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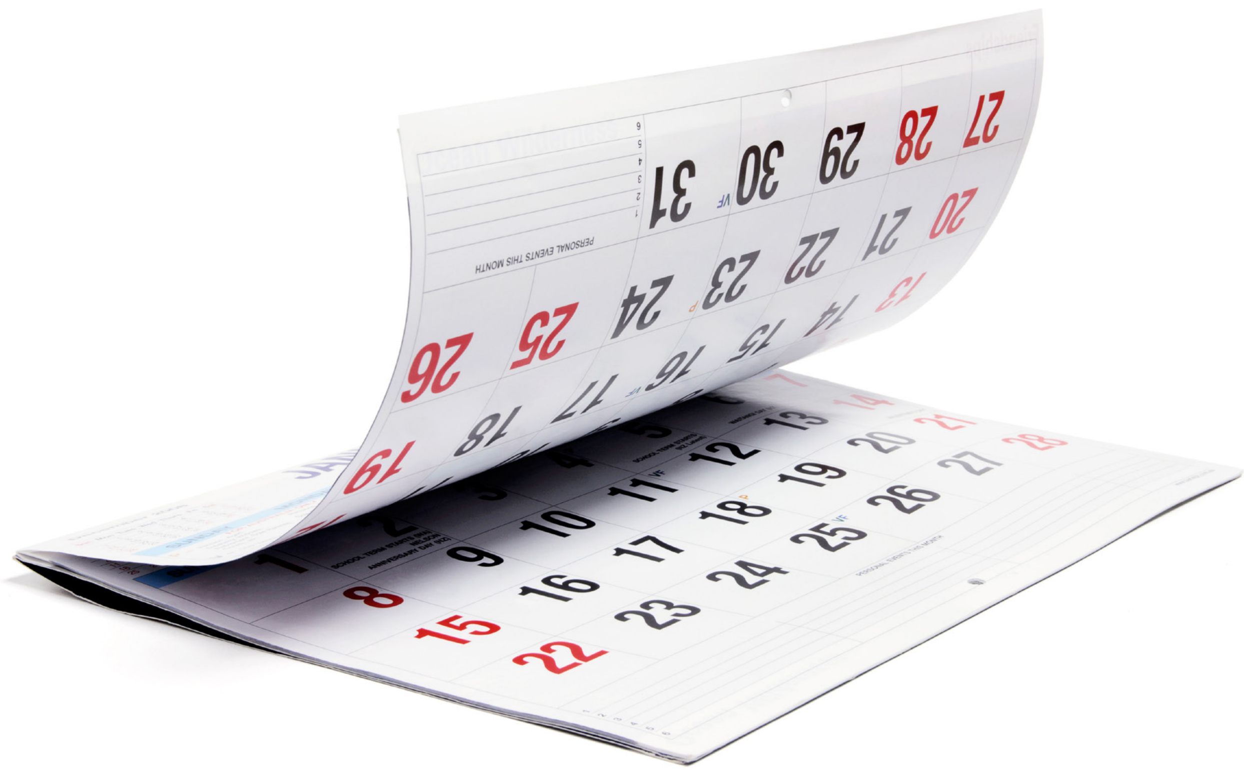
# Your ORSA filing
## Is it ready?



1. Enterprise Risk Management (ERM) framework in place
2. Risk quantification and stress testing done
3. Forward-looking own solvency needs completed
4. ORSA embedded in the business decision making process
5. Reviewed by the Board of Directors
6. Signed by the CRO, or other designated individual

A number of insurance firms were deemed to have satisfied the Own Risk and Solvency Assessment (ORSA) requirements during the recently concluded National Association of Insurance Commissioners (NAIC) 2013 ORSA pilot project, but not all, and time is running short for remaining implementation activities. ORSAs are scheduled to be filed in 2015, and that means the groundwork may either be well underway or needs to get swiftly ramped up in 2014.

### Overview

Described as a game-changer by regulators, the ORSA will set out a company's own view of the risks it faces and the capital required to address those risks in stressed environments and to deliver its strategic business plan.

The Risk Management and Own Risk and Solvency Assessment (RMORSA) Model Act #505[1] was adopted by the NAIC in September 2012, with the first filings due starting January 1, 2015. The ORSA Guidance Manual, updated in March 2013, provides instruction for the contents and completion of the ORSA document.

The ORSA was developed in response to a number of key regulatory drivers. A primary driver was the need for the U.S. state-based regulatory system to have a mechanism for assessing the risk within an insurance holding company system.

The NAIC ORSA Subgroup has undertaken a series of ORSA pilot programs providing insurers with an opportunity to voluntarily submit their draft ORSA filing and receive regulator feedback before the ORSA goes live in 2015. The first pilot was held in 2012 and the feedback was released by the NAIC. The second pilot, held in September 2013, has now been completed and the results have also been released.

### 2013 pilot results

ORSA is very different from previous filing requirements developed by regulators. The guidelines are not prescriptive, and instead are largely principles-based. Additionally, while the ORSA guidelines provide a framework, the filing itself is very much free form, requiring insurers to thoughtfully consider how to describe their risk management processes. Pilot feedback can be found on the NAIC website.[2]

In summary, 22 firms participated in the pilot, with most deemed to have met the requirements. There were three submissions that the feedback highlighted could "greatly benefit from material improvements in the report to better reflect the insurers/groups enterprise risk management frameworks." Overall the quality of submissions was deemed to have been better in the 2013 pilot than in the 2012 ORSA pilot.

### Summary observations

The Subgroup provided a list of 29 observations that will not be included in the ORSA Guidance Manual, but may be helpful to insurers in developing their ORSA Summary Reports. Highlighted below are the key themes segregated into the relevant ORSA section, or as an overarching comment:

### ORSA structure

- Regulators expect the ORSA Summary Report to be reflective of the actual ERM reporting that the Board of Directors oversees. The ORSA should not be a manufactured regulatory filing, but one that is used by the insurer.
- Structural improvements were suggested, such as an Executive Summary for larger ORSA reports; contents pages; the use of heat maps; the mapping of business units to their underlying legal entities; glossary of terms and acronyms; text explanation when graphs and tables are used (to provide context); and separate exhibits may be beneficial for example in the description of the capital model.
- Pilot feedback suggested that data from the most recent quarter be used when constructing the ORSA. If available it was suggested that the ORSA may highlight available capital and required capital.
- Documents referenced within the ORSA may be requested by the regulator. Appendices provided in pilot submissions were considered helpful. For larger supplemental ORSA reports, a list and snapshot of this information was recommended.
- A placeholder in the report for attestation and signature together with contact information may be included. ORSA rules require the CRO or designated individual to sign the ORSA submission.

#### Section 1 - risk management framework

- The ERM framework and associated governance structure may be articulated. This may include: risk owners, business units, and their accountabilities and reporting lines. Those individuals, committees, or boards responsible for establishing and overseeing the ERM framework may be included.
- Information concerning how risks are ranked and scored by the business is considered helpful.
- Improvements may need to be made to the description of how the capital model works and how the group capital number is derived. For example, where a diversification benefit is taken, how the model deals with correlations to provide this benefit.
- The insurer may outline in the ORSA the process for model validation or in follow-up meetings with the regulator.

[1] "Own Risk and Solvency Assessment (ORSA)." National Association of Insurance Commissioners. Jan 27 2014. <http://www.naic.org>

[2] "Own Risk and Solvency Assessment (ORSA) Feedback Pilot Projects." National Association of Insurance Commissioners. Jan 27 2014. <http://www.naic.org>

- A flow chart that articulates how the ERM framework operates — top down or bottom up or both — may be included.
- Details concerning how compensation and incentives are tied to ERM were considered helpful to better understand the risk culture of the organization.

### Section 2 - assessment of risk and exposure

- As part of the risk identification process, it was considered helpful if an explanation of the key risks could be provided, together with critical dependencies that may exist between the insurer and other affiliated entities within the group.
- The NAIC feedback highlighted the usefulness of a discussion concerning risks such as information technology, business continuity and information security.
- Where these have changes have occurred to risk appetites and tolerances it is considered helpful to include an explanation as to the decision process — who within the risk management structure approved the change.
- The feedback noted the need for improvements to the articulation of single and combined stress scenarios. For example, a combination of market, interest rate changes and catastrophe risks was suggested.
- For liquidity risk, additional stress scenarios together with an explanation would be beneficial, together with the details concerning contingent funding arrangements.
- A discussion of the risk mitigation activities aids understanding of management control of risks.

### Section 3 - group risk and capital prospective solvency assessment

- Comparative multi-year (e.g. three-to-five years) data was found useful in a number of cases including: economic model parameters over a multi-year period and liquidity ratios over a multi-year period.
- Better descriptions of the forward-looking risks of the business when describing the prospective solvency assessment were recommended.
- Where the insurer is international, Section 3 may contain details of the overall group capital requirement, as the international standards may differ from domestic ones. The relationship and interconnectedness of the group and U.S. domestic capital requirements may be discussed within the ORSA report.
- A graphical illustration where multiple capital models are used for comparative purposes — including actual versus target capital — may be included.

The feedback suggested that insurers work with regulators to understand their ORSA filing data and upon filing, set up a meeting with the regulator to walk through the ORSA submission.

## Outstanding questions

While the pilot feedback is helpful to organizations finalizing their ORSA summary report, there are a number of questions that remain unanswered as part of the pilot process that companies are well advised to consider:

1. How is insurance company board involved in the ORSA process?
2. How is the ORSA process embedded within the decision-making process of the firm?
3. What will an ORSA review or regulatory examination entail?
4. What will be the expectations for the financial comparison requirement first due in 2016?

## Updated ORSA guidance

The General Guidance section of the ORSA Guidance Manual is expected to be updated in 2014 following the 2013 pilot to provide further clarification in three areas:

1. That the ORSA Summary report be based upon reporting to the Board of Directors. That the ORSA report not be a report constructed just for a regulatory filing, rather it be reflective of what the Board of Directors oversees.
2. That year-over-year material changes to the ORSA report be summarized, including supporting rationale.
3. For insurers that leverage a global ERM framework to support their U.S. domestic ORSA, a statement may be made concerning how this information may be included or supplied.

## Some key challenges that remain

Some insurers may still have much to do in 2014. Those with an ERM framework already in place have a good starting point from which to build. However, ERM frameworks can vary greatly with their level of maturity and firms may wish to consider that their frameworks are commensurate with the nature, scale and complexity of their business models. The guidance states that those insurers with ERM frameworks appropriate to their risk profile may not require the same scope or depth of review through subsequent examinations and analysis as those with less comprehensive ERM frameworks.

While ORSA is not an exercise in documentation, it is clear that documentation and records will need to be in place to support the ORSA assertions and may be subject to review during a state-based examination. Insurers may consider it good "house-keeping" to help substantiate the information already provided in the ORSA summary report.

In furthering risk culture, perhaps the biggest challenge to surmount will be the lead time required to implement policies and processes that embed risk management in a firm's decision making process if these processes are not already in place. The very nature of governance, system, and process cycles demand that an early start is necessary to be able to demonstrate future outcomes such as demonstrable risk-based decision making.

## 2014 ORSA pilot

Given the success of the 2012 and 2013 ORSA pilots, the ORSA subgroup has recommended that there be an ORSA pilot in 2014. The Subgroup anticipates including states and companies that have not previously participated; however, the details of the timing, scope and structure of a 2014 project will be determined subsequent to the Committee's approval.

## Conclusion

The second round pilot has provided further color to the requirements of ORSA. This additional guidance may be beneficial to companies preparing their ORSA submissions, particularly given the industry concern about the lack of certainty given the principles-based approach of the ORSA requirements. The guidance suggests a number of areas that can take many months to establish for example a model validation process and the development of risk appetites and limits. Early planning and action is important. Firms would be well advised to review the latest NAIC guidance and pilot feedback against their ORSA programs in readying submissions for 2015.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