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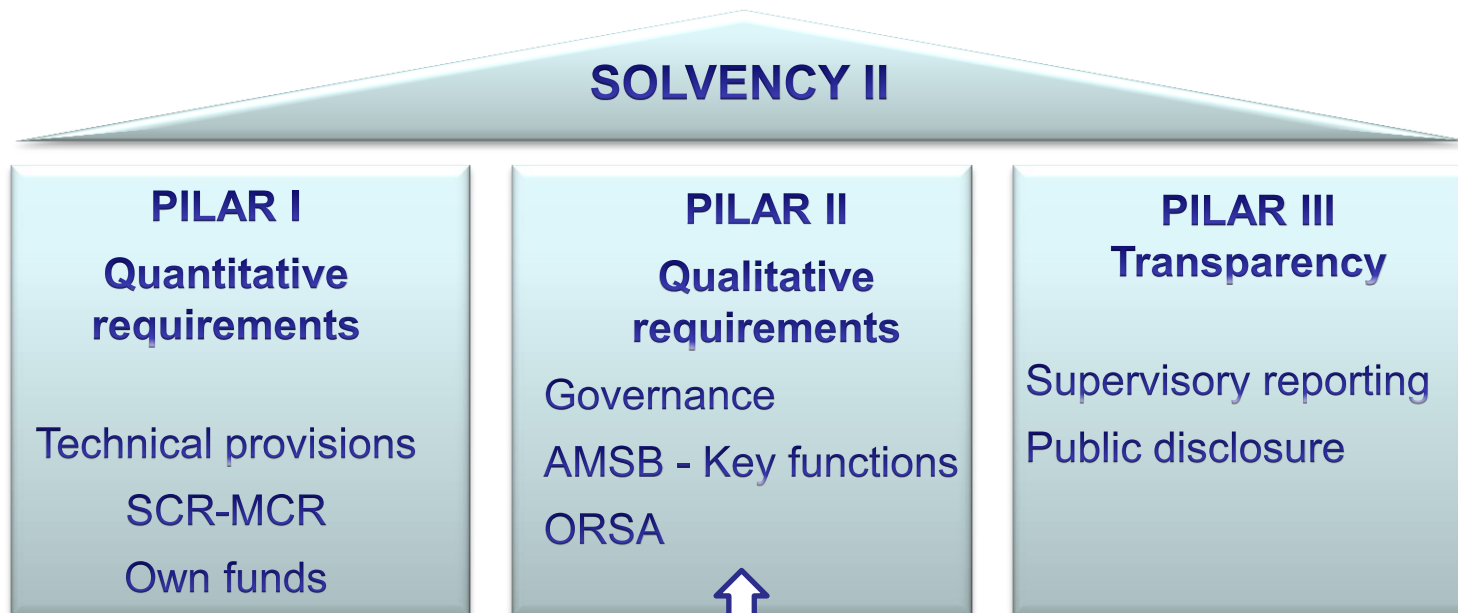
ICP 16: Enterprise Risk Management

Regional Training Seminar for Insurance Supervisors of Latin America

Petr Jakubik
San Jose (Costa Rica), 28 Nov 2016

- **ICP 16: Enterprise Risk Management for Solvency Purposes (ERM).**

“Supervisors establish enterprise risk management for solvency purposes that require insurers to address all relevant and material risks”.



Risk management system

Risk management function

Own risk and solvency assessment (ORSA)

Solvency II Framework

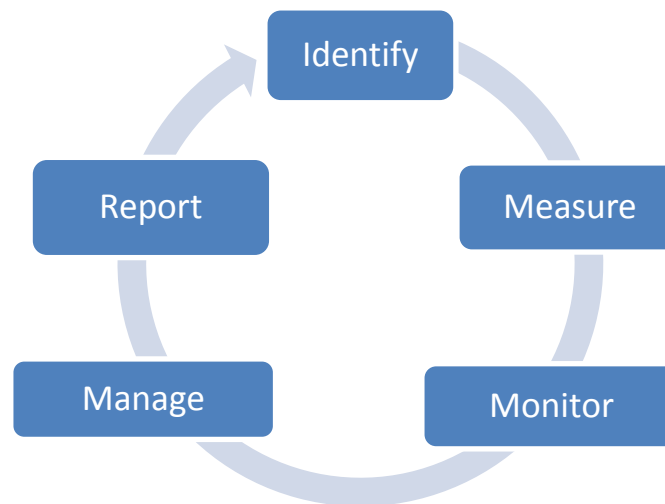
Level 1 - Article 44 SII Directive: *Risk management*
Article 45 SII Directive: *Own risk and solvency assessment*

Level 2 - Article 259-262 Delegated Regulation: *Risk management system, Risk management areas, Risk management in undertakings providing loans and/or mortgage insurance or reinsurance, Overall solvency needs*

Level 3 - EIOPA Guidelines on ORSA

- Effective **risk-management system** with strategies, processes and reporting procedures necessary to identify, measure, monitor, manage and report risks (continuously, individual and aggregated level and risk interdependencies)

RM cycle



- The RMS has to cover as a minimum six areas for which RM policies are to be established
 - underwriting and reserving
 - asset–liability management
 - investment, in particular derivatives and similar commitments
 - liquidity and concentration risk management
 - operational risk management
 - reinsurance and other risk-mitigation techniques



Legal reference	Tasks of the RM Function
Article 269 (1) (a) Delegated Regulation	Assisting the AMSB and other functions in the effective operation of the RMS
Article 269 (1) (b) DR	Monitoring the RMS
Article 269 (1) (c) DR	Monitoring the general risk profile of the undertaking as a whole
Article 269 (1) (d) DR	Reporting on risk exposures and advising the AMSB on RM matters (including in relation to strategic affairs such as corporate strategy, mergers and acquisitions and major projects and investments)
Article 269 (1) (e) DR	Identifying and assessing emerging risks
Article 44 (5) Solvency II Directive and Article 269 (2) (a) and (b) DR	Internal model's design and implementation (and liaise closely with the users of the outputs of the internal model)

■ Article 45 Solvency II

"As part of its risk-management system every insurance undertaking and reinsurance undertaking shall conduct its own risk and solvency assessment"

ORSA - CONTENT

Assessment of **overall solvency needs** taking into account the specific risk profile, approved risk tolerance limits and the business strategy of the undertaking

Assessment of **compliance, on a continuous basis, with the capital requirements** and with the requirements regarding technical provisions

Assessment of **significant deviations of the risk profile** of the undertaking from the assumptions underlying the SCR calculation

Governance of the ORSA Process

- Organisation and allocation of tasks
- Role of AMSB
- Role of CEO/CFO
- Role of key functions
- Group governance
- Outsourcing

Documentation of the ORSA process

- ORSA policy
- ORSA record
- ORSA internal report
- ORSA supervisory report

Frequency and timelines

- Regular ORSA (at least annually)
- Non-regular ORSA

Business Strategy

Risks reflects the firm's strategy

Strategy:

- What am I selling?
- Who am I selling to?
- How am I going to...?

Business Plan:

Quantitative depiction on the what and how

Risk

Risk Profile:

What risks is the firm exposed to?

- Internal?
- External?
- Is this different to assumptions used in SCR calc?

Risk Appetite:

How much risk will the firm take?

Risk Management:

What risk is passed away and how?

Management Action:

Remedial actions for a breach of risk appetite?

Capital & Solvency

Capitals held reflect the net risk of the firm

How much capital does firm need to hold?

- Regulatory basis (SCR and MCR)
- Economic basis
- Key differences in recognition and valuation bases used and quantum

What size buffer does firm hold and why?

What makes up capital resources? Quality and volatility

Access to additional capital? Timing?

Stress Testing

Capital and solvency are stress tested against key exposures

Stress & Scenario testing

Tests all material risks

- Internal?
- External?

Reverse Stress Testing

- What would break the firm?
- Has a sufficient range of stresses been tested?

Management Action:

What actions could help the firm to restore its capital position?

- Should the firm do anything differently? If so, what?

- Is the capital held sufficient?

Questions?



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Thank you for your attention!

Petr Jakubik

Financial Stability Team Leader

EIOPA

European Insurance and Occupational Pensions Authority

Petr.Jakubik@eiopa.europa.eu

<https://eiopa.europa.eu>
