OWN RISK AND SOLVENCY ASSESSMENT

(ORSA)

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Background to ZiCARP

ZiCARP – What is Driving the Change ?

The Zimbabwe Integrating Capital and Risk Program ('ZiCARP') is the revamped Solvency Regime that IPEC is implementing for the Insurance Industry. It aims to:

Introduce proportionate, risk-based approach to supervision with appropriate treatment for large and small insurers

Improve consumer protection and assurance to policyholders and beneficiaries, whilst:

- Providing incentives to insurers to measure and properly manage their risks
- Enabling insurers to absorb significant unforeseen losses

Introduce a principles-based approach to regulation

Achieve convergence of regulatory capital and risk based (economic) capital

Ensure better allocation of capital resources in insurer firms

Implement best practice regulation and supervision aimed at promoting financial system stability

Align supervision of all insurance entities and make sector attractive to investors

Consolidate existing solvency management regulatory initiatives eg. Circular 11 of 2016 and SI 95 of 2017

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Overview – ZiCARP Journey Map

2015 - 2017 | 2018 | 2019 | Q1 – Q3 - 2020 | Q4: 2020 | 2021 and beyond

Preliminary Work Foundation set by IPEC

ZiCARP Development (AAC & IPEC)
Industry Workshops
2019 Qualitative Risk & Capital Management Survey
Quantitative Impact Studies

ZiCARP Adoption and amendment of insurance regulations

Phased Implementation by Insurance Companies

2015 - Risk and Capital Survey

2016 – Circular 11 of 2016

2017 – SI 95 of 2017

IPEC work on Pillar I

IPEC work on Pillars II and III (Minimum Disclosure Requirements and ORSA)

Adoption of ZiCARP and amendment of the insurance act and other insurance regulations
IPEC work on Implementing Measures

QIS 1

QIS 2

Parallel Runs

Circular 3 of 2020 – Disclosure

Circular 11 of 2020 – Pension Funds

Model Calibration & Framework Development

ZiCARP Overview

ZiCARP - a 3 Pillar Approach

ZiCARP
SOLVENCY MANAGEMENT REGIME

Quantitative Requirements

- Technical provisions
- Asset valuation
- Eligible capital
- Capital requirements
- Risks to be included
- Risk measures and assumptions
- Risk dependencies
- Standard Approach
- Internal model approach

Qualitative Requirements

- Internal Control System
- Risk Management System
- System of Governance
- Own Risk and Solvency Assessment ('ORSA')
- Stress Testing
- Continuity Testing
- IPEC Review Process

Disclosure Requirements

- Public Disclosures
- Disclosures to IPEC
- Solvency and Financial Condition Report
- Regular Supervisory Report (RSR)
- Quarterly Return Templates under ZICARP (QRT's)
- Risk Disclosures

Principles Based Supervision

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Overview of Qualitative Requirements

- Qualitative requirements are a crucial foundation in ensuring financial soundness of insurers as:
  - They provide initial facilitation of the identification of all material risks
  - They ensure the measurement, management and monitoring of all material risks
  - Importantly they provide the bridge between risks and capital
  - They determine the impact of all material risks on capital adequacy and solvency
  - Hence ZiCARP strategy of adopting pillar 2 – 1 – 3

Risk Management System	Own Risk and Solvency Assessment (ORSA)	Supervisory Review Process
• Insurer must have effective risk management system • Owned and implemented by senior management • Must consider all risks to which insurer is exposed • Risk and capital management must be integrated • Insurer must adopt effective system of governance with adequate internal controls	• ORSA is an internal risk assessment process • Process ensures senior management conduct a review of risks and that the insurer holds sufficient capital against those risks • Insurer must regularly undertake an ORSA •Must be an integral part of business strategy	• Review strategies, processes and reporting procedures. • Review and evaluate compliance with requirements • Review methods used to identify possible events or future changes in economic conditions that may have adverse effects

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Where is Zimbabwe Right Now

C11 of 2016 addresses most of the qualitative requirements. The Circular sets risk management standards and requires an insurer:

- To establish risk **responsibilities** and **culture** across the Board, Senior Management and all Employees
- To establish **an effective risk management system** (RMS) that covers **all material risks**
- To establish **a risk management function** (RMF) with necessary authority, independence, resources, expertise and access to the Board or Risk Committee
- Both the RMS and RMF are subject to regular independent review

C11 of 2016 aligns Zimbabwean insurance market with principles of Solvency II and relevant ICP's of the IAIS:

The Circular covers the risk management and governance aspects including requiring the following

1. System of governance
2. Risk management systems
3. Control functions
4. Compliance function
5. Actuarial function
6. Internal Audit function

C11 of 2016 does not cover Own Risk and Solvency Assessment (ORSA)

Circular 11 of 2021 aims to close this gap

There is also need to get feedback from Industry on;

1. Extent of adoption of Circular 11 in decision making
2. Implementation challenges with Circular 11 of 2016
3. Feedback on C11 of 2021
4. Any other governance and risk management issues

Pillar 2 Requirements

Requirement for an Effective RMS

Circular 11 of 2016 requires an effective risk management system which should:

- Adequately support the Board to fulfil its responsibilities, which include protection of policyholders and the safe and sound operation of insurer
- Address all material risks faced by an insurer on an enterprise-wide and continuous basis
- Take into account probability, potential impact and time duration of risks
- Assist the insurer to identify, assess, monitor, mitigate and report on its key risks in a timely way
- Be embedded in business processes and decision making and includes early trigger warnings
- Be aligned with the organization's risk culture
- Be supported by control functions with the necessary authority, independence and resource
- Be reviewed regularly by management, internal audit and the Board
- Be documented, including any modifications or enhancements
- Promote and sustain a sound risk culture

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Requirement for an Effective RMS

Key components of an effective RMS include:

- Risk management strategy: vision, risk appetite, principles, culture and implementation plan
- Risk categorization – levels and definition of all risks
- Risk governance framework outlining risk roles
- Risk management policy, including component risk management policies which cover all material risks
- Risk management function: independent, skilled, authority
- Risk reporting framework: internally, to Board and IPEC
- Risk processes: identify, assess, mitigate, manage and report on all material risks. **ORSA** is a key process.

*The **ORSA** is defined as a set of processes that aim to assess, in a continuous and prospective way, the overall solvency needs related to the specific risk profile of the insurer*

Above needs documentation, regular review and enhancement Interaction between the components key

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Requirement for an Effective ORSA

What ORSA covers and its role in the risk management process:

- The ORSA considers the overall solvency needs taking into account the specific risk profile, approved risk tolerance limits and the business strategy of the undertaking;
- The ORSA needs to be an integral part of business strategy and be taken into account in strategic decision making.
- The ORSA should be performed annually or “without any delay” following any significant changes to the risk profile
- The ORSA monitors compliance, on a continuous basis, with capital requirements, and with requirements regarding technical provisions.
- The ORSA should incorporate the information provided by the actuarial function on the validation of technical provisions;
- ORSA results need to be integrated with all strategic management processes;
- ORSA monitors significance with which the insurer risk profile deviates from assumptions underlying the Solvency Capital Requirement

Key Takeaways

- ORSA must be performed regularly
- ORSA is a fundamental part of the risk management system of an insurer
- ORSA forms part of the supervisory process

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Requirement for Effective Supervisory Review Process

ICP's require Insurance Supervisors to review the insurer's risk management processes and its financial condition with a view to strengthening insurer's risk management, solvency assessment and capital management processes.

This involves IPEC:

- Understanding the risk exposure and solvency position of each insurer
- Assessing the adequacy and soundness of each insurers ERM framework
- Reviewing insurers internal controls and monitoring its capital adequacy
- Monitoring the techniques employed by each insurer for risk management
- Requiring appropriate information on risks, risk management and solvency assessment
- Reviewing results of any risk modelling, stress testing and scenario analysis
- Ensuring insurers carry out continuity analyses, regulator stress tests and scenario analysis
- Ensuring additional reporting and risk management for insurance groups
- Adopting a risk-based approach in supervising insurers
- Taking appropriate action where insurance companies have shortcomings for the above

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ORSA Objectives

Objectives of ORSA

ERM, Solvency & Strategy

- Regular assessment of the adequacy risk management systems
- Regular assessment of current and future solvency positions
- Alignment of risk management with business strategy and capital requirements

Risk Governance & Compliance

- Provide IPEC with the insurer's perspective of the capital resources necessary to achieve its business strategies and remain solvent given its risk profile, as well as insight into the risk management and governance procedures surrounding this process
- Engage senior management and board of directors in risk management, capital management and continuous solvency monitoring

Basis for developing ORSA

ICP 8

- Risk Management and Internal Control

ICP 13

- Reinsurance and other forms of risk transfer

ICP 16

- ERM for solvency purposes

International Best Practice

- Approaches taken by other regulators

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Components of ORSA

Component 1 – Description of ERM framework

How the insurer identifies and categorise relevant and material risks and manages those risks as it executes its business plan/strategy.

Monitoring processes and methods, provide risk appetite statements, and explain the relationship between risk tolerance and the amount and quality of risk capital

ERM

How the insurer incorporates new risk information in order to monitor and respond to changes in its risk profile due to economic and/or operational changes and changes in strategy.

The assessment tools (feedback loops) used to monitor and respond to any changes in the insurer's risk profile due to economic changes, operational changes, or changes in business strategy

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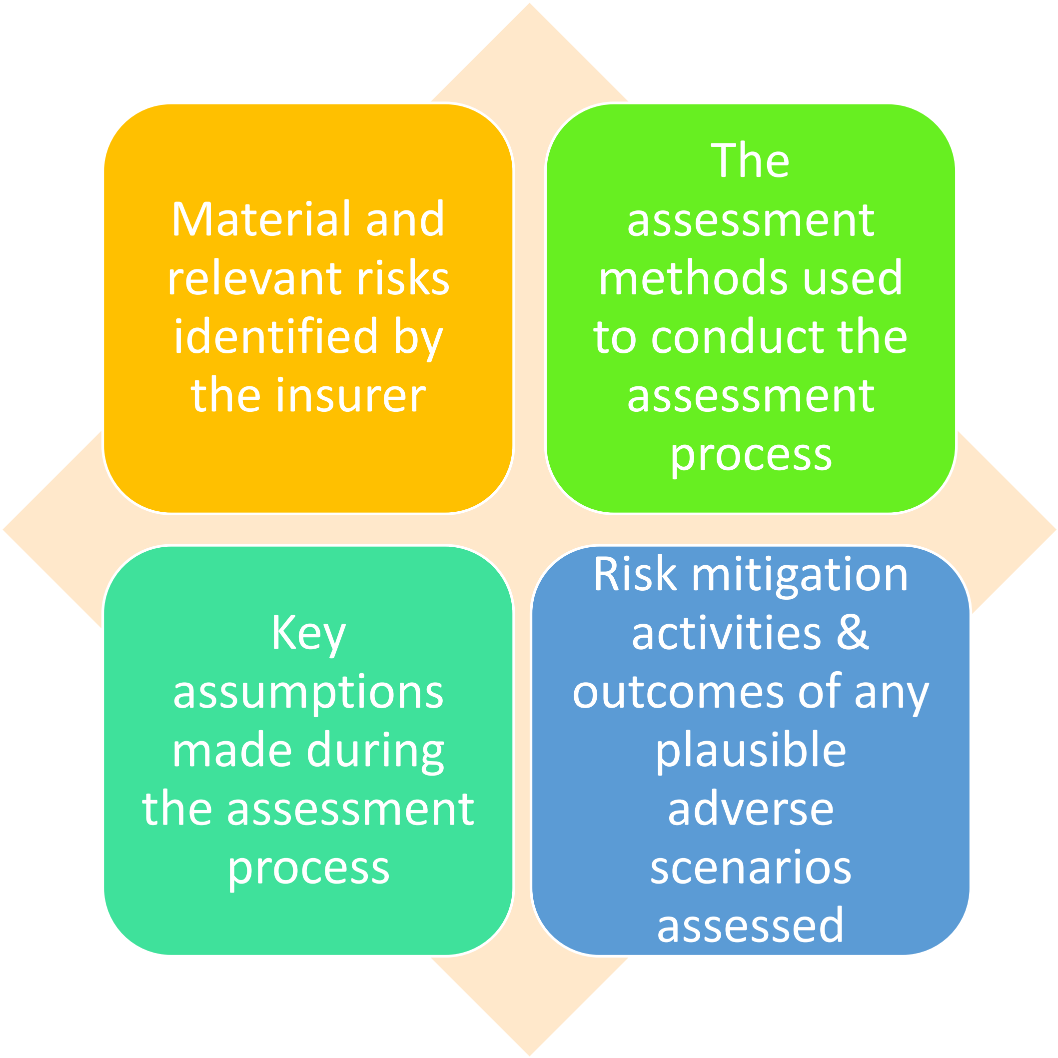
Component 2 – Assessment of Risk Exposures



Component 3 – Capital Assessment

Assessment of Risk Capital

- how the its capital assessment is integrated into the insurer's management and decision-making culture;
- how the insurer evaluates its available capital
- how risk capital is integrated into capital-management activities.
- varying business planning time horizons;
- valuation approaches
- capital management strategies
- how risk and capital interrelate over various business planning horizons; or
- accounting frameworks (i.e., economic and/or regulatory frameworks

Prospective Solvency Assessment

- The insurer should project its future financial position, including its projected economic and regulatory capital to assess its ability to meet the regulatory capital requirements. Factors to be considered are:
  - The insurer's current risk profile;
  - Its risk management policy;
  - Its quality and level of capital;
  - Any changes to its current risk profile caused by executing the multi-year business plan.

Key ORSA Requirements

Key ORSA Requirements

Annual Assessments and Solvency Estimations	Continuous internal documentation of ORSA process & results
Annual internal reporting to Senior Management and Board of Directors	Annual Submission to IPEC

ORSA

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ORSA Governance

ORSA Report should be accompanied by

- Underwriting, investment, claims, reinsurance & operational risk management policies
- Any other risk management policies that will aid IPEC understand ORSA report
- Risk appetite statement
- Assessment of Risk Capital

Companies to submit ORSA at the end of the fourth quarter together with most recent actuarial valuation

Signatories to ORSA – Principal Officer, Risk Officer & Appointed Statutory Actuary responsible for Solvency projections

Companies might be required to re-submit ORSA report if they are material changes to their risk profile or risk environment (that may significantly impact the Company's risk profile

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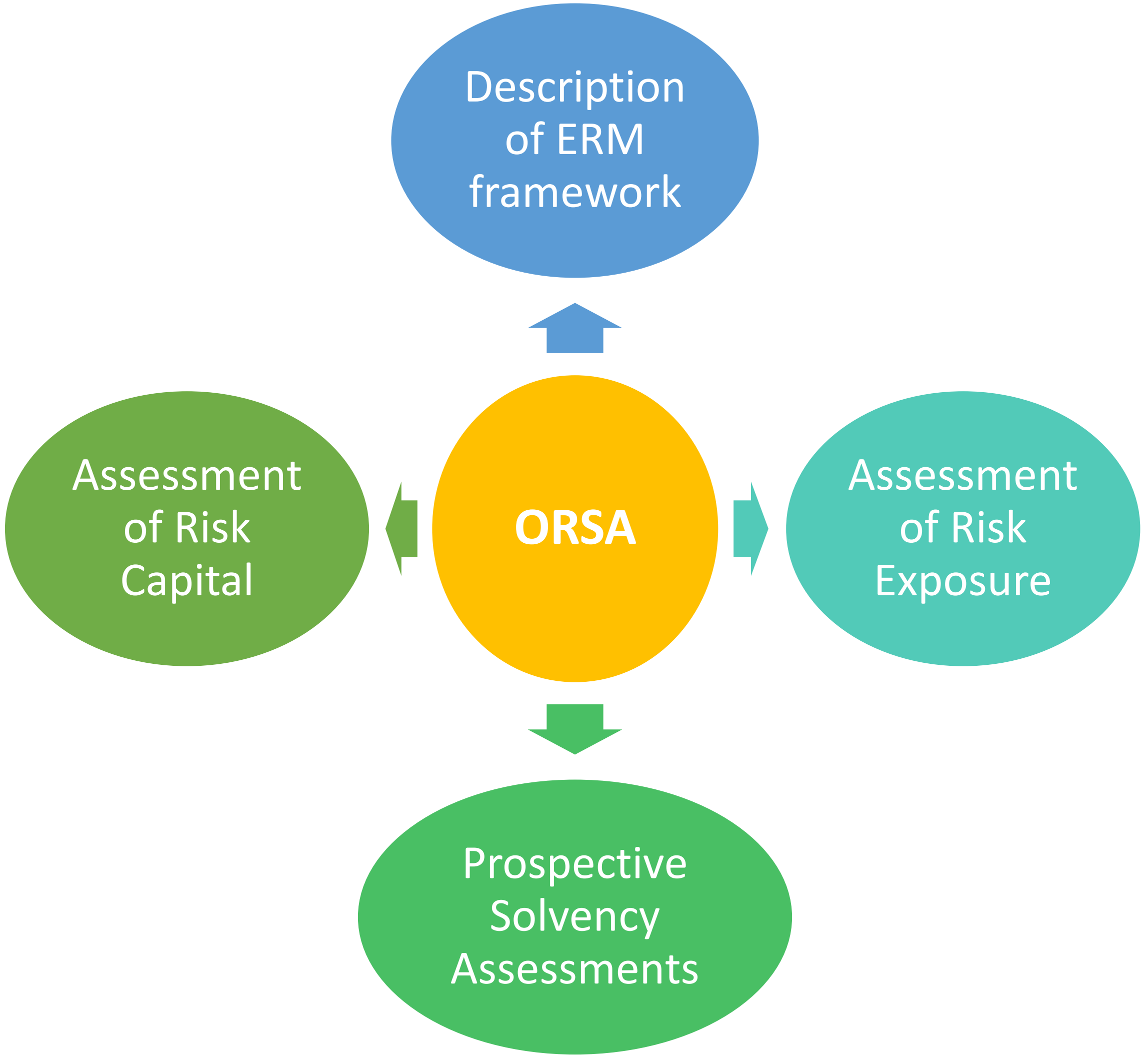
ORSA Report Contents



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Implementation Benefits and Challenges

Benefits of implementing ORSA

- The ORSA process provides a clear understanding of an insurer’s most significant risks and their impact on the balance sheet – in particular on capital resources
- It enables consensus on the insurers strategic goals and objectives
- It aligns risk appetite and strategy
- It identifies and manages cross-enterprise risks
- It enhances business planning and forecasting
- Enhances risk response decisions
- Provides for integrated responses to multiple risks
- Improves the deployment of capital and resource allocation
- Enables measurement of business performance
- Enables seizing of opportunities in a controlled manner
- The ORSA process reduces operational surprises and losses

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Practical ORSA Implementation Challenges

- All material risks will need to be monitored and reported on an individual and enterprise-wide base
- Common frameworks and methodologies will be required
- On- and off- balance sheet risks need to be considered
- Environmental scanning for strategic and emerging risk trends
- Concentrations and interdependencies of risks need to be factored in
- Qualitative and Quantitative elements need to be included e.g. reputational and strategic risk
- Availability of relevant, reliable and accurate data
- IT platform for recording and reporting of risks
- Reporting needs to be timely and summarised to identify key issues

- Senior management support needed
- Ownership and accountability for deliverables needed
- Sufficient resources need to be dedicated to risk management
- Inadequate control and change management procedures
- Insurers need positive risk cultures
- Timely and positive feedback on all issues raised by IPEC
- Adequate of IT and data management systems
- Long term view and investment required
- Processes need to be embedded into internal control system, business processes, decision making and organisation culture

Q & A

Thank You

Any

Questions?