
“An insurer...will be expected to regularly conduct an ORSA to assess the adequacy of its risk management and current, and likely future, solvency position, internally document the process and results, and provide a high-level summary report annually to the domiciliary regulator, if requested”

NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual

• The NAIC adopted the US ORSA requirements as part of the Solvency Modernization Initiative (SMI).
• The US ORSA Guidance Manual was adopted in late-2011 after intense industry comment and debate, and will continue to be enhanced.
• A new Risk Management and ORSA model law implementing the requirements was also adopted in Fall 2012.
• The model act requires insurers to carry out the ORSA on an annual basis, and to maintain a risk management framework covering relevant and material risks.
Beyond the US, the ORSA marks the general shift in regulation towards risk-focused supervision

• Risk-focused supervision is not a new concept, and risk-based capital requirements, risk management and governance requirements have been part of regulation in many countries for many years.

• However, the last few years have seen a strengthening of risk-focused supervision around the world.

• Solvency II and the US SMI are high-profile examples, but risk-focused regulatory initiatives are also underway in other territories, including in key jurisdictions in South America and Asia.

• The ORSA, based on the principles of ICP 16, is now seen internationally as best practice for insurance supervision.
The NAIC expects the US ORSA to play a significant role in US insurance supervision

Risk management – The ORSA will be a tool to help supervisors understand the risks insurers are exposed to, and how adept insurers are at managing those risks. Regulators plan to assess ERM capability, and to use it to guide their supervisory strategy.

Group capital assessment – NAIC examiners will use the ORSA to assess groups’ own assessment and management of their capital at group level. While the ORSA will not set a group capital requirement, it will provide information to regulators that will help guide supervisory action.

Encouraging ERM – The NAIC expects the ORSA to help foster effective ERM practices at all insurers.

“The ORSA Summary Report may help determine the scope, depth and minimum timing of risk-focused analysis and examination procedures... Insurers with ERM frameworks deemed to be robust for their relative risk may not require the same scope or depth of review, or minimum timing for a risk-focused surveillance as those with less robust ERM functions.”

NAIC Own Risk and Solvency Assessment (ORSA) Guidance
The guidance exempts smaller insurers, although states or regulators may still require the ORSA

• The NAIC’s guidance includes the following exemption thresholds:
  – if the **individual insurer's** annual direct written and unaffiliated assumed premium, including international direct and assumed premium, but excluding premiums reinsured with the *Federal Crop Insurance Corporation* and *Federal Flood Program*, does not exceed **$500M**; and
  – if the **group's** annual direct written and unaffiliated assumed premium, including international direct and assumed premium, but excluding premiums reinsured with the *Federal Crop Insurance Corporation* and *Federal Flood Program*, and excluding affiliated reinsurance premium, does not exceed **$1Bn**

• Where one or both of the threshold(s) is/are exceeded, the ORSA must be provided for the group and/or relevant legal entities.

• A regulator may require any insurer to provide the ORSA, and any insurer may request a waiver, based on unique circumstances.
S & P Background

- Standard & Poor's Ratings Services has considered Enterprise Risk Management (ERM) in its analysis of insurance companies’ creditworthiness since 2005
- The National Association of Insurance Commissioners (NAIC) is also increasing its focus on ERM through its Solvency Modernization Initiative (SMI) launched in 2008
- One proposed component of the SMI is Own Risk and Solvency Assessment (ORSA) which will require U.S. insurers to make a self-assessment of the capital available to support their business risks
- The proposal demonstrates the growing importance of ERM for insurance companies and their ability to assess and manage risks
- Many of the specific proposals from the NAIC related to ORSA are already incorporated in S&P’s ERM review criteria
Insurer’s ERM program is a system of processes and practices that aims to measure and manage risk. Our ERM opinion reflects our assessment of the strength of an insurer’s ERM program. The ERM rating factor attempts to look at an insurer's ability to consistently identify, measure, and manage risk within its chosen risk tolerances.
NAIC’S ORSA Framework

• NAIC's ORSA requirements have resulted in increased momentum for improvement in insurers' risk management processes
• ORSA guidelines attach more rigor to an insurance company's ERM framework, processes, and documentation by requiring a formal report, which is to include the following elements:
  • Section 1--Description of Insurer's Risk Management Framework
  • Section 2--Insurer's Assessment of Risk Exposures
  • Section 3--Group Risk Capital and Prospective Solvency Assessment
• ORSA guidelines recognize that a company's ERM framework should be consistent with its own specific risk profile and the way it manages its business
• Our ERM review criteria develop a framework very similar to that contained in the current ORSA guidelines
Philosophy and Approach to ORSA

- Risk management is a constantly evolving practice
- ORSA is an opportunity to continue enhancing our risk management capabilities
Driving Risk Management Culture Enterprise-Wide

“Managing risk is an ongoing enterprise risk management activity, operating at many levels within the organization.”

– NAIC ORSA Guidance Manual

ORSA is an enterprise-wide responsibility

ERM promotes a strong risk culture throughout the firm
Opportunity: Helps us Improve

Enhanced Knowledge

Focus at Senior and Lower Levels

Better business decisions, processes

Better consumer value

Better member, shareholder value

“Risk comes from not knowing what you’re doing.” Warren Buffett
NAIC US ORSA timeline

Significant progress in the development of the ORSA requirement has been made to date, however further refinements and education remain.

- **2012**
  - **Industry**: ERM frameworks are largely in place for most non-exempt insurance companies
  - **NAIC**: • RM and ORSA Model Act – Fall 2012
  • ORSA Guidance Manual – Ongoing
  • 2012 Pilot Program

- **2013**
  - **Industry**: Focus on closing gaps in process, governance and documentation
  - **NAIC**: • 2013 Pilot Program
  • Enhancements to the ORSA Guidance Manual
  • Examiner’s Handbook
  • Training

- **2014**

- **2015 onwards**
  - Effective date of January 1, 2015
# What ORSA Is / Is Not

<table>
<thead>
<tr>
<th>ORSA is not…</th>
<th>ORSA is…</th>
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<tbody>
<tr>
<td>…something to be ignored.</td>
<td>…a way to embed sound risk management practices into advanced business processes, including capital management, performance management and strategic planning.</td>
</tr>
<tr>
<td>…a filing.</td>
<td>…a reflection of a continuous management behavior or culture.</td>
</tr>
<tr>
<td>…a policy stuffed in a 3 ring binder.</td>
<td>…an integrated, top down - bottom up influencer of business decision making.</td>
</tr>
<tr>
<td>…a 20 page presentation document the board sees once a year.</td>
<td>…the responsibilities of both the C-suite, the Board and attested by the CRO.</td>
</tr>
<tr>
<td>…just another regulatory mandate.</td>
<td>…“a regulatory game changer” and a cultural shift in how the regulator understands your business.</td>
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The ORSA guidance manual – Some key points

• “The ORSA Summary Report shall include a signature of the insurer’s chief risk officer...to the best of his/her belief and knowledge that the insurer applies the ERM process described in the report and that a copy of the report has been provided to the insurer’s board of directors or the appropriate committee.”

• “In analyzing an ORSA Summary Report, the commissioner will expect that the Report represents a work product of the enterprise risk management processes that include all of the material risks to which an insurer or insurers (if applicable) is exposed.”

• “This assessment process should consider a range of outcomes using risk assessment techniques that are appropriate to the nature, scale and complexity of the risks. Examples of relevant material risk categories may include, but not be limited to, credit, market, liquidity, underwriting, and operational risks.”

• “Because the risk profile of each insurer is unique, each insurer should utilize stress tests applicable to their risk profile.”

• “The ORSA Summary Report should demonstrate the insurer’s process for model validation, including factors considered and model calibration.”
Implications of ORSA

- Insurers and other stakeholders will benefit from ORSA as the company enhances its understanding of risk-versus-capital profiles. It will also improve documentation of their risk management efforts.

- In our opinion, an insurer's internal model better reflects the firm's unique risk profile and preferences. These models might also take a more prospective view of risk and capital and attempt to assess not only the current but also future views of solvency and capital adequacy.

- Increased interactions between regulatory regimes and the convergence of solvency requirements will allow global insurers to comply seamlessly and avoid regulatory burdens to satisfy multiple regulators.

- In our opinion, insurers with ERM assessments of Very Strong or Strong and a majority of those with ERM assessments of Adequate (with strong risk controls) are likely to have a number of processes and documentation already in place to meet the NAIC's proposed requirements at a group level.

- For insurance companies with less-developed risk-management practices, ORSA might require investments in their ERM frameworks.
# S&P’s ERM Framework and NAIC’s ORSA

<table>
<thead>
<tr>
<th>Similarities</th>
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<tbody>
<tr>
<td><strong>S&amp;P’s</strong> assessment of risk culture views favorably an involved Board that sets at the tone at the top</td>
</tr>
<tr>
<td>We consider the process of establishing loss tolerances and risk limits as favorable to analysis</td>
</tr>
<tr>
<td>S&amp;P’s ERM analysis is an evidence based approach to test presence of communicated risk policies</td>
</tr>
<tr>
<td>Scenario testing, identifying, and prioritizing risks/scenarios is key to our assessment of ERM</td>
</tr>
<tr>
<td><strong>NAIC</strong> entrusts the responsibility of ORSA on the board of directors and senior management</td>
</tr>
<tr>
<td>ORSA requires formulation of risk appetite statements and associated risk tolerances and limits</td>
</tr>
<tr>
<td>ORSA requires formally set and enforced risk management policies</td>
</tr>
<tr>
<td>Insurers to have quantitative measurements of risk exposure in normal and stressed environments</td>
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**S&P’s ERM Framework and NAIC’s ORSA**

**S&P’s** ERM analysis is to determine an insures Financial Strength Ratings which is its opinion of the relative credit worthiness.

**S&P’s** focus is global and considers the scope of contagion or risks that may affect capital flow.

**NAIC’s** ORSA is directed towards protection of policyholders and claimants.

Regulators focus on their regulatory jurisdictions.
Challenges: Coordination Among Areas

- Government Affairs
- Risk Management
- Underwriting
- Actuarial
- Internal Audit
- Marketing
- Accounting
- Investments
- Board
- Product Design
- IT
Challenges: Coordination Among Areas
Challenges: Coordination Among Areas
Challenges

Check the box mentality

“I don’t know what went wrong…. I followed all the rules.”

“If past history was all there was to the game, the richest people would be librarians.” Warren Buffett
Challenges

Communication and Documentation

• Review all communications/documentation for:
  - Accuracy
  - Consistency (SEC, etc.)
  - Misinterpretation potential

• Beware that material may not be Confidential
  - Document retention, particularly drafts

• Involve Governmental Affairs personnel
# Implementation Challenges

<table>
<thead>
<tr>
<th>Technology</th>
<th>Operationalizing Risk Appetite</th>
<th>Documentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Faster access to risk exposure data</td>
<td>• Managing across various stakeholders</td>
<td>• Ensuring documents are up-to-date</td>
</tr>
<tr>
<td>• Stress scenarios across multiple accounting regimes (STAT, GAAP, Economic)</td>
<td>• Optimizing strategies across the enterprise</td>
<td>• Centralized storage of risk management documentation</td>
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## Preparing for ORSA: The Hartford’s Approach

<table>
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<tr>
<th>Phase 1</th>
<th>Phase 2</th>
<th>Phase 3</th>
<th>Phase 4</th>
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</table>

### Monitoring
- Monitored and participated in development of ORSA Guidance Manual and RMORSA Model Act
- HIred dedicated staff

### Assessment & Planning
- Completed readiness assessment
- Developed roadmap of activities leading up to filing
- Presented assessment and roadmap to executive risk committee

### ORSA Implementation
- Execution of projects to enhance current risk management processes and technology
- Draft of ORSA Summary Report to be shared with the Board of Directors
- Close coordination with regulators

### Filing
- First annual ORSA Summary Report filed
**Insurers are mobilizing to address ORSA readiness requirements**

A significant gap appears to exist between the perception of readiness for the ORSA and the underlying maturity of risk management frameworks.

35% of companies indicated they do not have a fully operational risk appetite with tolerances linked to business strategy.

38% of company boards are reported to either not be engaged or only passively engaged in risk management.

And, yet, 82% of respondents believe existing ERM processes are largely or already adequate for the ORSA.

- Insurance ORSA and ERM Readiness Survey – 65 survey participants and represents a cross section of life (19), P&C (29), and health insurance (17) companies operating in the United States.

- Significant Investment in ERM Expected – The Model Act requires an “ORSA Summary Report” to be filed first with the Commissioner in the lead state of domicile in 2015. All documentation and evidence that supports the report must be available for regulatory inspection. Accordingly, significant investment in resources and organizational commitment are likely necessary for most insurers in order to facilitate filing a complete and comprehensive report.

Many health companies are gauging their risk management capabilities against the ORSA and identifying areas that they need to enhance to achieve compliance. Such a proactive approach is advisable, as regulators, ratings agencies, investors and other stakeholders will look favorably on insurers who are serious about the ORSA. Additionally, insurers that are further along in the development of sophisticated risk and capital practices will be better equipped to have timely and meaningful dialogue with their regulators as supervisory expectations increase.
**ORSA Response Framework**

**Section 1**  
Risk Management Framework  
- Risk Culture & Governance  
- Risk Identification & Prioritization  
- Risk Appetite, Tolerances & Limits  
- Risk Management & Controls  
- Risk Reporting & Communication

**Section 2**  
Risk Exposure Assessment  
- Risk & Capital Profile  
- Risk Assessment  
- Stress & Scenario Testing  
- Event Management  
- Risk Monitoring

**Section 3**  
Capital & Prospective Solvency Assessment  
- Group Assessment of Risk Capital  
- Models, Methods & Assumptions  
- Capital Management & Decision Making  
- Capital Resources & Business Planning  
- Prospective Solvency Assessment

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**2013**  
1. Benchmarking  
2. Gap Assessment  
3. ERM Implementation Roadmap  
4. ERM Implementation  
5. ORSA Filing Preparation  
6. ORSA Filing

**2014**

**2015**  
7. Regulatory Mock Exam  

PwC
Successful ORSAs – What do they look like?

The ORSA clearly articulates an insurer’s risk and capital management framework

• The ORSA is becoming a regulatory requirement in many territories, but is fundamentally an insurers’ own process of internal risk and capital management

• Considering the ORSA as a process rather than a regulatory document helps crystallize how the assessment operates, and can be an effective way to identify areas where either the process or its formalization and articulation to regulators and other stakeholders could be strengthened

The ORSA is a process that is embedded in the fabric of a company’s operations.
Thank you