

**Solvency Modernization Initiative
International Solvency (EX) Working Group**

**Consultation Paper on
Corporate Governance and Risk Management**

Appendix Two

The International Association of Insurance Supervisors
Standard on Enterprise Risk Management for Capital Adequacy and Solvency Purposes

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS



STANDARD ON ENTERPRISE RISK MANAGEMENT FOR CAPITAL ADEQUACY AND SOLVENCY PURPOSES

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Standard on enterprise risk management for capital adequacy and solvency purposes

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1. Governance and an Enterprise Risk Management framework

1. As part of its overall governance structure, an insurer should establish, and operate within, a sound Enterprise Risk Management (ERM) framework which is appropriate to the nature, scale and complexity of its business and risks.

2. The ERM framework should be integrated with the insurer's business operations and culture, and address all reasonably foreseeable and relevant material risks faced by the insurer in accordance with a properly constructed risk management policy.

3. The establishment and operation of the ERM framework should be led and overseen by the insurer's board and senior management.

Risk identification and measurement

4. For it to be adequate for capital management and solvency purposes, the framework should include provision for the quantification of risk for a sufficiently wide range of outcomes using appropriate techniques.

5. Measurement of risk should be supported by accurate documentation providing appropriately detailed descriptions and explanations of risks.

Risk management policy

6. An insurer should have a risk management policy which outlines the way in which the insurer manages each relevant and material category of risk, both strategically and operationally.

7. The policy should describe the linkage with the insurer's tolerance limits, regulatory capital requirements, economic capital and the processes and methods for monitoring risk.

Risk tolerance statement

8. An insurer should establish and maintain a risk tolerance statement which sets out its overall quantitative and qualitative tolerance levels and defines tolerance limits for

each relevant and material category of risk, taking into account the relationships between these risk categories.

9. The risk tolerance levels should be based on the insurer's strategy and be actively applied within its ERM framework and risk management policy.

10. The defined risk tolerance limits should be embedded in the insurer's ongoing operations via its risk management policies and procedures.

Risk responsiveness and feedback loop

11. The insurer's ERM framework should be responsive to change.

12. The ERM framework should incorporate a feedback loop, based on appropriate and good quality information, management processes and objective assessment, which enables the insurer to take the necessary action in a timely manner in response to changes in its risk profile.

2. Own Risk and Solvency Assessment (ORSA)

13. An insurer should regularly perform its own risk and solvency assessment (ORSA) to provide the board and senior management with an assessment of the adequacy of its risk management and current, and likely future, solvency position.

14. The ORSA should encompass all reasonably foreseeable and relevant material risks including, as a minimum, underwriting, credit, market, operational and liquidity risks. The assessment should identify the relationship between risk management and the level and quality of financial resources needed and available.

15. As part of its ORSA an insurer should determine 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.

16. The insurer's risk management actions should be based on consideration of its economic capital, regulatory capital requirements and financial resources.

17. As part of its ORSA, an insurer should 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.

18. Such continuity analysis should address a combination of quantitative and qualitative elements in the medium and longer-term business strategy of the insurer and include projections of the insurer's future financial position and analysis of the insurer's ability to meet future regulatory capital requirements.

3. Role of supervision in risk management

19. The supervisor should undertake reviews of an insurer's risk management processes and its financial condition. The supervisor should use its powers to require strengthening of the insurer's risk management, including solvency assessment and capital management processes, where necessary.