

A circular inset image on the left side of the slide shows a close-up of a hand holding a pen, with a blue candlestick chart overlaid on the fingers. The chart has several blue and white bars with vertical lines indicating price movement.

# OWN RISK AND SOLVENCY ASSESSMENT (ORSA) WORKSHOP

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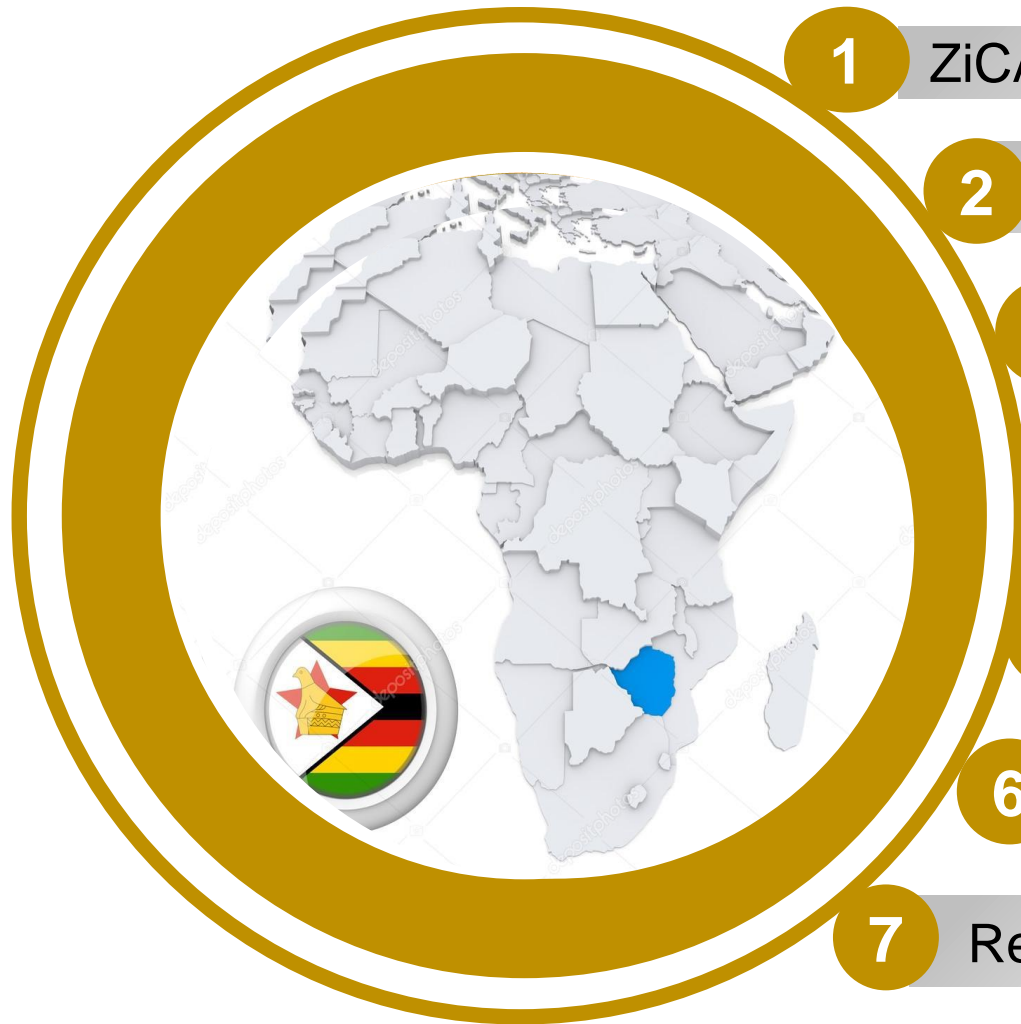
**CIRCULAR 22 OF 2022**

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# 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

# 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

# Overview of Qualitative Requirements

## Risk Management System (RMS)

- Insurer must have an effective risk management system
- RMS must be owned and implemented by senior management
- RMS 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

## Own Risk and Solvency Assessment (ORSA)

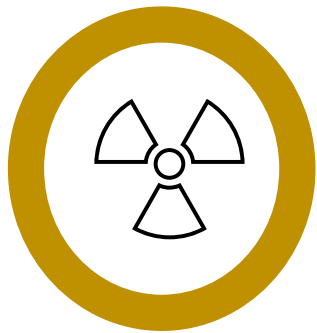
- ORSA is an internal risk assessment process
- Process ensures senior management conduct a review of risks and that the insurer holds sufficient capital against those risks
- Insurer must regularly undertake an ORSA
- Must be an integral part of business strategy

## Supervisory Review Process (SRP)

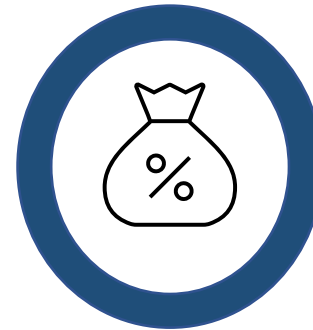
- Review strategies, processes and reporting procedures.
- Review and evaluate compliance with requirements
- Review methods used to identify possible events or future changes in economic conditions that may have adverse effects

# Prior Risk Survey Summary Results

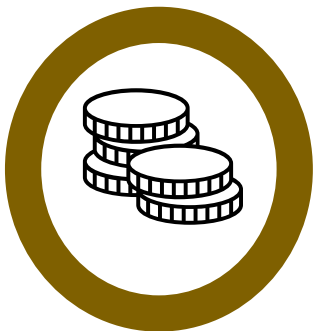
- ❖ **Baseline Risk and Capital Management Survey conducted by IPEC in 2015**
- ❖ **Follow up survey conducted by IPEC in 2019**



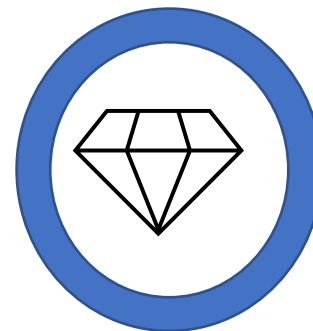
**Most firms are moving in the right direction in terms of their risk culture**



**Most firms have made a fairly good attempt to estimate economic capital for each of their material risks**



**Most firms have generally good risk governance in place, which is improving**



**Fairly good progress on establishing risk management operations**

# Key RMS Requirements

## - Circular 11 of 2016



# 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

# 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

# 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



# Key ORSA Requirements - Circular 11 of 2021



# Objectives of ORSA

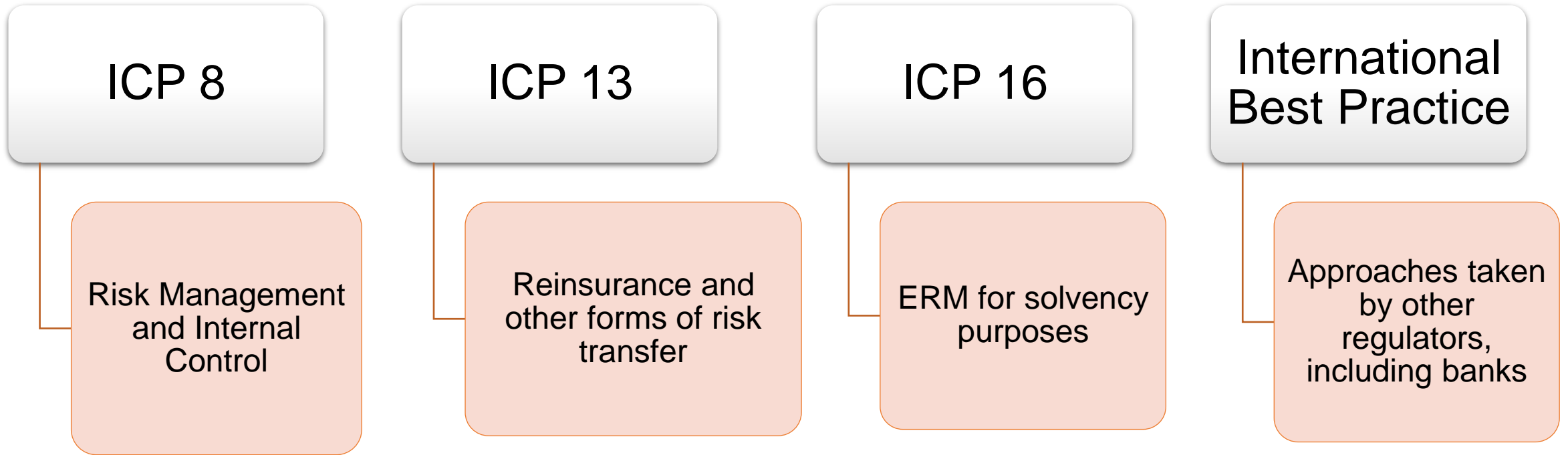
## ERM, Solvency & Strategy

- Regular assessment of the adequacy risk management system
- 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



ORSA report contains three key components:

1. Description of the ERM Framework
2. Assessment of Risk Exposures
3. Current and Prospective Risk and Solvency Assessment

# Description of ERM framework



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

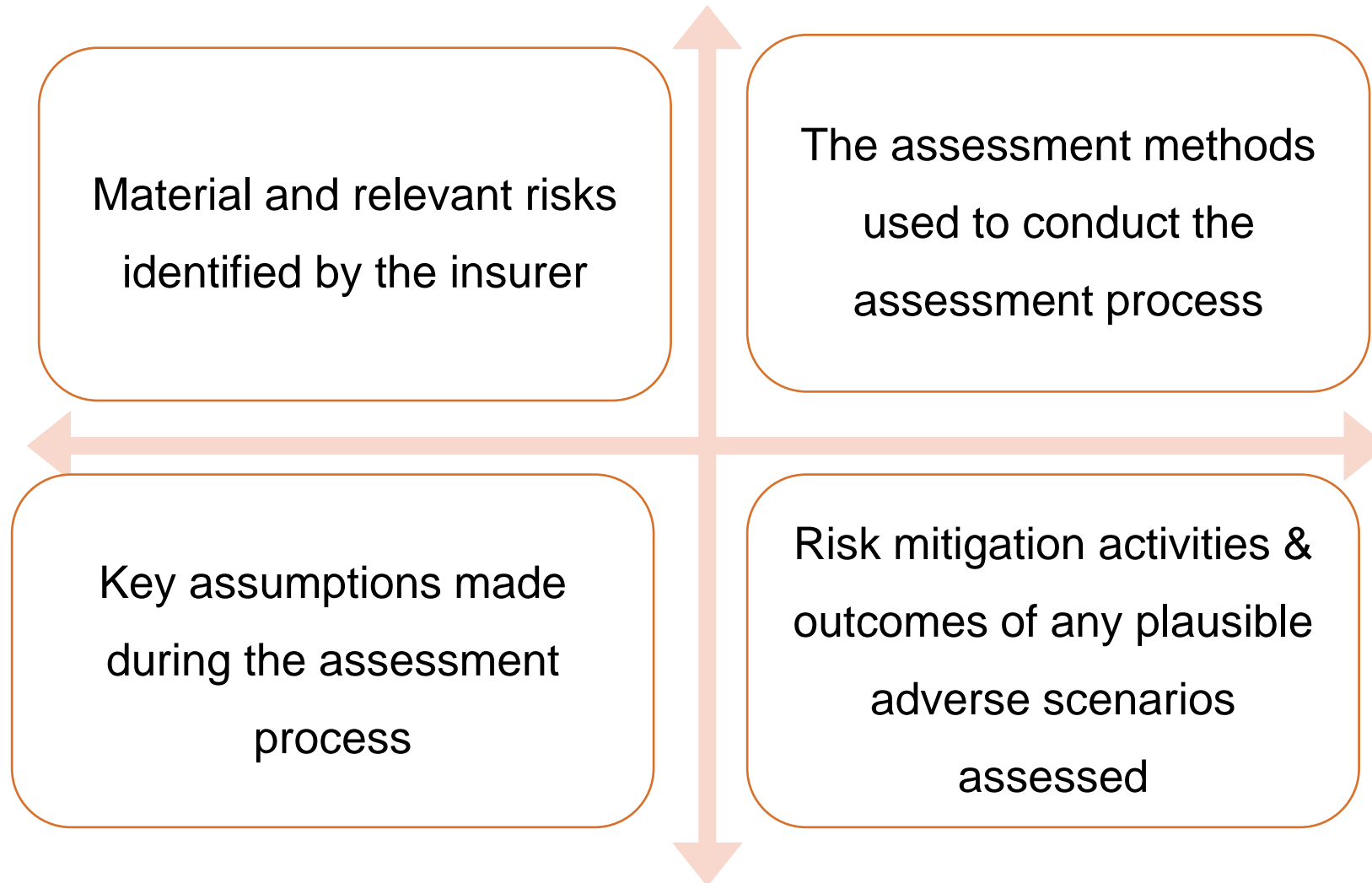
Monitoring processes and methods, provide risk appetite statements, and explain the relationship between risk tolerance and the amount and quality of risk capital

## 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

# Assessment of Risk Exposures



# Current and Prospective Solvency Assessment

## Assessment of Risk Capital

- ❖ Objective is to measure:
  - how the insurer evaluates its available and required risk capital
  - how the insurer's capital assessment is integrated into its management and decision-making culture; and
  - how risk capital is integrated with capital-management activities.
- ❖ Insurer to have sound processes for assessing capital adequacy:
  - over varying business planning time horizons;
  - over different valuation approaches; and
  - over different accounting frameworks i.e., economic and/or regulatory frameworks
- ❖ Insurer to assess historical trends of risk capital

## Prospective Solvency Assessment

- ❖ Insurer should project its future financial position, including its projected economic and regulatory capital to assess its ability to meet regulatory capital requirements
- ❖ Factors to consider include:
  - Insurer's current risk profile;
  - Current and projected risk exposures, including impact of group risks;
  - Its quality and level of available capital or own funds;
  - Any changes to its current risk profile caused by executing the multi-year business plan.

# 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
- ORSA Policy

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)

# ORSA Requirements & Benefits



# Requirements 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 insurer;
- ❖ 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 Capital Requirements (SCR and MCR)

### Key Takeaways

- ORSA must be performed regularly
- ORSA is a fundamental part of the RMS
- ORSA is a top down process
- ORSA forms part of the supervisory process

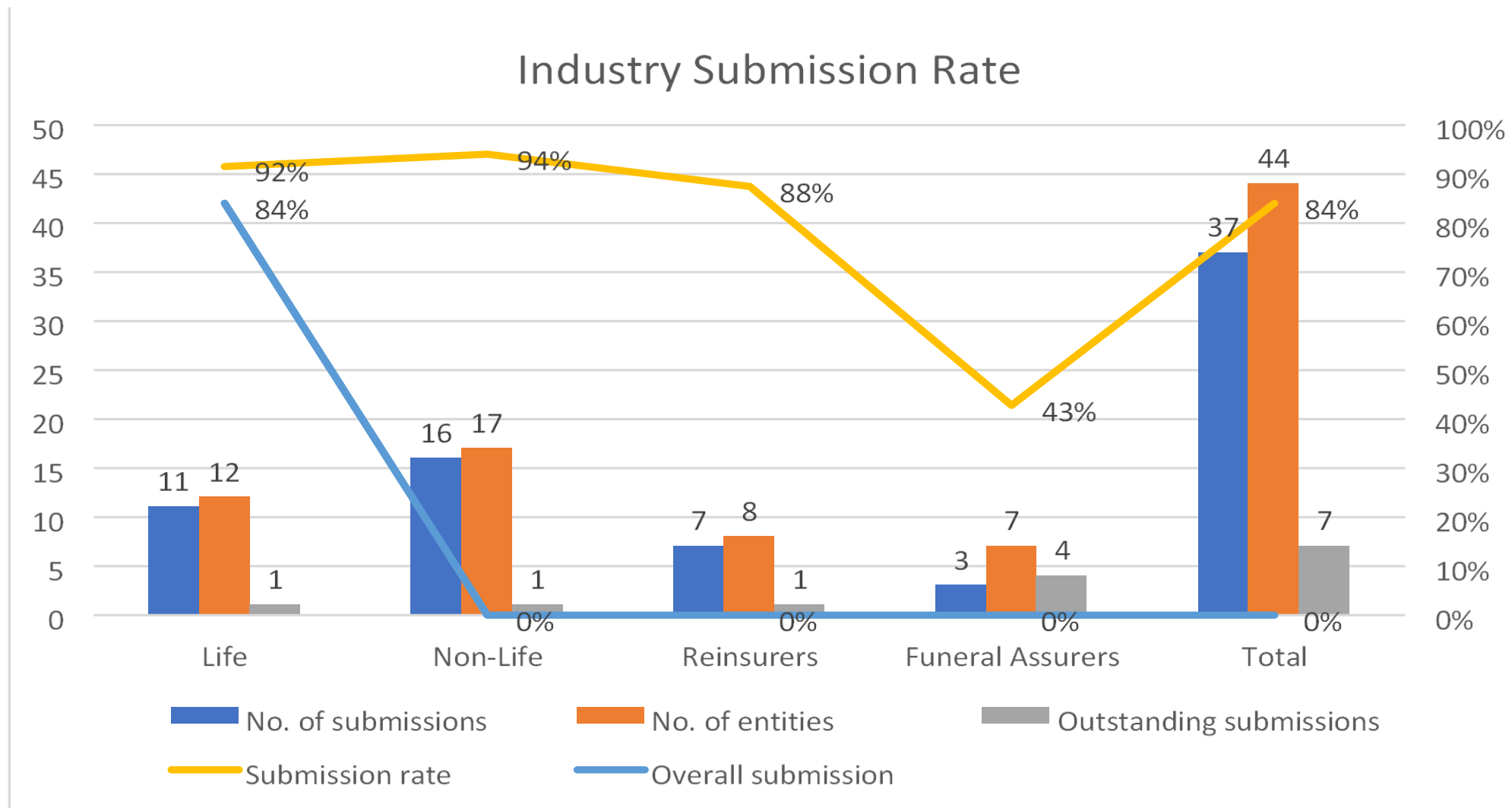
# Benefits of implementing ORSA

- ❖ 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 to be reached on the insurer's 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




# Overview of ORSA Results



# ORSA Submission Statistics

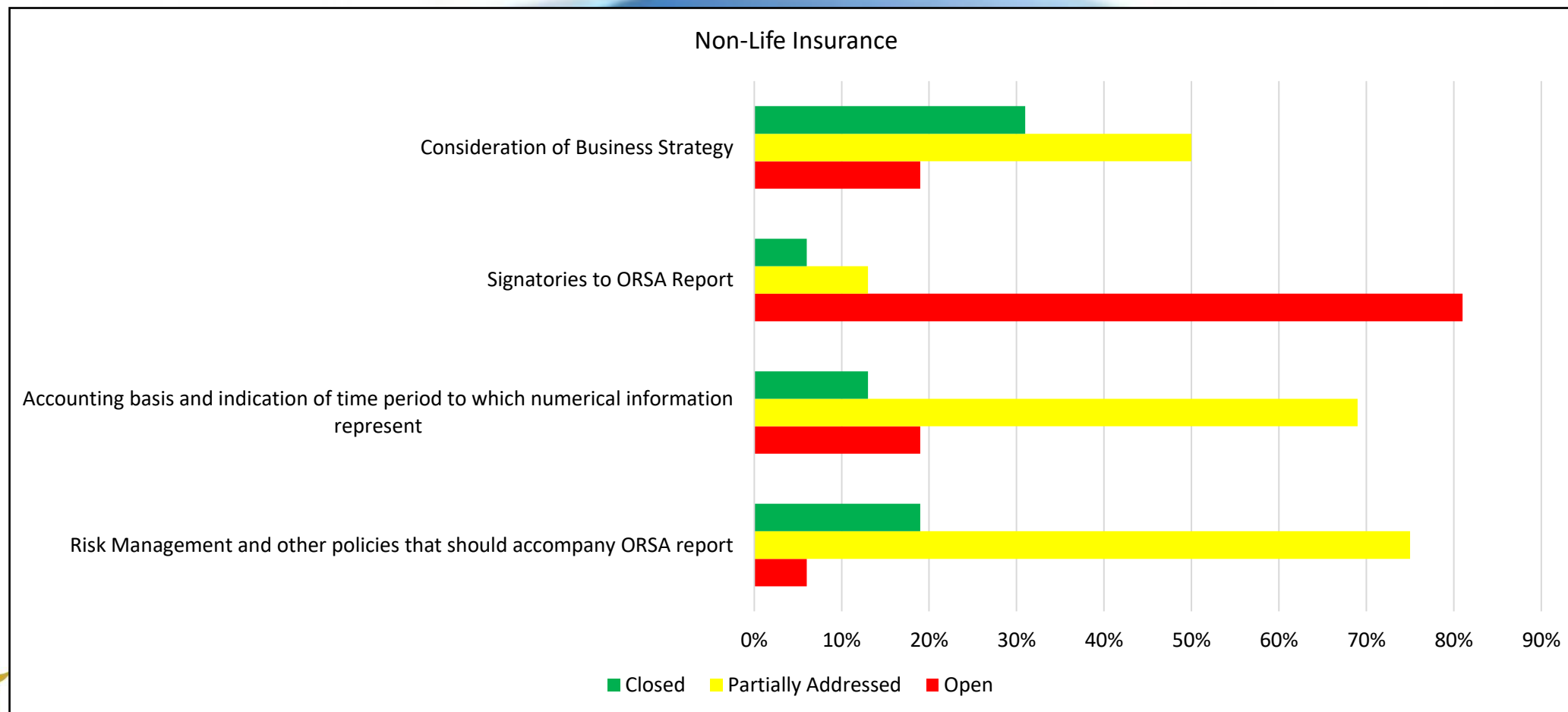


# ORSA Analysis Ratings Scale

Rating	Criteria
 Open	Insurance company did not comply with the specific ORSA requirements per the ORSA guidance
 Partially Addressed	The insurance company partially complied with the requirements of ORSA as per IPEC expectations
 Closed	The insurance company complied with the ORSA requirement.

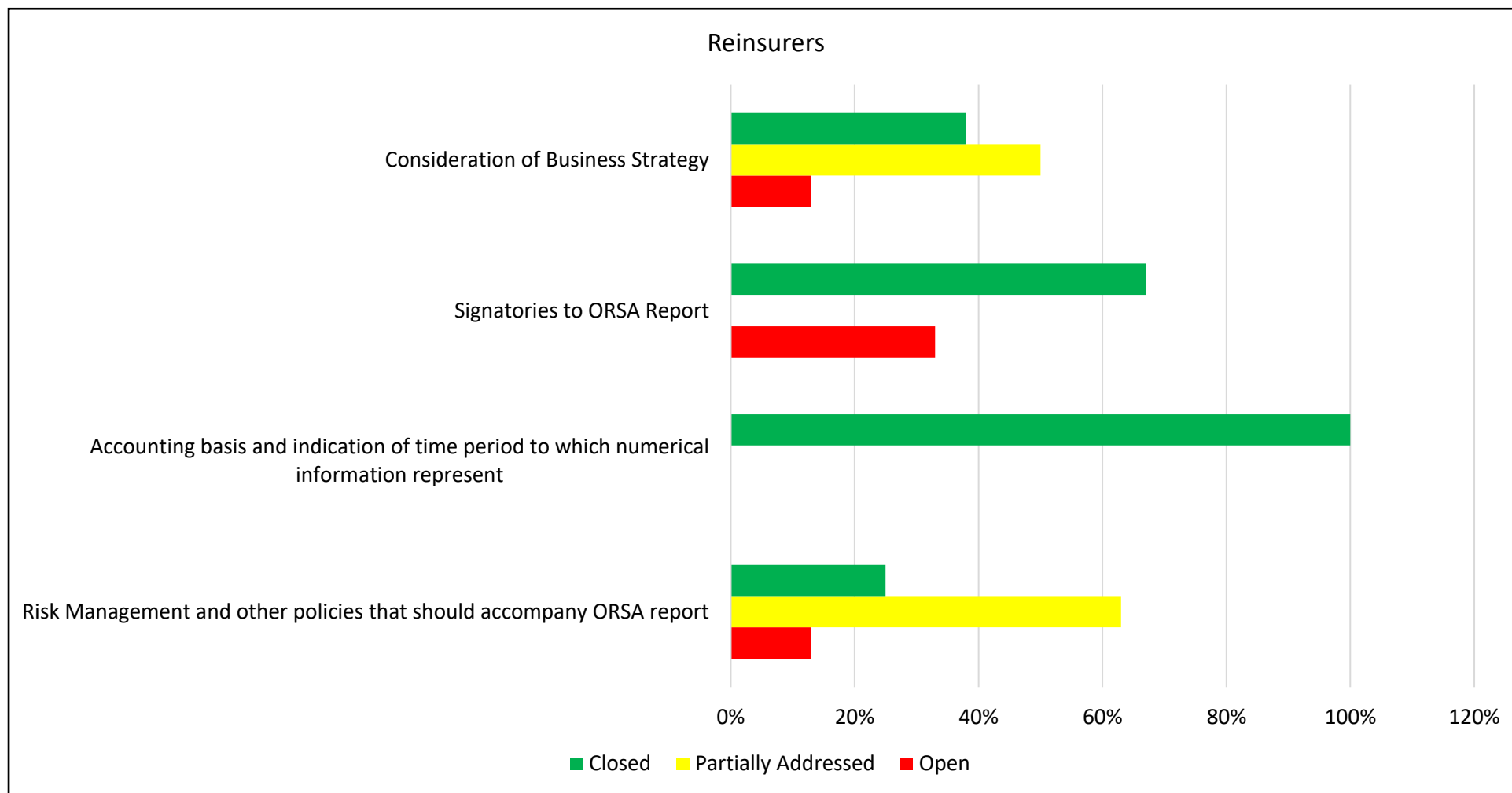
# Review of General ORSA Requirements

The extent to which submissions made by insurance companies complied with the general ORSA requirements:



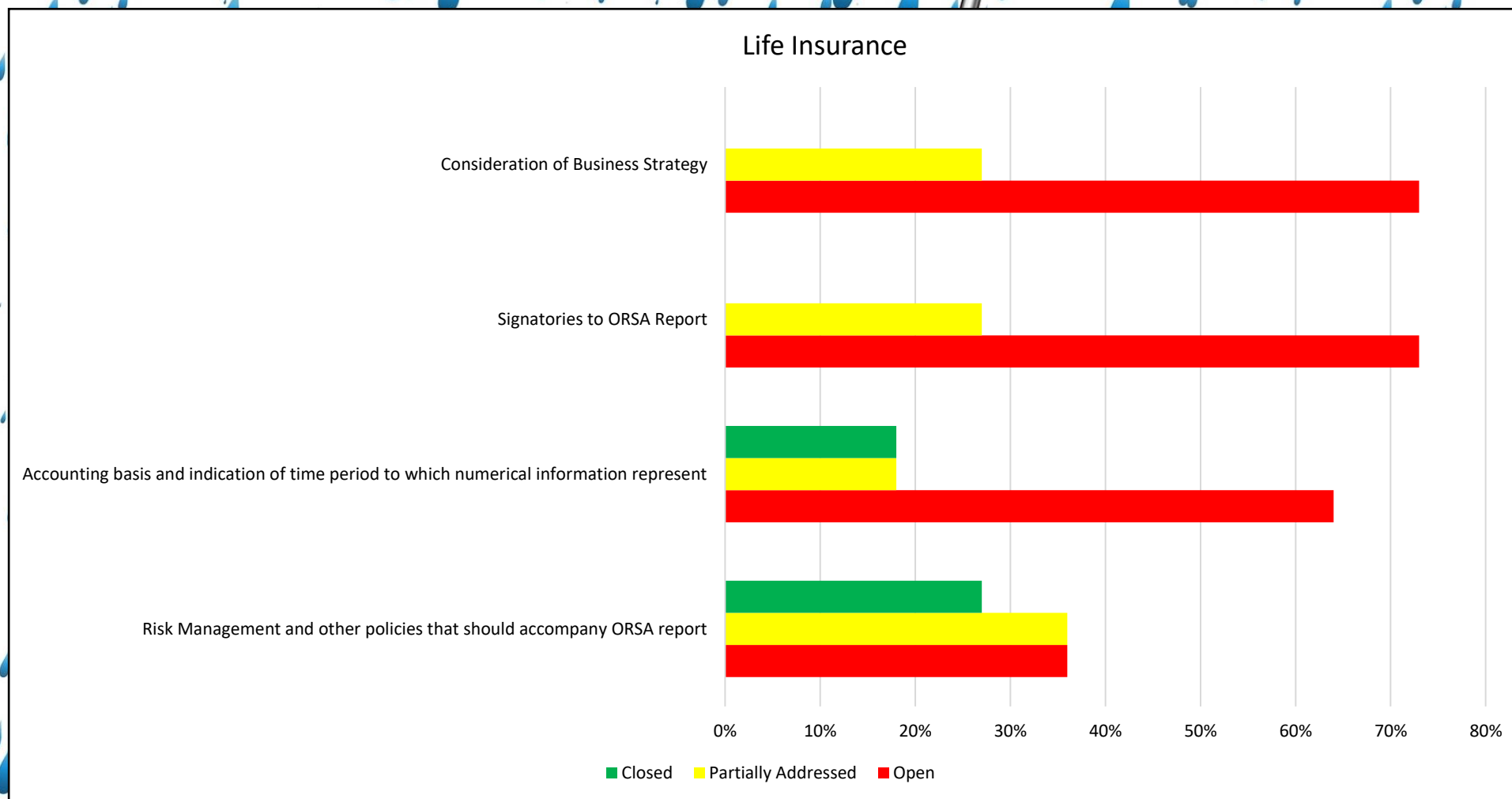
# Review of General ORSA Requirements

The extent to which submissions made by reinsurance companies complied with the general ORSA requirements:



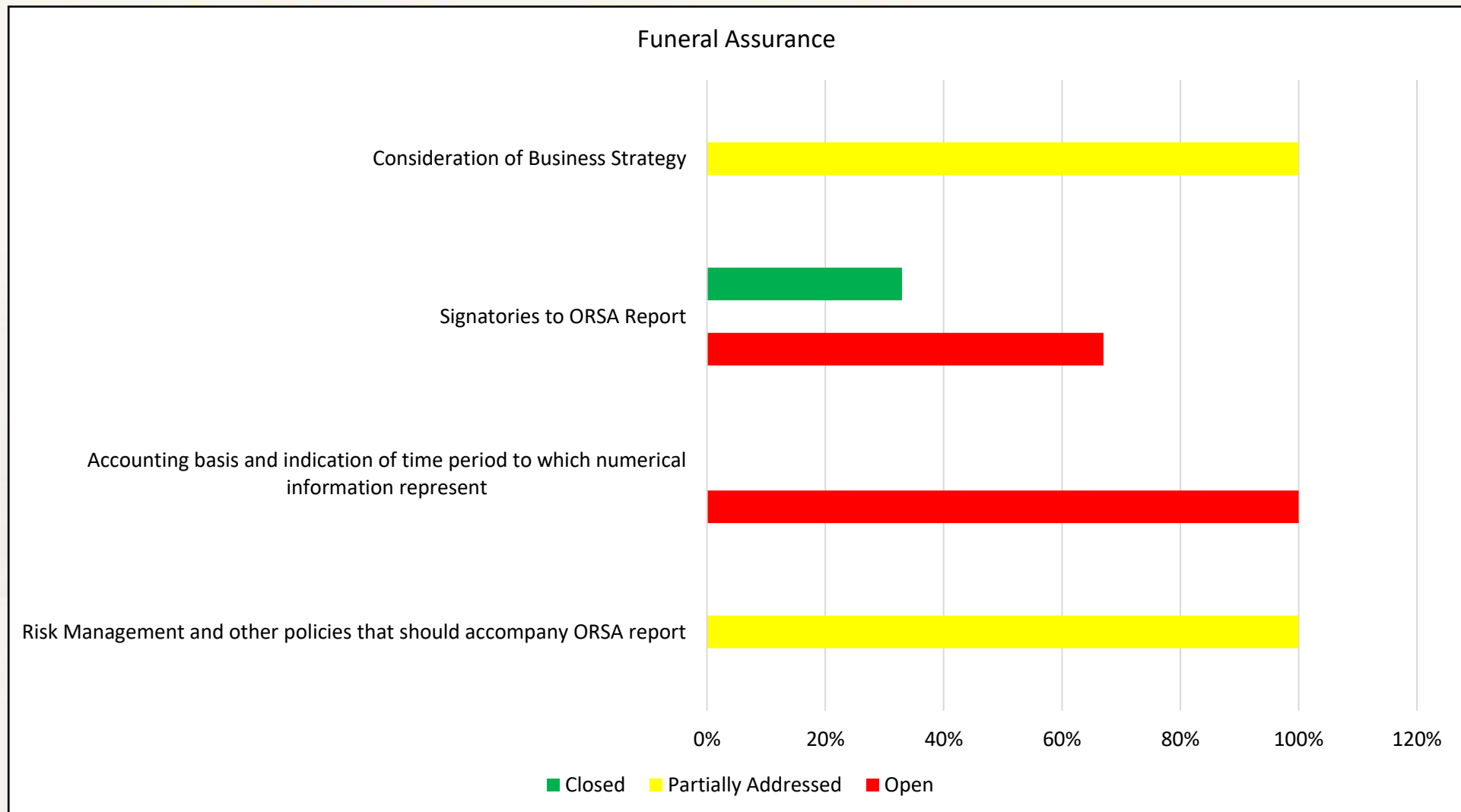
# Review of General ORSA Requirements

The extent to which submissions made by life insurance companies complied with the general ORSA requirements:



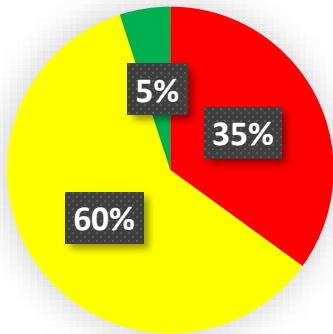
# Review of General ORSA Requirements

Extent to which submissions made by funeral insurers complied with the general ORSA requirements:

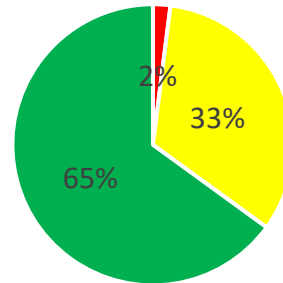


# Review of ERM Requirements

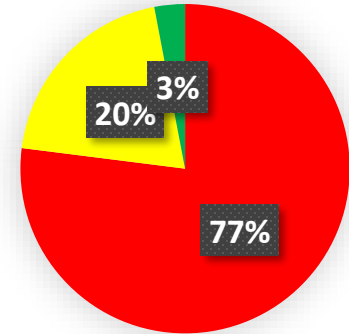
High Level Summary of ERM



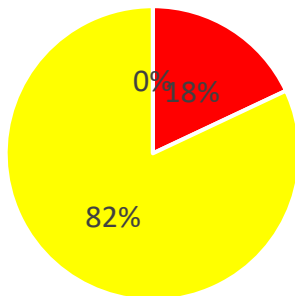
Identification, categorisation, and management of relevant and material risks



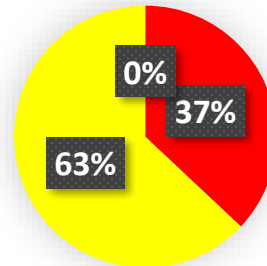
Incorporation of new information



Monitoring processes and methods



Assessment tools and feedback loops



Key

Open



Partially addressed

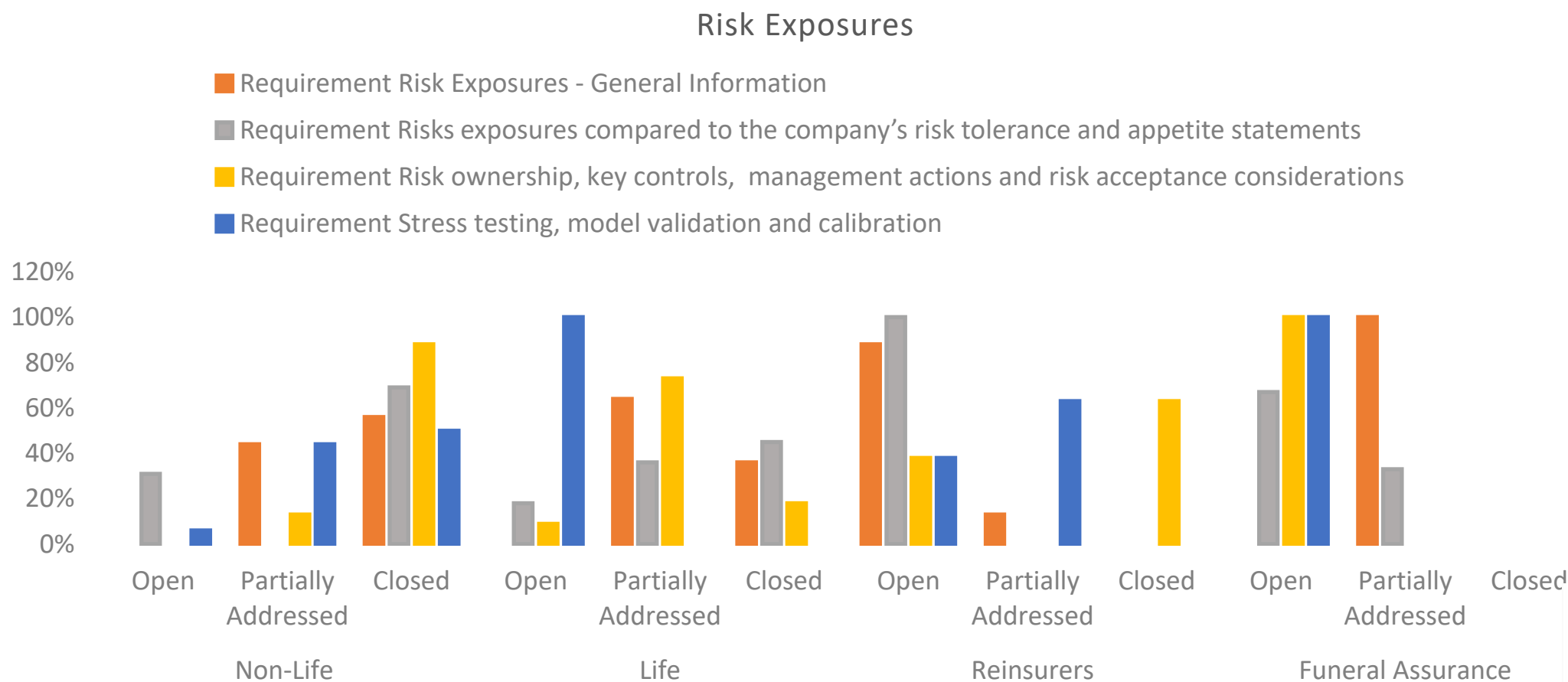


Closed

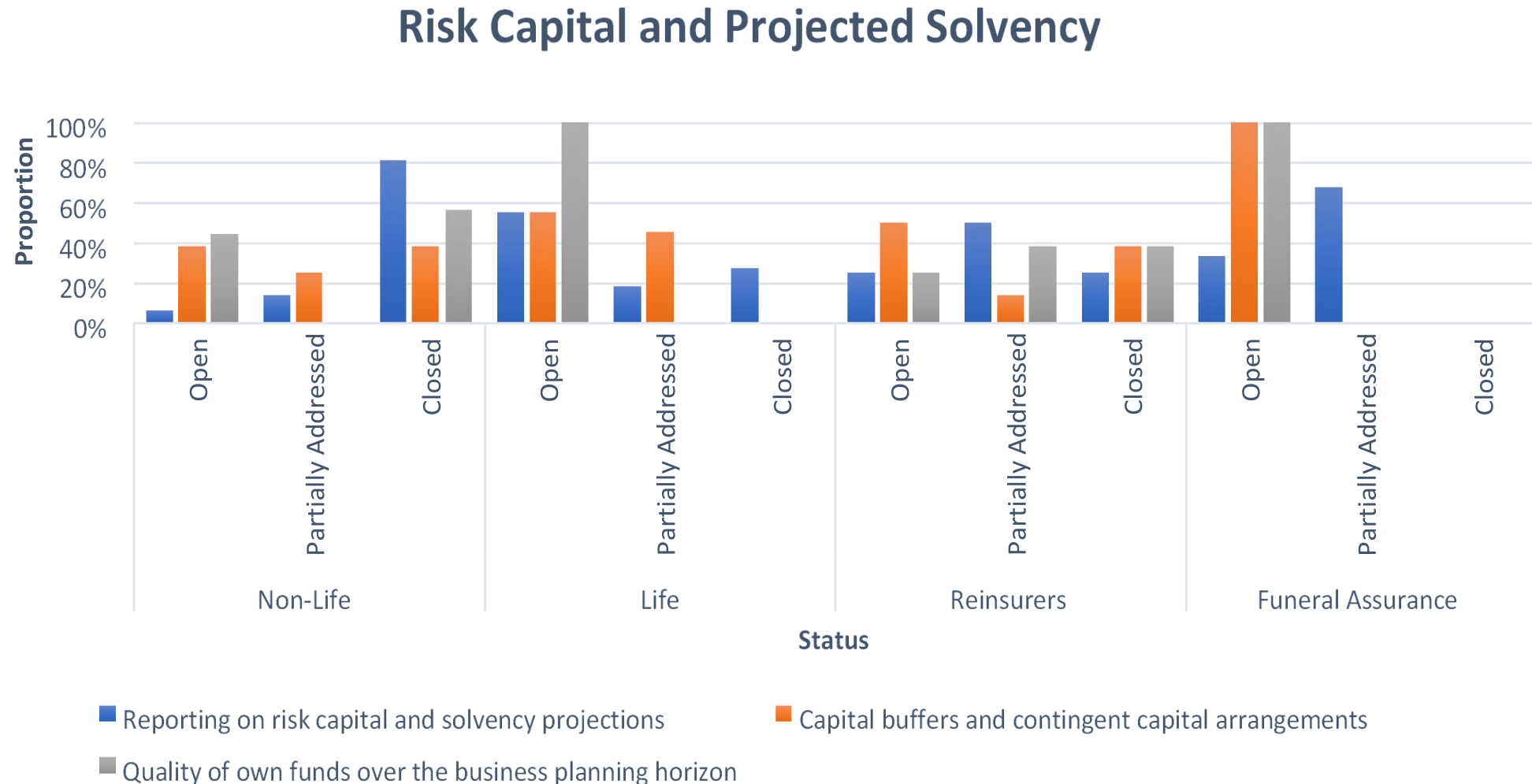


# Review of Risk Exposures

Below is an overview of the results of reviewing the extent to which submissions from insurance companies complied with the risk exposure requirements:



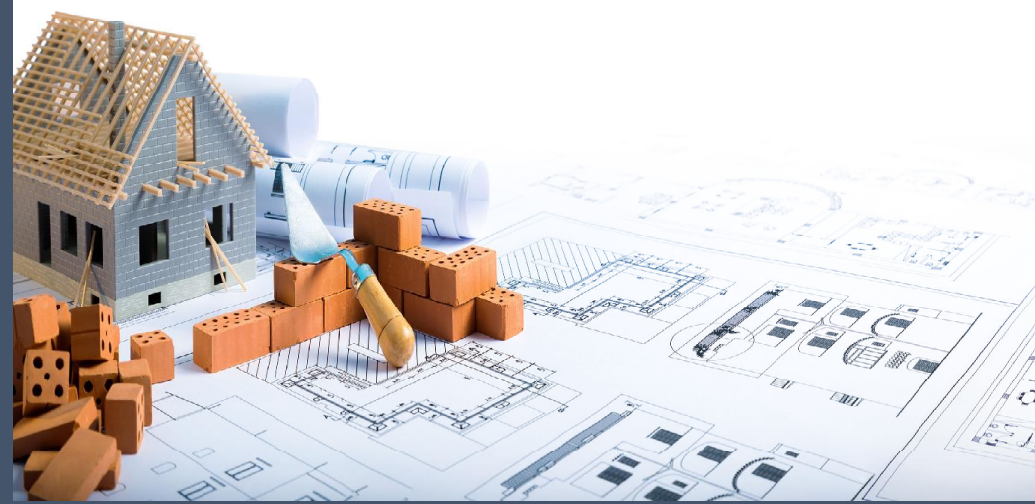
# Review of Risk Capital and Projected Solvency



# Review of Risk Capital and Projected Solvency

	Overall solvency capital requirements, risk profile, risk tolerance and business strategy	Insurer's risk profile versus standard formula
<b>Observation</b>	<p>Companies based their assessments on the standard formula used to calculate the Solvency Capital Requirement rather than on their own risk profile.</p> <p>Some entities did not include an assessment of their overall solvency requirements within the ORSA report.</p>	<p>Insurance undertakings did not include a careful assessment of the differences between their risk profile and standard formula capital requirements</p>
<b>IPEC's recommendation</b>	<p>IPEC is therefore of the opinion that the requirement for the assessment to consider the undertaking's own risk profile was not fulfilled</p>	<p>Insurance undertakings need to expand the scope of their assessment and expects them to demonstrate to the commission that they know what the important differences between the standard formula and their risk profile are.</p>

# Practical ORSA Implementation Issues



# Practical ORSA Implementation Issues

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

# Summary of Findings & Next Steps



# Summary of Findings

## Summary of findings

- ✓ Significant variations between insurers – not a “one size fits all”
- ✓ In view of the deficiencies observed in the first dry run ORSA submission, IPEC questions:
  - i. whether the ORSA is sufficiently integrated into all undertakings' business strategies, processes and plans; and
  - ii. whether all undertakings have sufficient knowledge of their risks and limits to risk taking.
- ✓ ORSA process requires both qualitative and quantitative impact on solvency, for it to be effective
- ✓ Several of the shortcomings observed by IPEC may be indicative that many boards of directors are not sufficiently involved in the ORSA process.

## Additional Guidance

- ❖ IPEC recommends that insurance companies develop ORSA governance documents, including the ORSA policy and these be submitted for the next parallel run of ORSA.
- ❖ The ORSA policy is a standalone document and is not a part of the ORSA report.
- ❖ IPEC expects the separate ORSA policy to be sufficiently detailed and not generic.
- ❖ Processes and procedures required by ORSA framework should be included in ORSA policy

# Summary of Findings & Next Steps

- ❖ Minimum requirements for ORSA policy and related governance documentation include:
  - i. a description of linkages between ORSA and strategic and business planning processes;
  - ii. a description of how the ORSA incorporates the risk profile, approved risk appetite limits and overall solvency needs;
  - iii. the timing and frequency of key ORSA activities e.g. stress tests, sensitivity analyses and reverse stress tests and the ORSA report, including the triggers for an ad hoc ORSA;
  - iv. information on data quality standards;
  - v. the structure of the ORSA report, including details of key supporting ORSA records;
  - vi. a description of the roles and responsibilities of all those involved with the ORSA, including those of the Board;
  - vii. details of how the Board owns the ORSA framework and process; and
  - viii. a requirement for the Board to approve the ORSA policy at least annually.

## Next Steps

- ❖ A second trial run is earmarked with submissions from industry due by 30 October 2022.
- ❖ Final ORSA guidance from the Commission is aimed at by the 31st of December 2022.

Q & A

**THANK YOU  
ANY  
QUESTIONS?**

