

Comparison of Standards in the current (October 2011 version) and draft revised ICP 16

Current ICP 16 (October 2011 version)	Draft revised ICP 16
Enterprise Risk Management for Solvency Purposes	Enterprise Risk Management for Solvency Purposes
<p>ICP 16 The supervisor establishes enterprise risk management requirements for solvency purposes that require insurers to address all relevant and material risks.</p>	<p>ICP 16 The supervisor requires the insurer to establish within its risk management system an enterprise risk management (ERM) framework for solvency purposes to identify, measure, report and manage the insurer’s risks in an ongoing and integrated manner.</p>
<i>Enterprise Risk Management Framework - Risk Identification and Measurement</i>	<i>Enterprise risk management framework - risk identification</i>
<p>ICP 16.1 The supervisor requires the insurer’s enterprise risk management framework to provide for the identification and quantification of risk under a sufficiently wide range of outcomes using techniques which are appropriate to the nature, scale and complexity of the risks the insurer bears and adequate for risk and capital management and for solvency purposes</p>	<p>ICP 16.1 (split from current ICP 16.1) The supervisor requires the insurer’s ERM framework to provide for the identification of all reasonably foreseeable and relevant material risks and risk interdependencies for risk and capital management.</p>
<i>Enterprise Risk Management Framework – Documentation</i>	<i>Enterprise risk management framework – quantitative techniques to measure risk</i>
<p>ICP 16.2 (moved to the revised ICP 8) The supervisor requires the insurer’s measurement of risk to be supported by accurate documentation providing appropriately detailed descriptions and explanations of the risks covered, the measurement approaches used and the key assumptions made.</p>	<p>ICP 16.2 (split from current ICP 16.1) The supervisor requires the insurer’s ERM framework to provide for the quantification of risk and risk interdependencies under a sufficiently wide range of techniques for risk and capital management.</p>
<i>Enterprise Risk Management Framework - Risk Management Policy</i>	<i>Enterprise risk management framework - Inter-relationship of risk appetite, risk limits and capital adequacy</i>
<p>ICP 16.3 (moved to the revised ICP 8) The supervisor requires the insurer to have a risk management policy which outlines how all relevant and material categories of risk are managed, both in the insurer’s business strategy and its day-to-day operations.</p>	<p>ICP 16.3 (adapted from current ICP 16.4) The supervisor requires the insurer’s ERM framework to describe the relationship between the insurer’s risk appetite, risk limits, regulatory capital requirements, economic capital and the processes and methods for monitoring risk.</p>
	<i>Enterprise risk management framework – risk appetite statement</i>

<p>ICP 16.4 The supervisor requires the insurer to have a risk management policy which describes the relationship between the insurer’s tolerance limits, regulatory capital requirements, economic capital and the processes and methods for monitoring risk.</p>	<p>ICP 16.4 <i>(adapted from current ICP 16.8)</i> The supervisor requires the insurer to have a risk appetite statement that:</p> <ul style="list-style-type: none"> • articulates the aggregate level and types of risk the insurer is willing to assume within its risk capacity to achieve its financial and strategic objectives, and business plan; • takes into account all relevant and material categories of risk and their interdependencies of the insurer’s current and target risk profiles; and • is operationalised in its business strategy and day-to-day operations through a more granular risk limits structure.
<p>ICP 16.5 The supervisor requires the insurer to have a risk management policy which includes an explicit asset-liability management (ALM) policy which clearly specifies the nature, role and extent of ALM activities and their relationship with product development, pricing functions and investment management.</p>	<p><i>Asset-liability management, investment and underwriting policies</i></p> <p>ICP 16.5 The supervisor requires the insurer’s ERM framework to include an explicit asset-liability management (ALM) policy that clearly specifies the nature, role and extent of ALM activities and their relationship with product development, pricing functions and investment management.</p>
<p>ICP 16.6 The supervisor requires the insurer to have a risk management policy which is reflected in an explicit investment policy which:</p> <ul style="list-style-type: none"> • specifies the nature, role and extent of the insurer’s investment activities and how the insurer complies with the regulatory investment requirements established by the supervisor; and • establishes explicit risk management procedures within its investment policy with regard to more complex and less transparent classes of asset and investment in markets or instruments that are subject to less governance or regulation. 	<p>ICP 16.6 The supervisor requires the insurer’s ERM framework to include an explicit investment policy that:</p> <ul style="list-style-type: none"> • addresses investment risk according to the insurer’s risk appetite and risk limits structure; • specifies the nature, role and extent of the insurer’s investment activities and how the insurer complies with regulatory investment requirements; and • establishes explicit risk management procedures with regard to more complex and less transparent classes of asset and investments in markets or instruments that are subject to less governance or regulation.
<p>ICP 16.7 The supervisor requires the insurer to have a risk management policy which includes explicit policies in relation to underwriting risk.</p>	<p>ICP 16.7 The supervisor requires the insurer’s ERM framework to include an underwriting policy that addresses the:</p> <ul style="list-style-type: none"> • insurer’s underwriting risk according to the insurer’s risk appetite and risk limits structure; • nature of risks to be underwritten; and

	<ul style="list-style-type: none"> interaction of the underwriting strategy with the insurer's reinsurance/risk transfer strategy and premium setting.
<i>Enterprise Risk Management Framework - Risk Tolerance Statement</i>	<i>Own risk and solvency assessment (ORSA)</i>
<p>ICP 16.8 (2nd and 3rd bullet points moved to revised ICP 8)</p> <p>The supervisor requires the insurer to:</p> <ul style="list-style-type: none"> establish and maintain a risk tolerance statement which sets out its overall quantitative and qualitative risk tolerance levels and defines risk tolerance limits which take into account all relevant and material categories of risk and the relationships between them; make use of its risk tolerance levels in its business strategy; and embed its defined risk tolerance limits in its day-to-day operations via its risk management policies and procedures. 	<p>ICP 16.8 (current ICP 16.11)</p> <p>The supervisor requires the insurer to perform regularly its own risk and solvency assessment (ORSA) to assess the adequacy of its risk management and current, and likely future, solvency position.</p>
<i>Enterprise Risk Management Framework - Risk Responsiveness and Feedback Loop</i>	
<p>ICP 16.9 (moved to the revised ICP 8)</p> <p>The supervisor requires the insurer's ERM framework to be responsive to changes in its risk profile.</p>	<p>ICP 16.9 (current ICP 16.12)</p> <p>The supervisor requires the insurer's Board and Senior Management to be responsible for the ORSA.</p>
<p>ICP 16.10 (moved to the revised ICP 8)</p> <p>The supervisor requires the insurer's ERM framework to incorporate a feedback loop, based on appropriate and good quality information, management processes and objective assessment, which enables it to take the necessary action in a timely manner in response to changes in its risk profile.</p>	<p>ICP 16.10 (current ICP 16.13)</p> <p>The supervisor requires the insurer's ORSA to:</p> <ul style="list-style-type: none"> encompass all reasonably foreseeable and relevant material risks including, at a minimum, insurance, credit, market, operational and liquidity risks and (if applicable) additional risks arising due to membership of a group; and identify the relationship between risk management and the level and quality of financial resources needed and available.
<i>Own Risk and Solvency Assessment (ORSA)</i>	<i>ORSA - economic and regulatory capital</i>
<p>ICP 16.11</p> <p>The supervisor requires the insurer to perform its own risk and solvency assessment (ORSA) regularly to assess the adequacy of its risk management and current, and likely future, solvency position.</p>	<p>ICP 16.11 (current ICP 16.14)</p> <p>The supervisor requires the insurer to:</p> <ul style="list-style-type: none"> determine, as part of its ORSA, the overall financial resources it needs to manage its business given its risk appetite and business plans; base its risk management actions on consideration of its economic capital, regulatory capital requirements, financial resources, and its ORSA; and

	<ul style="list-style-type: none"> • assess the quality and adequacy of its capital resources to meet regulatory capital requirements and any additional capital needs.
<p>ICP 16.12 The supervisor requires the insurer’s Board and Senior Management to be responsible for the ORSA.</p>	<p><i>ORSA - continuity analysis</i></p> <p>ICP 16.12 (current ICP 16.15) The supervisor requires:</p> <ul style="list-style-type: none"> • the insurer, as part of its ORSA, to analyse its ability to continue in business, and the risk management and financial resources required to do so over a longer time horizon than typically used to determine regulatory capital requirements; and • the insurer’s continuity analysis to address a combination of quantitative and qualitative elements in the medium and longer-term business strategy of the insurer and include projections of its future financial position and analysis of its ability to meet future regulatory capital requirements.
<p>ICP 16.13 The supervisor requires the insurer’s ORSA to encompass all reasonably foreseeable and relevant material risks including, as a minimum, underwriting, credit, market, operational and liquidity risks and additional risks arising due to membership of a group. The assessment is required to identify the relationship between risk management and the level and quality of financial resources needed and available.</p>	<p><i>Role of supervision in ERM for solvency purposes</i></p> <p>ICP 16.13 (from current ICP 16.16) The supervisor undertakes reviews of the insurer’s ERM framework, including the ORSA. Where necessary, the supervisor requires strengthening of the insurer’s ERM framework, solvency assessment and capital management processes.</p>
<p><i>Own Risk and Solvency Assessment (ORSA) - Economic and Regulatory Capital</i></p>	
<p>ICP 16.14 The supervisor requires the insurer to:</p> <ul style="list-style-type: none"> • determine, as part of its ORSA, the overall financial resources it needs to manage its business given its own risk tolerance and business plans, and to demonstrate that supervisory requirements are met; • base its risk management actions on consideration of its economic capital, regulatory capital requirements and financial resources, including its ORSA; and • assess the quality and adequacy of its capital resources to meet regulatory capital requirements and any additional capital needs. 	

Own Risk and Solvency Assessment (ORSA) - Continuity Analysis

ICP 16.15

The supervisor requires:

- the insurer, as part of its ORSA, to analyse its ability to continue in business, and the risk management and financial resources required to do so over a longer time horizon than typically used to determine regulatory capital requirements;
- the insurer's continuity analysis to address a combination of quantitative and qualitative elements in the medium and longer-term business strategy of the insurer and include projections of its future financial position and analysis of its ability to meet future regulatory capital requirements.

Role of Supervision in Risk Management

ICP 16.16

The supervisor undertakes reviews of an insurer's risk management processes and its financial condition, including the ORSA. Where necessary, the supervisor requires strengthening of the insurer's risk management, solvency assessment and capital management processes.