

Circular 2016/3

ORSA - insurers

Basic principles for conducting an own risk and solvency assessment (ORSA) and for reporting to FINMA

Reference: FINMA-Circ. 16/3 "ORSA"
 Date: 3 December 2015
 Entry into force: 1 January 2016
 Last amendment: 23 August 2018 [Modifications are indicated by an asterisk * and are listed at the end of the document.]
 Legal framework: FINMASA Article 7 para. 1 let. b, Article 29
 ISA Article. 22
 ISO Articles 96a, 195

Addressees												
BankA		ISA		SESTA	FMA				CISA		AMLA	Other
Banks					Trading venue							
Financial groups and congl.					Central counterparties							
Other intermediaries					Central securities depositories							
Insurers	X				Trade repositories							
Insurance groups and congl.	X				Payment systems							
Intermediaries					Participants							
Securities dealers					Fund management companies							
					SICAVs							
					Limited partnerships for CISs							
					SICAFs							
					Custodian banks							
					Asset manager CISs							
					Distributors							
					Representatives of foreign CISs							
					Other intermediaries							
					SROs							
					DSFIs							
					SRO-supervised institutions							
					Audit firms							
					Rating agencies							

I. Purpose	Margin no. 1–2
II. Scope of application	Margin no. 3–4
III. General principles	Margin no. 5–13
IV. Elements of the ORSA	Margin no. 14–31
A Forward-looking perspective	Margin no. 17–20
B Overall risk profile	Margin no. 21–25
C Overall capital requirements	Margin no. 26–29
D Risk-mitigating measures	Margin no. 30–31
V. Conducting ORSA	Margin no. 32–33
VI. Internal documentation	Margin no. 34–36
VII. Reporting to FINMA	Margin no. 37–48
VIII. Submission requirements and deadlines	Margin no. 49–51

I. Purpose

Supervised insurance companies, groups and conglomerates must be organised in such a way that they can identify, limit and monitor in particular all their material risks (see Art. 22 in conjunction with Arts. 67 and 75 Insurance Supervision Act [ISA; SR 961.01]). Under Article 96a in conjunction with Articles 195 para. 1 und 204 Insurance Supervision Ordinance (ISO; SR 961.011), they must conduct a forward-looking self-assessment of their risk situation and capital requirements (*Own Risk and Solvency Assessment*, ORSA). 1

This circular sets out the supervisory provisions for ORSA. 2

II. Scope of application

This circular applies to all insurance companies under Article 2 para. 1 lets. a and b ISA and groups and conglomerates (insurance groups) subject to group and conglomerate supervision under Article 2 para. 1 let. d in conjunction with Articles 65 and 73 ISA. 3

In this circular, these insurance companies and groups are referred to as “insurers”. 4

III. General principles

When applying the principles set out in this circular, the insurers’ specificities, size and complexity are taken into account, as is the principle of proportionality. 5

Reinsurance captives may conduct a simplified ORSA. FINMA provides the insurance companies concerned with a simplified version of the requirements. 6

ORSA covers all the processes and procedures undertaken by insurers to: 7

- identify, evaluate, monitor and manage risks during the planning period, as well as those for reporting; and 8
- determine capital adequacy (i.e. comparing capital requirements and capital available) during the planning period. 9

The board of directors ensures that the ORSA has been defined and implemented. 10

The business strategy takes account of ORSA, which is also part of the business planning. The board of directors and the executive board include the ORSA results in their decision-making processes, assessing regularly its appropriateness for business steering. 11

ORSA is subject to the rules and requirements for a business-appropriate and effective internal control system: insurers define and document the relevant key controls. 12

Insurers record the principles governing their ORSA in a written policy (ORSA policy), as well as writing up those relevant to the ORSA process design. The ORSA policy may contain the process design. 13

IV. Elements of the ORSA

From a risk perspective the ORSA covers all material activities of the insurer. Materiality has to be defined by the insurer. 14

Insurance companies take account of economically-linked companies. 15

Insurance groups take account of all their regulated and unregulated entities / business areas both in and outside Switzerland, including, where available, material off-balance sheet and non-consolidated areas. 16

A. Forward-looking perspective

The ORSA includes the entire planning period. The planning period corresponds with the period used in business planning and covers the situation in the current financial year and at least two additional years. 17

ORSA's forward-looking perspective is expressed through various scenarios covering the entire planning period. The causal progression of events as well as measures within the planning period for those scenarios are taken into account. 18

The insurers select, specify, assess and document the scenarios, which must take account of the insurers' individual risk situation. Insurers must select scenarios relevant to them at the time of the assessment, including adverse scenarios and at least one other scenario, which could pose an existential threat to the company/group. 19

FINMA can reject the scenarios submitted in a report and request them to be adjusted. 20

B. Overall risk profile

The insurer determines its overall risk profile by drawing up a comprehensive description and assessment of its risk situation. The overall risk profile covers all risks during the planning period, irrespective of whether the risks are assessed quantitatively or qualitatively. 21

The scenarios used for the ORSA represent the overall risk profile and cover all material aspects of the overall risk profile. 22

Insurers use a method to determine material risks which takes account of their specificities and enables risk comparison extending beyond the risk categories. The insurer defines the risk categories to be used. Highlighting interdependencies between various types of risk is a key aspect of determining the overall risk profile. 23

Every material risk concentration defined in accordance with margin no. 23 above — in particular those linked to risk categories, risk drivers, business types, geographical locations and counterparties — must be listed and analysed, and reflected in the assessment of the risk situation. 24

In addition, particular reference must be made to risks resulting from insurers' participation structure and intra-group transactions (IGTs), as well as those emanating from the location of the insurers' liquidity and capital resources in various jurisdictions. 25

C. Overall capital requirements

For each year of the planning period, insurers define and assess their capital adequacy for each scenario from every relevant perspective. 26

The relevant perspectives must take account of the regulatory perspectives; all other perspectives must also be included where insurers use them for business steering. 27

Available capital is quantified on the basis of its business planning, particularly its earnings targets, capital management measures and dividend policy. The quality, multiple use and fungibility of available capital must also be assessed. 28

Insurers' overall capital requirements are quantified on the basis of its overall risk profile, risk tolerance, business planning and risk mitigation measures. 29

D. Risk-mitigating measures

Insurers examine existing and potential preventive and situation-specific risk mitigation measures based on the overall risk profile and overall capital requirements, taking into account the insurers' specific risk appetite and risk tolerance. 30

The ORSA provides information on the effectiveness of, in particular, the existing risk mitigation measures and of the measures adopted. The way in which this information feeds back into the selection and implementation of the insurers' risk mitigation measures must be shown. 31

V. Conducting ORSA

Insurers conduct an ORSA at least once a year. 32

Significant changes in an insurer's risk situation may result in a partial or full re-conducting of the ORSA at more frequent intervals. 33

VI. Internal documentation

The individual process steps followed when conducting the ORSA must be documented. 34

Insurers record the ORSA results appropriately. 35

The content of the report must be made known to the relevant members of top management and committees, as well as to other relevant individuals. 36

VII. Reporting to FINMA

Insurance companies submit a report on the ORSA results to FINMA. 37

Insurance groups provide FINMA with separate reports for the solo insurance companies and the insurance group or a group report on the ORSA results. The granularity of this report should be such that both the group-wide aggregate perspective as well as the material entities, including those under FINMA's solo supervision, are shown separately. 38*

Economically-linked insurance companies, which are neither under group nor conglomerate supervision, can prepare a report in line with margin no. 38 above. 39

The report submitted to FINMA is a stand-alone document and should comprise at least the following documents: 40*

- *Management summary;* 41
- abrogated 42*-44*
- qualitative and quantitative results for the scenarios, capital adequacy perspectives and risk-mitigating measures; 45*
- conclusions based on the results and an assessment of the ORSA's effectiveness as a tool for business steering; 46
- term definitions. 47

The report submitted to FINMA is approved by the board of directors. It has to be duly signed before submission. 48*

VIII. Submission requirements and deadlines

Once a year insurance groups and insurers in supervisory categories 2 and 3 must submit a report on their ORSA results to FINMA. Depending on the risk situation, FINMA may order more frequent reportings.	49
The report prepared annually is submitted to FINMA once the business planning process has been completed, but no later than 31 January of the first planning year.	50
Reinsurance captives and insurance companies in supervisory categories 4 and 5 are exempted from FINMA's reporting requirement until further notice. Depending on the individual risk situation, FINMA may request these insurance companies to submit a report on the ORSA results.	51

List of modifications



The Circular has been modified as follows:

These modifications were adopted on 23 August 2018 and will enter into force on 1 January 2019.

modified	margin nos. 38, 40, 45, 48
abrogated	margin nos.42, 43, 44, 52
other changes	abrogation of the title after margin no. 51