

**EXAM 6 – CANADA, FALL 2015**

23. (2 points)

a. (1.5 points)

Describe three key elements of an ORSA.

b. (0.5 point)

Comment the following statement:

“All federally regulated companies must implement the same ORSA process.”

**CONTINUED ON NEXT PAGE**

## EXAM 6-CANADA SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 23	
TOTAL POINT VALUE: 2	LEARNING OBJECTIVE: C2
SAMPLE ANSWERS	
Part a: 1.5 points	
<p><i>Any combination of the following were accepted, provided that different key elements were described:</i></p> <ul style="list-style-type: none"> <li> <p><i>Accepted answer 1</i></p> <p>Identify and Assess Risk ORSA is a tool to help an insurer with identifying and assessing risk that could have a material impact on its financial health.</p> <p>Relate Risk to Capital Each company determines its own potential risks and the capital it should hold for each of them, if any. An insurer should set its own internal capital ratio.</p> <p>Monitor and Report Insurer should use a model with an understanding of its underlying assumptions, methodologies and assumptions. It should report to the Board at least once a year stating the most material risks, the risk appetite, the potential management actions, etc.</p> </li> <li> <p><i>Accepted answer 2</i></p> <p>Comprehensive Identification and Assessment of Risks Consideration of system-wide impacts and concentration/interaction of risks stress scenarios. Know measurably foreseeable and emerging risks that may have an impact of the company's ability to continue operations.</p> <p>Relating Risk to Capital Tailored to the nature, scale and complexity of the insurer. Determining capital requirements (how much capital for each risk, aggregation/diversification), setting internal targets and integration with other business areas.</p> <p>Internal Controls and Objective Review Internal controls to ensure risk appetite is being adhere to. Objective reviews of ORSA to ensure its integrity, accuracy and completeness.</p> </li> <li> <p><i>Accepted answer 3</i></p> <p>Relate Risk to Capital Depending on the nature, scale and complexity of the operations, the insurer will need a different level of capital. It must set its required capital and see at what level of internal target it could operate to minimize OSFI intervention and let management react to adverse events.</p> </li> </ul>	

## EXAM 6-CANADA SAMPLE ANSWERS AND EXAMINER'S REPORT

### Board Oversight and Senior Management Responsibility

It is important to have Board supervising the ORSA process and ensuring that Senior Management implements it correctly. The Board should be able to understand decisions and plans integrated by Senior Management.

### Reporting and Monitoring

There should be a report made to the Senior Management that is complete and allows the management to understand key risks and their trends, the assumptions made, analyze if capital is adequate and sufficient and that would let them analyze future capital needs.

- *Accepted answer 4*

### Comprehensive Identification and Assessment of Risks

All risks should be identified and assessed under normal and stressed situations. Risk mitigation and reinsurance should also be assessed.

### Relating Risk to Capital

Using standard approach or internal model approach (depending on the risk), capital should be charged for each risk. Also internal target should be calculated so the company doesn't fall below Supervisory Target. Stress testing and DCAT should be used to determine the internal target.

### Board Oversight and Senior Management Oversight

Board has the ultimate responsibility and Senior Management should implement and manage the ORSA process and report key findings to the Board.

- *Accepted answer 5*

### Comprehensive Identification and Assessment of Risk

Insurer should identify, define and assess all known, reasonably foreseeable, emerging and other relevant risks that has the potential of impacting operations, under both normal and stressed situations.

### Relating Risks to Capital

Internal Targets should be set to reflect the insurer's risk profiles, regarding its scope and nature of operations.

### Reporting and Monitoring

ORSA should be assessed periodically so that risks are consistently evaluated and plans are prepared to mitigate risks.

- *Accepted answer 6*

### Relating Risks to Capital

## EXAM 6-CANADA SAMPLE ANSWERS AND EXAMINER'S REPORT

Insurer should consider all the reasonably foreseeable risks that it may face that threatens its financial position. Insurer can use scenario/sensitivity testing to identify capital required to support the risks.

### Internal Audit and Objective Review

ORSA should be subject to regular audit and review for effectiveness, reasonableness of results, appropriateness of assumptions and to see if it fits in risk appetite framework. The review should be done by a person of high competence, who did not directly participate in the part of ORSA being reviewed.

### Board Oversight and Senior Management Responsibilities

Board oversees the whole ORSA. It must understand the impact of adverse events on financial condition and know what Senior Management implements, plans. It probes, questions and seeks assurance that what Senior Management is doing is consistent with what's envisioned and approved by the Board. Senior Management implements the ORSA at an operational level and makes sure there are adequate controls. It also answers to Board's questions.

- *Accepted answer 7*

### Board Oversight and Senior Management Responsibility

The insurer's Board should review and discuss the ORSA as well as any changes to the ORSA. The Board should understand the decisions, plans and policies being undertaken by Senior Management with respect to the ORSA and its potential impacts on the insurer.

### Monitoring and Reporting

The ORSA should be performed on a regular basis so that it continues to provide relevant information for an insurer's management processes. It should be clearly and formally documented in a report to the Board at least annually.

### Internal Controls and Objective Review

ORSA must have a review process to ensure that the risks identified haven't changed and the process to quantify risks is still adequate. ORSA must have internal control to ensure it is appropriate with risk appetite framework. It must be verified by an external reviewer not involved in ORSA internal process.

### Part b: 0.5 point

*Any of the following was accepted:*

- *Accepted answer 1*

The statement is not correct. The ORSA is an internal assessment process, tailored to an insurer's own risk profile and appetite, and reflective of the nature, scale and complexity of the insurer.

## EXAM 6-CANADA SAMPLE ANSWERS AND EXAMINER'S REPORT

- *Accepted answer 2*

Not true as ORSA is meant to be an internal assessment of own risks. It allows insurer to enhance understanding of the relationship between its risk profile and capital needs. The ORSA is tailored to the size, scale, complexity and operations of the insurer.

- *Accepted answer 3*

Although the targets and risks will be different for each company, each needs to complete the ORSA according to the same guideline. "Same process" is appropriate way to describe ORSA process.

- *Accepted answer 4*

The statement is in relation to the overall framework and intention. The ORSA is not subject to approval and will vary by company based on business strategy, risk appetite, risk profile, capital structure and nature, scale and complexity of business. However, all ORSA should be forward-looking, consistent with capital and financial strategies and allow management to understand capital implication of risk profile.

- *Accepted answer 5*

Caution needs to be exercised on "same", because ORSA process is principle-based and designed to be unique based on the complexity and risk profile of insurer. No one set of procedures will fit all insurers and this not the intended purpose of ORSA.

- *Accepted answer 6*

This statement does not make sense as the ORSA is tailored to the company and must therefore vary for each company based on the company's characteristics, including risk appetite, nature of the business and diversification of business.

- *Accepted answer 7*

The principles of ORSA are the same for all companies but the specific way in which ORSA is implemented should differ by company, since each company has a different risk profile.

- *Accepted answer 8*

The overall process in broad terms is the same but the whole point in ORSA is to assess your own risks and understand their relationship to capital requirements, relative to the Board's approved risk appetite and tolerance and company's business and strategic plans which would vary by company.

- *Accepted answer 9*

## EXAM 6-CANADA SAMPLE ANSWERS AND EXAMINER'S REPORT

The ORSA differs by individual company because the underlying risks are different and the financial resources available are also different. The process is not the same but each company should complete its ORSA evaluation.

- *Accepted answer 10*

This is incorrect.

OSFI does not prescribe any specific ORSA process. ORSA is principle-based. ORSA is meant for company to establish their internal target capital requirement that reflects its own risk profile and risk appetite. Companies can determine how they pursue the ORSA process based on their own evaluation of their total risks. OSFI simply provide comments and recommendations on the company's ORSA process.

### EXAMINER'S REPORT

Candidates generally performed well on this question.

Candidates were expected to show overall knowledge of principles-based solvency regulation, namely, ORSA.

#### Part a

Candidates performed well on this part and many were able to properly describe at least two key elements of ORSA. Candidates were expected to have general knowledge of the elements of ORSA process and be able to describe some of them. Candidates lost credit for not providing three elements or for providing too brief descriptions.

#### Part b

Candidates performed well on this part and most of the answers received at least partial credit. Candidates were expected to express their point of view of the statement and either recognize that ORSA should be tailored to the company and/or that ORSA is principles-based. Both points of view (statement true or false) could get full credit as long as the arguments were sufficiently detailed.