Thematic note on how to build a risk-based solvency (RBS) regime using an Own Risk and Solvency Assessment (ORSA) as a basis

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This document was prepared by the Risk-based Solvency Implementation Forum (RBSIF) in consultation with IAIS members.

This document is available on the IAIS website (www.iais.org).

Content Overview

Acronyms

AI	Artificial Intelligence
ALM	Asset Liability Management
EIOPA	European Insurance and Occupational Pensions Authority
EMDE	Emerging Markets and Developing Economies
ERM	Enterprise Risk Management
EU	European Union
FINMA	Swiss Financial Market Supervisory Authority
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
ICP	Insurance Core Principles
ICS	Insurance Capital Standard
IPEC	Insurance and Pensions Commission of Zimbabwe
MAS	Monetary Authority of Singapore
NAIC	National Association of Insurance Commissioners
ORSA	Own Risk and Solvency Assessment
OSFI	Office of the Superintendent of Financial Institutions of Canada
PA	South Africa Prudential Authority
RBC	Risk-based Capital
RBS	Risk-based Solvency
RBSIF	Risk-based Solvency Implementation Forum

SBS	Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones del Peru
SFCR	Solvency and Financial Condition Report

1 Background and introduction

1.1 Background

1. **The IAIS is committed to helping its members from emerging markets and developing economies (EMDEs) to keep pace and/or support their insurance markets' growth.** Through cooperation with implementation partners and regional associations of supervisors, the IAIS will extend its geographical reach and bolster its capacity-building efforts.[1]
2. **The Risk-based Solvency Implementation Forum (RBSIF)** was established in March 2022 to support EMDEs in enhancing their observance of IAIS supervisory material and strengthening members' supervisory frameworks with respect to Risk-based Solvency (RBS) frameworks.
3. **The RBSIF published its members-only Guidance on transitioning to an RBS regime (Guidance)** on 17 December 2024.[2] This Guidance covers the practical aspects of implementing an RBS regime, covering quantitative, qualitative and disclosure components, as well as procedural aspects of managing the transition, and is targeted at supervisors in EMDEs.

1.2 Introduction

4. **This thematic note has been developed in line with Core Objective 3 of the IAIS Strategic Plan 2025–2029 to support members in implementing an RBS regime by leveraging the Own Risk and Solvency Assessment (ORSA) framework.** The note builds on the Guidance and Insurance Core Principle (ICP) 16 (Enterprise risk management for solvency purposes).
5. **ICP 16 establishes the requirements for insurers to regularly perform their own risk and solvency assessments.** ICP 16 provides detailed standards and guidance on the use and supervision of ORSAs (16.10–16.16). ICP 16 states that the supervisor requires the insurer to establish within its Enterprise Risk Management (ERM) framework the requirement to perform an ORSA for solvency purposes to identify, measure, report and manage the insurer's risks in an ongoing and integrated manner.
6. **The ORSA is the process through which the insurer analyses its long-term business viability** and the necessary risk management and financial resources, extending beyond the timeframe used to determine regulatory capital requirements. As such, the ORSA is a core component of an insurer's ERM framework.
7. **The Executive Summary of the Guidance notes that an ORSA *"can be viewed as the bridge between the quantitative and qualitative components of an RBS regime".*** A potential approach to consider "RBS development" might be to focus on qualitative requirements like the ORSA to develop greater sophistication in risk management and governance and to create the conditions for more sophisticated quantitative solvency requirements.
8. **An RBS regime requires sophisticated quantitative solvency requirements that are developed through sophisticated risk management, data collection and analysis.** A

[1] IAIS Strategic Plan 2025–2029.

[2] Guidance on transitioning to a risk-based solvency (RBS) regime.

supervisor developing an RBS regime can use the ORSA framework to support this development by increasing the sophistication of the qualitative requirements that can then be used for an RBS requirement implementation.

9. **This note emphasises the ORSA's vital role in shaping a successful RBS regime for solo insurers and is not intended as an exhaustive analysis of all aspects of the ORSA, which are addressed in greater detail in sources such as ICP 16.** The ORSA can have many uses for an insurer or a supervisor, but the focus of this note is to highlight the potential use of the ORSA as a foundational element in developing an RBS framework, specifically for solo insurers, and demonstrate how the ORSA can actively and effectively support the implementation of RBS regimes. Rather than focusing on detailed supervisory guidance, instructions or templates, it showcases the substantial value ORSA brings in implementing and strengthening RBS regimes. Operational topics, including supervisor and industry preparedness and broader RBS implementation, are thoroughly addressed in the Guidance. Although this note is primarily tailored for the supervision of solo insurers, these principles can equally apply to insurance groups as well.

2 Description and objectives of ORSA

2.1 Description

10. **The IAIS Glossary does not define an ORSA.** However, ICP 16 describes an ORSA for solvency purposes, focusing on identifying, measuring, reporting and managing an insurer's risks in a continuous and integrated way. An ORSA is the process by which insurers assess their long-term business viability, risk management and financial resources beyond regulatory capital timelines. Although descriptions of ORSA differ amongst jurisdictions, there are similarities and common themes that connect the different approaches. Examples of descriptions of ORSAs used by different jurisdictions are shown in Table 1 below.

Table 1: Description of an ORSA

Jurisdiction (Organisation)	Description
EU(EIOPA)/South Africa (PA)/Bermuda (BMA)/Zimbabwe (IPEC)[3]	ORSA means the entirety of the process and procedures employed to identify, assess, monitor, manage and report the risks an insurer faces or may face, and to determine the own funds necessary to ensure that the insurer's overall solvency needs are met at all times.
US (NAIC)	ORSA shall mean a confidential internal assessment, appropriate to the nature, scale and complexity of an insurer or insurance group, conducted by that insurer or insurance group, of the material and relevant risks associated with the insurer's or insurance group's current business plan, and the sufficiency of capital resources to support those risks.

[3] Note that while the definitions of the ORSA used by these jurisdictions are similar, they are not identical. They have been grouped for brevity.

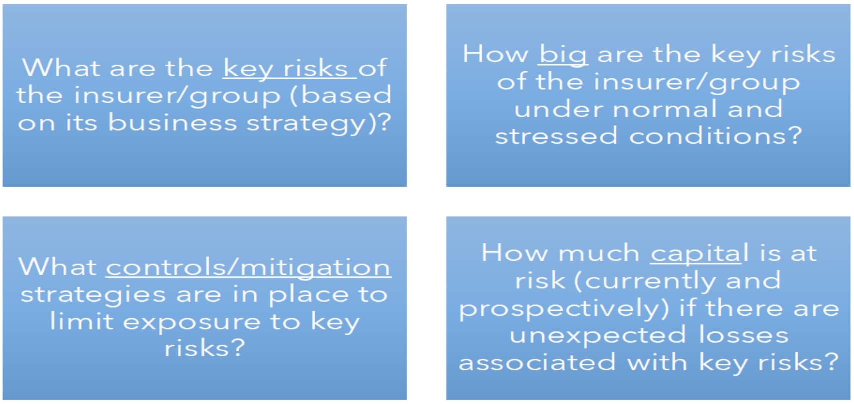
Jurisdiction (Organisation)	Description
Canada (OSFI)	The prime purpose of the ORSA is for an insurer to identify material risks, assess the adequacy of its risk management and assess the adequacy of its current and likely future capital needs. The ORSA should consider all reasonably foreseeable and relevant material risks, and be integrated with an insurer's business and strategic planning.
Singapore (MAS)	An insurer must perform its ORSA, at a minimum, annually to assess the adequacy of its risk management, and current and projected future solvency and liquidity position with a time horizon that is consistent with that used in its business planning.
Switzerland (FINMA)	ORSA is a forward-looking self-assessment process that insurance companies must conduct to evaluate: • Their risk exposure (risks and overall risk profile); • Their capital needs; • The interrelationship between risks and capital; and • The adequacy and effectiveness of risk management. Insurers must be organised to identify, limit and monitor key risks effectively. The process has to be integrated into the company's strategic planning and decision-making. This ORSA enables insurers to develop a comprehensive overview of its risk and capital situation, including the interrelationships between risks and capital. An ORSA must be performed at least annually.
Peru (SBS)	ORSA is the exercise that allows insurers to identify, assess, manage and report the material risks to which they are or could be exposed in the short and long term, as well as, on a forward-looking basis, to determine eligible own funds under their own considerations and assumptions, the required solvency capital and the economic capital, taking into account their specific risk profile, approved risk tolerance limits and business strategy, with the aim of implementing improvements in their risk and capital management.

2.2 Objectives

11. **The ORSA is a valuable source when identifying the specific characteristics of the local market and those elements that are most important or are the source of the most risk to the insurer or market**. By identifying these elements, a tailored approach to the RBS framework can be applied that identifies the areas where the most capital should be applied and where the accuracy of the methodology is most important. This is beneficial when developing an efficient framework that is appropriate and proportionate to the level of sophistication of the local market.

12. **The objectives of the ORSA are to align the risk management with the business strategy, by assessing the resilience of the insurer across different scenarios and the insurer’s risk appetite, proportionate to its risk profile.** The relationship between risk, capital and business strategies should be evident and communicated to improve governance and risk awareness for better risk understanding and management. An ORSA regime should be implemented in a proportionate way, taking into account the size and complexity of the insurers and the local insurance market.
13. **The ORSA is a comprehensive internal process used by insurers to evaluate their risk management and solvency positions, both current and future.** The assessment involves identifying, assessing, measuring, managing and reporting risks to ensure the insurer's solvency under various stress scenarios over a period of time.
14. **The ORSA gives Boards clarity on resilience, regulators confidence in oversight, and executives a compass for navigating uncertainty.** The ORSA can be thought of as a process to answer specific questions about an insurer. Figure 1 below depicts the type of questions that an ORSA can be expected to address.

Figure 1: The ORSA is produced to answer the following questions:



Source: NAIC

15. **The IAIS sets out the objectives of the ORSA as follows in its ICPs:**

- **Understand risk profile (ICP 16.10 and 16.12):** Gain a comprehensive understanding of all material risks that could impact their financial soundness;
- **Assess solvency needs (ICP 16.12):** Evaluate their current and future solvency positions under normal and stressed conditions to ensure they can meet policyholder obligations;
- **Enhance risk management (ICP 16.10):** Improve their risk management practices by identifying, assessing and mitigating risks effectively;
- **Support strategic decision-making and capital management (ICP 16.13):** Provide insights that support informed strategic and business decisions; and
- **Ensure regulatory compliance (ICP 16.10 and 16.14):** Meet regulatory requirements and demonstrate to regulators that they have robust risk management and solvency assessment processes in place.

3 ORSA as a building block of an RBS regime

16. **The ORSA has many uses for both the insurer and the supervisor. This thematic note focuses on how a supervisor can use an ORSA report as a building block to develop an RBS regime, specifically to determine a standard formula (Pillar 1).** When implementation follows the project startup phase (as set out in Section 4.1 of the Guidance) for those jurisdictions where such a phased implementation makes sense, the information from the participating insurers can provide the supervisor with insights into what the industry considers appropriate. Although every insurer will be basing its ORSA on its own business and risk profile, the supervisor can use this information when determining appropriate standards for an RBS regime in that jurisdiction.
17. **Supervisors can adopt the following approach to design and implement an RBS regime.** Figure 2 sets out the elements that can be leveraged in the approach.

Figure 2: The elements of an ORSA that can be used as a building block in an RBS

a. **Risk identification: The supervisor uses the risks identified in insurers' ORSAs as a guide for risks it should address.** The risks that the insurers consider relevant for their solvency are a guide for what the supervisor could include. It is, however, important that represented in the capital requirements are not only the typical risk categories such as insurance risk, market risk, credit risk and operational risk but also the sub-categories of risk (eg life and non-life for insurance risk). For further guidance, please see Section 5.2.3.2 of the Guidance (including Table 3: Risks covered in ICS and their relevance to EMDE insurers).

b. **Assessment of risk**: **The supervisor uses the assessments of the risks in insurers' ORSAs to determine which risks are estimated to have the greatest impact** (ie the risk areas where the capital requirements should be the largest). Insurers use quantitative and qualitative tools to assess their exposure to risks, the risks the insurer is prepared to take, and which risks needs to be mitigated (covered in risk appetite statements). When ORSAs describe the quantum of risks and the relevant management actions in such a way that the risks before the management actions that have the largest impact can be determined, the supervisor can in turn determine which risks it should focus on. Supervisors can also monitor which risks most insurers focus on to determine the common risks for most of the industry.

In Box 1 below we provide some examples of the types of risk appetite statements frequently used by insurers as part of their risk management frameworks.

Box 1 – Examples of risk appetite statements[4]

[4] Risk appetite refers to the risks insurers are prepared to take to meet their strategic goals.

Quantitative statements:

- Regulatory capital ratios are greater than X%.
- Earnings volatility not to exceed X% over a Y-year horizon.
- Loss from a single catastrophic event not to exceed $X.
- Maintain a buffer sufficient to withstand a 1 in X (eg 10 or 20) stress while remaining ≥100% covered.
- Defines the size of a single operational loss amount that is acceptable or not acceptable.

Qualitative statements:

- Insurer X has a very low appetite for reputational risk exposure that impacts the insurer's reputation and/or brand.
- Insurer X will promptly take action to address customer complaints and regulatory concerns.
- Insurer X will not engage in any activity that will put its long-term value at risk.
- Insurer X has no appetite for internal fraud.

c. **Risk mitigation: The supervisor can identify the risk mitigation techniques applied by insurers.** Risk mitigation, which includes reinsurance, refers to the strategies and practices used by insurers to reduce the impact of potential losses. Other examples include diversification in business and investments, underwriting and pricing, hedging, and asset liability matching (ALM). By using this information and identifying the range of risk mitigation techniques applied, the supervisor can decide which techniques are acceptable for regulatory purposes and to what extent.

   The ORSA can be useful in comparing peers to gain a better understanding of the risks the industry faces. The comparative analysis of ORSA reports is limited due to their alignment with individual insurers. However, meaningful insights can be drawn by grouping insurers into cohorts based on similar size, complexity and nature. This allows for comparison of key metrics such as types and top risks, the number and nature of stress tests and scenarios used, and how well these align with identified top risks and business strategy. Additionally, the use of best practices across insurers can be evaluated, along with the types of risks, including emerging risks, and the management actions discussed in response to those risks.

d. **Stress and scenario testing: The supervisor can analyse the stress and scenario testing disclosed in insurers' ORSAs for use in the calibration of the capital requirements.** ORSAs describe the risks identified by insurers and their subjection to stresses and sensitivity/scenario analyses, which provides data that the supervisor can use in its calibration exercise as input to the final determination or the size of the factors in the capital requirements of the standard formula. A key insight from ORSA reports is how insurance risks vary by line of business, which helps supervisors determine the set of stress scenarios to be incorporated into the standard formula and calibrate their parameters. However, not all stress and scenario tests conducted by insurers are appropriate for regulatory calibration purposes. For instance, insurers may run medium-severity events to assess profit and loss impacts or high-severity events to test capital impacts. Only scenarios that meet the targeted severity and are relevant to the calibration of capital requirements should be considered by the supervisor.

e. **Capital model: The supervisor gains information from the level of solvency that insurers consider appropriate for capital targets.** Insurers are required in an ORSA to reflect their own view on their solvency positions and capital needs, which are based on insurers' choice of data sets, measures, confidence levels and time horizons, valuation approaches and methods, aggregation and other financial and risk measurements. In building its RBS regime, the supervisor uses this information to derive its solvency levels and capital targets by building on what insurers already keep as appropriate capital.

f. **Governance: The supervisor ascertains from the insurers' ORSAs the integrated risk management processes employed to increase and improve insurers' governance.** Insurers' policies and procedures (internal control structures) are needed to establish effective governance, and these should be discussed in the ORSA. The supervisor can use this information as a base for what would be required in developing the standard requirements of its RBS regime.

g. **ORSA report: Supervisors, through the review of the ORSA reports and engagements with insurers, can identify common and diverging trends as well as common and emerging risks.** The output of the ORSA process is documented in an ORSA report, which supervisors can analyse to determine the factors/elements to use in building their RBS regimes as they gain an overall understanding of the risks within the industry confirmed by engagement with insurers.

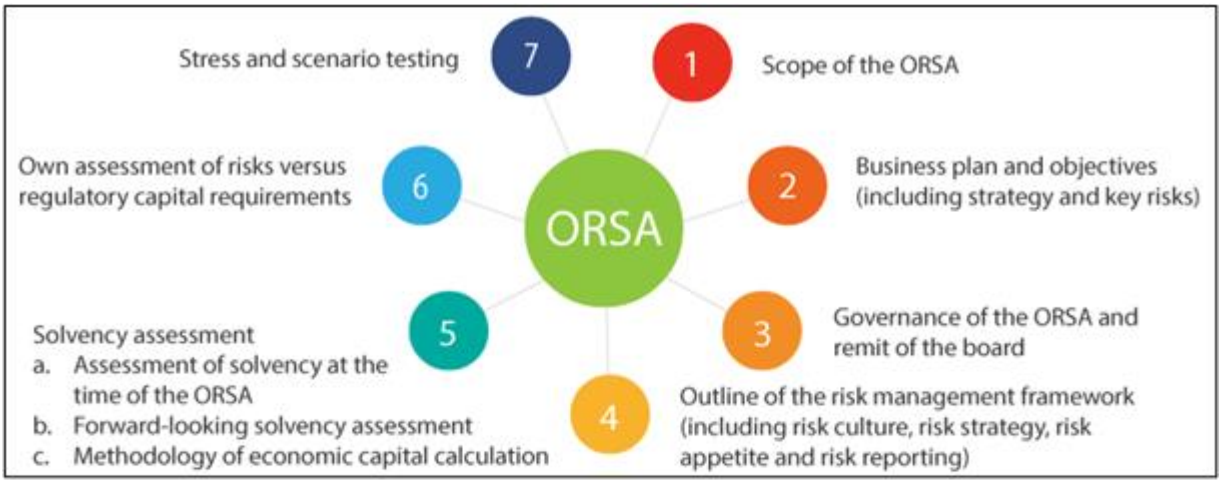
4 Illustrative ORSA practices

4.1 Illustrative structure of an ORSA

18. **When applying the ORSA as part of developing an RBS regime,** certain elements could be included from the outset, while others can be added as the ORSA framework matures. For example, in jurisdictions with a factor-based capital regime, comparing an insurer's own risk assessments with regulatory requirements may offer valuable insights. Similarly, stress and scenario testing should be incorporated to assess resilience under adverse conditions.

19. **Figure 3 illustrates the possible components of an ORSA report.**

Figure 3: Illustration of the components of an ORSA



Source: Guidance (Figure 17, Section 5.4.4.5).

a. **For example, the following components might be seen as essential for any ORSA:** The business plan and objectives, an overview of the risk management framework, particularly risk reporting and risk appetite and the solvency assessment.

b. **The relevance of component 6 depends on the regulatory capital regime currently in force in the jurisdiction:** for example, if a jurisdiction is using a factor-based capital regime that addresses several risk areas. In these cases, comparing the own assessment of risks with regulatory capital requirements can be informative. Stress and scenario testing is another aspect that can provide valuable insights into the insurer's view of its risk profile and risk appetite compared with those required by the supervisor.

4.2 Supervisory practices

20. **Insights from jurisdictions that have implemented ORSA frameworks highlight best practices and lessons learnt.** Box 2 below is an example from Peru, which illustrates how ORSA has been applied in practice.

Box 2 – Case study: Risk assessment in the Peruvian insurance market
In 2024, the Peruvian insurance system undertook its first pilot implementation of the ORSA. Using the participating entities' reports, it was observed that the thorough analysis of the insurance market, which included an assessment of the insurance penetration index and the sector's growth trends in recent years, was instrumental in evaluating the market's development potential and identifying strategic opportunities. Risk assessment was conducted from both quantitative and qualitative perspectives. Quantitatively, market risk and life risk were identified as the most material exposures due to their substantial impact on capital requirements. Qualitatively, business risk and reputational risk were highlighted for their potential influence on strategic decision-making and the long-term sustainability of insurance entities. For the evaluation of quantitative risks, the standard Risk-based Capital (RBC Peru) model was adopted as the primary framework. Adjustments were made to certain risk shocks to reflect the inherent risk profile of each entity, thereby enhancing the granularity and relevance of the capital

adequacy analysis. The RBC Peru model also served as a reference for defining insurers' risk appetite and tolerance levels, which may be recalibrated under adverse conditions.

As part of the ORSA report, entities presented results across the required scenarios: baseline, free, and interest rate sensitivity. In the baseline scenario, insurers were required to calculate their capital requirements using the RBC Peru model. The free scenario permitted the use of internal models, which in this initial phase were primarily applied to spread risk. Additionally, a sensitivity analysis on interest rate risk was conducted, encompassing four scenarios: two with increases of +100 and +200 basis points, and two with decreases of -100 and -200 basis points.

The reports also outlined proposed strategies for mitigating identified risks. These included asset-liability matching in foreign currency or inflation-adjusted local currency, as well as investment portfolio diversification aimed at reducing concentration risk and enhancing financial stability.

The application of the RBC Peru model for risk profiling proved to be highly beneficial, fostering consistency and comparability across entities. Furthermore, the provision of standardised templates significantly facilitated the analytical process and contributed to the strengthening of risk management practices within the insurance sector.

21. **Using qualitative ORSA assessment approaches to focus on the evaluation of insurers' governance frameworks, risk identification processes and the internal consistency of reporting.** A governance review is conducted to assess the effectiveness of oversight structures, ensuring that responsibilities are clearly defined and that risk management is integrated into strategic decision-making. Risk identification and assessment processes are examined to confirm that all material risks are appropriately captured and evaluated in line with the insurer's risk profile.
22. **Reviewing stress tests, scenario analyses and risk mitigation measures using qualitative assessments.** These include evaluating the relevance, design and application of these tools, as well as their consistency with the insurer's strategic objectives and risk appetite.
23. **A structured checklist is often used to assess compliance with ORSA requirements.** The checklist provides a qualitative benchmark for evaluating the completeness and robustness of the ORSA process.
24. **Applying a consistency analysis to ensure the coherence of the ORSA report by aligning its figures with both regulatory and general purpose financial statements**. It involves reviewing projected balance sheets and capital requirements, while employing quantitative methods such as stress testing and scenario analysis to evaluate an insurer's solvency under adverse conditions. The key metric assessed is the solvency ratio serving as a measure of financial resilience.
25. **Key considerations for reviewing ORSA reports can include the following:**
    a. Focus on material risks:
        i. Prioritise the review of risks that have the most significant impact on insurers' solvency and financial stability.
        ii. Pay special attention to stress and scenario testing, as well as forward-looking analyses.
    b. Use a risk-based approach:
        i. Allocate supervisory resources based on the size, complexity and risk profile of each insurer.

ii. Develop internal tools, such as automated checklists or templates, to streamline the review process.

c. Provide feedback:

i. Send formal feedback letters to insurers, highlighting strengths, areas for improvement and any follow-up actions required.

ii. Use feedback sessions with insurers' Senior Management and Boards to discuss findings and enhance understanding.

d. Monitor progress:

i. Track insurers' progress over time by comparing successive ORSA reports.

ii. Require insurers to highlight changes in their reports from one year to the next, such as updates to risk assessments or management actions.

4.3 Hypothetical examples

26. **To illustrate how the ORSA can be analysed to identify the business model and its related risks, hypothetical examples of insurers are provided below.** These demonstrate the type of information that can be obtained from the ORSA and how it feeds into the developments of an RBS framework.

Table 2: Hypothetical example insurers

Elements	Example 1 – Life insurer	Example 2 – Non-life insurer
Business model	• Medium size • Underwriting annuity and term life products • Operates in one jurisdiction • Solo entity	• Small property insurer • Underwriting motor business • Solo entity
Risk identification and assessment	• Market risk: Exposure to interest rate movements due to asset-liability mismatch (Medium) • Credit risk: BBB-rated corporate bonds in investment portfolio (Medium) • Operational risk: Legacy IT systems and recent cyber incidents (High)	• Insurance risk: High loss ratios due to extreme weather events with limited reinsurance capacity (High) • Market risk: Conservative investments, mostly government bonds (Low) • Operational risk: Manual claims processing and outdated systems (Medium)
Capital adequacy and solvency	• Solvency ratio: 145% • Target solvency ratio: 160% • Post-interest rate shock: 120%	• Solvency ratio: 180% • Target solvency ratio: 150% • Post-claims shock: 90%
Forward-looking view	Planned mitigations:	Planned mitigations: • Regional expansion

Elements	Example 1 – Life insurer	Example 2 – Non-life insurer
	• Diversification of investments • IT system upgrades	• IT system upgrades
Overall risk profile view	Sound risk profile with elevated exposure to interest rate, credit and operational risks.	Solvency under strain in stress scenarios involving climate-related events without mitigation in place.

27. **The hypothetical life insurer differs from the non-life insurer** in a number of ways:
    - The type of risks to which it is most exposed – market risks rather than insurance risk – dominate for the life insurer;
    - The typical level and target level of the solvency ratio; and
    - The size of the balance sheet with life insurers holding significantly higher level of assets and liabilities.

5 Practical steps for implementing an ORSA regime

28. **ORSA implementation requires both time and sufficient powers.** Depending on the jurisdiction, it may not need specific legal powers; general provisions or moral suasion can suffice for requiring insurers to conduct ORSA and submit reports. Supervisors should note that implementation typically takes some time, often multiple years. The timeframes for implementation for EMDE jurisdictions could be longer than for advanced economies.
29. **An ORSA framework is often developed in stages, including through pilot or mock reports, prior to finalising an RBS regime.** As indicated in paragraph 307 of the Guidance, a simplified version can serve as an initial foundation. For smaller jurisdictions with limited supervisory resources and less-developed insurance sectors, implementing an ORSA framework before finalising an RBS regime may offer advantages, as noted previously in Section 3. Jurisdictions may implement their ORSA framework in phases, including conducting pilot or mock ORSA exercises to support framework development.
30. **In Box 3 below, a potential stepwise process,** which allows for gradual capacity building and allowing insurers and supervisors sufficient time to adapt, is set out.

Box 3 – Steps in a phased approach

1. Preliminary planning and awareness:
    - Assess the current state of the insurance market and supervisory framework.
    - Raise awareness amongst insurers about the purpose and benefits of ORSA.
    - Provide initial guidance on ORSA expectations, emphasising proportionality for smaller or less complex insurers.
2. Pilot exercises:
    - Conduct mock or simplified ORSA exercises to help insurers familiarise themselves with the process.
    - Use these pilot exercises to gather feedback and refine supervisory expectations.

Box 3 – Steps in a phased approach
3. Gradual implementation: ○ Roll out the ORSA framework in stages, starting with qualitative components (eg risk identification and governance) before incorporating more complex quantitative elements (eg solvency projections and stress testing). ○ Require insurers to submit ORSA reports on a periodic basis, typically annually, and adjust timelines as necessary to align with insurers' business cycles. 4. Review and feedback: ○ Review initial ORSA submissions and provide constructive feedback to insurers. ○ Organise workshops or industry-wide communications to share best practices and clarify expectations. 5. Full integration: ○ Once the ORSA framework is fully established, integrate it into the broader RBS regime. ○ Use insights from ORSA reports to inform supervisory priorities and calibrate solvency requirements.

31. **Supervisors determine the scope, timing and frequency for insurers to submit the ORSA report.** Jurisdictions may require insurers to submit an ORSA report periodically. The submission timeline may vary; in some cases, it may coincide with standard regulatory reporting, while in other cases, only annual submission may be specified without a set date. This flexibility often reflects differences in insurers' business plan cycles, which do not always align with the financial year-ends. Some supervisors may require more frequent ORSA submissions if there is a significant change in an insurer's risk profile or following a material event, such as a merger or an acquisition. The scope of the requirements for the ORSA (depth and granularity) can also be varied based on the size of the insurer and/ or the materiality of specific risks.
32. **Supervisors determine the appropriate structure for an ORSA report.** It is important to note that there is no single correct approach to an ORSA, and that elements integrated in an ORSA will vary by insurer. To assist the supervisor and enable peer review and comparability, it would be important for supervisors to consider the size and complexity of the insurer as well as to provide the insurance industry with training and guidance when setting the requirements.
33. **Diverse practices can be adopted regarding ORSA reporting.** For instances, supervisors may not mandate a specific ORSA report template, considering the report to be an insurer's self-assessment that should be tailored to individual needs. Alternatively, supervisors may provide an initial template – particularly to guide smaller insurers – and phase out prescribed templates as the framework matures and reporting quality improves. In other cases, templates may be introduced after several years with an emphasis on data-driven content, again primarily targeting smaller insurers. Such templates may not only simplify the reporting process but could also facilitate more effective, data-based evaluations by the supervisor.
34. **Regardless of whether an ORSA report template is mandated, supervisors should at a minimum provide insurers within their jurisdiction with clear guidance.** It is crucial to uphold the principle of proportionality throughout this process. Paragraph 327 of the

Guidance offers several recommendations in this regard. Supervisory guidance plays a critical role in harmonising expectations, interpreting standards or the ORSA framework, and supporting consistency across reports. Furthermore, such guidance contributes to improving the quality of ORSA reports.

35. **As with all supervisory reporting obligations, improving the quality of the ORSA report is essential and must be properly addressed.** This may be achieved by requiring insurers to implement robust governance frameworks and internal controls, such as requiring approval from Senior Management or the Board, evidenced by sign-off, or through independent validation and review processes. Supervisors can enhance the report's quality by conducting thorough reviews and engaging with insurers via individual follow-up requirements, formal recommendations or industry-wide communications and directives. For instance, supervisors may mandate insurers to submit the ORSA report with tracked changes, allowing them to clearly identify modifications or additions compared with the previous year's version.

Box 4 – Example of an insurer's governance, review and approval of the ORSA process
1. The risk management function is responsible for the ORSA process, together with other functions like the compliance and actuarial functions. 2. Independent validation of the ORSA results and an opinion of the adequacy of the internal capital targets can be performed by the head of the actuarial function. 3. Presentation of the ORSA results for review and challenge by the Risk Management Committee. 4. Presentation of the ORSA results and approval of the internal capital targets by the Risk Committee and Board. 5. The Chief Risk Officer's approval of the final ORSA report. 6. Internal audit opinion on the processes and procedures followed.

36. **Although the ORSA is primarily an insurer's self-assessment, certain aspects may be prescribed when it forms the basis for an RBS regime.** Supervisors may dictate specific assumptions for stress testing, such as macroeconomic or high-level claims scenarios, to ensure consistency. They may also provide analytical tools for insurers to use in ORSA reports and help both the industry and the supervisor prepare for industry-wide shocks. Beyond supervisor-dictated scenarios, insurers should develop insurer-specific scenarios that are reflective of their risk profile, taking into account considerations such as materiality, risks or scenarios not covered by the prescribed set, the severity and plausibility of stresses.
37. **Supervisors can support the insurer's adoption of the ORSA by organising seminars or workshops, or maintaining an updated Q&A or fact sheet.** As an example, the IAIS ICS Q&A serves as a formal resource that supervisors can access to clarify the ICS text. One approach may involve conducting a desktop review of ORSA reports and publishing a report with its findings, recommendations and suggested best practices.
38. **An ORSA implementation affects the supervisor, who must plan and prepare accordingly.** This involves developing staff, processes and systems, as well as establishing internal guidance, automated tools or checklists for analysing ORSA submissions. Ongoing staff training is essential, and subject matter experts within the supervisory body can support these efforts and keep resources current.

39. **After an ORSA assessment, the supervisor needs to produce relevant outputs.** The assessment process includes sending a formal letter to the entity with comments on the work performed, highlighting strengths and areas needing improvement. A more detailed internal memo is also prepared.
40. **In summary, some key takeaways for implementing an ORSA regime are:**
    a. **Flexibility in an ORSA structure:** An ORSA report can be tailored to the insurer's specific risk profile and business model. Supervisors should provide guidance to ensure consistency while allowing for proportionality.
    b. **Supervisory insights:** ORSA reports offer supervisors valuable insights into insurers' risks, solvency positions and governance frameworks, enabling Senior Management to make informed decisions on an insurer's risk appetite and risk profile.
    c. **Stress testing and forward-looking analysis:** Stress and scenario testing, combined with forward-looking projections, are critical components of an effective ORSA report.
    d. **Practical applications:** ORSA findings can inform the calibration of solvency requirements, identify emerging risks, and support the development of a robust RBS regime.

6 Lessons learnt, challenges and opportunities in implementing ORSA

6.1 Lessons learnt

41. **Engagement and ownership:** Initially, insurers may view ORSA as a compliance exercise. However, requiring active involvement and ownership by Senior Management and the Board fosters deeper engagement and ensures the ORSA becomes embedded in governance processes.
42. **Iterative improvement:** The quality and utility of ORSA reports improve over time. Early iterations, such as mock or simplified reports, provide valuable learning opportunities for both insurers and supervisors. Feedback from supervisors on these initial reports helps clarify expectations and demonstrate the importance of the ORSA process.
43. **Supervisory dialogue:** Meetings between supervisors and an insurer's Board or Senior Management to discuss ORSA findings are instrumental. These discussions enhance an insurer's focus on the ORSA process and provide supervisors with a deeper understanding of insurers' risk management practices.
44. **Transparency and strategic alignment:** The ORSA process improves transparency by linking business strategies, risk appetite and solvency planning. This alignment ensures the ORSA is a living document that reflects the insurer's strategic decisions and projections.
45. **Valuable insights for supervisors:** ORSA reports provide supervisors with unique insights into insurers' business operations, risk management frameworks and solvency positions. This information is invaluable for understanding the broader market and identifying emerging risks.

6.2 Challenges

46. **Initial resource intensity:** Developing the first ORSA report is resource-intensive for insurers, particularly in jurisdictions where insurers lack experience or data in the required format. This often leads to outsourcing, which can hinder the development of internal expertise and ownership.
47. **Lack of standardisation:** The bespoke nature of ORSA reports makes them lengthy and complex, requiring significant resources from supervisors to review and analyse. The absence of standardised templates can lead to inconsistent submissions and create difficulty for comparative review and analysis.
48. **Staff training needs:** Supervisory staff may not fully understand the purpose and value of ORSA, leading to inconsistent reviews. Ongoing training and a quality assurance process within the supervisor is essential to build capacity and ensure effective supervision.
49. **Trust and disclosure:** ORSA requires insurers to disclose forward-looking information, such as emerging risks and solvency projections. Building and maintaining trust between insurers and supervisors is critical to ensure this information is shared openly without fear of punitive regulatory actions.
50. **Proportionality and documentation:** Striking the right balance between proportionality and completeness remains an ongoing challenge. Additionally, insurers often struggle to document the alignment of their risk appetite with business strategies or to demonstrate robust monitoring and remediation processes.

6.3 Opportunities

51. **The ORSA framework offers unique opportunities to enhance both risk management and supervisory practices.**
52. **Deeper insights into insurers:** ORSA provides a window into insurers' strategic thinking, risk management practices and future plans. Supervisors gain a narrative perspective on risks and management actions, offering a more comprehensive view of insurers' operations.
53. **Emerging risk identification:** By analysing ORSA reports, supervisors can identify new and emerging risks affecting the industry. This allows for proactive regulatory responses and improved market resilience.
54. **Crisis preparedness:** ORSA reports outline insurers' intended management actions in response to potential crises. Supervisors can assess the feasibility of these actions and provide pre-emptive feedback to strengthen preparedness.
55. **Future planning and market trends:** ORSA sheds light on insurers' plans for expansion, new ventures or run-offs. This information enables supervisors to anticipate market changes and assess their potential impact on financial stability.
56. **Calibration of solvency requirements:** In jurisdictions where qualitative requirements are implemented before quantitative ones, ORSA reports can inform the calibration of a standard formula. Conversely, where quantitative requirements are already in place, ORSA insights can signal the need for recalibration.
57. **Standardisation and efficiency:** Introducing a standardised ORSA report structure or database approach can simplify reporting for insurers and streamline supervisory analysis. Leveraging artificial intelligence (AI) tools can further enhance the efficiency of qualitative and comparative analyses.

58. **Capacity building:** Supervisors can support insurers through training, workshops and clear guidance. Sharing best practices and publishing findings from ORSA reviews fosters continuous improvement across the industry.