

# Solvency II implementation

## Own Risk and Solvency Assessment (ORSA)

CEIOPS' Solvency II Directive requires undertakings to carry out an Own Risk and Solvency Assessment (ORSA) to determine the undertaking's understanding of its risks, overall solvency needs and own funds. The ORSA is a key tool to demonstrate the embedding of enterprise risk management into the running of the business.

### The ORSA requirement

ORSA, a Pillar 2 requirement, is a risk management system that requires undertakings to assess their own short and long-term risks and the amount of own funds necessary to cover them. The matching of the own funds to the risk profile should help promote a strong culture of risk management in soundly running the business.

ORSA information will also be reported to the supervisory authorities and will inform their views on capital adequacy, as part of the supervisory review process.

The ORSA is applicable whether an undertaking uses the standard formula or an internal model to calculate the SCR. While the execution of the ORSA can be outsourced, the administrative or management body remains responsible for the compliance with the requirements of the ORSA.

The complexity of the ORSA will be proportionate to the nature, complexity and scale of the risks inherent in the business. The ORSA is not intended to be overly burdensome on small or less complex undertakings.

As the ORSA is part of the risk management system, the written policy on risk management should include a policy concerning the ORSA process.

### ORSA considerations

#### 1. Overall solvency needs

Long-term projections of business plans, economic balance sheet and profit and loss account are required. An undertaking should also identify and take into account any external factors that could have an adverse effect on its overall solvency needs or its own funds. Management actions that may be adopted by the undertaking in unfavourable economic conditions should also be taken into account. An undertaking should be prepared to explain the rationale behind its selection of projection bases and demonstrate that its methods and practices are appropriate.

#### 2. Compliance on a continuous basis

The undertaking is responsible for having sufficient eligible own funds to cover the MCR and the SCR on a continuous basis and the ORSA should include an assessment as to whether the undertaking holds sufficient eligible own funds at any time over the business planning time horizon. The undertaking will need to estimate the changes in its capital requirements and eligible own funds' level since the last full solvency calculation and be able to justify the adequacy of the frequency of the calculation taking into account its risk profile.

#### 3. Assessment of the risk profile

The assessment includes an analysis of the differences, if any, between the amount of own funds which the undertaking considers necessary for its business needs and the capital requirement the SCR generates.

#### 4. The outcome of the ORSA

If the internal capital needs resulting from the ORSA differ from the amount resulting from the SCR, the undertaking should explain the reasons and individually identify any impact on the calculation of the solvency capital requirement.

#### 5. Integration of ORSA

Undertakings should take a risk-based approach to the management of the business that is analogous with the “use test” that is applicable to internal models.

#### 6. Frequency of the ORSA

Undertakings should perform the assessment “regularly and without any delay following any significant change in their risk profile”. The assessment should be performed at least annually and an undertaking should justify its own frequency of the assessment, taking into account its own risk profile.

#### 7. Information on the result of the ORSA to supervisory authorities

The undertakings should “inform the supervisory authorities of the results of each own risk and solvency assessment as part of the information reported”.

### ORSA Principles

- The ORSA is the responsibility of the undertaking and should be regularly reviewed and approved by the undertaking's administrative or management body.
- The ORSA should encompass all material risks that may have an impact on the undertaking's ability to meet its obligations under insurance contracts.
- The ORSA should be based on adequate measurement and assessment processes and form an integral part of the management process and decision-making framework of the undertaking.
- The ORSA should be forward-looking, taking into account the undertaking's business plans and projections.
- The ORSA process and outcome should be appropriately evidenced and internally documented as well as independently assessed.

### How Mazars Actuaries and Consultants can help

- We can assist with developing, documenting or reviewing the ORSA including advice on the extent to which the ORSA is used to manage the business.
- We can develop the written policy on risk management including a policy concerning the ORSA process.
- We can provide training on how to develop the components of the ORSA and assist the management with their understanding and assessment of the risks to which the undertaking is exposed.
- We can provide interim resources to support the development of the ORSA.

### Contact us

For more information on how we can help with the challenges for the ORSA and Solvency II, please contact one of our partners:

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