

Own Risk and Solvency Assessment Guidance

*for Ontario-incorporated insurance
companies and reciprocal insurance
exchanges (“Insurers”)*

Information Webinar

The logo for the Financial Services Regulatory Authority of Ontario (FSRA) consists of the letters 'FSRA' in a bold, blue, sans-serif font.

Financial Services Regulatory
Authority of Ontario

Date: December 10, 2024

Speakers:

Victoria Lesau, Director, Credit Union, Insurance Prudential, and Pensions Policy

David Maxwell, Head, Regulation and Strategic Initiatives

Samreen Hossain, Director, Insurance Prudential Supervision



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Agenda

- Introduction
- Land acknowledgement
- Principles-Based Regulation (PBR)
- PBR, Risk-based Supervision and Role of the Board
- Overview of the Proposed Own Risk and Solvency Assessment Guidance
- RBSF-I and ORSA
- Summary and Next Steps
- Q&A



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Introduction – Speakers and Panelists

Victoria Lesau, Director -- Credit Union, Insurance Prudential, and Pensions Policy

David Maxwell, Head -- Regulation and Strategic Initiatives

Samreen Hossain, Director -- Insurance Prudential Supervision

Steve Kokaliaris, Director -- Approvals and Supervisory Practices

Land Acknowledgement

We acknowledge the land we are on is the traditional territory of many nations including the Mississaugas of the Credit, the Anishnabeg (ah-nish-naw-bek), the Chippewa, the Haudenosaunee (hoodt-en-oh-show-nee) and the Wendat peoples and is now home to many diverse First Nations, Inuit and Métis peoples. We acknowledge that Toronto is covered by Treaty 13 with the Mississaugas of the Credit and the Williams Treaties signed with multiple Mississaugas and Chippewa bands.

What is Principles Based Regulation?

- PBR is a regulatory approach that relies on high level, **broadly stated principles that are outcomes-focused**, as opposed to just prescriptive rules.

Benefits

- Gives regulators and stakeholders the **flexibility** to respond quickly and appropriately to market changes and practices and apply requirements and expectations on a **proportional** basis.

Proposed Own Risk and Solvency Assessment (ORSA) Guidance

- The proposed Guidance is consistent with FSRA's principles-based and outcomes-focused regulatory approach.
 - The Guidance sets out principles that are consistent with industry practices for Insurers to achieve FSRA's intended outcomes.
 - If Ontario Insurers meet and demonstrate the intended outcomes commensurate to their size and complexity, they are more likely to operate in a sustainable manner.

- Under PBR there is an increased focus on the Board's accountabilities. A principles-based approach allows flexibility and ability to apply proportionality when assessing the effectiveness of the Board.
- The Board is ultimately accountable for the oversight of the Insurer.
 - The ability to be principles-based vs. prescriptive is highly correlated with the effectiveness of the Board.
- The Board may delegate some responsibilities but **cannot delegate their accountability.**

Implications for this guidance:

- Sound governance is a core principle underpinning effective capital management. The Board of the Insurer is accountable and responsible for providing oversight, supervision, and direction to management with respect to capital management.
- FSRA's proportional approach to determining alignment with this Guidance will include an assessment of the effectiveness of Board oversight relative to the size and complexity of the Insurer.

Proposed Own Risk and Solvency Assessment Guidance

- **Rationale and Background**
- **Approach**
 - Principle 1: Governance and Oversight
 - Principle 2: Comprehensive Identification and Assessment of Risks
 - Principle 3: Relating Risk to Capital
 - Principle 4: Monitoring and Reporting
 - Principle 5: Internal Controls and Objective Review
- **ORSA and FSRA's RBSF-I**



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- FSRA's 2023 Minimum Capital Test (MCT) Guideline sets out minimum capital requirements and requires that certain Insurers set an Internal Target as an important aspect of prudent capital management.
- As part of prudent capital management, insurers determine their own capital needs and establish Internal Targets based on an internal assessment of all material risks and related governance mechanisms.
 - This is important as the minimum capital requirements may not cover an Insurer's individual circumstances and capital needs throughout the business cycle.
- In this regard, the ORSA provides a framework for Insurers to determine their Internal Target, and to ensure that an Insurer can absorb shocks and readily restore or improve the Insurer's capital adequacy and cash flow position.
- This draft Approach Guidance sets out FSRA's principles-based and outcomes focused approach to reviewing an Insurer's ORSA process.

Sound governance and oversight functions provide effective oversight to the assessment of capital needs based on the Insurer's risk profile in determining its Internal Capital Target.

Key outcomes:

- The Board of Directors is responsible for approving the ORSA in line with the Corporate Governance Guidance for Insurers. Senior Management understands the appropriateness and quality of the methods, techniques and tools used for developing the Insurer's risk exposures and risk mitigants, and for ongoing risk management and oversight processes and how these relate to adequate capital levels.
- Sound risk management and oversight functions assist an Insurer in performing an effective assessment of its own capital needs, in determining its Internal Targets and in assessing the adequacy of its current and likely future solvency position.
- The ORSA strengthens the Insurer's risk assessment, risk management and capital planning by assessing potential threats to an Insurer's capital and solvency positions.

The materiality of all known, reasonably foreseeable, emerging and other relevant risks, in both normal and stressed situations, are well identified, clearly defined and comprehensively assessed.

Key outcomes:

- As part of the regular risk assessment cycle, an ORSA is performed regularly, for an Insurer to assess its risk profile, the adequacy of its capital and its current, and likely future, solvency and liquidity positions.
- At a minimum, the ORSA includes insurance risk, credit risk, market risk, operational risk, liquidity risk, concentration risk and other additional risks. An Insurer documents underlying assumptions, processes and key considerations regarding the drivers, assessment, measurement and mitigants in place for each risk.
- Insurers determine their own capital needs and establish their Internal Targets based on an internal assessment of all material risks and aligned with the ERM framework and other related controls and governance mechanisms.
- The ORSA is consistent with an Insurer's business and strategic planning and include potential adverse capital impacts over an Insurer's planning horizon.

Internal Targets are based on capital needs to cover all risks without undue reliance on regulatory capital measures.

Key Outcomes:

- The MCT Guideline prescribes the method for determining Minimum and Supervisory Target Capital levels as well as a framework for FSRA's assessment of an Insurer's capital adequacy.
- Minimum and Supervisory Targets may not be tailored to individual Insurers' risk profiles. Hence, an Insurer uses its ORSA process to determine its own capital needs and establish internal capital targets including its Internal Target.
- The Insurer sets its Internal Target by evaluating if its Capital Resources can support its current risk profile and ongoing operations under various stress conditions, including a wind-up scenario. It considers a range of adverse scenarios (e.g., economic downturns) to ensure it can avoid supervisory intervention (meeting Supervisory Targets) and maintain operations (meeting Minimums).
- In conducting an ORSA, it is important to determine an explicit quantity of capital held for each risk and how the results are aggregated.

Relevant and accurate information is provided to support the determination of the Internal Capital Target on an ongoing basis.

Key Outcomes:

- An effective ORSA is clearly and formally documented in an ORSA report at least annually and more often if circumstances warrant, for example when there are changes to the insurer's risk profile or risk appetite.
- Senior Management receive regular and timely reports on the Insurer's risks and capital including a Key Metrics Report that compares actual capital amounts and ratios to Internal Targets.
- The monitoring and reporting process considers the current and forecast business environments and is adjusted when appropriate so that capital remains adequate during periods when the Insurer is under stress and through entire business cycles.

A robust internal control structure assures the quality of the ORSA process, which includes an objective assurance of the methodologies and key assumptions for determining the Internal Targets in a manner proportionate to the Insurer's risk profile.

Key Outcomes:

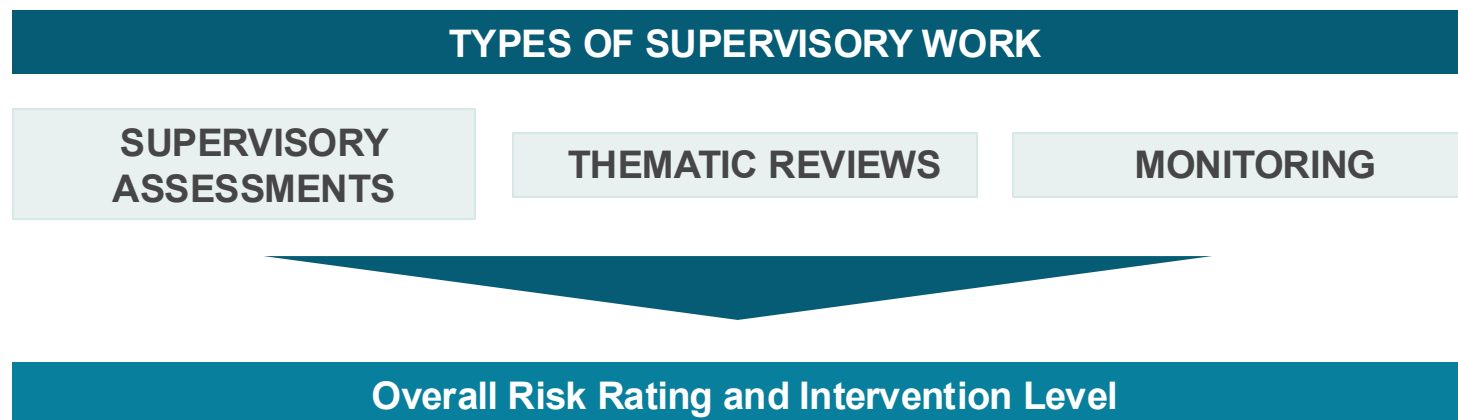
- An Insurer's Senior Management reviews the method for monitoring and reporting on alignment with internal policies and the system for assessing and relating risks to the Insurer's own capital needs.
- An Insurer conducts regular reviews of its ORSA process for integrity, accuracy, and reasonableness.
- The ORSA, including the ORSA report, is subject to periodic objective reviews that may be conducted by an internal or external auditor or an appropriately skilled and experienced individual.

Knowledge of Business

RBSF-I is predicated on gaining a thorough understanding of each Insurer's business including specific structures, processes, governance frameworks, staff and the board.

Proportionality

Given the unique nature of Ontario Insurers, the level and extent of supervision under the RBSF-I will depend on the **size, complexity, and risk profile** of the Insurer, and the potential consequences of an Insurer's failure including systemic impact.



Transparent, open, and continuous communication between FSRA and the Board

- FSRA uses the RBSF-I to assess the prudence of Insurers' business practices and the effectiveness of their risk management to understand the impact on the Insurer's members, subscribers, and policyholders and will intervene on a timely basis if warranted.
- FSRA may review the ORSA and upon request the ORSA report (and/or other supporting documentation) when assessing an Insurer's risk profile.
 - The intensity and frequency of FSRA's supervisory review with respect to an Insurer's ORSA is proportional to its size, complexity, and risk profile.
- The supervisory review of the ORSA is not intended to dictate how an Insurer performs, uses, or reports on its ORSA. Rather, it enables for dialogue between FSRA and the Insurer with respect to FSRA's assessment of inherent risks, residual risks, capital, Overall Risk Rating and an Insurer's ORSA.

- An ORSA protects the rights and interests of consumers as Insurers that effectively manage their risks and maintain adequate capital above regulatory capital levels under a range of plausible adverse scenarios are more likely to succeed and gain long-term public confidence.
- Sound risk management and oversight functions assist an Insurer in performing an effective assessment of its own capital needs. In this regard, the ORSA provides a framework for Insurers to ensure the Insurer can absorb shocks and readily restore or improve the Insurer's capital adequacy and cash flow position.
- FSRA looks forward to working with Insurers to establish an effective ORSA framework, through guidance and ongoing dialogue.
- The consultation on FSRA's website for the ORSA Guidance closes on **January 28, 2025**.
- FSRA will consider feedback in revising the Guidance, as appropriate.

Questions

