# The main differences between S2 ORSA & Swiss ORSA

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# Introduction

addactis® Expertises' program gathers news from every business unit of addactis®. Each consultant gives his point of view on a trend which is influencing his job.

Today, discover addactis® French Senior Consultant Julie Laroche, thinking about the main differences between S2 ORSA & Swiss ORSA.

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## ORSA S2 and ORSA SST are pretty much the same, aren't they? What are the main differences in terms of flexibility and application schedule?

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In June 2015, the Swiss solvency regime was recognized as Solvency II equivalent. This decision confirms the two systems' similarities. However in order to get this approval, Switzerland had to perform several modifications of the insurance supervisory system that was in force, in order to converge towards the European Solvency II regime. The introduction of an ORSA requirement was one of these measures.
The first deadline for Swiss insurance companies to submit their ORSA report is January 31st, 2017 whereas EU insurance companies are required to perform an ORSA valuation at least once a year since the Solvency II directive came into force in January 1st, 2016.
Concept and definition of the Swiss ORSA are analogous to the ones defined by the Solvency II directive. Nevertheless we can observe a few minor differences. Broadly speaking, the Swiss ORSA requirements tend to be less restrictive than the Solvency II ones. For example, unlike in the Solvency II framework, exemptions and simplifications are allowed by the Swiss ORSA (under certain conditions). There are also less explicit rules regarding the integration of the Swiss ORSA in the decision-making process of companies, and no formal requirement regarding the need to assess the "continuous compliance" with regulatory capital.

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## What can be the present and future consequences of ORSA SST for Swiss companies' risk management?

Very similar consequences as the ones observed in the EU insurance industry are expected. More specifically, the introduction of ORSA will push Swiss insurers towards a reinforced risk management culture. As ORSA requires a forward-looking approach on strategic business decisions, we expect an increasing involvement of the board, through CROs and risk committees, in the risk management framework. Indeed, through ORSA, insurers need to define their tolerance in risk taking and anticipate the potential consequences on any strategic business choices.
Even if the risk management culture was already in place for most Swiss insurance companies, there will be a deeper need for formal risk management practices, processes and a focus on corporate governance. In particular, the ownership and roles of key functions in risk activities should be clearly defined. In order to ensure the understanding of good risk management practice in terms of impacts on business and to set up enough controls, we also expect Swiss insurers to improve communication and training on risk matters.
All these modifications may require new internal resources in the actuarial field and in risk management. Also, some companies will have to re-think their organization to fully integrate the culture of risk management to every strategic business decision.

> *The introduction of ORSA will push Swiss insurers towards a reinforced risk management culture.*

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## ORSA SST being considered a constraint so far, how to turn it into a necessity for the Swiss market?

As EU insurers, it is hoped that the Swiss insurance industry will rather use ORSA as a tool to monitor risk than view it as a constraint. ORSA evaluations should help key stakeholders of insurance companies to have a better understanding of their risks and of the potential consequences on their business, by quantifying in a prospective way the impacts of any change in their environment (e.g. economical changes, portfolio modifications, unexpected claims movements, etc.).
Then the challenge for Swiss insurers (as it is for EU insurers) will be to fully integrate ORSA in their processes of capital allocation and business optimization. ORSA results will allow insurance companies to assess their performance and to have more elements to make strategic decisions. To be more precise, Swiss insurers could benefit from this requirement during the process of product design and also by evaluating new strategies.
ORSA is indeed a new constraint that requires greater interaction between multiple stakeholders of insurance companies: actuaries who carry out the quantitative part (e.g. projections and stress tests), CROs who lead the process, risk management teams who coordinate and control, etc. However Swiss companies who succeed in doing so will be more competitive and more prepared to risk movements.

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