



ERM/ORSA Training

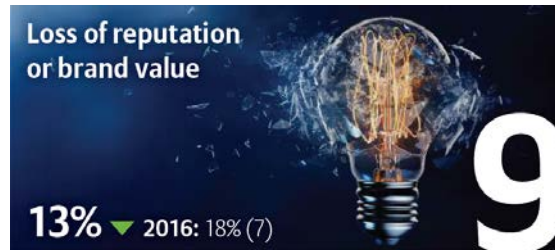
Thai General Insurance Association (TGIA)

10 October 2017

Agenda

Time	Topics
8.30-9.00	Registration
9.00-10.30	ORSA for Non-life Insurance <ul style="list-style-type: none">▶ Top 10 global business risk in 2017▶ Weakness and past failures of risk management▶ Enterprise Risk Management Framework▶ ERM and ORSA Development▶ What is ORSA?
10.30-10.45	Break
10.45-11.45	ORSA Preparation <ul style="list-style-type: none">▶ Business Context▶ Risk Strategy and Risk Appetite▶ Capital Requirement▶ Stress Testing and Scenario Testing▶ ORSA Reporting
11.45-12.00	Q & A

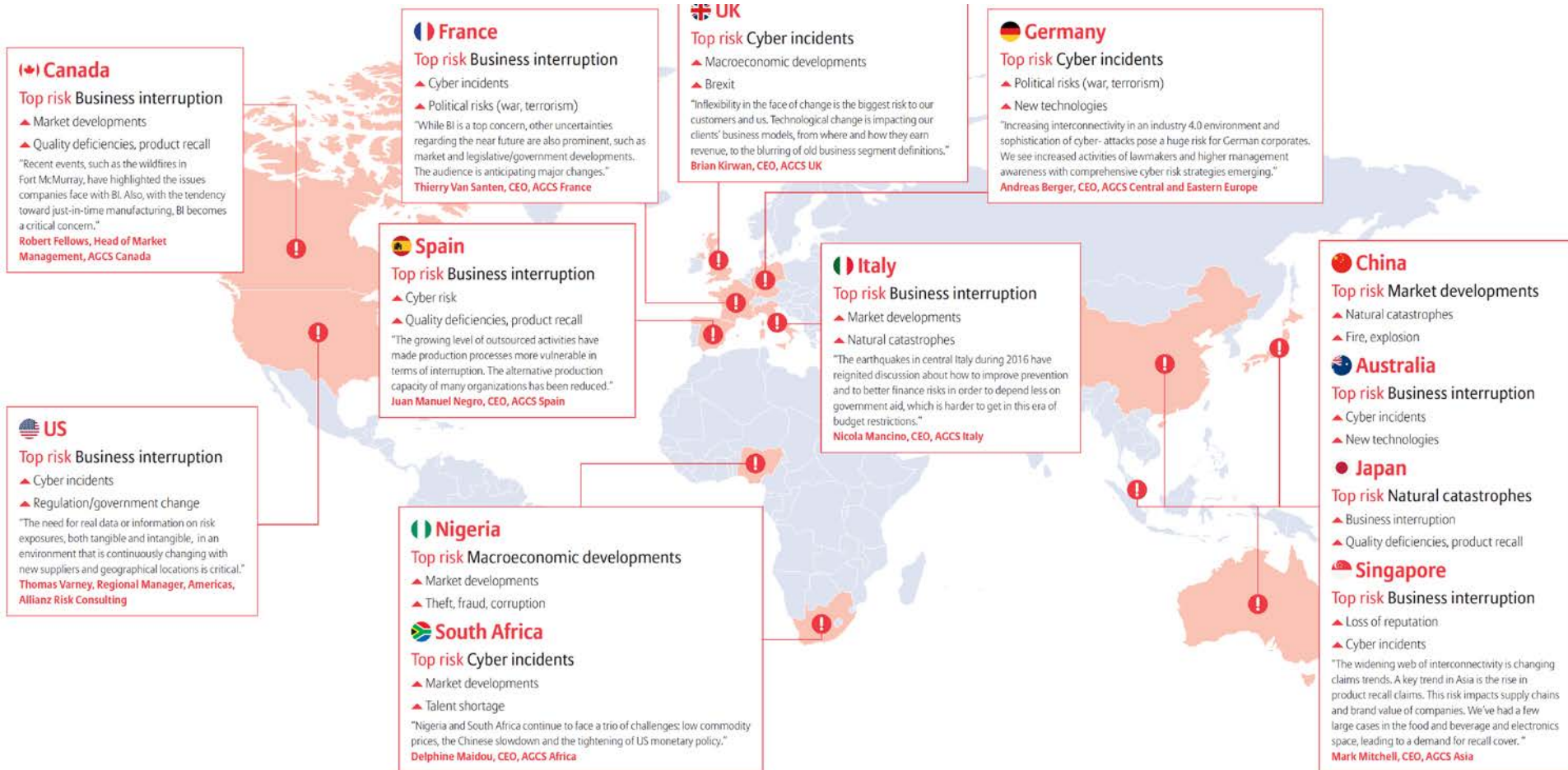
Top 10 Global Business Risks in 2017



Source: Allianz Risk Barometer Top Business Risks 2017

Global Business Risks in 2017

Snapshot: Top Business Risks Around The World in 2017



Source: Allianz Risk Barometer Top Business Risks 2017

Weaknesses and past failures of Risk Management

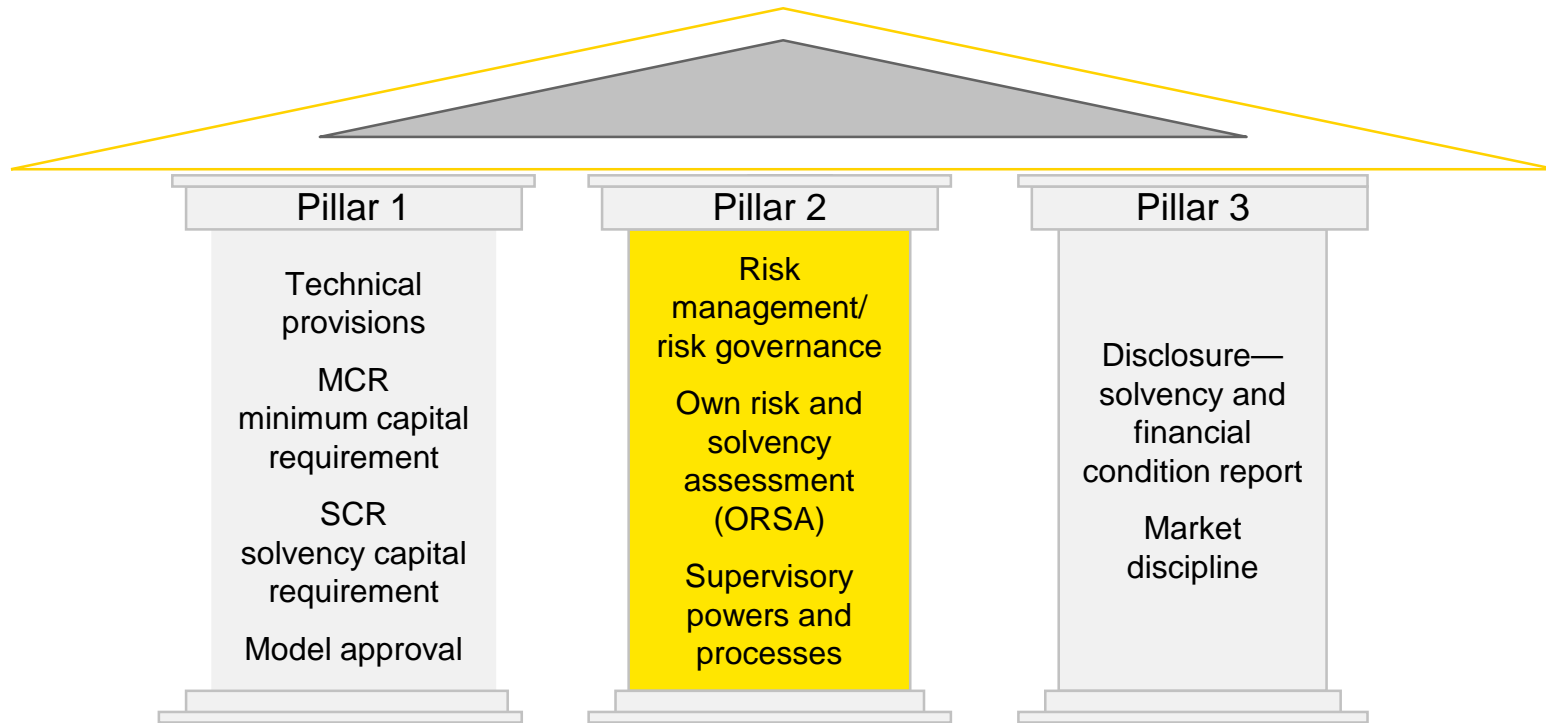


“There was this idea that real estate investments were safe because the securities had a AAA credit rating.”
—Robert McDonald

- ▶ AIG Financial Product (AIGFP) division insured CDO against default through “Credit Default Swap”.
- ▶ Revenues (\$3 bn.) rose about **17.5%** of the entire company total.
- ▶ Insured CDOs comprised of **subprime loan** with lowest-rated tranches
- ▶ When **foreclosures** hit high level, AIG had to pay claims and ended up with \$25 bn. in losses.
- ▶ AIG’s credit rating had been **downgraded** and people started to terminate their agreements to get their collateral back.
- ▶ **Liquidity problem** due to lack of liquid assets

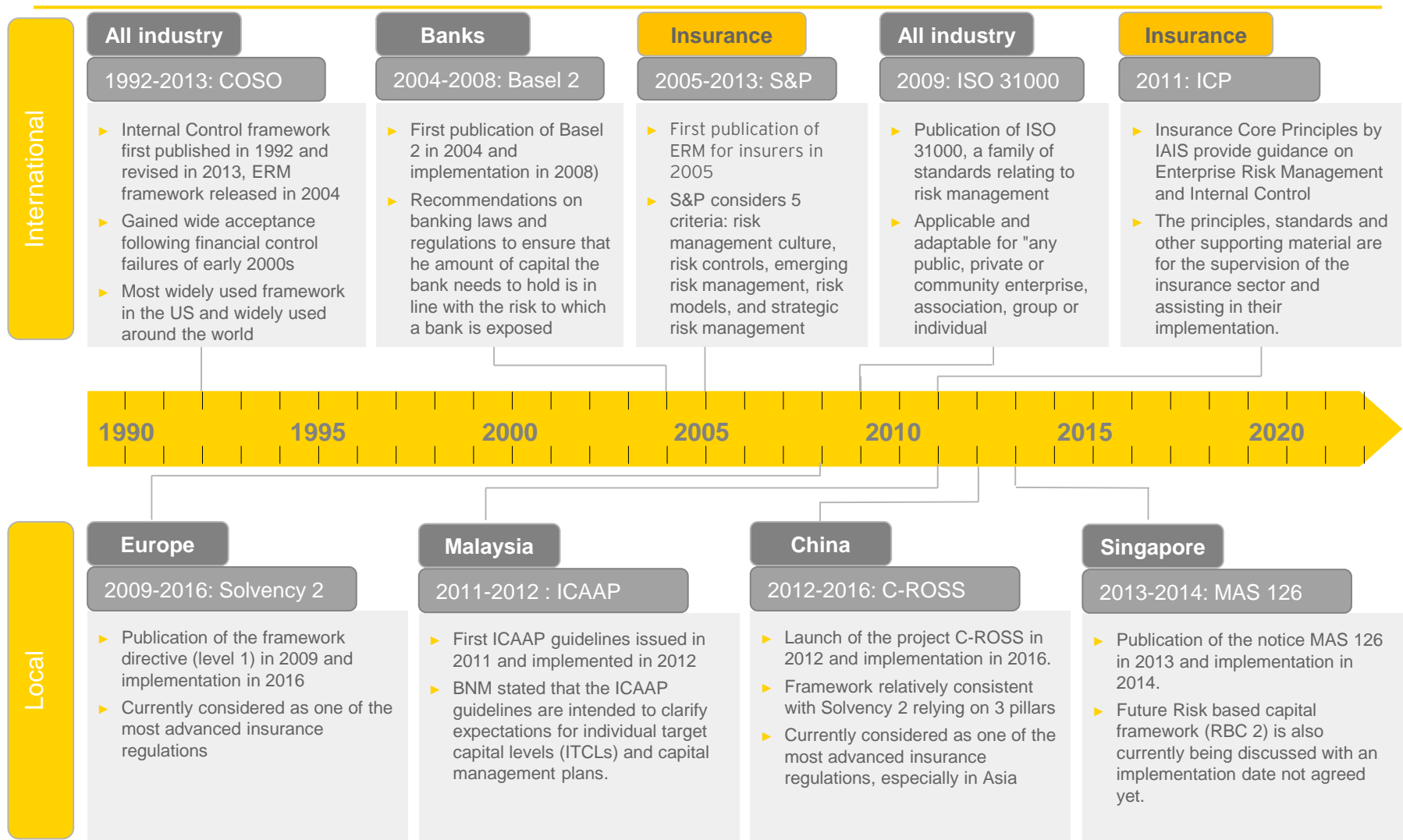
Solvency II

Solvency II is an EU legislative program implemented on 1 January 2016. It introduces a new, harmonized EU-wide insurance regulatory regime.

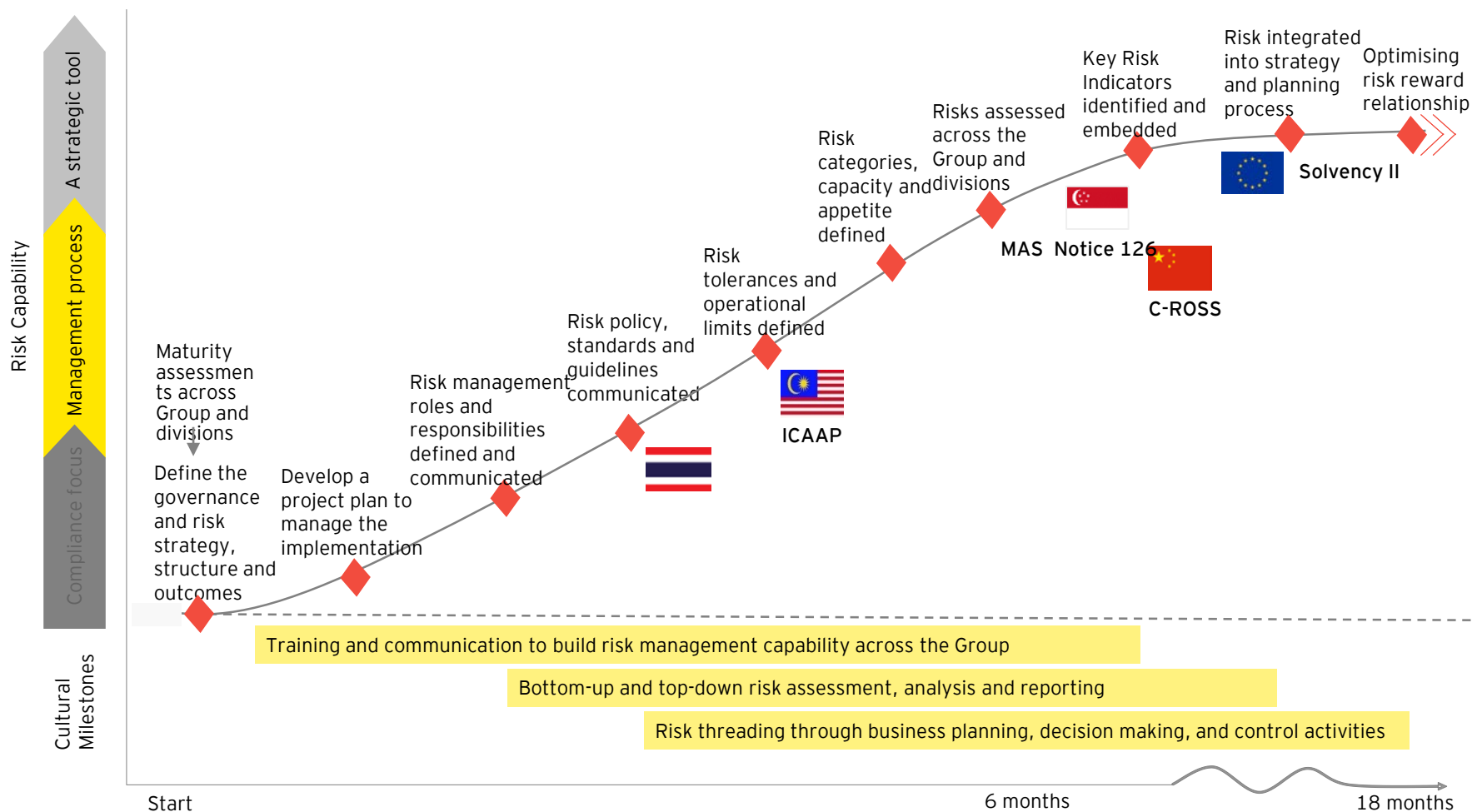


- ▶ Pillar 2 requires firms to undertake an Own Risk and Solvency Assessment (**ORSA**). Then ICP 16 adopted ORSA.
- ▶ In addition to these requirements on firms, Pillar 2 also includes provisions for **Supervisory review and action**.

ERM and ORSA development across industries and regions



Implementing ERM and ORSA is an evolutionary process



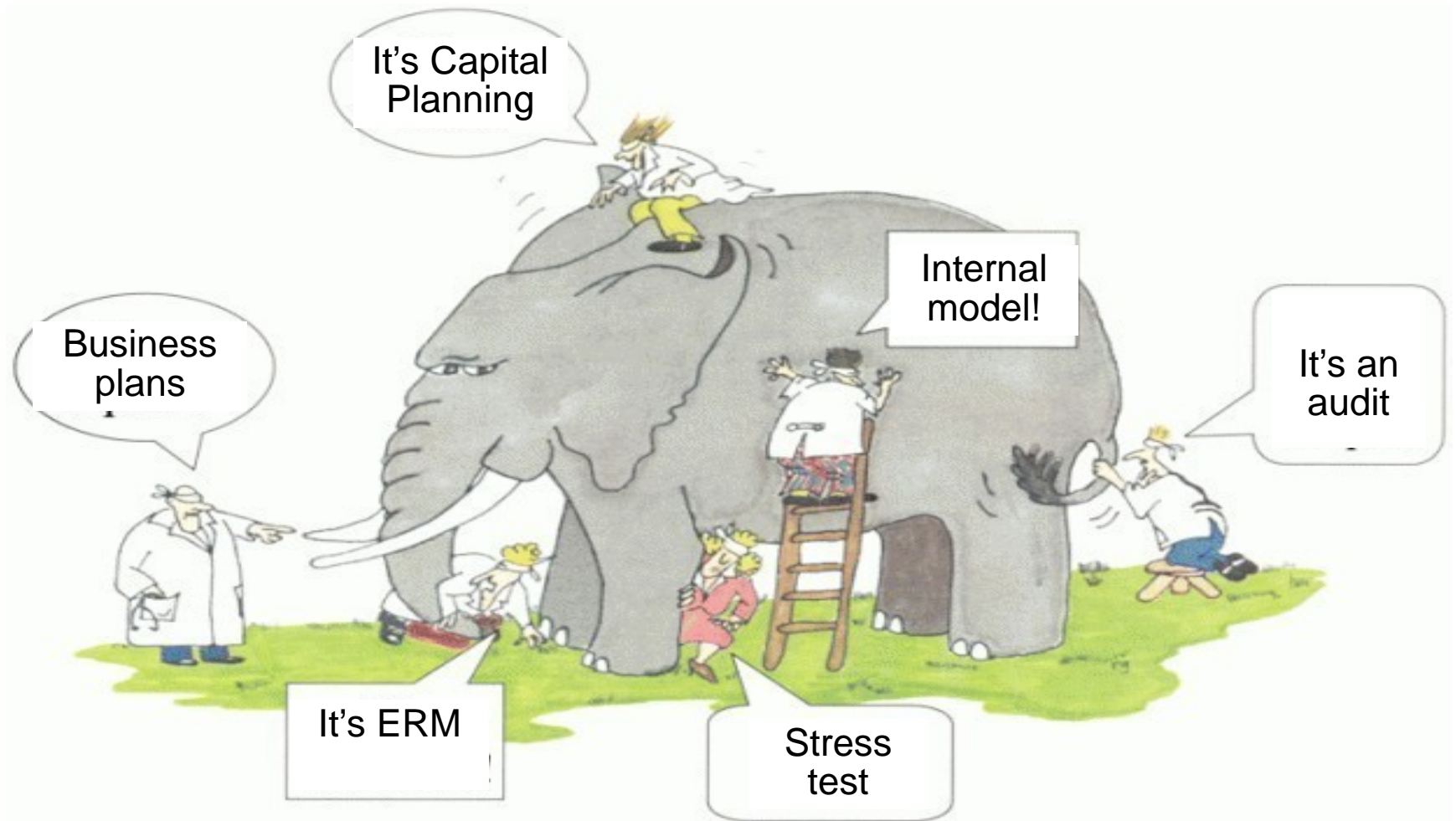
ERM Framework



3 Lines of Defense



What is ORSA?



What is ORSA?

O_{wn}

- ▶ Relates to your company's **own** specific understanding...

R_{isk}

- ▶ Of **risks** - not just the existing risks but emerging risks (short term and long term) - to ensure...

S_{olvency}

- ▶ Solvency (on **regulatory** capital as well as economic basis) at all points of time under a range of plausible events by...

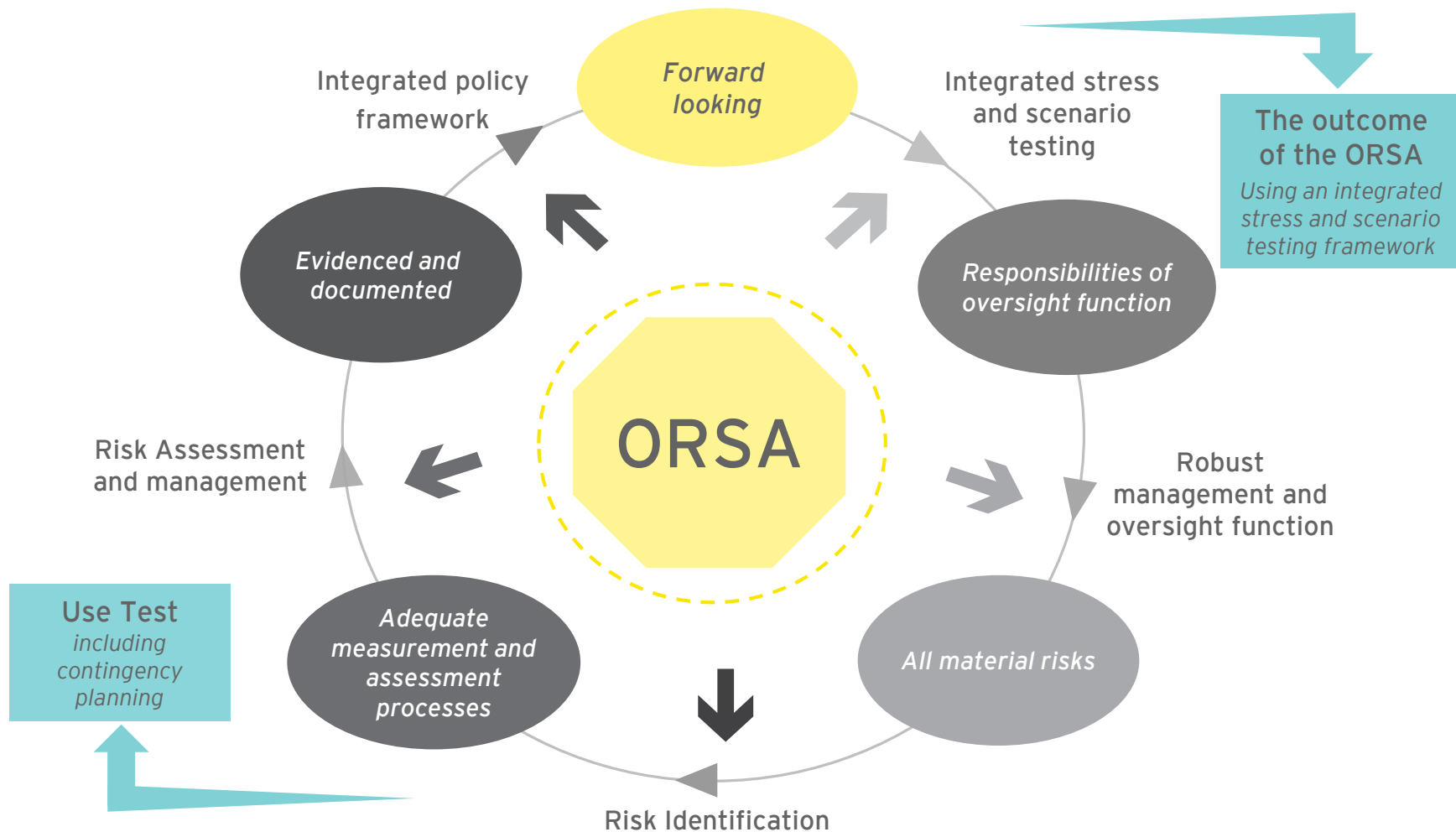
A_{ssessment}

- ▶ Performing an **assessment** which is aligned with your business strategy.

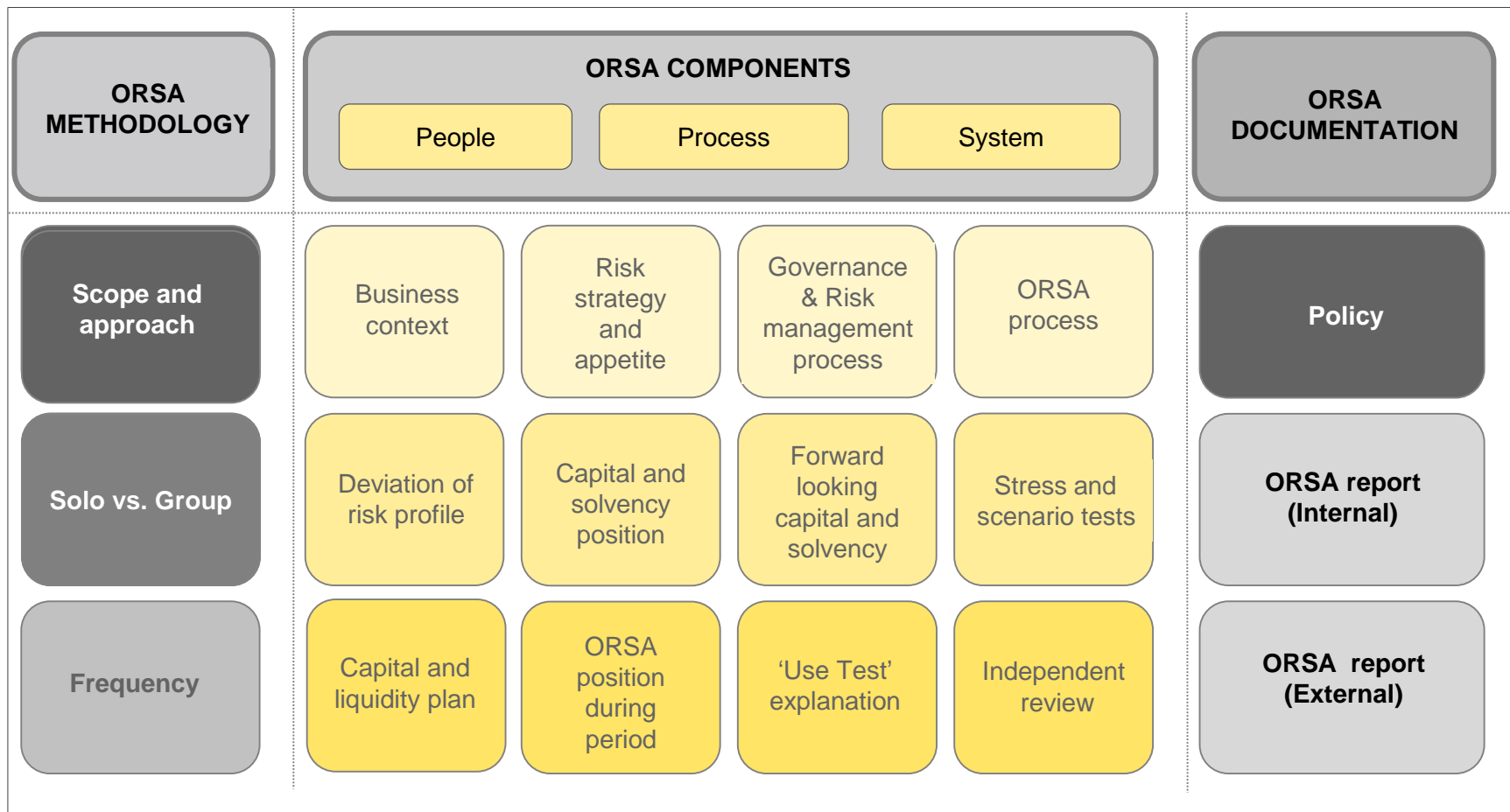
"The objective of an ORSA is to provide **sound and prudent risk management** through a better understanding of overall **solvency needs and capital allocation** as well as the interrelation between risk and capital management in a looking forward perspective."

Key ORSA Principles

To conduct an ORSA, an insurer needs establish these principles



ORSA Components



Key Considerations

1

**Business
Context**

2

**Risk Strategy
and Appetite**

3

**Stress and
Scenario Test**

4

**Capital
Requirement**

5

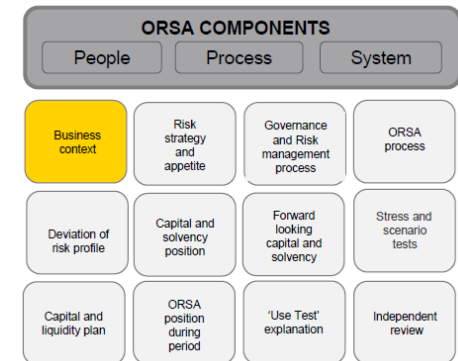
**ORSA
Report**



1 Business Context

Business Context:

Description of legal and organizational structure, core activities and market environment



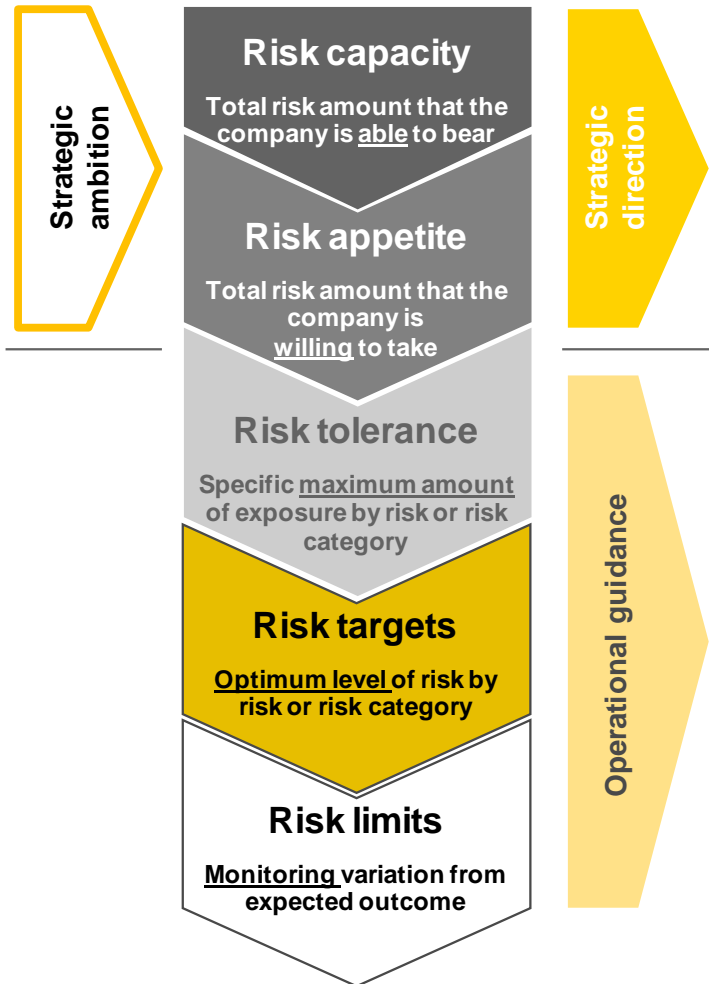
In UK, the regulator focuses on Business Model Analysis and forward-looking. This requires insurers to give more insight in their business planning, earning models and capital projections, including stress testing.

Business Model Analysis questions:

- ▶ Where do firms make money?
- ▶ Are the revenue streams sustainable?
- ▶ How well does the firm stand to tests of stresses on its balance sheet?
- ▶ Does the firm generate cash flow to cover dividends?
- ▶ Is the leverage of the firm sustainable?
- ▶ What are the risks from competition on premium income?
- ▶ Are there conduct risks, which could pose a prudential threat?

2 Risk Strategy and Appetite

Risk Appetite



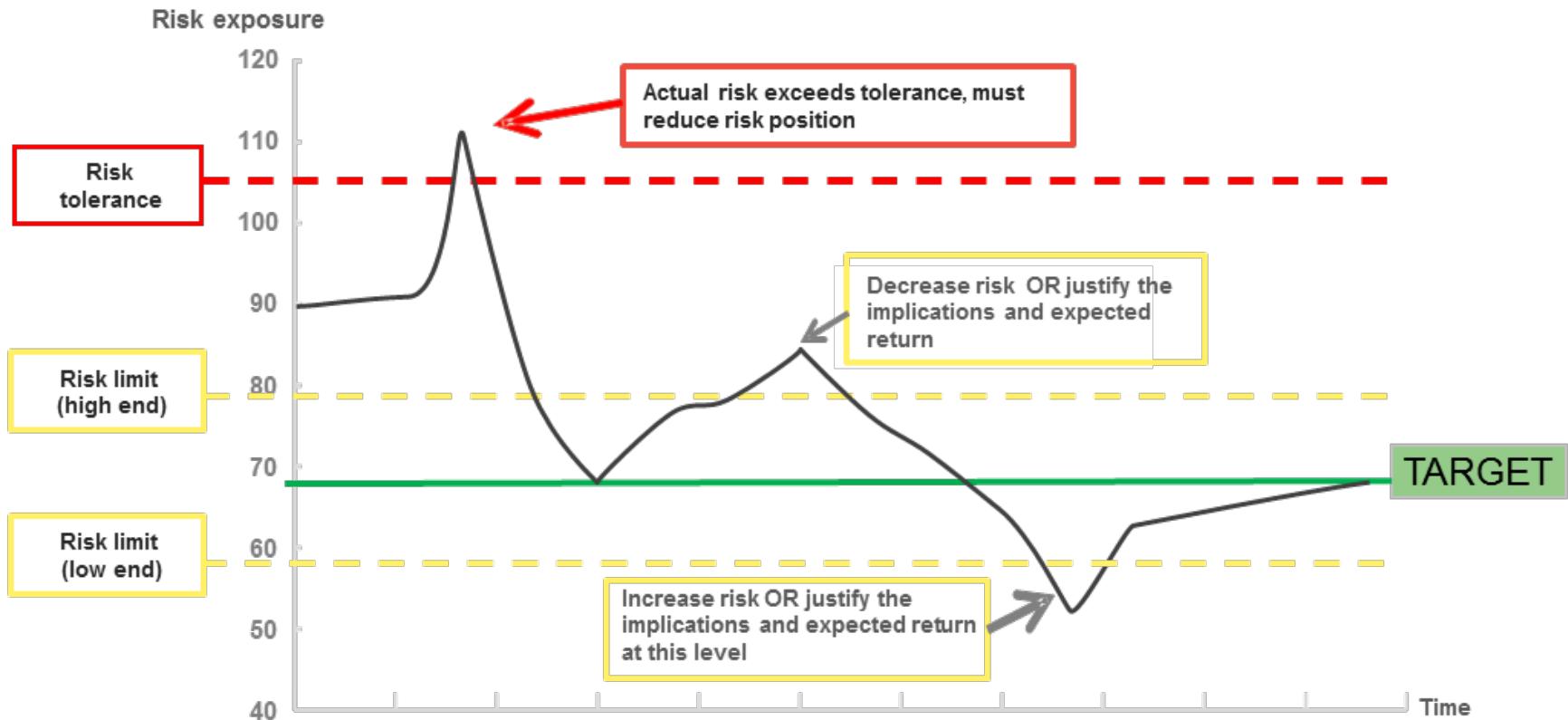
Why do we need Risk Appetite?

- 1 Performance expectations and targets aligned with the amount of exposure required to achieve targets
- 2 Creates guidelines for investment allocation
- 3 Direction on acceptable behavior, level and type of risk-taking
- 4 Avoid excessive exposure to correlated events
- 5 Creates the basis for specific operational risk levels and performance ranges

2 Risk Strategy and Appetite

Risk Appetite

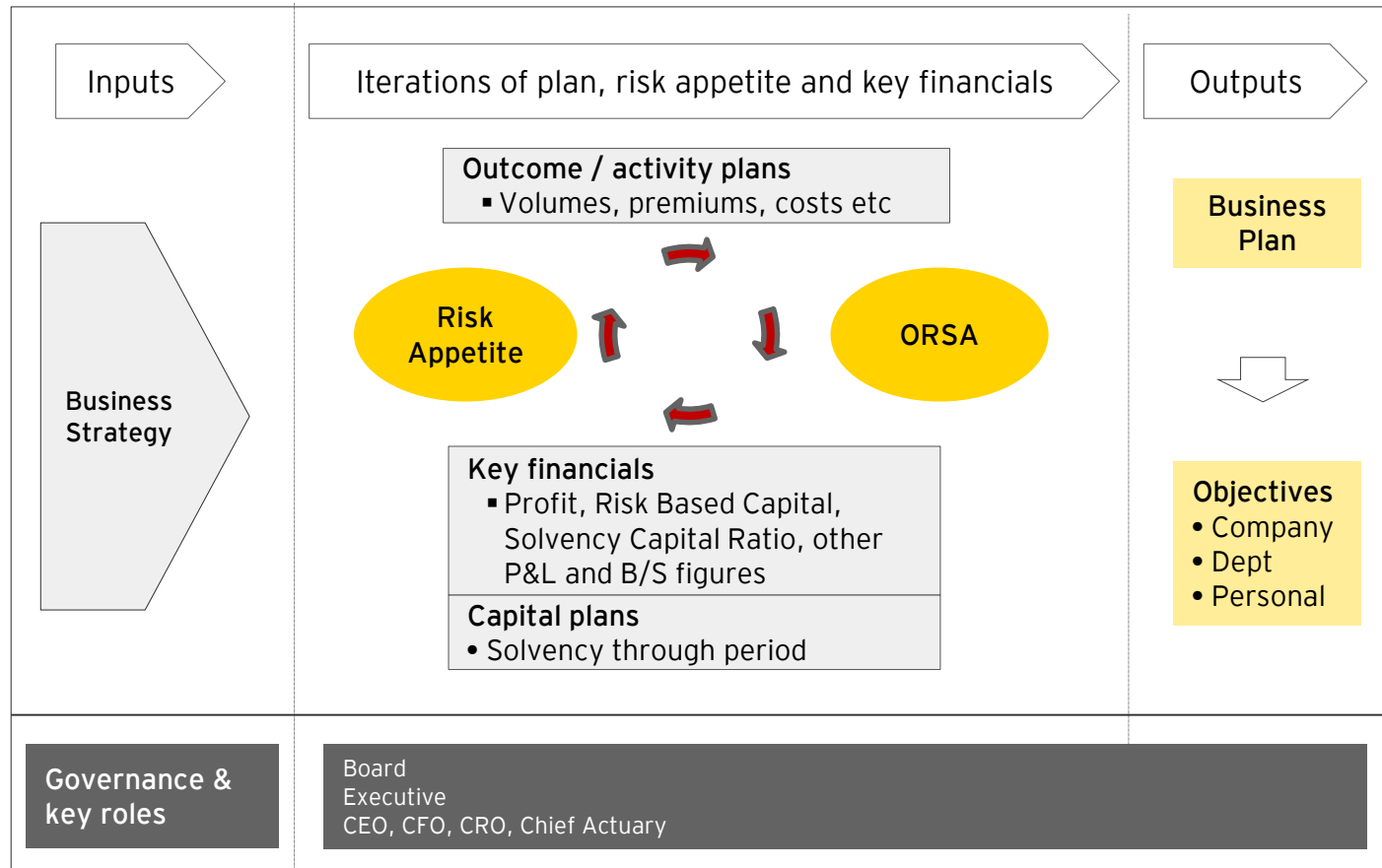
Example: Forecasting a KPI with Risk Tolerance and Risk Limits



2 Risk Strategy and Appetite

Integration of risk appetite and ORSA into Business Planning

Various scenarios will be considered in the ORSA and related capital, solvency and profitability outputs will be important inputs to further inform strategic decisions



Risk Appetite and the ORSA will be key in helping to set and refine the business strategy and plan

3 Stress and Scenario Testing



Keep in mind:

- Are the stresses, scenarios relevant for our business?
- Do we sufficiently consider emerging risks and events that could break us?
- Are management actions to mitigate the impact post stress/scenario “actionable”?

1

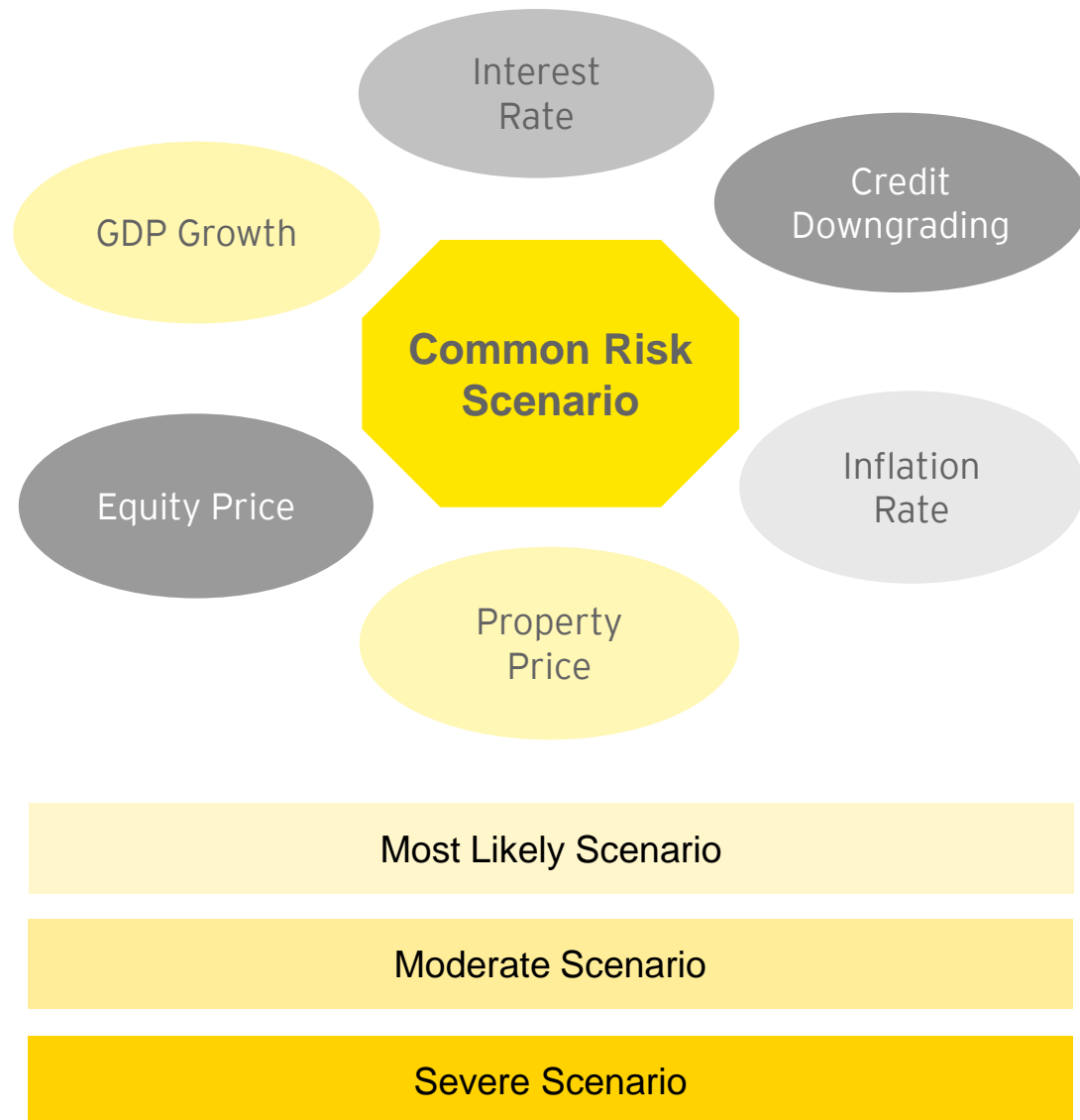
Identify risks & specify scenarios

2

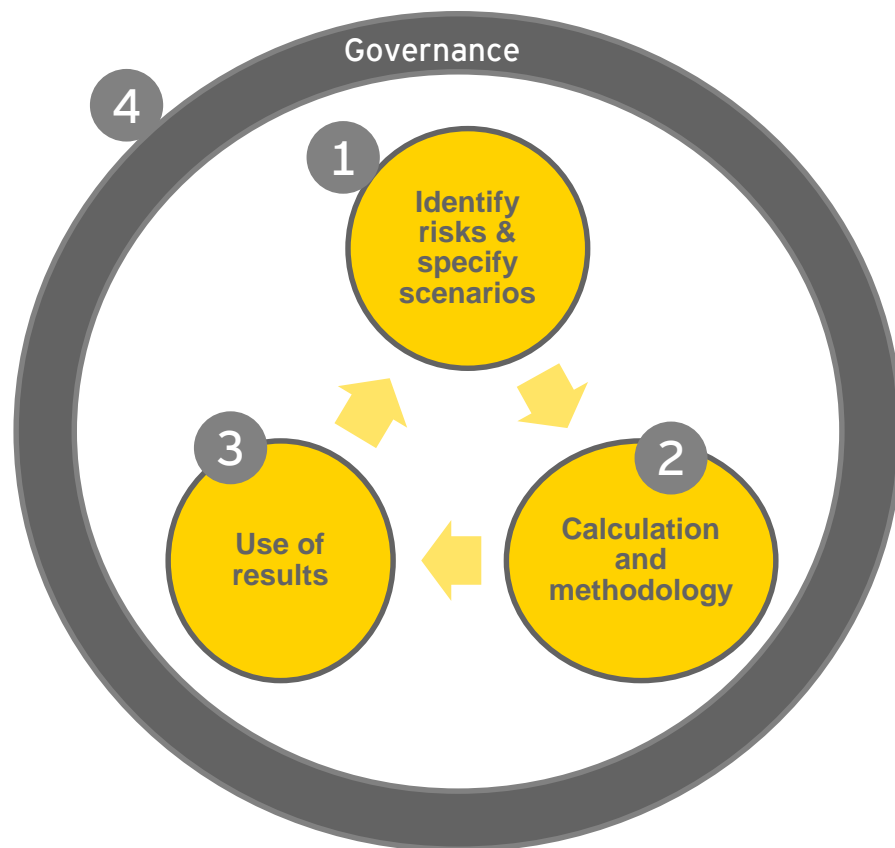
Calculation and methodology

3

Use of Result



3 Stress and Scenario Testing



1. Risk identification and scenario specification
2. Calculation and methodology
 - ▶ Accuracy versus speed
3. Use of stress testing results
 - ▶ Embedding in risk management
 - ▶ Business planning and strategic decision making
 - ▶ Setting management actions
4. Governance is embedded throughout the process
 - ▶ Robust stress testing programme and infrastructure
 - ▶ Senior management are equipped and engaged
 - ▶ Clearly documented processes
 - ▶ Review of results

The setting and calibration of scenarios and sensitivities is core to the ORSA. The most important part of this framework is how the results will be used.

4

Capital Requirement ORSA process – capital planning



- ▶ The ORSA capital projection is inter-linked with the business planning.
- ▶ For internal model firms, solvency projection is essential to validate the business plan and thereby demonstrate evidence for the Use Test.
- ▶ For Standard Formula firms that perform the exercises separately, there would be a challenge in showing the ORSA projection is current if the business plan is out of date.

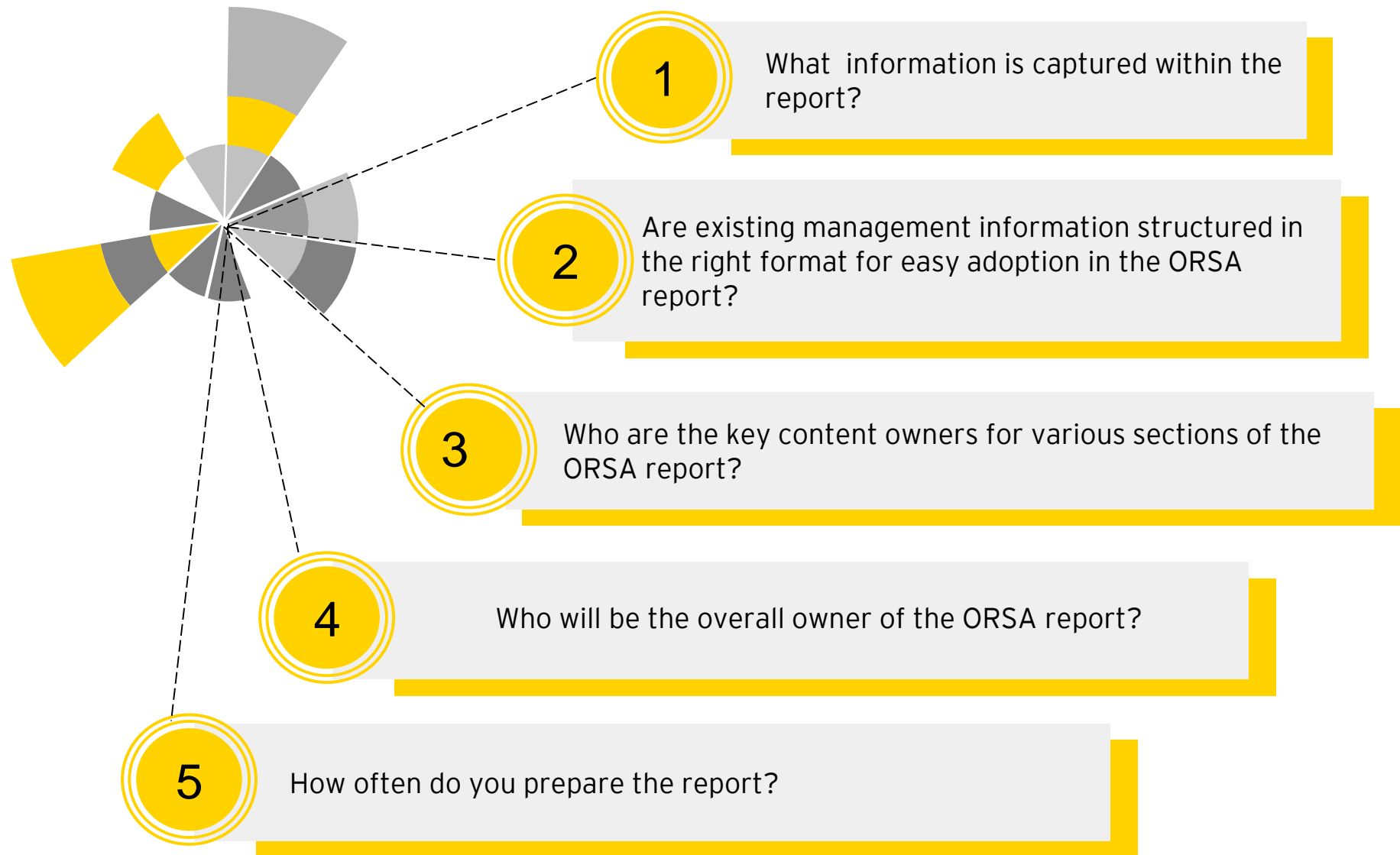
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Capital Requirement Consideration of Capital Measurement

The ORSA capital measure is a better reflection of an insurer's internal capital needs

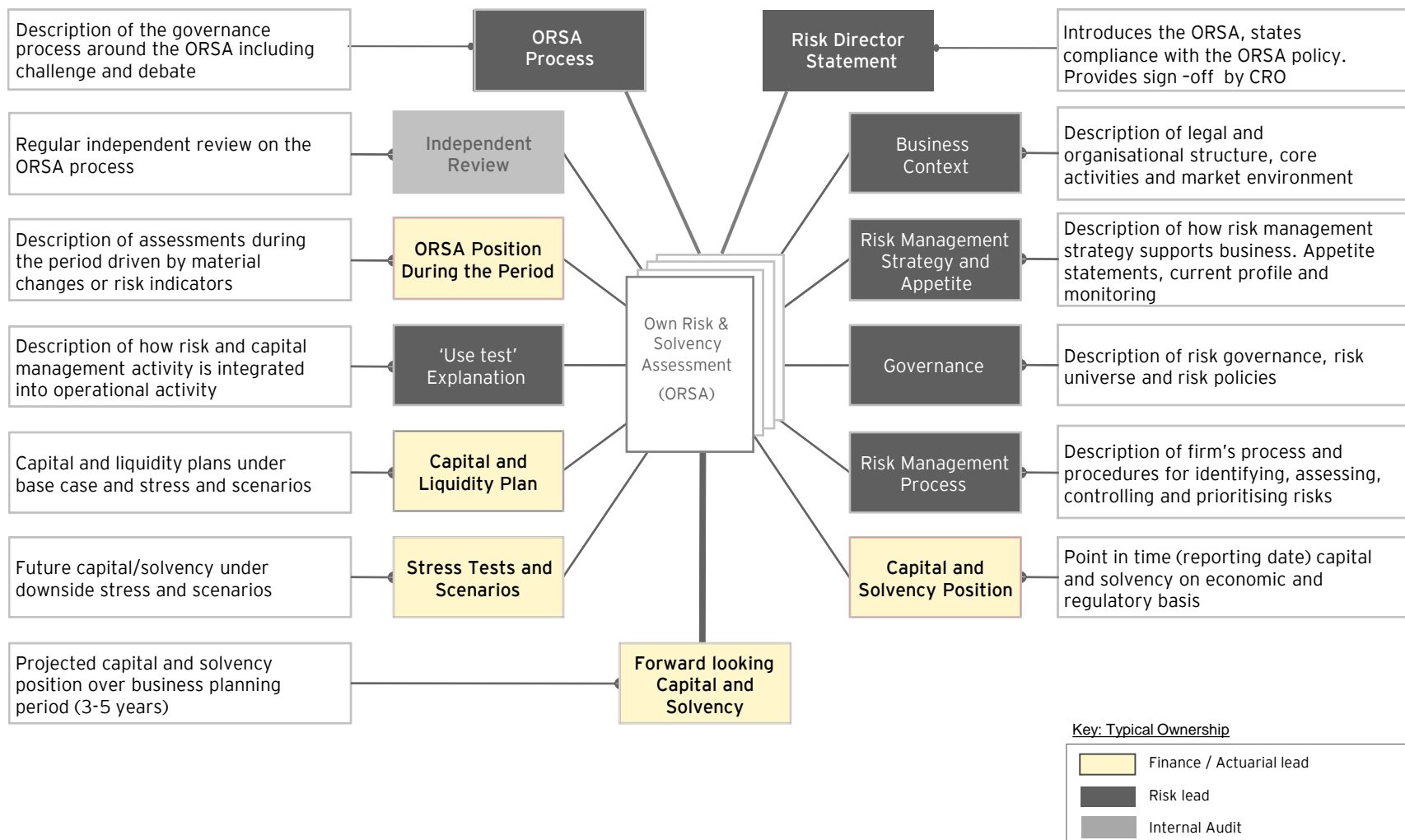
Prescribed Capital Measure		ORSA Capital Measure
Scope	Takes into account all quantifiable risks only	Takes into account all quantifiable and non-quantifiable risks
Approach	Uses a standardized calculation	Uses a customized calculation
Confidence level	Uses a standardized confidence level	Uses a confidence level that is often higher than prescribed
Management actions	Does not take into account the impact of management actions	Takes into account any agreed management actions
Time horizon	Uses a standardized time horizon	Uses a time horizon that is consistent with its business planning time horizon

5 ORSA Report



ORSA Report

Information from the underlying processes



5 ORSA Report

Teams input into ORSA

ILLUSTRATIVE

Underwriting

- ▶ Identify, assess, monitor and report the underwriting risk
- ▶ Input into ORSA
- ▶ Assesses future underwriting decision

Risk Management

- ▶ Oversee operation of OSA & Risk management system
- ▶ Oversee and challenge view on risk exposure, risk profile and projections
- ▶ Horizon scan and assess emerging risks
- ▶ Validate Internal Model

Actuarial

- ▶ Calculation for Technical Provision
- ▶ Assess suitability of model/methodology, assumption and data
- ▶ Contribute to risk management system

Compliance

- ▶ Identify, monitor, assess, report on compliance risk
- ▶ Input into ORSA

Teams Input into ORSA

Information Technology

- ▶ Support and enhance the systems and models used for internal and external reporting including ORSA
- ▶ Deliver data quality/documentation framework

Finance & Accounting

- ▶ Produce external financial reporting numbers including the ORSA
- ▶ Support production of internal management report
- ▶ Own accounting and consolidation systems
- ▶ Provide information for strategy and business plan

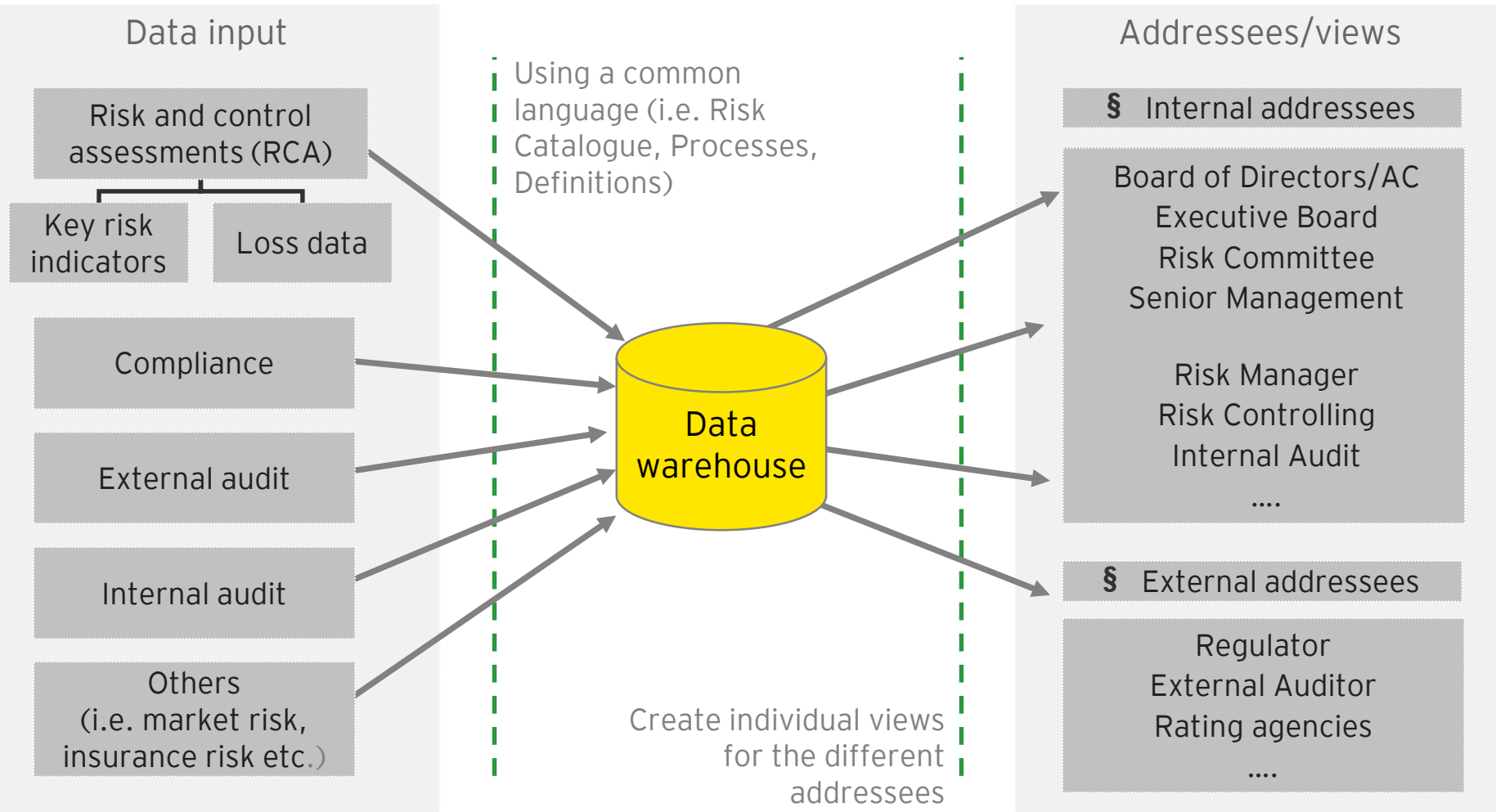
Investment

- ▶ Identify, measure, monitor manage, report on investment exposures and strategies
- ▶ Provide asset data for ORSA and other reporting
- ▶ Own risk mitigation strategies

Internal Audit

- ▶ Review ORSA Process and report
- ▶ Give an independent view and assessment of ORSA

5 ORSA Report Integrated Reporting



ORSA Challenges – What we have seen

➤ In our client work on ORSA we have observed the following emerging challenges:



How EY can help

Enterprise Risk Management and ORSA

ORSA roadmap & implementation	ORSA reporting
Development of ERM framework, policy and manual	Risk Assessment Design and Implementation
Risk Appetite & Stress Testing	ERM Training

Internal Audit Service

Internal audit outsourcing and co-sourcing	Establishment of internal audit function
Internal audit function assessment	Internal audit training

Customer & Growth

Innovation & Growth Strategy	Customer Experience
Distribution Management (incl. technology & CRM)	Digital Strategy, Experience, and Architecture

Cyber Security

Cyber Threat Intelligence	Data Protection and Data Privacy
Cyber Risk and Insurance	Cyber Transformation
Cyber Resilience	Identify and Access Management

Operational Excellence

Claims Management	Insurance Operations	Underwriting, Product & Policy	Transforming IT	Health Transformation
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FRAC

Prudential Regulatory	Accounting Change	Commercial Optimization	Transformation	Compliance
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Q & A



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