

# IFRS 17 & Solvency II Workshop

## The Risk Management & Reporting Processes

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CNseg—Confederação Nacional das Empresas de Seguros

São Paulo, 15—17 July 2019



# Presentation Disclaimer

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# Agenda

## Monday, 15 July

- Recap of IFRS 17 Background
- General Measurement Model
- Implementing IFRS 17

## Tuesday, 16 July

- Measurement of direct participation contracts
- Illustrative examples of the Premium Allocation Approach
- Presentation of IFRS 17 Results
- Data management and calculation engines
- Background and scope of Solvency II
- Quantitative aspects of Solvency II

## Wednesday 17 July

- Quantitative aspects of Solvency II (cont'd)
- Governance under Solvency II
- **The Risk Management & Reporting Processes**

# Enterprise risk management



# What is ERM really about?

## Enterprise Risk Management

### Compliance

What do regulators expect?

### Capital

How is risk capital determined?

### Practices

How do companies manage risk?

# A definition

ERM is the process by which companies identify, measure, manage and disclose all key risks to increase value to stakeholders.

Alternatively,

it's the ability to capture and manage all necessary risk-related data.

# Solvency II governance directives

Document	Level	Section	Content
2009/138/CE	I	Art. 44	General requisites of the governance system
EU 2015/35	II	Art. 259 Art. 260 Art. 269	Risk management system Scope of risk management Risk management function
BoS 14/253	III	Directive 15 Directive 18 Directive 19 Directives 20—26	Role of the board/management Risk management policy Risk management function Specific risk management policies

# Components of risk management

1 Risk architecture

Specification of roles, responsibilities, communication and risk reporting structure

2 Risk strategy

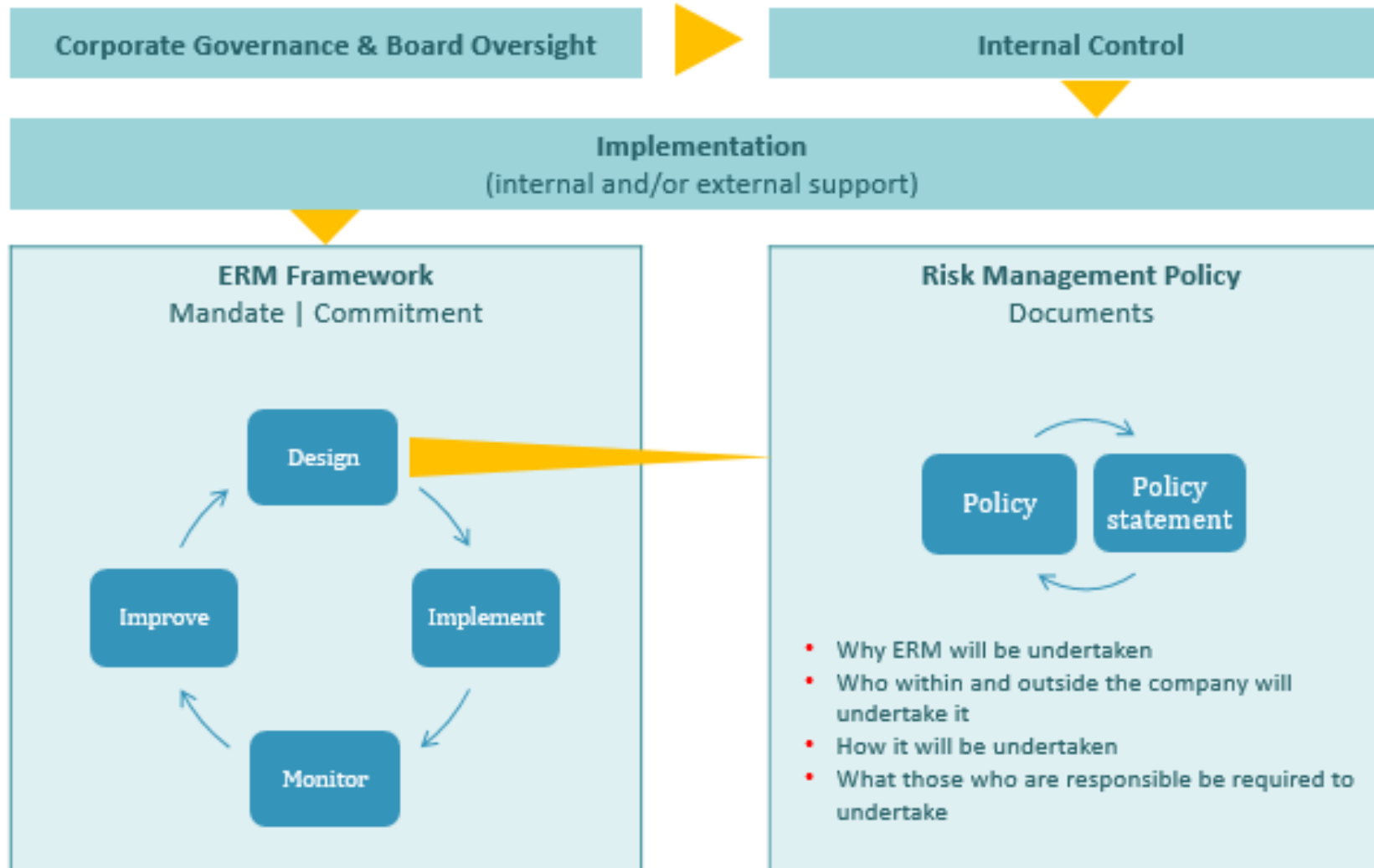
Risk appetite, attitudes and philosophy defined in a Risk Management Policy

3 Risk protocols

Risk guidelines, including rules, procedures, methodologies, tools and techniques



# Overall structure of ERM



# Constructing ORSA reports



# The ORSA requirement

- As part of its risk management system a company shall conduct its own risk and solvency assessment
- That assessment shall include at least the following:
  - the overall solvency shall consider the specific risk profile, approved risk tolerance limits and the business strategy of the company;
  - the compliance, on a continuous basis, with the capital requirements, and with the requirements regarding technical provisions;
  - the significance with which the risk profile of the company concerned deviates from the assumptions underlying the Solvency Capital Requirement

# An ORSA report should include answer to these questions

- Understanding of risk profile of the company
- Does company have sufficient capital to support business plan
- Will company stay within risk appetite going forward
- What risks are not covered by regulatory capital
- What risks should be monitored more frequently
- What scenarios could cause solvency issues
- What mitigation options are available in these scenarios
- Key sensitivities to capital & profits
- Material changes to risk profile over recent period

# Possible outline of an ORSA report

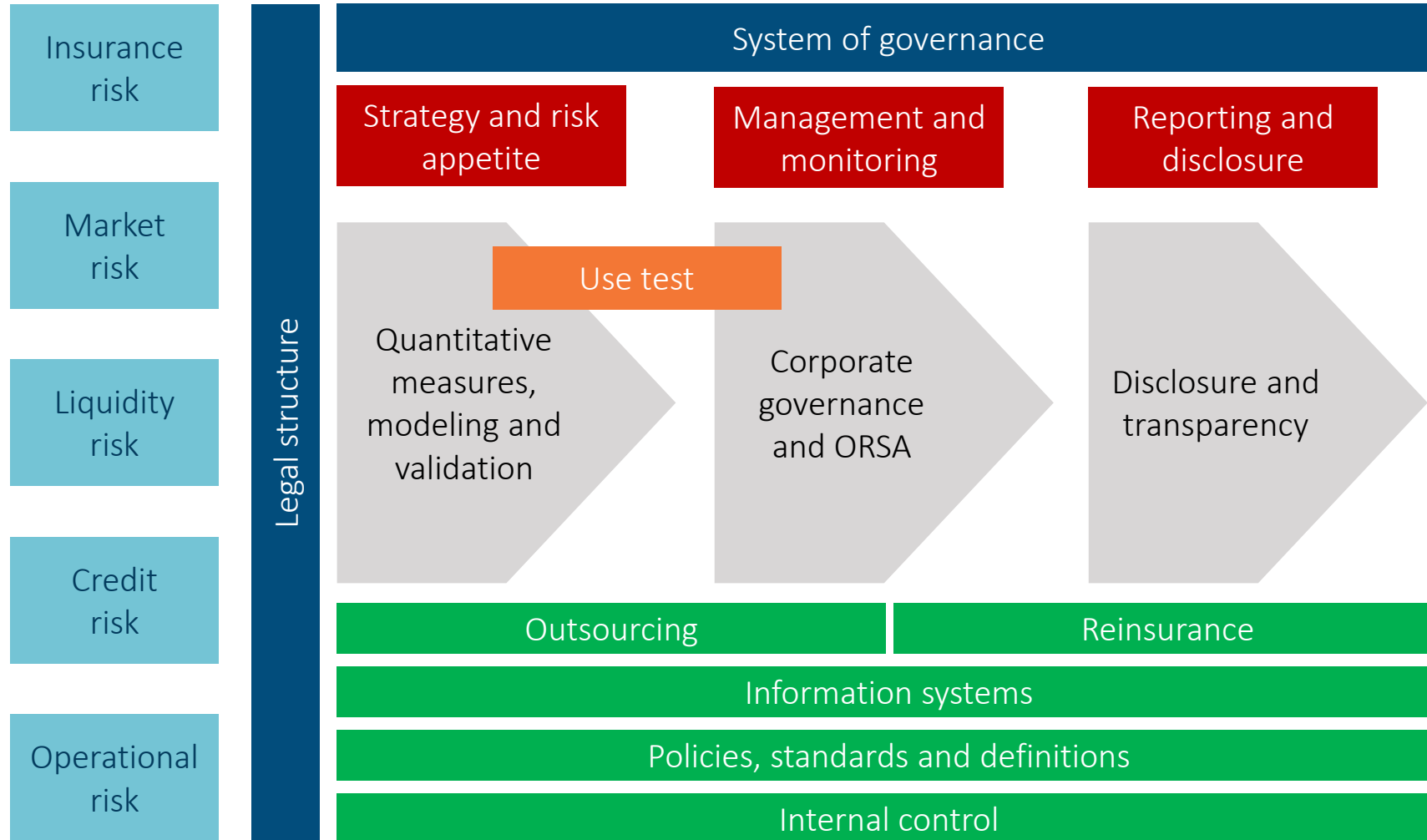
## Executive Summary

1. Principal & secondary conclusions
2. Overall solvency needs information
3. Quantitative results
4. Qualitative results
5. Differences compared with the SCR
6. Changes made during the ORSA process
7. Capital management
8. Methods & main assumptions

# The Solvency & Financial Condition Report



# Solvency II framework



# Report on solvency and financial condition

- Companies are required to disclose publicly, on an annual basis, a report on their solvency and financial condition (SFCR)
- The SFCR should include
  - a description of the business and the performance of the company
  - a description of the system of governance and an assessment of its adequacy for the risk profile of the company
  - a description, separately for each category of risk, of the risk exposure, concentration, mitigation and sensitivity
  - a description, separately for assets, technical provisions and other liabilities, of the bases and methods used for their valuation





# Report on solvency and financial condition

- The SFCR should include (cont'd)
  - a description of the capital management including
    - the structure and amount of own funds, and their quality
    - the amounts of solvency capital requirement and minimum capital requirement
    - information to allow a proper understanding of the main differences between the underlying assumptions of the standard formula and those of any internal model
    - amounts of any noncompliance with the minimum capital requirement or solvency capital requirement



# Outline of the solvency and financial condition report

The SFCR uses a standardized format:

Summary

A—Business and performance

B—System of governance

C—Risk profile

D—Valuation for solvency purposes

E—Capital management

Appendices



# Illustrative examples



SFCR 2018



SFCR 2018



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