

Prudential Standard GOI 3.1

Own Risk and Solvency Assessment (ORSA) for Insurers

Objectives and Key Requirements of this Prudential Standard

This Standard requires insurers to conduct an own risk and solvency assessment (ORSA) annually, when the insurer's risk profile changes materially, or when directed to do so by the Prudential Authority.

The purpose of an ORSA is to ensure that the insurer is adequately capitalised, and has access to additional sources of capital if needed, to deal with a wide range of future scenarios.

The key requirements of the Standard are that:

- *An insurer must be able to demonstrate to the Prudential Authority that each ORSA is aligned with the risk profile of the insurer and is used in the capital planning and management of the insurer;*
- *An ORSA must assess the current, and likely future, financial soundness of the insurer across a range of scenarios;*
- *An ORSA must address reasonably foreseeable and relevant material risks; and*
- *An ORSA must be subject to robust verification by appropriately qualified, independent persons.*

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1. Application

- 1.1. This Standard applies to all insurers licensed under the Insurance Act, 2017 (the Act), other than microinsurers, Lloyd's and branches of foreign reinsurers. The application of these Standards to insurance groups that have been designated as such by the Prudential Authority, under section 10 of the Act is addressed in a separate standard, GOG (Governance and Operational Standard for Groups).

- 1.2. Unless otherwise indicated, all references to “insurer” in this Standard can be read as a reference to life insurers, non-life insurers and reinsurers.

2. Roles and Responsibilities

- 2.1. An insurer’s board of directors is ultimately responsible for ensuring that the insurer complies with the principles and requirements of this Standard.
- 2.2. The heads of the insurer’s risk management function and actuarial function are responsible for providing input and assurance to the board of directors about the matters relating to the outcome of an ORSA identified in sections 11 and 14 respectively of GOI 3 (Risk Management and Internal Controls for Insurers).
- 2.3. The independent expert appointed by the board of directors of the insurer under section 8.1 below to carry out an independent assessment of the ORSA process is responsible for reporting honestly and accurately on these matters.

3. Commencement and Transition Provisions

- 3.1. This Standard commences on 1 July 2018.

Version Number	Commencement Date
1	1 July 2018

4. Principles

- 4.1. A key component of the governance and risk management requirements for insurers contained in the Act is that an insurer must conduct a forward-looking, risk-based Own Risk and Solvency Assessment (ORSA). The objective of the ORSA is to assess -
- a) the resilience of an insurer’s solvency across a range of possible scenarios;
 - b) the overall solvency needs of the insurer taking into account the specific risk profile, approved risk appetite and business strategy of the insurer;
 - c) compliance, on a continuous basis, with financial soundness requirements; and
 - d) the significance with which the risk profile of the insurer deviates from the implied risk profile underlying the financial soundness requirements.
- 4.2. A critical feature of an ORSA is that it is conducted over a longer time frame than conventional risk assessments. Each insurer is required to select a time frame for the ORSA that is consistent with its business planning horizon.
- 4.3. An insurer must annually, and when the risk profile of the insurer changes materially, or when so directed by the Prudential Authority, undertake an ORSA. The scope of an ORSA should be consistent with the complexity, risk profile, and operations of the insurer.
- 4.4. An insurer must, at all times, be able to demonstrate to the Prudential Authority that each ORSA is aligned with the risk profile of the insurer, is widely used, is embedded in the decision making processes of the insurer, plays an important role in its system of governance, and informs strategic decisions, especially with respect to capital planning and management.

- 4.5. The Prudential Authority, if not satisfied that the ORSA of an insurer is aligned with the risk profile of the insurer, may direct that insurer to repeat the ORSA within the time specified by the Prudential Authority.

5. ORSA Policy

- 5.1. An insurer must have a board-approved ORSA Policy.
- 5.2. An insurer's ORSA Policy must address at least the following:
- a) a description of the processes and procedures in place to conduct the ORSA including how the forward-looking perspective is addressed and how the time frame for the assessment is justified;
 - b) consideration of the link between the risk profile, the approved risk limits and the overall solvency needs; and
 - c) information on:
 - i. how stress tests / sensitivity analyses or reverse stress testing are to be performed and how often they are to be performed;
 - ii. data quality requirements;
 - iii. the frequency and timing for the performance of the (regular) ORSA and the circumstances which would trigger the need for an out-of-cycle ORSA (outside the regular timescales); and
 - iv. the areas of the ORSA which are subject to independent review and the frequency with which these will be reviewed.
- 5.3. An insurer's ORSA policy must ensure that the board of directors, senior management, the risk management function and the actuarial function are appropriately engaged in the ORSA process, and that the results of each ORSA are communicated to all relevant staff.
- 5.4. The policy must also ensure that the results of the ORSA are properly embedded in the capital management process.¹

6. Matters an ORSA must Address

- 6.1. An ORSA must assess the current, and likely future, financial soundness position of the insurer on an economic and regulatory basis. Where an insurer employs the economic capital model (as opposed to the standard formula) to assess its risks, it must justify to the Prudential Authority why it does not consider the standard formula to be an accurate reflection of its own risk profile, board-approved risk appetite (and related risk limits), and business strategy. Where an insurer employs the standard formula to assess its risks, it must justify to the Prudential Authority why it considers the standard formula to be an accurate reflection of its own risk profile, board-approved risk appetite (and related risk limits), and business strategy.

¹ See also the requirements for the Capital Management Policy in Attachment 1 of GOI 3 (Risk Management and Internal Controls for Insurers).

- 6.2. An ORSA must, at a minimum, encompass the reasonably foreseeable and relevant material risks including, at a minimum, underwriting, credit, market, operational and liquidity risks (where relevant) and any additional risks arising from the insurer's activities and operations, and risks resulting from the insurer being part of an insurance group. The ORSA is required to identify the relationship between risk management and the level and quality of financial resources needed and available. The ORSA must address a combination of quantitative and qualitative elements relevant to the medium- and longer-term business strategy of the insurer.
- 6.3. The ORSA must comprise the totality of the processes and procedures employed to:
- a) identify, measure, monitor, manage, and report the short- and long-term risks and potential risks of the insurer; and
 - b) determine the eligible own funds needed to maintain the financial soundness of the insurer over an appropriately long time horizon and across a range of adverse scenarios, in order to achieve its business strategy.
- 6.4. An ORSA must include an assessment of:
- a) potential future changes in the risk profile of the insurer in stressed situations;
 - b) the quantity and quality of own funds needed over the full business planning period of the insurer;
 - c) the quantity and quality of own funds available to the insurer, including the composition of own funds across the various own fund tiers and how this composition may change as a result of redemption, repayment, and maturity dates during the business planning period;
 - d) the overall solvency needs should be expressed in quantitative terms, complemented by a qualitative description of the risks; and
 - e) any deviations between the risk profile of the insurer and the implied risk profile underlying the solvency capital requirement calculation.

7. Embedding the ORSA in Decision Making

- 7.1. The ORSA process is a powerful tool for helping an insurer to manage its long-term strategy and sustainability. The ORSA helps an insurer to understand how its risk management and capital management approaches interact and whether or not its business strategy is sustainable across a range of risk scenarios. The ORSA assists an insurer in determining when to transfer or retain particular risks, and how to price risk.
- 7.2. The central role of the ORSA process is in capital management and planning. By assessing the gap between required and available capital across a range of risk scenarios, the ORSA helps management identify the capital raisings and contingencies that may be needed to execute the insurer's business strategy. By identifying these needs well in advance, the ORSA helps the insurer to optimise its capital base over time.
- 7.3. The ORSA process is a powerful tool, but it is of little value unless its outputs are embedded into strategic decision making by the insurer. The Prudential Authority will look for evidence that the ORSA is embedded and that management actions are linked to the outputs of the exercise.

8. Requirements for Verification of an ORSA

- 8.1. An insurer must ensure that an assessment and validation of the process whereby the ORSA has been performed is carried out by an independent and appropriately qualified person who is operationally independent of the ORSA process. The independent person must also provide assurance to the board of directors that the ORSA policy has been complied with.

9. Information that must be Retained in Respect of an ORSA

- 9.1. An insurer must maintain a record of each ORSA (including the outcomes of the assessment) and its internal reports on each ORSA (internal management information on risk and capital management).
- 9.2. The record of the ORSA must be such that it can be reviewed without unreasonable effort by a third party. The record must be complete and accurate, and must include clear audit trails. Records must not be overly or unnecessarily complex.

10. Reporting Requirements in Respect of an ORSA

- 10.1. An insurer must submit a report on each ORSA, and the methods used in that ORSA, to the Prudential Authority within two weeks of approval by the board of directors.
- 10.2. A report referred to in section 10.1 above, must, in a coherent and informative manner present, at a minimum:
- a) detailed information on current and future projected capital levels relative to minimum regulatory capital requirements and target levels over the full business planning period of the insurer;
 - b) detailed information on the actual outcomes of applying the ORSA over the period, relative to the planned outcomes in the previous ORSA report (including analysis of the regulated institution's actual capital position relative to minimum regulatory capital requirements and capital targets, and actual-versus-planned capital management actions);
 - c) a description of material changes to the ORSA since the previous ORSA report;
 - d) detail and outcomes of stress testing and scenario analysis used in undertaking the ORSA;
 - e) a breakdown of capital usage² over the planning horizon, as relevant, by material:
 - i. business activity;
 - ii. insurance group members (as applicable);
 - iii. geographic spread of exposures; and
 - iv. risk types;
 - f) an assessment of anticipated changes in the insurer's risk profile or capital management processes over the planning horizon;
 - g) details of any review of the ORSA since the previous ORSA report, including any recommendations for change and how those recommendations have been, or are being, addressed; and
 - h) references to supporting documentation and analysis, where relevant.
- 10.3. The ORSA report must be accompanied by a declaration –

² Including key information on the usage of different types of capital, e.g. working capital, allocated capital and economic or regulatory capital.

- a) signed by the Chairperson of the board of directors that the board has assessed and discussed the results of the ORSA; and
- b) signed by the Chief Executive Officer and approved by the board of directors that:
 - i. capital management has been undertaken by the insurer in accordance with the ORSA over the period and, if not, a description of, and explanation for, deviations;
 - ii. the insurer has assessed the capital targets contained in its ORSA to be adequate given the size, business mix and complexity of its operations; and
 - iii. the information included in the ORSA report is accurate in all material respects.

11.Exemptions from Reporting Requirements

- 11.1. The Prudential Authority may, on application by a controlling company, exempt any insurer that is part of an insurance group from submitting a report in respect of an annual ORSA, subject to such conditions as the Prudential Authority may impose.
- 11.2. If the Prudential Authority is not satisfied that the group ORSA takes sufficient account of the insurers that are part of the group, it may withdraw the reporting exemption.