

**ORSA reports: Gaps and
opportunities for
Singapore general
insurers**

Presented by Keri Lee
September 2016



Building a better
working world

Agenda

1

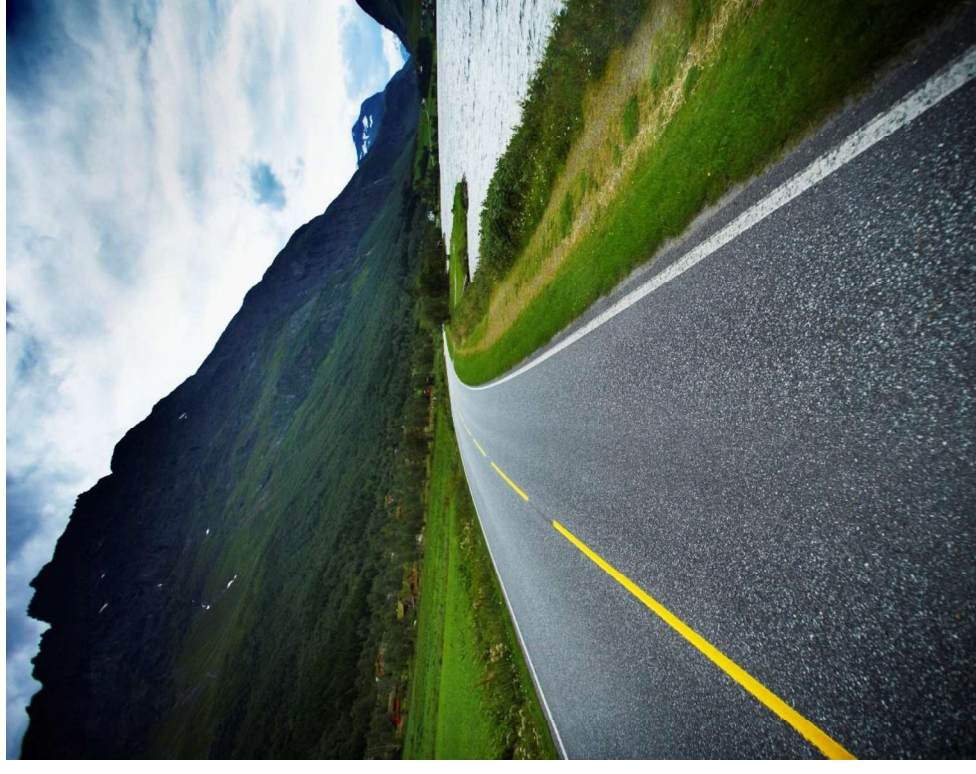
Overview and observations

2

Areas that have been addressed well

3

Areas for improvement

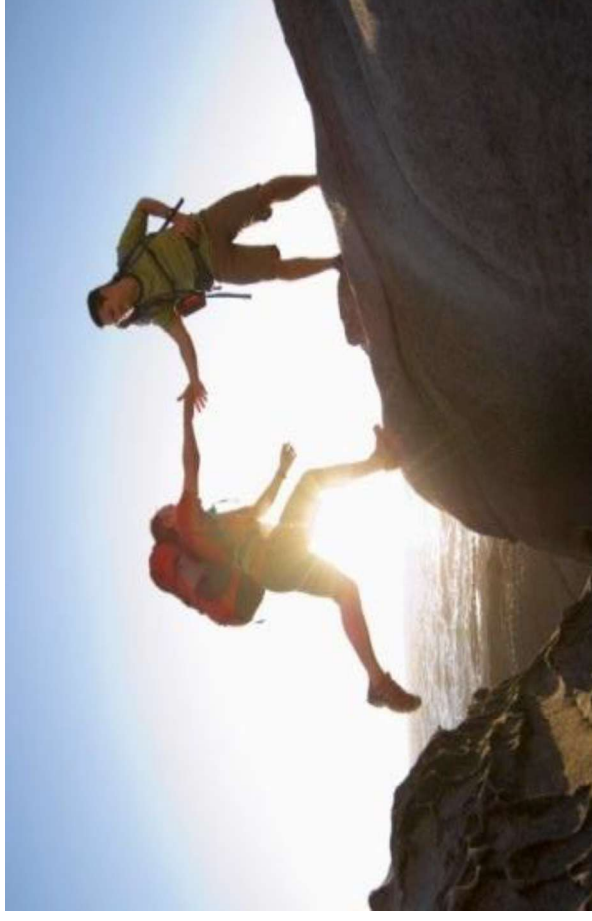


What we did

We recently assisted a number of clients to provide an independent assessment that their ORSA report complies with the mandatory requirements detailed within the Monetary Authority of Singapore (MAS) Notice 126 on Enterprise Risk Management (ERM) alongside general market practice.

In our assessment, we have compared individual ORSA reports across the following seven main sections specified within MAS Notice 126 Appendix A:

1. ORSA process
2. Strategy and risk tolerance
3. Risk exposures
4. Business projection and stress testing
5. Capital requirement
6. Solvency assessment
7. Assurances



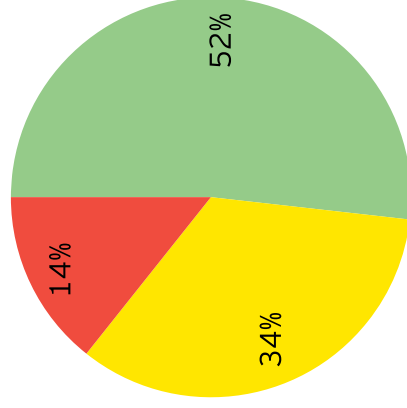
Overview of findings

The following chart provides an indication of the level of compliance with MAS Notice 126 for the ORSA reports we have reviewed.



Observations

ORSA process

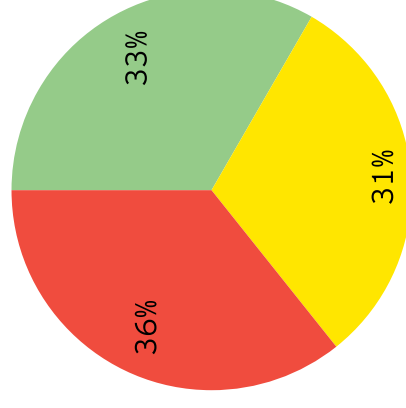


■ Meet requirements ■ Enhancement needed ■ Gap identified

In practice

- ▶ Typically discussed in insurers' risk management committee meetings and signed off by the committee.
- ▶ Individual risk management policies to manage different risk types.
- ▶ General lack of discussion regarding the effectiveness of these policies.

Strategy and risk tolerance



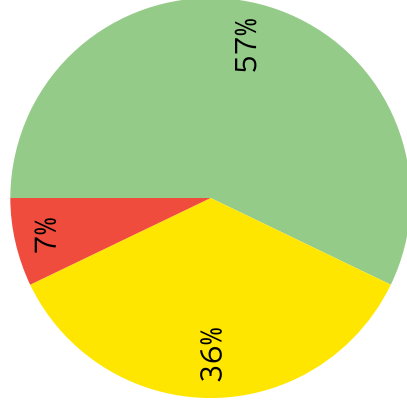
■ Meet requirements ■ Enhancement needed ■ Gap identified

In practice

- ▶ Use of CAR as the single quantitative measure for risk appetite.
- ▶ Thresholds to monitor the movement of CAR and associated management actions.

Observations

Risk exposures

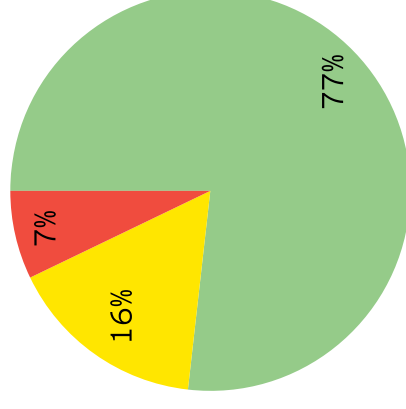


■ Meet requirements ■ Enhancement needed ■ Gap identified

In practice

- ▶ Relevant Key Risk Indicators (KRIs) in place. Common KRIs include loss ratios split by line of business and geography, and portfolio mix.
- ▶ Risk register to record and monitor all risks.
- ▶ Risk identification procedure to screen potential risks to identify non quantifiable risks.

Business projection and stress testing



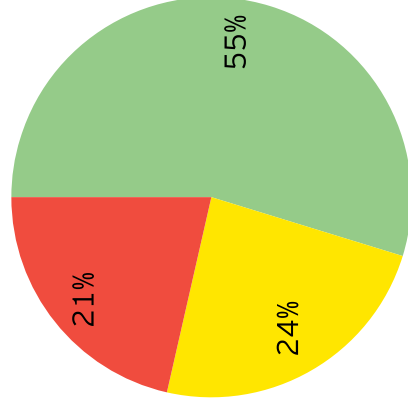
■ Meet requirements ■ Enhancement needed ■ Gap identified

In practice

- ▶ Adoption of the MAS stress tests as the stress tests in the ORSA report. However there is a risk that the stress tests stipulated by MAS may not always meet ORSA report requirements.

Observations

Capital requirement

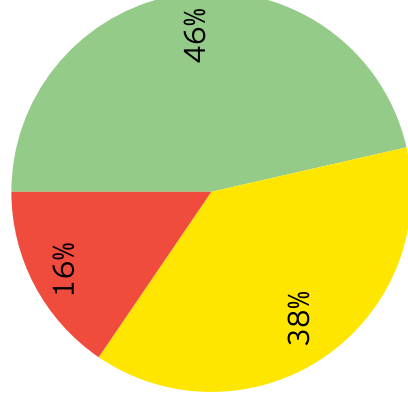


■ Meet requirements ■ Enhancement needed ■ Gap identified

In practice

- ▶ Regulatory capital approach as well as simple internal economic capital (EC) models.
- ▶ Improvement is required in the analysis of key drivers of the change in capital requirement.

Solvency assessment



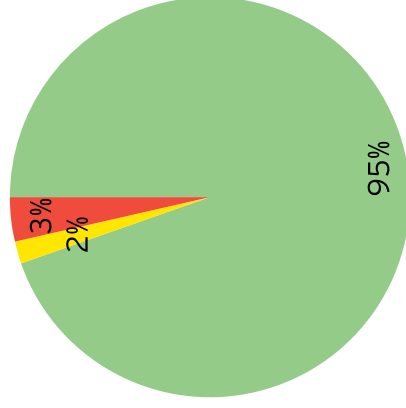
■ Meet requirements ■ Enhancement needed ■ Gap identified

In practice

- ▶ Discussion of liquidity of assets and how liquidity risk will be addressed.
- ▶ The assets of insurers are generally very liquid. For the majority of insurers, over half of assets are in cash with the remaining in government bonds and short term corporate bonds.
- ▶ Very limited investment in property and equity.

Observations

Assurances



■ Meet requirements ■ Enhancement needed ■ Gap identified

In practice

- ▶ Comments on the suitability of current projection assumptions with reference to past experience.
- ▶ Group's risk department or auditor typically fulfil independent review requirement.
- ▶ Report discussed in insurers' risk management committee meetings and signed off by the committee.



Agenda

1

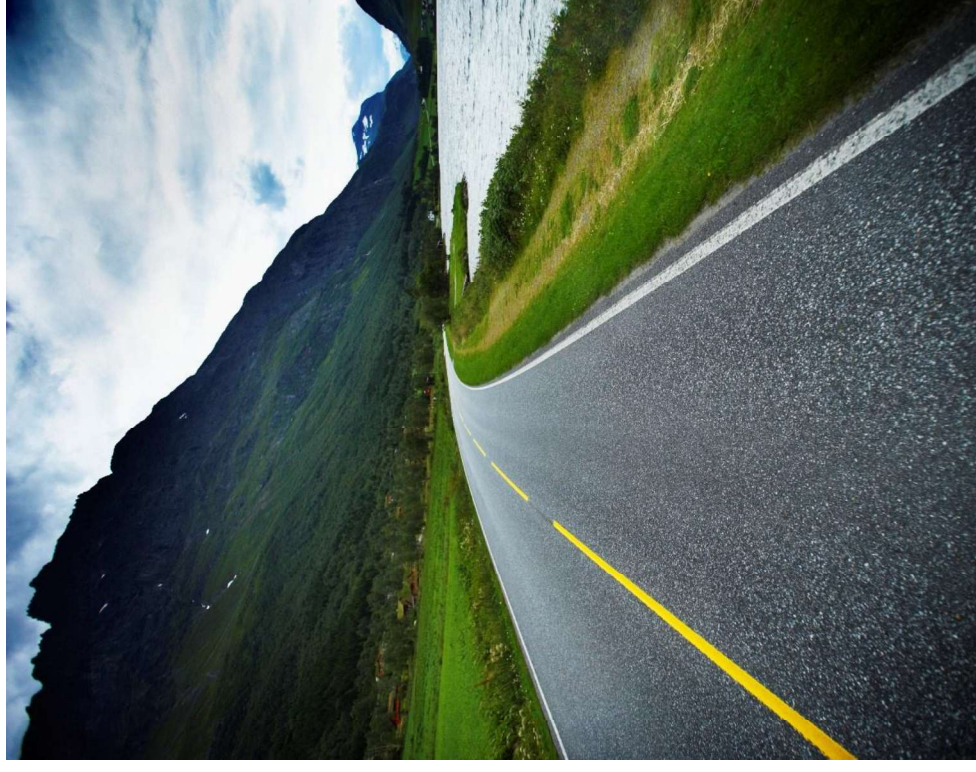
Overview and observations

2

Areas that have been addressed well

3

Areas for improvement



We identified areas that have been addressed well against MAS Notice 126 Appendix A

1	2	3
Summary of the ORSA process <ul style="list-style-type: none">▶ Clearly documented ORSA process▶ Organisational charts▶ Description of risk management committee, roles and associated responsibilities.	Summary of the current business strategy <ul style="list-style-type: none">▶ Clear descriptions of business strategy.	Rationale for the choice and construction of the scenarios and assumptions <ul style="list-style-type: none">▶ Clear descriptions of stress test assumptions▶ Scenarios adopted are relevant and suitable to the risk profiles of the companies.

Agenda

1

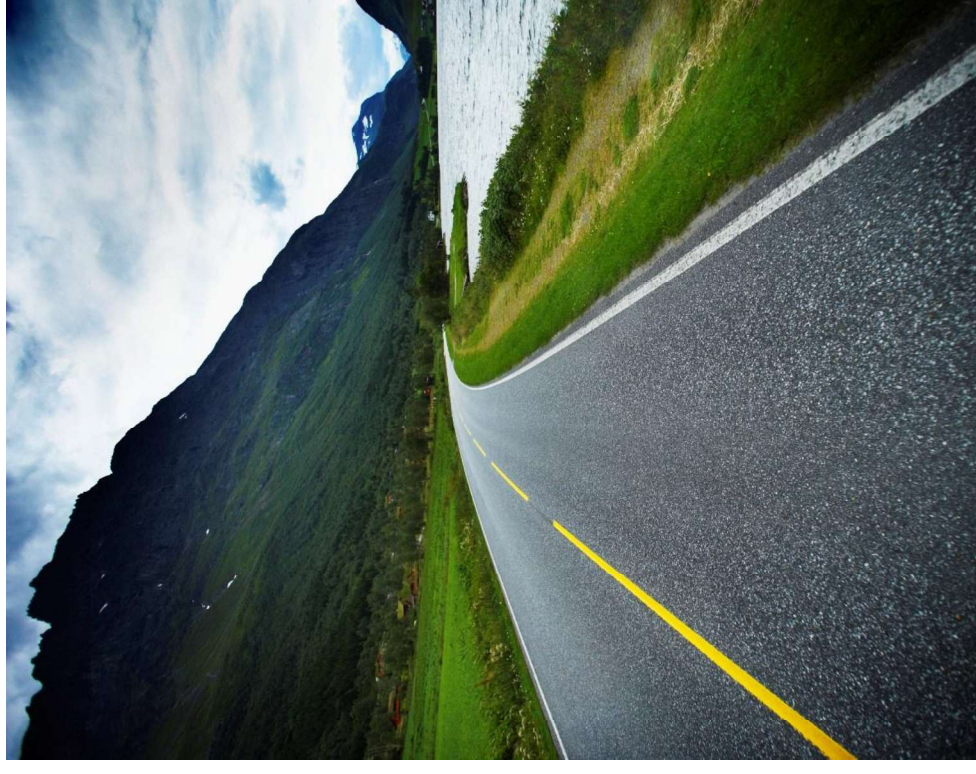
Overview and observations

2

Areas that have been addressed well

3

Areas for improvement



Assessment of contingent capital or access to additional funds (e.g., from parent company or Head Office) post-event

EY interpretation of requirements

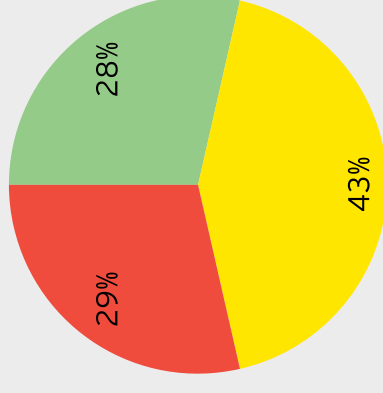


- ▶ Discuss the management actions in place should the Company fall into danger of insolvency.
- ▶ Explain how additional required capital will be raised.

Industry observations



- ▶ Several insurers simply note that further capital would be provided by the parent company if needed.



■ Meet requirements ■ Enhancement needed ■ Gap identified

Approach



- ▶ Documentation of a more holistic and concrete plan, such as a range of management actions to be taken should the Capital Adequacy Ratio (CAR) fall below certain internally determined trigger points.
- ▶ Document the mechanism of access to additional funds.

Analysis of key drivers of the change in the financial, economic and capital adequacy positions

EY interpretation of requirements

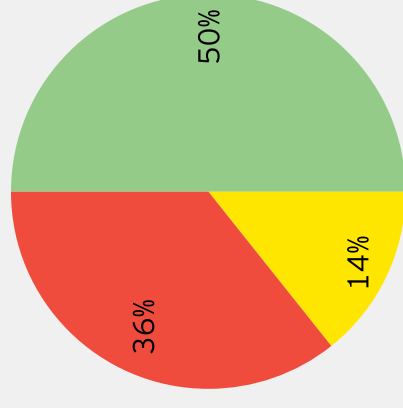


- ▶ Describe the drivers of expected capital requirements. The capital requirement can be split by type of risk and line of business.
- ▶ Explain the movement in capital requirement.

Industry observations



- ▶ A number of insurers disclose their overall expected capital requirements over the projection period, however do not provide any breakdown or explanation of the movements in capital.



■ Meet requirements ■ Enhancement needed ■ Gap identified

Approach



- ▶ Documentation of the composition of and change in the capital requirement.
- ▶ If the regulatory capital requirement approach is used, an insurer can split the projected capital into insurance risk and asset risk and discuss the magnitude and movement of these components.
- ▶ Discuss the reasons behind any increases or decreases of this mix of capital over the next few years.

Details of principal assumptions and interdependencies between the various key assumptions

EY interpretation of requirements

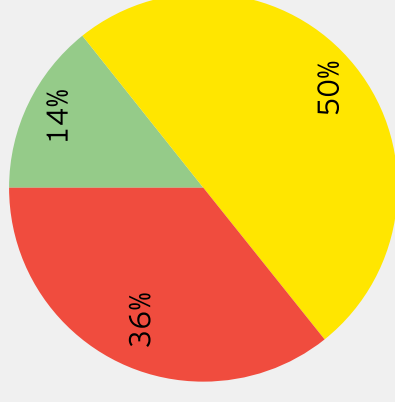


- ▶ Set out all key assumptions, methodologies and interdependencies used in the ORSA process (i.e., the business plan).
- ▶ Discuss these in detail.

Industry observations



- ▶ A large number of insurers do not disclose their business plan in sufficient detail in their ORSA reports.



■ Meet requirements ■ Enhancement needed ■ Gap identified

Approach



- ▶ Document at a minimum, premium growth, premium rate changes, business mix and asset mix changes, loss ratios, investment income, expense and reinsurance retention assumptions.
- ▶ Discuss interdependencies between these assumptions.

Summary of the key risk management policies and comments on the effectiveness of these policies in managing its risk profile

EY interpretation of requirements

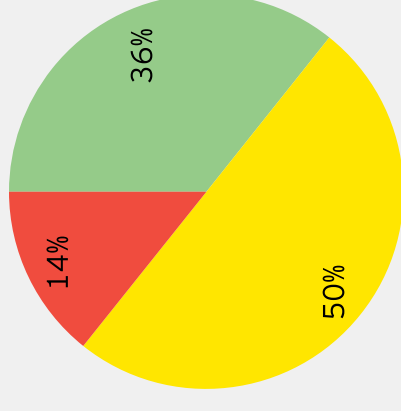


- ▶ Describe the key risk management policies embedded in the day-to-day running of the business.
- ▶ Discuss the effectiveness and limitations of these policies in managing risks.

Industry observations



- ▶ The majority of insurers typically list their risk management policies without further explanation on the risks intended to be covered, how the policies address their specific risk profile and how effective these policies are.



■ Meet requirements ■ Enhancement needed ■ Gap identified

Approach



- ▶ Comment on how the Company's tailored risk management policies are expected to mitigate the specific risks faced (insurance, market, credit and operational risks).
- ▶ Document the ownership, monitoring process, measurement of the level of risk and reporting process, as well as any limitations of the entire risk management process.

Conclusion

- ▶ Our assessment of industry ORSA reports indicates that the gaps currently seen are typical of insurers in the initial stages of crafting and/or enhancing an ORSA process and documentation.
- ▶ As insurers are at various stages of the ORSA journey, we hope that our observations can shed some light on how insurers can improve their ORSA process and reports going forward
- ▶ EY has the experience and expertise to help insurers improve their ERM framework and ORSA report.



About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2016 EYGM Limited.
All Rights Reserved.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com