



Circular Letter No.:	2022-41
Date:	25 August 2022

CIRCULAR LETTER

TO : ALL LIFE INSURANCE COMPANIES, NON-LIFE INSURANCE COMPANIES, AND PROFESSIONAL REINSURERS

SUBJECT : ADOPTION OF OWN RISK AND SOLVENCY ASSESSMENT FRAMEWORK

As a member of the International Association of Insurance Supervisors (“IAIS”), the Insurance Commission adopts the Insurance Core Principles (“ICPs”) including the establishment by insurance companies within their respective risk management systems of an Enterprise Risk Management (“ERM”) Framework for solvency purposes to identify, measure, report and manage insurers’ risks in an ongoing and integrated manner.

As a key component of the ERM Framework, the Commission directs entities covered by this Circular¹ to adopt and implement the Own Risk and Solvency Assessment (“ORSA”) Framework.

Rule I. General Provisions

A. Legal Basis.

Section 437 of Republic Act No. 10607, otherwise known as the “Amended Insurance Code”, mandates the Insurance Commission to issue “instructions and circulars as may be deemed necessary to secure the enforcement of the provisions of the Code, and to ensure the efficient regulation of the insurance industry in accordance with global best practices and to protect the insuring public.”

B. Enterprise Risk Management for Solvency Purposes.

ICP 16 requires insurers to establish within its risk management system an ERM Framework for solvency purposes to identify, measure, report and manage

¹ See Rule I(E).

insurers' risks in an ongoing and integrated manner. ICP 16 requires the insurers' ERM Framework to contain the following, among others:

1. Identify all reasonably foreseeable and relevant material risks and risk interdependencies for risk and capital management²;
2. Quantify risk and risk interdependencies under a sufficiently wide range of techniques for risk and capital management, including the performance of stress testing to assess the resilience of its total balance sheet against macroeconomic stresses³; and
3. Reflect the relationship between the insurer's risk appetite, risk limits, regulatory capital requirements, economic capital and processes and methods for monitoring risk.⁴

C. ICP 16 Requirements on ORSA.

ICP 16 requires insurers to perform the following relative to ORSA:

1. Regularly perform ORSA to assess the adequacy of risk management and current, and likely future, solvency position⁵;
2. Encompass in the ORSA all reasonably foreseeable and relevant material risks⁶;
3. Identify the relationship between risk management and the level and quality of financial resources needed and available⁷;
4. As necessary, assess the insurer's resilience against severe but plausible macroeconomic stresses through scenario analysis or stress testing⁸;
5. As necessary, assess aggregate counterparty exposures and analyze the effect of stress events on material counterparty exposures through scenario analysis or stress testing⁹;
6. Determine, as part of its ORSA, the overall financial resources it needs to manage its business given its risk appetite and business plans¹⁰;
7. Base its risk management actions on consideration of its economic capital, regulatory capital requirements, financial resources, and its ORSA¹¹;
8. Assess the quality and adequacy of its capital resources to meet regulatory capital requirements and any additional capital needs¹²;

² ICP 16.1

³ ICP 16.2

⁴ *Ibid.*

⁵ ICP 16.10

⁶ ICP 16.12

⁷ *Ibid.*

⁸ *Id.*

⁹ *Id.*

¹⁰ ICP 16.13.

¹¹ *Ibid.*

¹² *Id.*