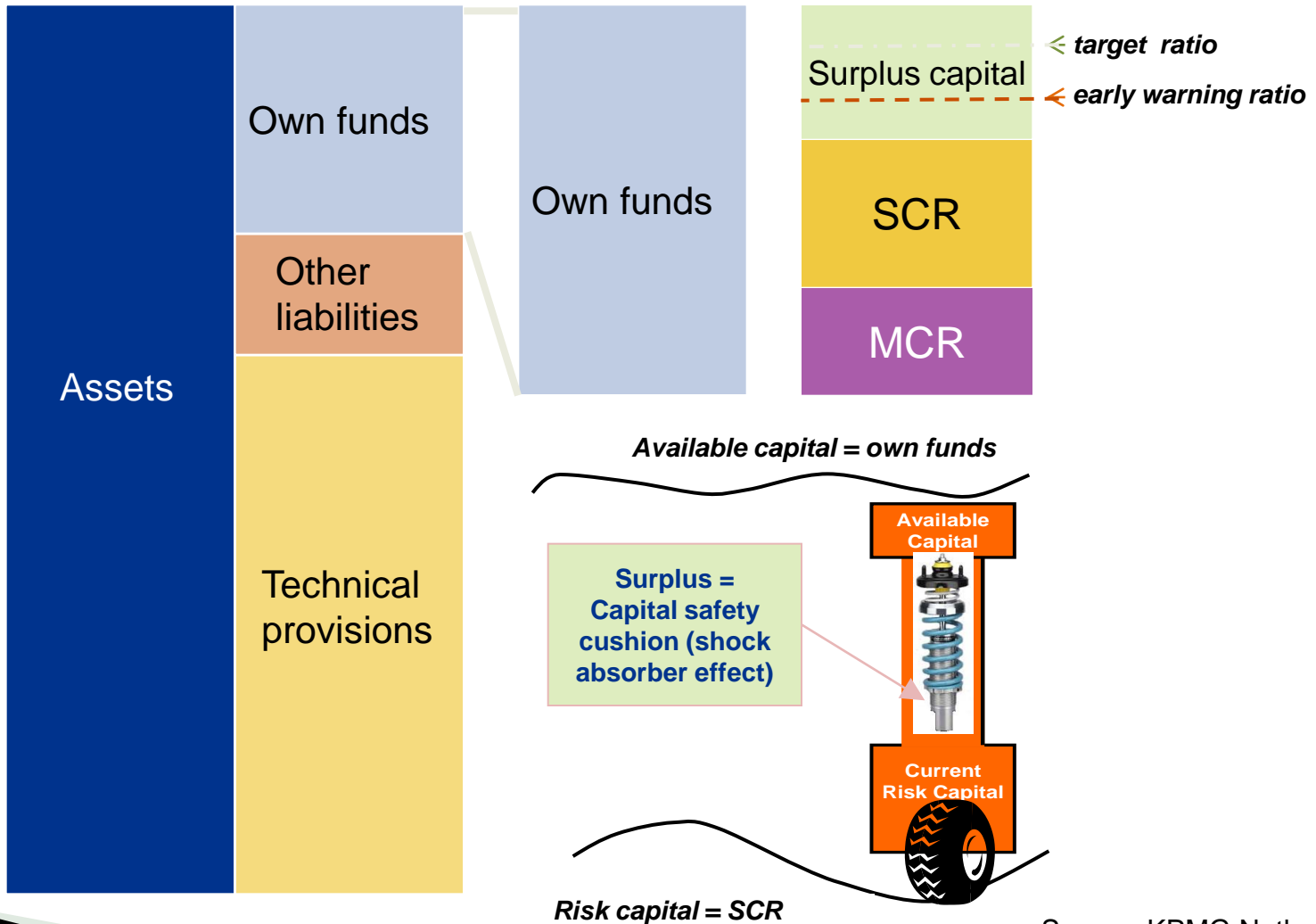
Communication

Performance  
measures

Rewards

Source: KPMG Netherlands

# Capital management and risk appetite



Source: KPMG Netherlands

# Solvency II Overview – ORSA

## Pillar 1

### *Quantitative capital requirements*

- Market-consistent valuation (models)
- Own funds
- Economic risk based capital requirements
  - minimum (MCR)
  - solvency (SCR)
- Groups

## Pillar 2

### *Qualitative supervisory review*

- Internal controls and risk management
- Required functions
  - Own Risk & Solvency Assessment (ORSA)
- Supervisory review
- Capital add-ons

## Pillar 3

### *Markets discipline*

- Transparency
- Disclosure
- Solvency and Financial Condition Report (SFCR)
  - solo
  - group

## Compliance and Audit

Source: KPMG Netherlands

# Need to understand what it is you want to achieve from the ORSA

## Strategic objectives

- Are our strategic business objectives consistently translated into clear Risk Appetite statements?
- What are our metrics for steering our business?

## Past and current performance

- Have we been compliant with the technical provisions and solvency requirements?
- Does our Internal Model represent our risk profile?
- What are our main risk categories?
- Have we covered all our material risks?
- Have our risk-mitigating actions been effective?

## Future outlook

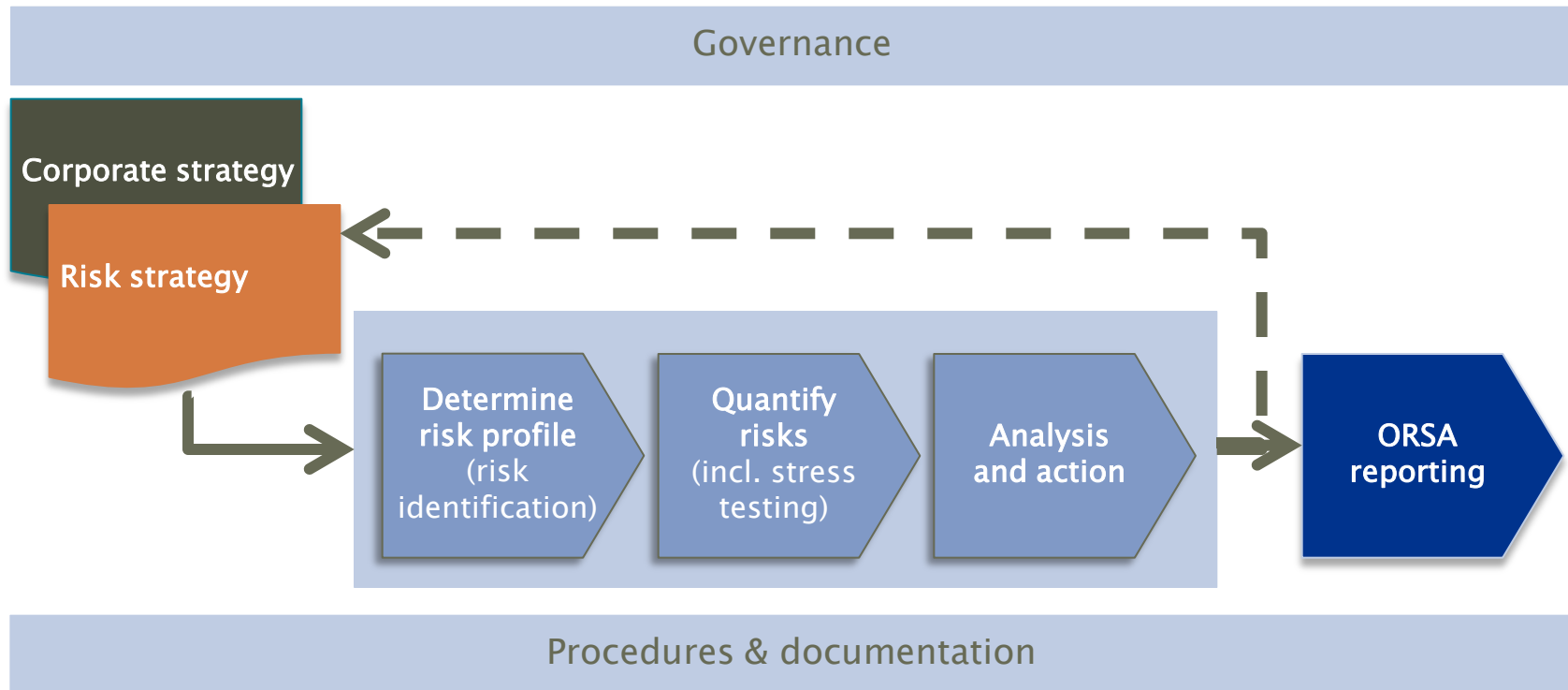
- Will we have enough capital to support our future business plans?
- How robust is our current strategy towards adverse conditions?
- What are the emerging risks that could affect us?

## Documentation

- Can we evidence our risk process and the outcome?

Source: KPMG Netherlands

# The basic ORSA process



*In practice the process takes place on different levels in the organization and at differing frequencies*



# Thank you for your attention

(and may the ORSA force be with you!)

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