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Academy Presentation to NAIC ORSA Implementation (E) Subgroup

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Academy Policy Paper on ORSA and the Regulator

■ *ORSA and the Regulator*

- Policy paper released February 2016 by the ERM/ORSA Committee's ORSA and the Regulator Working Group
- This paper is intended to provide regulatory actuaries who are reviewing Own Risk and Solvency Assessment (ORSA) reports with background information regarding Enterprise Risk Management (ERM) processes and what information might be included in the ORSA report.

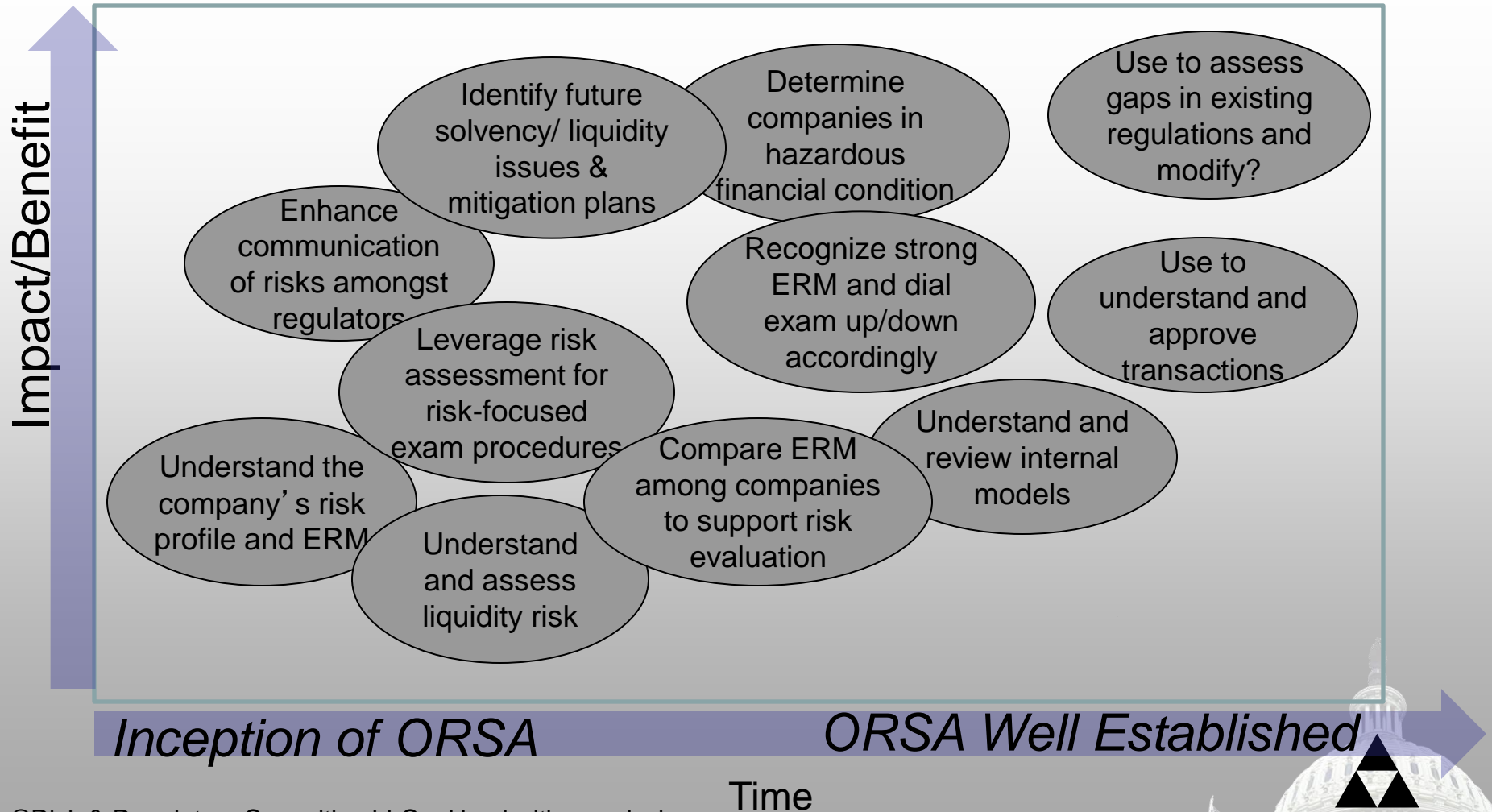


Use of ORSA to Assess Risk

- ORSA can be used to evaluate...
 - Key risks that are prevalent across the industry;
 - Differences in risk profiles between individual insurers and how the “own” concept of ORSA allows highlighting of those differences;
 - Emerging risks and risks of declining concern;
 - Most effective mitigation options whether benefiting limited number of insurers or the industry, and new risks that may arise related to those mitigations (e.g., counterparty risk); and
 - Most useful approaches, methods, or assumptions for measuring and mitigating risks affecting large sections of the industry



Potential Short- and Long-Term Uses of ORSA

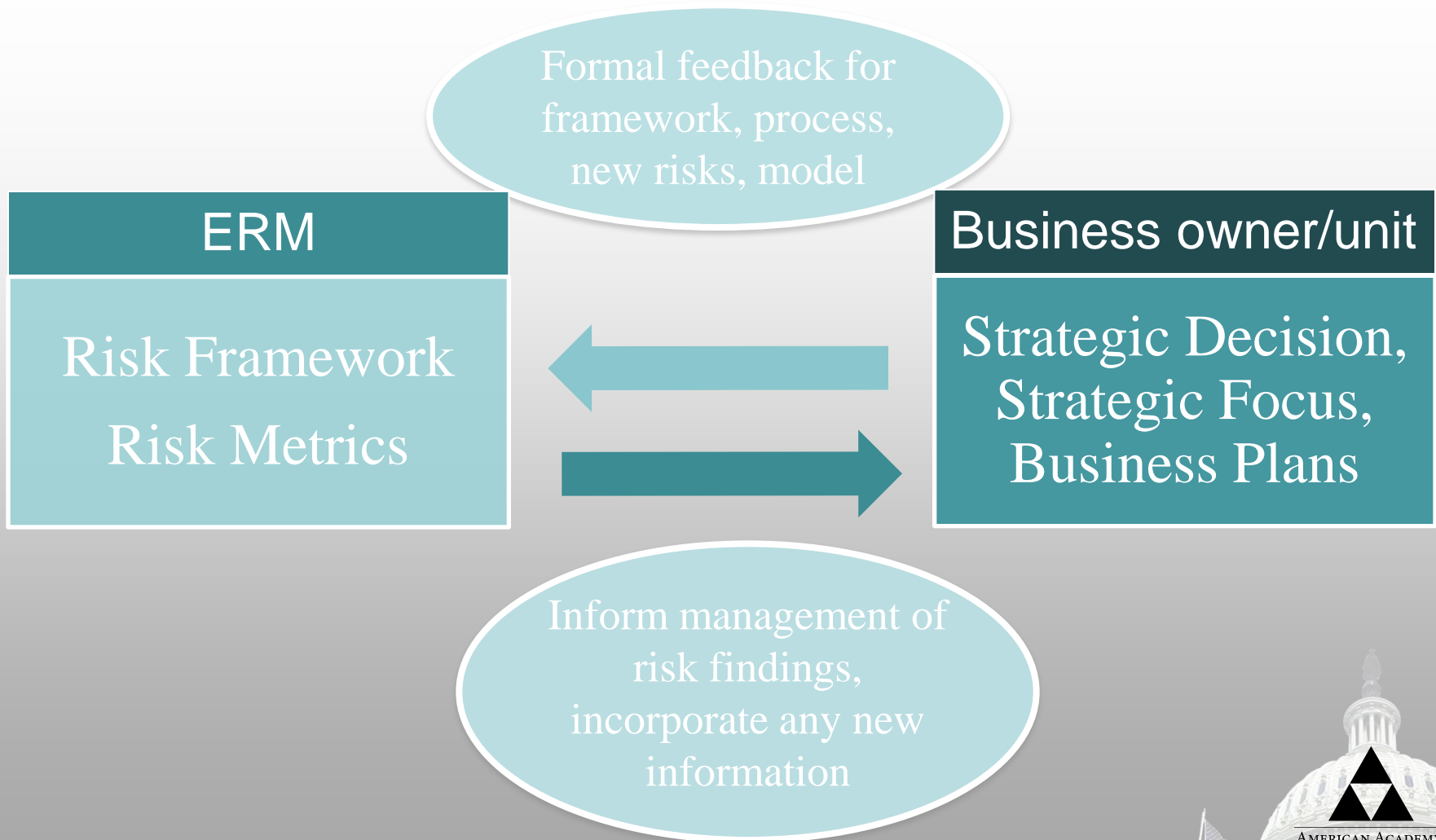


Enterprise Risk Considerations

- Regulators can examine the maturity of the insurer's risk culture and processes through:
 - An insurer's planning and forecasting process
 - How risk appetite is interpreted and considered within senior management's decision making
 - An insurer's day-to-day business activities
 - How risk management is embedded in analysis of risk, guidelines, risk limits, authorities



Enterprise Risk Framework Feedback Loop



Insurer Assessment of Risk Exposure

- Insurers demonstrate how the key risk exposures are assessed
- Actuaries have experience and knowledge to assist in the review of an insurer's risk assessment; they could help to evaluate areas including:
 - When additional scrutiny during examination is prudent
 - Where the group's assessment of risk exposures is strong or weak
 - Recommendations with regard to severity and completeness of stress tests



Insurer Assessment of Risk Exposure

- Insurers should be able to show that the methods and models applied to assess the risk exposures are appropriate for the insurer's circumstances
- Examples of ORSA report evaluation items
 - Severity of stress testing
 - Completeness of the stress testing
 - Selection and appropriateness of scenarios considered
 - Appropriateness of the time horizon
 - Stress testing models, relationships to other enterprise models, validation approaches
 - Impact of risk mitigation strategies
 - Incorporation of management actions
 - Changes from the prior reporting



Prospective Capital and Solvency Assessment

- Regulators will be able to examine how the risks are identified and incorporated into the assessment of required capital and how the assessment process is integrated in business planning decisions
- The prospective assessment typically will demonstrate whether an insurer expects to be solvent (both currently and prospectively) under both normal and stressed conditions, including considerations of any capital or liquidity needs incorporating the insurer's risk profiles and key material risks. Regulators can analyze the assessment, understand a company's position, and develop their own perspective on the solvency of the company.



Capital Measurement

- When assessing capital in ORSA, regulators may consider:
 - The accounting basis for capital measurement
 - Asset and liability measurement techniques
 - Strengths/weaknesses of the capital assessment method
 - Underlying assumptions and sensitivities of the results to these assumptions
 - The basis of measurement used by management
 - Regulatory and management triggers and targets



Academy Practice Note on Quantifying Risk Exposures for ORSA Reports

- *Quantifying Risk Exposures for Own Risk and Solvency Assessment Reports*
 - Practice note released July 2016 by the ERM/ORSA Committee's Risk Exposures Subgroup
- This practice note provides:
 - Actuaries and regulators with information on the approaches used to quantify risk exposures that may be included in Section 2 of an ORSA report.



Questions Addressed in Practice Note

- Q1. What risk categories are commonly considered in the ORSA report? What risks are quantified versus not quantified?
- Q2. How often is a formal enterprise risk identification or assessment process performed? What may cause monitoring frequency to change?
- Q3. How do companies quantify risk? What are the limitations of those efforts/methods? How does the approach differ between types of risk (catastrophe, operational, etc.)?
- Q4. What are companies using stress testing for?
- Q5. How do companies determine stress scenarios for purposes of risk quantification? Are the stress scenarios calibrated to the same degree of severity?
- Q6. How is inherent versus residual risk addressed, and how can management action be integrated into the risk quantification process?
- Q7. How are more challenging risks, such as emerging risks, being addressed?
- Q8. How do companies deal with risk interactions (across risk types, product lines, legal entities, etc.) in the risk assessment process?





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Questions?

