NAIC National Association of Insurance Commissioners

Date: 10/21/20

Joint Conference Call

RISK-FOCUSED SURVEILLANCE (E) WORKING GROUP and
ORSA IMPLEMENTATION (E) SUBGROUP
Tuesday, October 27, 2020
1:00 p.m. – 2:00 p.m. Central Time

ROLL CALL

Risk-Focused Surveillance Working Group:

Justin Schrader, Chair	Nebraska	John Sirovetz	New Jersey
Amy Malm, Vice Chair	Wisconsin	Mark McLeod	New York
Richard Ford	Alabama	Jackie Obusek/Monique Smith	North Carolina
Susan Bernard	California	Dwight Radel/Tracy Snow	Ohio
William Arfanis/Kathy Belfi	Connecticut	Eli Snowbarger	Oklahoma
Carolyn Morgan/Virginia Christy	Florida	Ryan Keeling	Oregon
Cindy Andersen/Eric Moser	Illinois	Melissa Greiner	Pennsylvania
Roy Eft	Indiana	Jack Broccoli	Rhode Island
Daniel Mathis	Iowa	Johanna Nickelson	South Dakota
Stewart Guerin	Louisiana	Amy Garcia	Texas
Vanessa Sullivan	Maine	Jake Garn	Utah
Dmitriy Valekha	Maryland	Dan Petterson	Vermont
Judy Weaver	Michigan	David Smith	Virginia
Debbie Doggett/Shannon Schmoeger	Missouri	John Jacobson/Steve Drutz	Washington
Patricia Gosselin	New Hampshire		

NAIC Support Staff: Bruce Jenson/Jane Koenigsman

ORSA Implementation Subgroup:

Kathy Belfi, Co-Chair	Connecticut	Doug Bartlett/Patricia Gosselin	New Hampshire
Mike Yanacheak, Co-Chair	Iowa	Victor Agbu/Edward Kiffel	New York
Michelle Lo/Laura Clements	California	David Cook/Jeff Lehr	Ohio
Robert Ridenour	Florida	Kimberly Rankin	Pennsylvania
Cindy Andersen/Eric Moser	Illinois	Mike Arendall	Texas
Debbie Doggett	Missouri	Amy Malm	Wisconsin
Justin Schrader/Rhonda Ahrens	Nebraska		

NAIC Support Staff: Bruce Jenson/Eli Russo

AGENDA

1. Discuss Comments Received on ORSA Review Guidance Exposure—*Justin Schrader (NE)*
   - Comment Letters — Attachment A
   - Updated NAIC *Financial Analysis Handbook* Revisions — Attachment B
   - Updated NAIC *Financial Condition Examiners Handbook* Revisions — Attachment C

2. Consider Adoption of Updated Rates for Financial Examiners (RFSWG only)—*Justin Schrader (NE)*
   - Memo on Examiner Compensation Rates — Attachment D

3. Discuss Any Other Matters Brought Before the Groups—*Justin Schrader (NE)*

4. Adjournment

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Attachment A

ORSA Review Guidance Exposure Comments

ACLI
Financial Security for Life

David Leifer
Vice President & Associate General Counsel
(202) 624-2128 t
davidleifer@acli.com

September 30, 2020

Mr. Justin Schrader, Chief Financial Examiner
Nebraska Department of Insurance
Chair, NAIC Liquidity Assessment Subgroup
Justin.schrader@nebraska.gov

Ms. Kathy Belfi, Director of Financial Regulation
Connecticut Department of Insurance
Co-Chair, ORSA Implementation (E) Subgroup

Mr. Michael Yanacheak, Chief Actuary
Iowa Insurance Division
Co-Chair, ORSA Implementation (E) Subgroup

Delivered via email to: Bruce Jensen, Assistant Director – Solvency Monitoring (bjensen@naic.org)

Re: ACLI Comments to Proposed Revisions to the Financial Analysis Handbook & Financial Condition Examiners Handbook

Dear Messrs. Shrader and Yanacheak & Ms. Belfi:

Thank you for the opportunity to submit comments on behalf of the American Council of Life Insurers (ACLI) related to the proposed handbook amendments that provide revised guidance around the ORSA filing process and regulator sharing of information.

ACLI supports the effort to bring greater consistency to regulator review of ORSA filings, as well as the desire to improve regulator coordination. Consistency around the ORSA review process should benefit both filers and users of the information collected.

We appreciate that the updates reflect growing recognition shared by regulators and insurers of the value of the ORSA process and report as both an internal risk management tool and as a primary way that insurers

communicate with their regulator regarding their risks and risk management processes. We support the changes made to encourage more regular feedback by the lead state regulator to the insurer on its ORSA.

We also appreciate that the changes are generally respectful of the flexibility that the ORSA law and guidance manual provide, by design, to insurers in their risk management frameworks, processes and stress testing. This flexibility is key to maintaining the value of ORSA both to companies (i.e., their risk management is tailored to the nature, scale and complexity of their risks) and to regulators (i.e., ensuring that ORSA is not a "check the box" exercise). Where we have comments, they tend to be directed at preserving ORSA's flexibility.

We also support the move towards a more qualitative approach to for evaluating maturity of insurer ERM as reflected by removing the numerical rating levels from regulators' assessment of risk maturity.

We do have several issues and recommendations discussed below. Our suggestions are organized by topic, with corresponding suggested edits to each of the handbooks.

Topic 1: Scope of Entities/Risk Categories

The Financial Analysis Handbook looks to Model #505 as the governing document regarding scope of entities and ORSA. This provides discretion to the individual insurer and the insurance group to determine the scope of entities, with the understanding and agreement of the lead-state regulator. The proposed revisions refer in two places to Schedule Y as the appropriate reference point for regulators in determining scope (pg. 5 of the Examination Guidance document "Entities in Scope" and pg. 11 of the Financial Handbook "Entities in Scope"). We believe the references to Schedule Y introduce confusion and recommend these references be deleted. The current practice of deferring to the insurer/insurance group to determine scope of entities with the understanding/agreement of the lead-state regulator has worked well and should be preserved.

We question the removal of language around the nine risk categories. This may result in the nine categories being a requirement over time, rather than allowing an Insurer to express the risks they perceive. This runs the risk of taking the "own" out of ORSA and making it a document that forces insurers to only talk about the defined nine risk categories. The language noting that these are just suggestions and the lead regulator should use judgement in determining what risks should and should not apply should remain in the guidance to ensure this remains an independent assessment of the organizations risks.

Topic 2: Planned ERM Enhancements

One example of a provision that may lead to an unduly prescriptive approach is language in both documents suggesting that the insurer should be providing information on "planned ERM enhancements". We certainly agree that firms should continually review and, where appropriate, enhance their ERM processes. But we do not believe insurers should be encouraged to disclose planned, but not yet executed, enhancements. Firms are appropriately reluctant to speculate on work that is not yet completed. And, in fact, the ORSA Guidance Manual does not encourage such disclosures. Rather, we believe regulators' objectives of encouraging and learning about ERM enhancements would be better satisfied if the Handbooks referred to significant ERM enhancements that have been implemented since the most recent prior report.

This change should be made to the relevant references in the Financial Analysis Handbook (pages 2 and 12) and the Financial Condition Examiners Handbook (page 5).

Financial Analysis Handbook

Page 12: Planned ERM Enhancements – The report provides information on planned enhancements for improving the effectiveness of the insurer's/group's ERM practices to demonstrate ongoing development and a functioning feedback loop.

We recommend deleting this item as planned ERM enhancements may not be at a stage when meaningful documentation is possible and are also subject to significant change. We recommend only documenting implemented ERM enhancements.

Topic 3: Blurring Board vs Management Responsibilities

Some modest changes should be made to each of the handbooks to avoid blurring the responsibilities between the board and management. We recommend the following edits:

Financial Analysis Handbook

Page 13: Board or Committee Involvement – "The Board of Directors or appropriate committee thereof demonstrates active involvement in ~~and~~the oversight of ERM activities through receiving regular updates by management on ERM monitoring, reporting and recommendations."

Strategic Decisions – ~~Directors, officers and other m~~Members of senior management utilize information generated through ERM processes in making strategic decisions."

Page 15-16 —Risk Appetite Statement --The revised requirement appears to require a vote by the insurer's/group's Board of Directors on risk practices and a risk appetite approach/framework. This appears to us to be an overly prescriptive requirement. While it is certainly reasonable to expect that the Board of Directors will be engaged in reviewing and advising aspects of risk practices, not every Board will conduct a vote that meets this specific description.

We would urge a more non-prescriptive approach—such as *"There should be appropriate governance around risk appetite in place, such that processes to develop and approve limits consistent with the size and scale of the insurer/group are evident."*

Page 18: Oversight – Summary reports are reviewed and discussed by the appropriate members of management, and, when appropriate, directors, ~~officers and other members of senior management~~ on a regular basis.

Breach Management – Breaches of limits and dashboard warning indicators are addressed in a timely manner through required action by management and, when appropriate, directors ~~and officers~~.

Page 23: Governance and Validation – Discuss and evaluate the group's model governance process and the means by which changes to models are overseen and approved. Consider whether ~~the board of directors (or committee thereof) and~~ members of senior management are adequately involved. Discuss the extent to which the group uses model validation (including validation of data inputs) and independent review to provide additional controls over the estimation of group capital.

Financial Condition Examiners Handbook

Page 7: "The Board of Directors or appropriate committee thereof demonstrates ~~active involvement in and~~the oversight of ERM activities through receiving regular updates by management on ERM monitoring, reporting and recommendations."

"~~Directors, officers and other m~~Members of senior management utilize information generated through ERM processes in making strategic decisions."

Page 14: "Summary reports are reviewed and discussed by the appropriate members of management, and, when appropriate, directors, ~~officers and other members of senior management~~ on a regular basis."

"Gain an understanding of and evaluate the BOD's (or committee thereof) role in ~~overseeing,~~ reviewing and ~~approving~~discussing the ORSA process and resulting Summary Report"

"Breaches of limits and dashboard warning indicators are addressed in a timely manner through required action by management and, when appropriate, directors ~~and officers~~."

Page 24: "Leadership: Risk management is embedded in strategic planning, capital allocation and other business processes, and is used in daily decision-making. Risk limits and early warning systems are in place to identify breaches and require corrective action from management and, where appropriate, the board of directors or committee thereof (hereafter referred to as "board")~~ and management~~."

Topic 4: Responsibility for Risk Tolerance Reporting

Financial Analysis Handbook

Page 16: *Risk Owners – Key risks are assigned to risk owners with responsibility for monitoring and reporting on risk tolerances and limits, including actions to address any breaches.*

We recommend separating the expectation for ownership of a key risk (and management of the risk) from monitoring and reporting of the risk. Risk tolerance reporting is not required to be performed by a risk owner and it can be argued that it would best be performed by a non-risk owner, such as a 2nd Line of Defense function.

Topic 5: Stress testing

While not specifically mentioned in the subject documents, we recommend only specifying requirements for financial risk stress testing and scenarios. We think that operational risks should also be subject to stress testing, however, we believe that the process and approach (e.g., scenario-focused vs. impact-focused) may differ greatly across companies and meaningful documentation may not be possible.

Availability & Fungibility of Capital

We took note of the cross-pollination of individual and group throughout the revisions. This culminates with the statement made on page 23 of the Financial Condition Examiners Handbook in the chart entry of "Available Capital" that regulators should "Consider whether the group's capital is freely available to absorb losses and is permanent and fungible (i.e. available to be distributed as needed) in form." We believe the statement should be modified to simply state: "Consider whether the group's capital is available to absorb losses".

Thank you again for the opportunity to comment on the proposed handbook revisions, and we look forward to further participation in discussions concerning the issues we have raised.

Sincerely,

David Leifer
American Council of Life Insurers
Vice President & Associate General Counsel
(202) 624-2128
davidleifer@acli.com

Gabrielle Griffith
American Council of Life Insurers
Policy Analyst and NAIC Coordinator
(202) 624-2371
gabriellegriffith@acli.com

September 30, 2020

Justin Schrader
Chair, NAIC Risk-Focused Surveillance (E) Working Group
Nebraska Department of Insurance
PO Box 82089
Lincoln, NE 68501

By e-mail to Bruce Jensen, NAIC at: bjenson@naic.org

Re: Proposed ORSA Review Guidance Revisions – Financial Analysis Handbook and Financial Condition Examiners Handbook

Dear Mr. Schrader:

The American Property Casualty Insurance Association (APCIA) and America's Health Insurance Plans (AHIP)[1] appreciate the opportunity to comment on the Working Group's proposed revisions to the Financial Analysis and Financial Condition Examiners Handbooks.

We appreciate the efforts that have gone into drafting the suggested ORSA-related revisions to the Financial Analysis Handbook (FAH) and the Financial Condition Examiners Handbook (FCEH). The suggested revisions appear to result from a well-intentioned exercise that recognizes that insurers are now further down the learning curve in their own efforts in performing and documenting ORSAs, and that state insurance regulators also are more experienced in utilizing ORSA reports as an additional measure of supervisory oversight.

In summary, we believe the draft revisions to the FAH are a good start and would benefit from consideration of our comments, and we are certain from comments of other stakeholders as well. However, we believe the overall approach taken by the FCEH revisions is inappropriate and inconsistent with the underlying nature of a company/group's *own* risk solvency assessment, and should be reconsidered.

[1] APCIA is the primary national trade association for home, auto, and business insurers. APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.

AHIP is the national association whose members provide coverage and health-related services that improve and protect the health and financial security of consumers, families, businesses, communities and the nation.

Examination of the ORSA: We are particularly concerned with the nature and extent of testing procedures that are now suggested in the revisions to the FCEH. The revisions would result in substantial change to the supervisory focus on ORSAs, by moving in the direction of an examination of the ORSA itself rather than providing guidance on how to use the ORSA in support of an examination. The overall thrust of the changes seems to draw on experiences with financial reporting for which both substantive and control-based testing are performed to assure compliance with promulgated standards.

We do not believe the same compliance-testing approach is appropriate in the context of ORSAs. ORSA refers not just to a report, but to a fluid and ongoing process by which a diverse set of information across an equally diverse set or risks and business lines is brought together in a cogent manner at a point in time to facilitate managerial decision-making, to supplement Board oversight and, through regulatory filings, to supplement supervisory oversight.

The process to develop such information in ORSA reports is subject to inherent changes in response to evolving risks and conditions which are not constrained by prescribed standards or rules. Risks, the means to manage them, and related reporting through ORSAs are constantly evolving and should not be constrained by any static compliance requirements.

Moreover, the inputs to an ORSA are multiple and inherently varying and conflicting at various points of time; managerial judgement is needed to ascertain a particular degree of risk, and that is not something that can necessarily be "checked off" as verified and documented as such with a tick-mark on an examiner's working paper. Fundamentally, an ORSA is a much different process and work product than a financial statement for which standards and guidance prescribe the rules of the road and which lay a foundation for such compliance testing by auditors and examiners.

The comprehensive set of testing procedures that have been assembled in the draft revisions to the FCEH and which cover virtually every aspect of the ORSA report seems to imply that ORSAs generally reflect a simple and uniform construct that can easily be addressed by standardized testing. While that may be the case for some areas covered by an ORSA for some companies/groups, for those of sufficient size to be required to submit an ORSA report that would not generally be the case as they have more complex business models and risks.

Analysts should lead all aspects of the supervisory reviews of ORSAs: Our concerns about the examination procedures are thus two-fold. First, they do not seem to be directly correlated to any particular need for them to actually be performed. In risk-focused examinations, there is some perceived higher level of risk that drives the need to perform a particular testing procedure. By contrast, the draft revisions to the FCEH compile a list of procedures to consider but without adequate overarching guidance to suggest when performance of any particular procedure might actually be necessary.

It must also be made clear exactly which supervisory function within the Lead State has the primary responsibility for the review of ORSAs and integrating what is learned into the supervisory plan. We believe the primary responsibility should be with the Lead State regulator's analysis function. The analyst's role is continuous and ongoing, involving reviews of financial reports, intracompany agreements and transactions, and more. The analysts are best situated to review the ORSAs and to assess the degree to which they are performed in a manner that is consistent with how the reporting entity/group's business is managed, and whether assumptions made and resulting findings and

conclusions appear reasonable in light of the totality of information at the analysts' disposal. Moreover, the analysts are well situated to perform such ORSA reviews and monitor changes continuously over time.

On the other hand, the examination function is generally triggered once every five years, and the continuity of individual examiners is less certain across examinations over time. That is particularly true in the case of states that use contract examination firms. In many cases due to the inherently complex subject matter that is involved, simply being able to hold an informed conversation with an insurer's management and staff about the ORSA would necessitate the involvement of experts participating on the examination, further exacerbating the time and cost to perform the examination. This is even acknowledged in the FCEH revisions through a number of suggested procedures for which it is noted, "If necessary, involve a specialist." While specialists who have experience with capital models may be on staff at some state insurance departments, very often the department must engage experts on a contract basis. To the extent such experts are engaged on a contract basis, knowledge gained by the examiner is quickly lost once the examination ends, with little likelihood of involvement of the contracted expert/examiner in the ongoing supervisory processes.

Our view is that examiners should not subject ORSAs to a once-in-five-year comprehensive examination or even to a more frequent targeted examination process that is defined by the examination process of a Lead State. Rather, any involvement of examiners should take its lead from the analysts on a targeted basis. For example, once the analysts have performed their initial review of the ORSA, they may have identified a particular area or concern for which access to supporting information in the field or direct face-to-face inquiry of company personnel on-site is desirable in order for the analyst to be comfortable with the ORSA and with their own conclusions. It is in that manner that the scope of the examiner's testing is best framed, i.e., as following up on specific items at the behest of the analysts, rather than a comprehensive construct of procedures that lack any specific context for their necessity.

Indeed, the notion of an analyst-led review process seems to be embraced by the revisions to the FAH, which suggests including examiner(s) in part of the ORSA review process so as to better connect the dots between what is learned on the analysis side, and what is then necessary on the examination side. But even in the FAH, we believe the primacy of the lead role of the analyst with respect to an ORSA should be made much stronger and clearer.

The examination procedures would instill prescriptiveness in ORSAs: Our second concern with the examination procedures is that, over time, insurers will be incentivized to focus on performing their ORSA and relating reporting in a manner that will focus too much on checking the boxes in order to enable examiners to quickly perform their work at less cost and disruption and with a finding of "no exceptions." While ORSAs are not intended to be prescriptive, we believe that a comprehensive examination process overlay will nonetheless lead to that result. In turn, the value that ORSAs bring to all users – including the state insurance regulator – will be diminished.

The foregoing concerns are most simply illustrated by the following statement which is a draft revision to the FCEH:

> "Procedures are provided to assist the regulator in gaining an overall understanding of the ORSA Summary Report and ***assessing compliance with reporting requirements*** in several critical areas." (emphasis added)

The statement is a key preface to the extensive revisions that follow and clearly focuses on "compliance" as a main objective. For example, one such revision is this suggested procedure: "Consider whether the group's capital is freely available to absorb losses and is permanent and fungible (i.e., available to be distributed as needed) in form." The suggested procedure implies a requirement that group capital be fully fungible across the group, a notion that is just not realistic. It also implies that there is some standard requirement or criteria to determine if group capital qualifies as loss-absorbing. These imply compliance requirements with which the group must comply, yet such requirements do not exist in RMORSA or the ORSA Implementation Guide.

Our position is that the statement cited above in the FCEH as to the use of the suggested procedures as a means of "assessing compliance with reporting requirements" and any draft procedures that have been included with a compliance objective in mind, are inappropriate and directly contradict the goal of ORSAs to reflect an insurer/group's *Own* Risk and Solvency Assessment. Just as we and our members did when the RMORSA Model Act was adopted, we continue to strongly advocate for a supervisory process that retains and respects that the ORSA is first and foremost the company's process and is not burdened by prescriptive supervisory requirements, be they on the front end (e.g., in the enactment by states of RMORSA and use of the Implementation Guide) or on the back end (e.g., through the proposed examination procedures).

With that, we close with several technical points:

Proportionality: We note that much of the suggested deletions of text result from eliminating the need to assess the level of maturity of the risk management framework. The implicit assumption seems to be that all insurers/groups by now should have a mature risk management framework in place. In the past, the analyst's/examiner's assessment of maturity levels provided a basis for a proportional supervisory response, with inquiries and assessments focused accordingly.

While it may now be appropriate to assume a mature risk management process is in place in light of the experience of the industry and state insurance regulators with ORSAs over the years, insurers/groups and their ORSAs will nonetheless vary considerably based on the nature and complexity of the underlying business / risks and of the organization.

We believe that an overarching concept that can't be over-emphasized enough is that the focus of the assessments that is to be performed by regulatory analysts with any examination support should be proportional to each respective insurer/group, even if all are considered to be at a mature level of risk management. Our concern is that the many suggested procedures might be construed as a checklist to apply to all. The concept of proportionality could be highlighted with more emphasis in the handbooks and should be embedded in supervisory training programs as well.

Discussion of calibration levels: Another issue occurs in the FAH discussion of calibration of the capital metric used by the insurer in its capital model. An analyst or examiner could read the mention of "99.5%" as an approved or required metric. If this reference is to be kept, we recommend that other examples be included, with the caution that the determination of a reasonable calibration level in the ORSA is management's responsibility, and that the references in the FAH to any example calibration levels are simply to illustrate points made in the text.

Discussion of "lines of defense": Some technical references in the revised text are outdated. Both the Committee of Sponsoring Organizations (COSO) and the Institute of Internal Auditors(IIA) have moved away from using the word 'defense' since risk management is focused on both achieving objectives and creating value, as well as on governance and controls to protect value. We therefore suggest that in the FAH, page 17, 1st bullet, to replace 'Lines of Defense', with 'Lines of Accountability', i.e., "multiple lines of accountability (i.e. business unit or risk owners, ERM function, internal audit) are put in place to ensure that control processes are effectively implemented and maintained." The terminology would thus align with the COSO *2017 Enterprise Risk Management - Integrated Framework* and the IIA's *Three Lines Model – An update of the Three Lines of Defense*, released July 2020.

Planned ERM Enhancements: The revisions to the FAH suggest that ORSA reports provide "information on planned enhancements for improving the effectiveness of the insurer's/group's ERM practices to demonstrate ongoing development and a functioning feedback loop." We note that any planned changes to ERM are inherently subject to change; the company/group may take a different direction, if change at all. Therefore, we don't believe it would be appropriate for such reports to speculate on what changes may occur, rather to report factually on changes that have occurred.

* * * * * * *

Thanks for your consideration, if you have any questions, please contact us. We look forward to discussing further with you.

Sincerely,

Stephen W. Broadie
Vice President, Financial & Counsel
American Property Casualty Insurance Association
847.736.8258
steve.broadie@apci.org

Bob Ridgeway
Senior Government Relations Counsel
America's Health Insurance Plans
501.333.2621
Bridgeway@AHIP.org

Ceres
Sustainability is the bottom line.

September 30, 2020

Bruce Jenson
Assistant Director – Solvency Monitoring
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: *Proposed ORSA Review Guidance Revisions – Financial Analysis Handbook* and *Proposed ORSA Review Guidance Revisions – Financial Condition Examiners Handbook*

Dear Mr. Jenson, Own Risk And Solvency Assessment (ORSA) Implementation (E) Subgroup members and Risk-Focused Surveillance (E) Working Group (RFSWG) members,

I am writing with recommendations for enhancing the work of the RFSWG and the ORSA Implementation Subgroup with respect to climate risk. In collaboration with insurers, investors and stakeholders, I recommend the RFSWG and the ORSA Implementation Subgroup accelerate the integration of climate change related risk assessment into improvements to the relevant NAIC handbooks and guidance manuals (including the Financial Analysis and Financial Condition Examiners handbooks), education for regulators, guidance on pre-examination interviews with key management and boards of directors, and guidance on enhancing risk-focused surveillance.

First, thank you for all of your work focused on climate change. In particular, I appreciate the inclusion of this pressing issue in the Financial Condition Examiners Handbook, in the sample interview questions for the Chief Risk Officer, the Common Areas of Concern, the Examination Planning Questionnaire and other areas, and in the Climate Change and Risk-Focused Examinations course.

Ceres is a nonprofit organization collaborating closely with institutional investors, companies and stakeholders to build sustainability leadership and drive solutions throughout the economy. Our Company Network comprises 50+ companies, nearly 75 percent of them Fortune 500 firms. Through direct stakeholder engagement, standard-setting, regular benchmarking, and collaborations, we move companies to raise their ambition on robust sustainability goals and improve resiliency in their operations and supply chains. Our BICEP Network is a coalition of Fortune 500 and 100 companies and institutions representing different sectors of the economy taking collective action to advocate for policies to move the US toward a low-carbon economy. We support the Investor Network on Climate Risk and Sustainability, which consists of over 175 institutional investors managing more than $29 trillion in assets, who advance leading

Headquarters: 99 Chauncy Street, 6th Floor · Boston, MA 02111· **617-247-0700**
San Francisco Office: 369 Pine Street, Suite 620 · San Francisco, CA 94104· **617-247-0700**
www.ceres.org

investment practices, corporate engagement strategies, and policy and regulatory solutions to address sustainability risks and opportunities.

We have worked extensively with insurers, state insurance commissioners and the NAIC on climate change related risk, including analyzing insurers' responses to the NAIC Climate Risk Disclosure Survey, and we continue working on education and other aspects of the NAIC's and insurance commissioners' efforts to reduce climate change related risks to insurers and to their insureds. Most recently, in June, Ceres issued a major new report, *Addressing Climate as a Systemic Risk: A call to action for U.S. financial regulators*, which includes 10 recommendations for state insurance regulators, with one recommendation focused on state and federal collaboration (See Appendix A). While our research has shown some progress by insurers in addressing climate risks, there is much work to be done by both regulators and insurers. For example, our 2018 analysis of progress by 32 U.S.-based insurers against the Ceres *Roadmap for Sustainability* found that 31% of these companies formally integrate sustainability into board committee charters, 38% hold senior-level executives accountable for sustainability performance, and 0% link executive compensation to sustainability performance metrics.

Two new reports emphasize the enormous financial risks posed by climate change. A report from the Commodity Futures Trading Commission's (CFTC) Climate-Related Market Risk Subcommittee, *Managing Climate Risk in the U.S. Financial System*, discusses the systematic risks posed by climate change. It notes that "climate change poses a major risk to the stability of the U.S. financial system and to its ability to sustain the American economy" and "U.S. financial regulators must recognize that climate change poses serious emerging risks to the U.S. financial system, and they should move urgently and decisively to measure, understand, and address these risks".

The report includes a recommendation specifically focused on climate change and ORSA:

- "Recommendation 4.13: Regulators should require insurers to integrate consideration of climate risks into insurers' Enterprise Risk Management (ERM) and Own Risk Solvency Assessments (ORSA) processes."

The Ceres report *Addressing Climate as a Systemic Risk* finds that the wide-ranging physical impacts of climate change, "combined with expected transitions to a net-zero carbon economy and other socio-economic ripples, are likely to manifest in both cumulative and unexpected ways and present clear systemic risks to U.S. financial markets -- and the broader economy. Left unmanaged, these risks could have significant, disruptive consequences on asset valuations, global financial markets and global economic stability." The report recommends that state insurance regulators require insurers to integrate climate change into their ERM and ORSA processes.

The report also discusses the November 2019 Dutch Central Bank good practice document on how insurers should factor climate risk into their ORSA assessments, which could be used as an

example that informs educational work and enhancement to guidance documents by the Subgroup and the Working Group.[1]

As you are aware, on September 22, 2020, the New York Department of Financial Services (DFS) announced three leading actions strengthening their commitment to addressing climate-related financial risks, including a new expectation that insurance companies operating in New York begin integrating consideration of financial risks from climate change into their governance frameworks, risk management processes, and business strategies. The DFS Insurance Circular Letter No. 15 (2020), to all New York domestic and foreign insurance companies, discusses ORSA and risk management. It states that:

> At a high level, DFS expects all New York insurers to start integrating the consideration of the financial risks from climate change into their governance frameworks, risk management processes, and business strategies. For example, insurers should designate a board member or a committee of the board, as well as a senior management function, as accountable for the company's assessment and management of the financial risks from climate change. An enterprise risk management function and the Own Risk and Solvency Assessment process should address climate change as a reasonably foreseeable and relevant material risk and should consider how it impacts risk factors such as investment risk, liquidity risk, operational risk, reputational risk, strategy risk, and underwriting risk. . . . Questions pertaining to an insurer's approach and activities related to the financial risks from climate change will be integrated into DFS's examination process starting in 2021.

The DFS notes that "each insurer should take a proportionate approach that reflects its exposure to the financial risks from climate change and the nature, scale, and complexity of its business." The DFS also announced they will organize a series of webinars with insurers on the industry's experience and challenges in managing the financial risks from climate change.

Taking into account all of these developments, I recommend the RFSWG and the ORSA Implementation Subgroup accelerate the integration of climate risk into education for regulators, continual review and improvements to the relevant NAIC handbooks and guidance manuals, guidance on pre-examination interviews with key management and boards of directors, and guidance on enhancing risk-focused surveillance.

As you consider ways to improve the integration of climate risk into insurers' governance and risk management, please consider resources from our governance and insurance programs. For example, our report *Getting Climate Smart: A Primer for Corporate Directors in a Changing Environment*, provides a range of recommendations for directors, including formally including climate change oversight in the board structure by incorporating it within board committee charters; recruiting climate-competent directors by casting a wide net through the nominating

[1] For more information, please see De Nederlandsche Bank (DNB), *Q&A Climate-related risks and insurers* (November 5, 2019), available at https://www.toezicht.dnb.nl/en/3/50-237997.jsp.

process to identify candidates with expertise in addressing climate change; and tying executive compensation to climate change.

Ceres staff stand ready to collaborate in whatever ways we can be helpful, including facilitating educational opportunities about climate risk for subgroup and working group members and insurance regulators. To reach us, please contact Steven Rothstein, Managing Director, Ceres Accelerator for Sustainable Capital Markets at srothstein@ceres.org.

Sincerely,

Mindy S. Lubber
CEO and President
Ceres, Inc.

Jim Coburn
Senior Manager, Disclosure

cc: Jennifer Gardner, Data Coordination and Statistical Analysis Manager
Members, Climate and Resiliency (EX) Task Force
Anne Obersteadt, Senior Researcher, Center for Insurance and Policy Research

NAMIC®
NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES

317.875.5250 | [F] 317.879.8408
3601 Vincennes Road, Indianapolis, Indiana 46268

202.628.1558 | [F] 202.628.1601
20 F Street N.W., Suite 510 | Washington, D.C. 20001

October 12, 2020

Chair, Justin Schrader
Risk-Focused Surveillance (E) Working Group;
Co-Chairs, Kathy Belfi and Mike Yanacheak
Own Risk & Solvency Assessment Implementation (E) Subgroup
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106

VIA Email Transmission: Bjenson@naic.org

RE: NAMIC Comments on Proposed Amendments to Financial Analysis Guidance for Group-Wide Supervision: Enterprise Risk Management and Financial Examination Guidance for ORSA Reviews

Dear Chairman Schrader and Co-Chairs Belfi and Yanacheak:

The following comments are submitted on behalf of the member companies of the National Association of Mutual Insurance Companies[1] regarding proposed changes to both the 2020 Annual/2021 Quarterly Financial Analysis Handbook and the 2020 Annual/2021 Quarterly Financial Condition Examiners Handbook (Handbooks).

NAMIC members appreciate the opportunity to comment on the latest proposed changes to the Handbooks and have narrowed our comments down to two main concerns: the notion that regulators should be assessing group capital on the basis of it being freely available or fungible and the consistent use of the term "insurer" throughout the proposed guidance.

Group Capital is not Fungible

NAMIC members strongly suggest the concept that group capital is fungible or freely available to be distributed as needed should be removed from each of the handbooks. First, there is no such thing as "group" capital. There is

[1] NAMIC membership includes more than 1,400-member companies. The association supports regional and local mutual insurance companies on main streets across America and many of the country's largest national insurers. NAMIC member companies write more than $278 billion in annual premiums. Our members account for 58 percent of homeowners, 44 percent of automobile, and 30 percent of the business insurance markets. Through our advocacy programs we promote public policy solutions that benefit NAMIC member companies and the policyholders they serve and foster greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies.

capital held by legal entities that comprise the group. The group capital calculation currently being developed is an aggregation of capital held by the separate legal entities in the group and we do not believe it is appropriate or legal for any regulator to assess the quality of group capital based on the notion that the assets of an insurance company in the group are for any other entity other than the policyholders of said insurance company.

The process of calculating a group's capital under the current proposed group capital calculation does not create "group" capital that is available for any entity in the group; it is simply an aggregation formula. An insurance policy is a contract between a policyholder and an insurance company; therefore, there is no legal contractual connection between the policyholder and any other entity within the group. NAMIC members strongly disagree with the notion that regulators should be evaluating group capital or available capital on the basis that the capital in insurance companies is freely available to bailout bad business decisions in non-insurance and other insurance entities within a group. Reconciling asset/liability matching for group capital as a whole does not work in the existing state-based legal entity framework when individual legal entities across a group may have starkly different asset/liability requirements and applicable state regulatory schemes. Finally, the state-based financial examination authority and process is limited to and directed at domestic insurers of a particular state. Groups can have several different individual insurers domesticated in different states as well as other entities outside of a regulator's financial examination authority.

For these reasons, we suggest eliminating from the Handbooks any reference to insurers capital being "freely available" or "fungible" as to be dispersed to other affiliates in the group. There is great value with maintaining a view into the risk of each legal entity. This principle is paramount in the current state-based system where the supervisory focus is on the risk posed to each individual legal entity. This was a chief consideration in the designing of the aggregation approach to the Group Capital Calculation and we believe should be maintained in our current state-based system.

Consistent Use of Term "Insurer"

Throughout each proposal there are several times where the term, "company" or "organization" are used out of context, and the term "insurer" should be used instead. In the exam guidance, on page 4 in the second paragraph of Section II, the term "company" should be replaced.

> Section II guidance has been developed around reviewing key risks assessed by the ~~company~~ insurer and classifying them within the nine branded risk classifications outlined in Exhibit L of this Handbook, which are used as a common language in the risk-focused surveillance process.

Under the Review of Background Information on page 5 of the proposed exam guidance, the chart includes the Consideration: "Key Business Goals" and we suggest an edit under one of the possible test procedures as follows:

> If inconsistencies are noted, discuss with the ~~company~~ insurer to determine if any key risks are excluded from assessment within the ORSA

Under the Review of Section I – Description of an Insurer's Risk Management Framework on pages 10 and 11 of the exam guidance, the following four changes under the consideration of Risk Appetite, Tolerances and Limits are being suggested:

Paragraph 1:

> While risk appetites, tolerances and limits can be defined and used in different ways across different organizations, this guidance is provided to assist the regulator in understanding and evaluating the insurer's practices in this area. Risk appetite can be defined as the amount of specific and aggregate risk that an ~~organization~~ insurer chooses to take during a defined time period in pursuit of its business objectives.

Paragraph 2:

> After the overall risk appetite for the organization is determined, the underlying risk tolerances and limits can be selected and applied to business units and specific key risks identified by ~~areas as~~ the ~~company~~ insurer ~~deems appropriate~~.
>
> Risk limits can be defined as thresholds used to monitor the actual exposure of a specific risk or activity unit of the ~~organization~~ insurer to ensure that the level of actual risk remains within the risk tolerance.

Key Considerations Chart Pages 10—11:

Review board/committee minutes or supporting materials to verify that the ~~organization's~~ insurers risk appetite is reviewed, updated and approved as appropriate

Moving to the Analysis Handbook, the first recommended change is on page 11 under Section II, the last sentence before the strikethrough as follows:

> The branded risk classifications are intentionally broad in order to allow almost any risk of an ~~company~~ insurer to be tracked within one or more categories, but the analyst may also use an "Other" classification as necessary to track exposures.

The final three suggested changes are on page 15 under Risk Appetite, Tolerances and Limits. In the second paragraph under this section, the term "organization" should be replaced with "insurer."

> Risk appetite can be defined as the amount of specific and aggregate risk that an ~~organization~~ insurer chooses to take during a defined time period in pursuit of its business objectives.

Third paragraph, sentences 2 and 3:

Risk tolerance can be defined as the aggregate risk-taking capacity of an ~~organization~~ insurer. Risk limits can be defined as thresholds used to monitor the actual exposure of a specific risk or activity unit of the ~~organization~~ insurer to ensure that the level of actual risk remains within the risk tolerance.

We appreciate the opportunity to review the proposed language. Thank you for your consideration of these comments on this matter of importance to NAMIC, its member companies and their policyholders. If there are any questions, please feel free to contact me at 317-876-4206.

Sincerely,

Jonathan Rodgers
Director of Financial and Tax Policy
National Association of Mutual Insurance Companies

Attachment B

Updated NAIC Financial Analysis Handbook Revisions

Introduction

The process for assessing enterprise risk management (ERM) within the group will vary depending upon its structure and scale. Approximately 90 percent of the U.S. premium is subject to reporting an annual Own Risk Solvency ~~assessment~~ Assessment (ORSA) Summary Report. However, all insurers are subject to an assessment of risk management during the risk-focused analysis and examination, and this review is a responsibility of the lead state. In addition, all groups are required to submit the Form F - Enterprise Risk Report under the requirements of the NAIC *Insurance Holding Company System Regulatory* Act (#440). In addition, both the ORSA Summary Report and the Form F are subject to the supervisory review process, which contemplates both off-site and on-site examination of such information proportionate to the nature, scale and complexity of the insurer/group's risks. Those procedures are discussed in the following two sections. In addition, any risks identified throughout the entire supervisory review process are subject to further review by the lead state in either the periodic meeting with the insurer/group and/or any targeted examination work. When reviewing the ORSA and Form F, the lead state analyst should consider consistency between the documents, as well as information provided in the Corporate Governance Annual Disclosure.

ORSA Summary Report

The NAIC *Risk Management and Own Risk and Solvency Assessment Model Act* (#505) requires insurers above a specified premium threshold, and subject to further discretion, to submit a confidential annual ORSA Summary Report. Model #505 gives the individual insurer and the insurance group discretion as to whether the report is submitted by each individual insurer within the group or by the insurance~~r~~ group as a whole (See the NAIC *Own Risk Solvency Assessment Guidance Manual* for further discussion).

- **Lead State:** In the case where the insurance group chooses to submit one ORSA Summary Report for the group, it must be reviewed by the lead state. The lead state is to perform a detailed and thorough review of the information and initiate any communications about the ORSA with the group. The suggestions below set forth some possible considerations for such a review. At the completion of this review, the lead state should prepare a thorough summary of its review, which would include an initial assessment of each of the three sections. The lead state should also consider and include key information to share with other domestic states that are expected to place significant reliance on the lead state's review. The lead state should share the analysis of ORSA with other states that have domestic insurers in the group. The group ORSA review and sharing with other domestic states should occur within 120 days of receipt of the ORSA filing.
- **Non-Lead State:** Non-lead states are not expected to perform an in-depth review of the ORSA, but instead rely on the review completed by the lead state. The non-lead states' review of ~~an~~the lead state's ORSA review should be performed only for the purpose of having a general understanding of the work performed by the lead state, and to understand the risks identified and monitored at the group-level so the non-lead state may better monitor and communicate to the lead state when its legal entity could affect the group. Any concerns or questions related to information in the ORSA or group risks should be directed to the lead state.
- **Single Insurer ORSA:** In the case where there is only one insurer within the insurance group, or the group decides to submit separate ORSA Summary Reports for each legal entity, the domestic state is to perform a detailed and thorough review of the information, which would include an initial assessment of each of the three sections and initiate any communications about the ORSA directly with the legal entity. Such a review should also be shared with the lead state (if applicable) so it can develop an understanding of the risks within the entire insurance group. Single insurer ORSA reviews should be completed within 180 days of receipt of the ORSA filing.

Throughout a significant portion of the remainder of this document, the term "insurer" is used to refer to both a single insurer for those situations where the report is prepared by the legal entity, as well as to refer to an insurance group. However, in some cases, the term group is used to reinforce the importance of the group-wide view. Similarly, throughout the remainder of this document, the term "lead state" is used before the term "analyst" with the understanding that in most situations, the ORSA Summary Report will be prepared on a group basis and, therefore reviewed by the lead state.

Background Information

To understand the appropriate steps for reviewing the ORSA Summary Report, regulators must first understand the purpose of the ORSA. As noted in the *ORSA Guidance Manual*, the ORSA has two primary goals:

1. To foster an effective level of (ERM) at all insurers, through which each insurer identifies, assesses, monitors, prioritizes and reports on its material and relevant risks identified by the insurer, using techniques that are appropriate to the nature, scale and complexity of the insurer's risks, in a manner that is adequate to support risk and capital decisions
2. To provide a group-level perspective on risk and capital, as a supplement to the existing legal entity view.

In addition, separately, the *ORSA Guidance Manual* discusses the regulator obtaining a high-level understanding of the insurer's ORSA~~,~~ and discusses how the ORSA Summary Report may assist the commissioner in determining the scope, depth and minimum timing of risk-focused analysis and examination procedures.

There is no expectation with respect to specific information or specific action that the lead state regulator is to take as a result of reviewing the ORSA Summary Report. Rather, each situation is expected to result in a unique ongoing dialogue between the insurer and the lead state regulator focused on the key risks of the group. For this reason, as well as others, the lead state analyst may want to consider ~~including in its initial~~additional support in the form of a broader review team as necessary in reviewing ~~of~~ the ORSA Summary Report, subject to the confidentiality requirements outlined in statute. In reviewing the final ORSA filing prior to the next scheduled financial examination, the analyst should consider inviting the lead state examiner ~~or any other individual acting under the authority of the commissioner or designated by the commissioner with special skills and subject to confidentiality~~to participate on the review team. Regardless of which individuals are involved on a review team, the 120-day or 180-day timeliness standards are applicable to the review. Additionally, the lead state analyst and examiner may want to include ~~them~~ the review team in ~~possible~~ ongoing dialogues with the insurer since the same team will be part of the ongoing monitoring of the insurer and an ORSA Summary Report is expected to be at the center of the regulatory processes. ~~A joint review such as this prior to the lead state analyst documenting its summary of the ORSA Summary Report may be appropriate.~~

These determinations can be documented as part of each insurer's ongoing supervisory plan. However, the *ORSA Guidance Manual* also states that each insurer's ORSA will be unique, reflecting the insurer's business model, strategic planning and overall approach to ERM. As regulators review ORSA Summary Reports, they should understand that the level of sophistication for each group's ERM program will vary depending upon size, scope and nature of business operations. Understandably, less complex ~~organization~~insurers may not require intricate processes to possess a sound ERM program. Therefore, regulators should use caution before using the results of an ORSA review to modify ongoing supervisory plans, as a variety of practices may be appropriate depending upon the nature, scale and complexity of each insurer.

~~Collectively, the goals above are the basis upon which the guidance is established. However, the ORSA Summary Report will not serve this function or have this direct impact until the lead state becomes fairly familiar and comfortable with evaluating each insurer's report and its processes. This could take more than a couple of years to occur in practice, since the lead state would likely need to review at least one or two ORSA Summary Reports to fully understand certain aspects of the processes used to develop the report.~~

General Summary of Guidance for Each Section

The guidance that follows is designed to assist the lead state analyst in the review of the ORSA and to allow for effective communication of analysis results with the non-lead states. It is worth noting that this guidance is expected to evolve over the years, with the first couple of years focused on developing a general understanding of ORSA and ERM. It should be noted that each of the sections can be informative to the other sections. As an example, Section II affords an insurer the opportunity to demonstrate the robustness of its process through its assessment of risk exposure. In some cases, it's possible the lead state analyst may conclude the insurer did not summarize and include information about its framework and risk management tools in Section I in a way that allowed the lead state analyst to conclude ~~it was at Level 5 (defined below)~~on effectiveness, but in practice by review of Section II, ~~it appears to meet the level~~such a conclusion was able to be reached. Likewise, the lead state analyst may assess Section II as ~~Level 5~~effective but may be unable to see through Section III how the totality of the insurer's system is ~~Level 5~~effective because of a lack of demonstrated rigor documented in Section III. Therefore, the assessment of each section requires the lead state analyst to consider other aspects of the ORSA Summary Report. This is particularly true of Section I, because as discussed in the following ~~page (or~~ paragraphs~~)~~, the other two sections have very distinct objectives, whereas the assessment of Section I is broader.

Background Information procedures are provided to assist the regulator in gaining an overall understanding of the ORSA Summary Report and assessing compliance with ORSA Guidance Manual reporting requirements ~~in several critical areas~~(i.e. attestation, entities in scope).

Section I procedures are focused on assessing the insurer's ~~maturity level with respect to its~~ overall risk management framework. The procedures are presented as considerations to be taken into account when reviewing and assessing an insurer's implementation of each of the risk management principles highlighted in the NAIC's *ORSA Guidance Manual*. ~~The maturity level may be assessed through a number of ways, one of which is through the incorporation of concepts developed within the Risk and Insurance Management Society's (RIMS) Risk Maturity Model (RMM). While insurers or insurance groups may utilize various frameworks in developing, implementing and reporting on their ORSA processes (e.g., COSO Integrated Framework, ISO 31000, IAIS ICP 16, other regulatory frameworks, etc.), elements of the RMM have been incorporated into this guidance to provide a framework for use in reviewing and assessing ERM/ORSA practices. However, as various frameworks may be utilized to support effective ERM/ORSA practices, lead state regulators should be mindful of differences in frameworks and allow flexibility in assessing maturity levels. The RMM, which is only one of a number of processes that may be used to determine maturity levels, provides a scale of six maturity levels upon which an insurer can be assessed. The six maturity levels can generally be defined as follows:~~

~~Level 5: Risk management is embedded in strategic planning, capital allocation and other business processes and is used in daily decision-making. Risk limits and early warning systems are in place to identify breaches and require corrective action from the board of directors or the appropriate committee thereof (hereafter referred to as the "board" for this chapter) and management.~~

- ~~Level 4: Risk management activities are coordinated across business areas and tools and processes are actively utilized. Enterprise-wide risk identification, monitoring, measurement and reporting are in place.~~
- ~~Level 3: The insurer has risk management processes in place designed and operated in a timely, consistent and sustained way. The insurer takes action to address issues related to high-priority risks.~~
- ~~Level 2: The insurer has implemented risk management processes, but the processes may not be operating consistently and effectively. Certain risks are defined and managed in silos, rather than consistently throughout the organization.~~
- ~~Level 1: The insurer has not developed or documented standardized risk management processes and is relying on the individual efforts of staff to identify, monitor and manage risks.~~
- ~~Level 0: The insurer has not recognized a need for risk management, and risks are not directly identified, monitored or managed.~~

~~The guidance developed for use in this Handbook integrates the concepts of RIMS maturity level scale of the RMM with the general principles and elements outlined in Section I of the *ORSA Guidance Manual* to assist lead state regulators in reaching an overall assessment of the maturity of an insurer's risk management framework.~~ In

assessing implementation, regulators should consider whether ~~T~~the design of ERM/ORSA practices ~~should~~ appropriately reflects the nature, scale and complexity of the insurer. ~~Lead state regulators should understand the level of maturity that is appropriate for the company based on its unique characteristics. Attainment of "Level 5" level maturity for ERM/ORSA practices is not appropriate, nor should be expected, for all insurers or for all components of the framework.~~

Section II takes a much different approach. It provides guidance to allow the lead state analyst to better understand the range of practices they may see in ORSA Summary Reports. However, such practices are not intended to be requirements, as that would eliminate the "Own" aspect of the ORSA and defeat its purpose. As such, analysts should not expect or require insurers to organize or present their risks in a particular manner (i.e. by branded risk classification). Rather, the guidance can be used in a way to allow the lead state analyst to better understand the information in this section. Section II guidance has been developed around reviewing key risks assessed by the ~~company~~insurer, evaluating information provided on the assessment and mitigation of those risks and classifying them within the nine branded risk classifications ~~contained elsewhere in this~~outlined in the Handbook, which are used as a common language in the risk-focused surveillance process for ongoing tracking and communication. As such, the analyst should attempt to classify each key risk assessed by the insurer into a branded risk classification(s) for incorporation into general analysis documentation (IPS or GPS) as appropriate. The branded risk classifications are intentionally broad in order to allow almost any risk of an ~~company~~insurer to be tracked within one or more categories, but the analyst may also use an "Other" classification as necessary to track exposures.~~The primary reason for utilizing this approach is that it is not uncommon for insurer's to identify within their ORSA Summary Reports, many of the same types of risks, therefore the lead state analyst can leverage this information in their analysis of the insurer. However, lead state regulators should not restrict their focus to only the nine branded risk classifications; as such an approach may not encourage independent judgment in understanding the risk profile of the insurer. Therefore, the reference to the nine branded risk classifications provides a framework to organize the lead state's summary, but it should not discourage regulators from documenting other risks or excluding branded risk categories that are not relevant. From this standpoint, Section II will also provide regulators with information to better understand current insurance market risks and changes in those risks as well as macroeconomic changes and the impact they have on insurers risk identification and risk management processes.~~

Section III is also unique in that it provides a specific means for assisting the lead state analyst in evaluating the insurer's determinations of the reasonableness of its group capital and its prospective solvency position on an ongoing basis. Section III of the ORSA Summary Report is intended to be more informative regarding capital than other traditional methods of capital assessment since it~~s~~ sets forth the amount of capital the group determines is reasonable to sustain its current business model rather than setting a minimum floor to meet regulatory or rating agency capital requirements.

Background Information

The *ORSA Guidance Manual* encourages discussion and disclosure of key pieces of information to assist regulators in reviewing and understanding the ORSA Summary Report. As such, the following considerations are provided to assist the regulator in reviewing and assessing the information provided in these areas.

- **Attestation** – The report includes an attestation signed by the Chief Risk Officer (or other executive responsible for ERM oversight) indicating that the information presented is accurate and consistent with ERM reporting shared with the Board of Directors (or committee thereof).
- **Entities in Scope** – The scope of the report is clearly explained and identifies all insurers covered. The scope of a group report also indicates whether material non-insurance operations have been covered. The lead state analyst ~~sh~~could utilize Schedule Y, the Lead State report and other related tools/filings to ~~verify that all appropriate~~review which entities are accounted for in the filing.
- **Accounting Basis** – The report clearly indicates the accounting basis used to present financial information in the report, as well as the primary valuation date(s).

- **Key Business Goals** – The report provides an overview of the insurer's/group's key business goals in order to demonstrate alignment with the relevant and material risks presented within the report.
- **Changes from Prior Filing(s)** – The report clearly discusses significant changes from the prior year filing(s) to highlight areas of focus in the current year review including significant changes to the ERM framework, risks assessed, stress scenarios, overall capital position, modeling assumptions, etc.
- ~~**Planned ERM Enhancements** – The report provides information on planned enhancements for improving the effectiveness of the insurer's/group's ERM practices to demonstrate ongoing development and a functioning feedback loop.~~

Review of Section I - Description of the Insurer's Risk Management Framework

The *ORSA Guidance Manual* requires the insurer to discuss the key principles below in Section I of the ORSA Summary Report. For purposes of evaluating the ORSA Summary Report, and moreover, the lead state analyst's responsibility to assess the insurer's risk management framework, the lead state analyst should review the ORSA Summary Report to ascertain if the framework meets the principles. Additional guidance is included to provide further information on what may be contemplated ~~when considering~~in assessing such principles~~ as well as examples of attributes that may indicate the insurer is more or less mature in its handling of key risk management principles. These attributes are meant to assist the lead state analyst in reaching an initial high-level assessment of the insurer's maturity level for each key principle as "Level 5" through "Level 0"~~.

Key Principles:

A. Risk Culture and Governance

B. Risk Identification and Prioritization

C. Risk Appetite, Tolerances and Limits

D. Risk Management and Controls

E. Risk Reporting and Communication

Documentation for Section I

~~Consideration When Reviewing for Key Principles:~~

When reviewing the ORSA Summary Report, the lead state analyst should consider the extent to which ~~of~~ the above principles are present within the ~~organization~~insurer. In reviewing these principles, examples of various ~~attributes/traits associated with various maturity levels (e.g., "Level 5" practices)~~considerations are provided for each principle in the following sections. The intent in providing these ~~attributes or traits~~considerations is to assist the lead state analyst in assessing the risk management framework. However, these ~~attributes~~ considerations only ~~demonstrate common practices associated with each of the various maturity levels~~highlight certain elements associated with the key principles and practices of individual insurers that may vary significantly~~ from the examples provided~~. The lead state analyst should document a summary of the review of Section I by outlining key information and developing an assessment of each of the five principles set forth in the *ORSA Guidance Manual* using the template located in the next section of this Handbook.

A. Risk Culture and Governance

It is important to note some insurers view risk culture and governance as the cornerstone to managing risk. The *ORSA Guidance Manual* defines this item to include a structure that clearly defines and articulates roles, responsibilities and accountabilities, as well as a risk culture that supports accountability in risk-based decision making. Therefore, the objective is to have a structure in place within the insurer that manages reasonably foreseeable and relevant material risk in a way that is continuously improved. Key considerations in reviewing and assessing risk culture and governance might include, but aren't limited to:

- **Roles and Responsibilities** - Roles and responsibilities of key stakeholders in risk and capital management are clearly defined and documented in writing, including members of the board (or committee thereof),

officers and senior executives, risk owners, etc.

- **Board or Committee Involvement** – The Board of Directors or appropriate committee thereof demonstrates active involvement in ~~and~~the oversight of ERM activities through receiving regular updates from management on ERM monitoring, reporting and recommendations.
- **Strategic Decisions** – Directors, officers and other members of senior management utilize information generated through ERM processes in making strategic decisions.
- **Staff Availability and Education** – The insurer maintains suitable staffing (e.g. sufficient number, educational background, and experience) to support its ERM framework and deliver o~~f~~n its risk strategy. Staff is kept current in its risk education in accordance with changes to the risk profile of the insurer.
- **Leadership** – The Chief Risk Officer (CRO), ~~(~~or equivalent position,~~)~~ possesses an appropriate level of knowledge and experience related to ERM and receives an appropriate level of authority to effectively fulfill responsibilities. This includes clear and direct communication channels between the CRO and the BOD or appropriate committee thereof.
- **Compensation** – The insurer demonstrates that incentives, compensation and performance management criteria have been appropriately aligned with ERM processes and do not encourage excessive risk taking given the capital position of the insurer.
- **Integration** – The insurer integrates and coordinates ERM processes across functional areas of the insurer including human resources, information technology, internal audit, compliance, business units, etc.
- **Assessment** – The insurer's ERM framework is subject to regular review and assessment, with updates made to the framework as deemed necessary.

- ~~Level 5~~
  ~~Risk culture is analyzed and reported as a systematic view of evaluating risk. Executive sponsorship is strong, and the tone from the top has sewn an ERM framework into the corporate culture. Management establishes the framework, and the risk culture and the board reviews the risk appetite statement in collaboration with the chief executive officer (CEO), chief risk officer (CRO) where applicable, and chief financial officer (CFO). Those officers translate the expectations into targets through various practices embedded throughout the insurer. Risk management is embedded in each material business function. Internal audit, information technology, compliance, controls and risk management processes are integrated and coordinate and report risk issues. Material business functions use risk-based best practices. The risk management lifecycle for business process areas are routinely evaluated and improved (when necessary).~~

- ~~Level 4~~
  ~~The insurer's ERM processes are self-governed with shared ethics and trust. Management is held accountable. Risk management issues are understood and risk plans are conducted in material business process areas. The board, CEO, CRO (if applicable) and CFO expect a risk management plan to include a qualitative risk assessment for reasonably foreseeable and relevant material risks with reporting to management or the board on priorities, as appropriate. Relevant areas use the ERM framework to enhance their functions, communicating on risk issues as appropriate. Process owners incorporate managing their risks and opportunities within regular planning cycles. The insurer creates and evaluates scenarios consistent with its planning horizon and product timelines, and follow-up activities occur accordingly.~~

- ~~Level 3~~
  ~~ERM risk plans are understood by management. Senior management expects that a risk management plan captures reasonably foreseeable and relevant material risks in a qualitative manner. Most areas use the ERM framework and report on risk issues. Process owners take responsibility for managing their risks and opportunities. Risk management creates and evaluates scenarios consistent with the business planning horizon.~~

- ~~Level 2~~
  ~~Risk culture is enforced by policies interpreted primarily as compliance in nature. An executive champions ERM management to develop an ERM framework. One area has used the ERM framework, as shown by the department head and documented team activities. Business processes are identified, and ownership is defined. Risk management is used to consider risks in line with the insurer's business planning horizon.~~

- ~~Level 1~~

~~Corporate culture has little risk management accountability. Risk management is not interpreted consistently. Policies and activities are improvised. Programs for compliance, internal audit, process improvement and IT operate independently and have no common framework, causing overlapping risk assessment activities and inconsistencies. Controls are based on departments and finances. Business processes and process owners are not well-defined or communicated. Risk management focuses on past events. Qualitative risk assessments are unused or informal. Risk management is considered a quantitative analysis exercise.~~

- ~~Level 0~~
  ~~There is no recognized need for an ERM process and no formal responsibility for ERM. Internal audit, risk management, compliance and financial activities might exist but are not integrated. Business processes and risk ownership are not well-defined.~~

B. Risk Identification and Prioritization

The *ORSA Guidance Manual* defines this as key to the insurer. Responsibility for this activity should be clear, and the risk management function is responsible for ensuring the processes are appropriate and functioning properly. Therefore, an approach for risk identification and prioritization may be to have a process in place that identifies risk and prioritizes such risks in a way that potential reasonably foreseeable and relevant material risks are addressed in the framework. Key considerations in reviewing and assessing risk identification and prioritization might include, but aren't limited to:

- **Resources** – The insurer utilizes appropriate resources and tools (e.g. questionnaires, external risk listings, brainstorming meetings, regular calls, etc.) to assist in the risk identification process that are appropriate for its nature, size and structure.
- **Stakeholder Involvement** – All key stakeholders (i.e. directors, officers, senior management, business unit leaders, risk owners, etc.) are involved in risk identification and prioritization at an appropriate level.
- **Prioritization Factors** – Appropriate factors and considerations are utilized to assess and prioritize risks (e.g. likelihood of occurrence, magnitude of impact, controllability, speed of onset, etc.).
- **Process Output** – Risk registers, key risk listings and risk ratings are maintained, reviewed and updated on a regular basis.
- **Emerging Risks** – The insurer has developed and maintained a formalized process for the identification and tracking of emerging risks.

- ~~Level 5~~
  ~~Information from internal and external sources on reasonably foreseeable and relevant material risks, including relevant business units and functions, is systematically gathered and maintained. A routine, timely reporting structure directs risks and opportunities to senior management. The ERM framework promotes frontline employees' participation and documents risk issues or opportunities' significance. Process owners periodically review and recommend risk indicators that best measure their areas' risks. The results of internal adverse event planning are considered a strategic opportunity.~~

- ~~Level 4~~
  ~~Process owners manage an evolving list of reasonably foreseeable and relevant material risks locally to create context for risk assessment activities as a foundation of the ERM framework. Risk indicators deemed critical to their areas are regularly reviewed in collaboration with the ERM team. Measures ensure downside and upside outcomes of risks and opportunities are managed. Standardized evaluation criteria of impact, likelihood and controls' effectiveness are used to prioritize risk for follow-up activity. Risk mitigation is integrated with assessments to monitor effective use.~~

- ~~Level 3~~
  ~~An ERM team manages an evolving list of reasonably foreseeable and relevant material risks, creating context for risk assessment as a foundation of the ERM framework. Risk indicator lists are collected by most process owners. Upside and downside outcomes of risk are understood and managed. Standardized evaluation criteria~~

~~of impact, likelihood and controls' effectiveness are used, prioritizing risk for follow-ups. Enterprise level information on risks and opportunities are shared. Risk mitigation is integrated with assessments to monitor effective use.~~

- ~~Level 2~~
  ~~Formal lists of reasonably foreseeable and relevant material risks exist for each relevant business unit or function, and discussions of risk are part of the ERM process. Corporate risk indicators are collected centrally, based on past events. Relevant business units or functions might maintain their own informal risk checklists that affect their areas, leading to potential inconsistency, inapplicability and lack of sharing or under-reporting.~~

- ~~Level 1~~
  ~~Risk is owned by specialists, centrally or within a business unit or function. Risk information provided to risk managers is probably incomplete, dated or circumstantial, so there is a high risk of misinformed decisions, with potentially severe consequences. Further mitigation, supposedly completed, is probably inadequate or invalid.~~

- ~~Level 0~~
  ~~There might be a belief that reasonably foreseeable and relevant material risks are known, although there is probably little documentation.~~

C. Risk Appetite, Tolerances and Limits

The *ORSA Guidance Manual* states that a formal risk appetite statement, and associated risk tolerances and limits are foundational elements of a risk management framework for an insurer. While risk appetites, tolerances and limits can be defined and used in different ways across different insurers, this guidance is provided to assist the regulator in understanding and evaluating the insurer's practices in this area.

Risk appetite can be defined as the amount of specific and aggregate risk that an insurer chooses to take during a defined time period in pursuit of its business objectives. ~~Understanding~~ Articulation of the risk appetite statement ensures alignment ~~with~~ of the risk strategy with the business strategy set by senior management and reviewed and evaluated by the board. Not included in the Manual, but widely considered, is that risk appetite statements should be easy to communicate, be understood, and be closely tied to the insurer's strategy.

After the overall risk appetite for the insurer is determined, the underlying risk tolerances and limits can be selected and applied to business units and specific key risks identified ~~areas as deemed appropriate~~ by the ~~company~~insurer. Risk tolerance can be defined as the aggregate risk-taking capacity of an insurer. Risk limits can be defined as thresholds used to monitor the actual exposure of a specific risk or activity unit of the insurer to ensure that the level of actual risk remains within the risk tolerance. The ~~company~~insurer may apply appropriate quantitative limits and qualitative statements to help establish boundaries and expectations for risks that are hard to measure. These boundaries may be expressed in terms of earnings, capital, or other metrics (growth, volatility, etc.). The risk tolerances/limits provide direction outlining the insurer's tolerance for taking on certain risks, which may be established and communicated in the form of the maximum amount of such risk the entity is willing to take. However, in many cases these will be coupled with more specific and detailed limits or guidelines the insurer uses.

Due to the varying level of detail and specificity that different insurers incorporate into their risk appetites, tolerances and limits, lead state regulators should consider these elements collectively to reach an overall assessment in this area and should seek to understand the insurer's approach through follow-up discussions and dialogue. Key considerations in reviewing and assessing risk appetites, tolerances and limits might include, but aren't limited to:

- **Risk Appetite Statement** – The insurer has ~~adopted~~developed an overall risk appetite statement consistent with its business plans and operations that is updated on a regular basis and ~~approved by the board of directors (or committee thereof)~~subject to appropriate governance oversight.

- **Risk Tolerances/Limits** – Tolerances and limits are developed for key risks in accordance with the overall risk appetite statement.
- **Risk Owners** – Key risks are assigned to risk owners with responsibility for ~~monitoring and reporting on~~ risk tolerances and limits, including actions to address any breaches.

- ~~Level 5~~
  ~~A risk appetite statement has been developed to establish clear boundaries and expectations for the insurer to follow. A process for delegating authority to accept risk levels in accordance with the risk appetite statements is communicated throughout the insurer. The management team and risk management committee, if applicable, may define tolerance levels and limits on a quantitative and/or qualitative basis for relevant business units and functions in accordance with the defined risk appetite. As part of its risk management framework, the insurer may compare and report actual assessed risk versus risk tolerances/limits. Management prioritizes resource allocation based on the gap between risk appetite and assessed risk and opportunity. The established risk appetite is examined periodically.~~

- ~~Level 4~~
  ~~Risk appetite is considered throughout the ERM framework. Resource allocation decisions consider the evaluation criteria of business areas. The insurer forecasts planned mitigation's potential effects versus risk tolerance as part of the ERM framework. The insurer's risk appetite is updated as appropriate, and risk tolerances are evaluated from various perspectives as appropriate. Risk is managed by process owners. Risk tolerance is evaluated as a decision to increase performance and measure results. Risk-reward tradeoffs within the business are understood and guide actions.~~

- ~~Level 3~~
  ~~Risk assumptions within management decisions are clearly communicated. There is a structure for evaluating risk and gauging risk tolerance on an enterprise-wide basis. Risks and opportunities are routinely identified, evaluated and executed in alignment with risk tolerances. The ERM framework quantifies gaps between actual and target tolerances. The insurer's risk appetite is periodically reviewed and updated as deemed appropriate by the insurer, and risk tolerances are evaluated from various perspectives as appropriate.~~

- ~~Level 2~~
  ~~Risk assumptions are only implied within management decisions and are not understood outside senior leadership with direct responsibility. There is no ERM framework for resource allocation. Defining different views of business units or functions from a risk perspective cannot be easily created and compared.~~

- ~~Level 1~~
  ~~Risk management might lack a portfolio view of risk. Risk management might be viewed as risk avoidance and meeting compliance requirements or transferring risk through insurance. Risk management might be a quantitative approach focused on the analysis of high-volume and mission-critical areas.~~

- ~~Level 0~~
  ~~The need for formalizing risk tolerance and appetite is not understood.~~

D. Risk Management and Controls

The *ORSA Guidance Manual* stresses managing risk as an ongoing ERM activity, operating at many levels within the insurer. This principle is discussed within the governance section above from the standpoint that a key aspect of managing and controlling the reasonably foreseeable and relevant material risks of the insurer is the risk governance process put in place. For many companies, the day-to-day governance starts with the relevant business units. Those units put mechanisms in place to identify, quantify and monitor risks, which are reported up to the next level based upon the risk reporting triggers and risk limits put in place. In addition, controls are also put in place on the backend, by either the ERM function or the internal audit team, ~~or some independent consultant,~~ which are designed to ensure compliance and a continual enhancement approach. Therefore, one

approach may be to put controls in place to ensure the insurer is abiding by its limits. Key considerations in reviewing and assessing risk management and controls might include, but aren't limited to:

- **Lines of ~~Defense~~Accountability** – Multiple lines of ~~defense~~accountability (i.e. business unit or risk owners, ERM function, internal audit) are put in place to ensure that control processes are effectively implemented and maintained.
- **Control Processes** – Specific control activities and processes are put in place to manage, mitigate and monitor all key risks.
- **Implementation of Tolerances/Limits** – Risk tolerances and limits are translated into operational guidance and policies around key risks through all levels of the insurer.
- **Indicators/Metrics** – Key risk indicators or performance metrics are put in place to monitor exposures, provide early warnings and measure adherence to risk tolerances/limits.
- ~~Level 5~~

  ~~ERM, as a management tool, is embedded in material business processes and strategies. Roles and responsibilities are process driven with teams collaborating across material central and field positions. Risk and performance assumptions within qualitative assessments are routinely revisited and updated. The insurer uses an ERM process of sequential steps that strive to improve decision-making and performance. A collaborative, enterprise-wide approach is in place to establish a risk management committee staffed by qualified management. Accountability for risk management is woven into material processes, support functions, business lines and geographies as a way to achieve goals. To evaluate and review the effectiveness of ERM efforts and related controls, the insurer has implemented a "Three Lines of Defense" model or similar system of checks and balances that is effective and integrated into the insurer's material business processes. The first line of defense may consist of business unit owners and other front line employees applying internal controls and risk responses in their areas of responsibility. The second line of defense may consist of risk management, compliance and legal staff providing oversight to the first line of defense and establishing framework requirements to ensure reasonably foreseeable and relevant material risks are actively and appropriately managed. The third line of defense may consist of auditors performing independent reviews of the efforts of the first two lines of defense to report back independently to senior management or the board.~~

- ~~Level 4~~

  ~~Risk management is clearly defined and enforced at relevant levels. A risk management framework articulates management's responsibility for risk management, according to established risk management processes. Management develops and reviews risk plans through involvement of relevant stakeholders. The ERM framework is coordinated with managers' active participation. Opportunities associated with reasonably foreseeable and relevant material risks are part of the risk plans' expected outcome. Authentication, audit trail, integrity and accessibility promote roll- up information and information sharing. Periodic reports measure ERM progress on reasonably foreseeable and relevant material risks for stakeholders, including senior management or the board. The insurer has implemented a "Three Lines of Defense" model to review and assess its control effectiveness, but those processes may not yet be fully integrated or optimized.~~

- ~~Level 3~~

  ~~The ERM framework supports material business units' and functions' needs. ERM is a process of steps to identify, assess, evaluate, mitigate and monitor reasonably foreseeable and relevant material risks. ERM frameworks include the management of opportunities. Senior management actively reviews risk plans. The ERM process is collaborative and directs important issues to senior management. The "Three Lines of Defense" are generally in place, but are not yet performing at an effective level.~~

- ~~Level 2~~

  ~~Management recognizes a need for an ERM framework. Agreement exists on a framework, which describes roles and responsibilities. Evaluation criteria are accepted. Risk mitigation activities are sometimes identified but not often executed. Qualitative assessment methods are used first in material risk areas and inform what~~

~~needs deeper quantitative methods, analysis, tools and models. The "Three Lines of Defense" are not yet fully established, although some efforts have been made to put these processes in place.~~

- ~~Level 1~~
  ~~Management is reactive and ERM might not yet be seen as a process and management tool. Few processes and controls are standardized and are instead improvised. There are no standard risk assessment criteria. Risk management is involved in business initiatives only in later stages or centrally. Risk roles and responsibilities are informal. Risk assessment is improvised. Standard collection and assessment processes are not identified.~~

- ~~Level 0~~
  ~~There is little recognition of the ERM framework's importance or controls in place to ensure its effectiveness.~~

E. Risk Reporting and Communication

The *ORSA Guidance Manual* indicates risk reporting and communication provides key constituents with transparency into the risk-management processes as well as facilitates active, informal decisions on risk-taking and management. The transparency is generally available because of reporting that can be made available to management, the board, or compliance departments, as appropriate. However, most important is how the reports are being utilized to identify and manage reasonably foreseeable and relevant material risks at either the group, business unit or other level within the insurer where decisions are made. Therefore, one approach may be to have reporting in place that allows decisions to be made throughout the insurer by appropriately authorized people, with ultimate ownership by senior management or the board. Key considerations in reviewing and assessing risk reporting and communication might include, but aren't limited to:

- **Training** – The importance of ERM processes and changes to the risk strategy are clearly communicated to all impacted areas and business units through ongoing training.
- **Key Risk Indicator Reporting** – Summary reports on risk exposures (i.e. key risk indicators) and compliance with tolerances/limits are maintained and updated on a regular basis.
- **Oversight** – Summary reports are reviewed and discussed by the appropriate members of management, and when appropriate, directors, ~~officers and other members of senior management~~ on a regular basis.
- **Breach Management** – Breaches of limits and dashboard warning indicators are addressed in a timely manner through required action by management and, when appropriate, directors ~~and officers~~.
- **Feedback** – A feedback loop is embedded into ERM processes to ensure that results of monitoring and review discussions on key risks by senior management and the board are incorporated by business unit leaders and risk owners into ongoing risk-taking activities and risk management processes.

- ~~Level 5~~
  ~~The ERM framework is an important element in strategy and planning. Evaluation and measurement of performance improvement is part of the risk culture. Measures for risk management include process and efficiency improvement. The insurer measures the effectiveness of managing uncertainties and seizing risky opportunities. Deviations from plans or expectations are also measured against goals. A clear, concise and effective approach to monitor progress toward strategic goals is communicated regularly with relevant business units or functional areas. Individual, management, departmental, divisional and corporate strategic goals are linked with standard measurements. The results of key measurements and indicators are reviewed and discussed by senior management or the board, on a regular basis and as frequently as necessary to address breaches in risk tolerances or limits in a timely manner.~~

- ~~Level 4~~
  ~~The ERM framework is an integrated part of strategy and planning. Risks are considered as part of strategic planning. Risk management is a formal part of strategic goal setting and achievement. Investment decisions for resource allocation examine the criteria for evaluating opportunity impact, timing and assurance. The insurer forecasts planned mitigation's potential effect on performance impact, timing and assurance prior to use. Employees at relevant levels use a risk-based approach to achieve strategic goals. The results of key~~

~~measurements and indicators are shared with senior management or the board on a regular basis.~~

- ~~Level 3~~
  ~~The ERM framework contributes to strategy and planning. Strategic goals have performance measures. While compliance might trigger reviews, other factors are integrated, including process improvement and efficiency. The insurer indexes opportunities qualitatively and quantitatively, with consistent criteria. Employees understand how a risk-based approach helps them achieve goals. Accountability toward goals and risk's implications are understood and are articulated in ways frontline personnel understand. The results of key measurements and indicators are shared with senior management or the board.~~

- ~~Level 2~~
  ~~The ERM framework is separate from strategy and planning. A need for an effective process to collect information on opportunities and provide strategic direction is recognized. Motivation for management to adopt a risk-based approach is lacking.~~

- ~~Level 1~~
  ~~Not all strategic goals have measures. Strategic goals are not articulated in terms the frontline management understands. Compliance focuses on policy and is geared toward satisfying external oversight bodies. Process improvements are separate from compliance activities. Decisions to act on risks might not be systematically tracked and monitored. Monitoring is done, and metrics are chosen individually. Monitoring is reactive.~~

- ~~Level 0~~
  ~~No formal framework of indicators and measures for reporting on achievement of strategic goals exists.~~

Overall Section 1 Assessment

~~**Documentation for Section I**~~

~~The lead state analyst should prepare a summary of Section I by developing an assessment of each of the five principles set forth in the *ORSA Guidance Manual* using the template at the end of these procedures.~~ After summarizing the information reviewed for each of the key principles individually, the lead state analyst should provide an overall assessment of the insurer's ERM framework, including any concerns or areas requiring follow-up investigation or communication. In preparing the assessment, ~~T~~the lead state analyst should understand that ORSA summary reports may not always align with each of these specific principles. Therefore, the lead state analyst must use judgment and critical thinking in accumulating information to support their evaluation of each of these principles. The overall evaluation should focus on critical concerns associated with any of the individual principles and should also address any other ERM framework concerns that may not be captured within these principles.

The lead state analyst should also be aware that the lead state examiner is tasked ~~to update the assessment by~~with supplementing the lead state analyst's assessment with additional onsite verification and testing. The lead state analyst should direct the lead state examiner to those areas where such additional verification and testing is appropriate and could not be performed by the lead state analyst. Where available from prior full scope or targeted examinations, ~~the assessment~~information from the lead state examiner should be used as a starting point for the lead state analyst to update. Consequently, on an ongoing basis, the lead state analyst's update may focus ~~as much~~ on changes to ERM processes and the ORSA Summary Report ~~(positive or negative)~~ since the ~~insurer was previously examined; and, similar to an initial assessment by the lead state analyst, they may want to~~prior exam in directing targeted onsite verification and testing ~~for changes that have occurred since the last examination~~.

The lead state analyst, after completing a summary of Section I, should consider if the overall assessment, or any specific conclusions, should be used to update either the ERM section of the Group Profile Summary (GPS) (if the ORSA Summary Report is prepared on a group basis) or information in the Insurer Profile Summary (IPS) (if the ORSA Summary Report is prepared on a legal entity basis). In addition, key information from the review should be

incorporated into the Risk Assessment Worksheet (RAW) during the next full analysis (quarterly or annual) of the insurer ~~if~~where relevant.

Review of Section II - Insurer's Assessment of Risk Exposure

Section II of the ORSA Summary Report is required to provide a high-level summary of the quantitative and/or qualitative assessments of risk exposure in both normal and stressed environments. The *ORSA Guidance Manual* does not require the insurer to ~~include~~ address specified~~c~~ risks, but does ~~give possible~~provide examples of reasonably foreseeable and relevant material risk categories (e.g. credit, market, liquidity, underwriting, and operational risks). In reviewing the information provided in this section of the ORSA, lead state analysts may need to pay particular attention to risks and exposures that may be emerging or significantly increasing over time. To assist in identifying and understanding the changes in risk exposures, the lead state analyst may consider comparing the insurer's risk exposures and/or results of stress scenarios to those provided in prior years.

Section II provides risk information on the entire insurance group, which may be grouped in categories similar to the NAIC's nine branded risk classifications. However, this is not to suggest the lead state analyst or lead state examiner should expect the insurer to address each of the nine branded risk classifications. In fact, in most cases, they will not align, but it is not uncommon to see some similarities for credit, market, liquidity, underwriting and operational risks. A fair number of insurer risks may not be easily quantified or are grouped differently than these nine classifications. Therefore, it is possible the insurer does not view them as significant or relevant. The important point is not the format, but for the lead state analyst or lead state examiner to understand how the insurer categorizes its own risks and contemplate whether there may be material gaps in identified risks or categories of risks.

Documentation for Section II

Prepare a summary and assessment of Section II by identifying and outlining key information associated with the significant reasonably foreseeable and material relevant (key) risks of the insurer per the ORSA Summary Report~~, including those that correspond to the nine branded risk classifications, if applicable~~. Following the documentation on each ~~of the significant reasonably foreseeable and material relevant risks~~key risk per the report, the lead state analysts should include an analysis of such risk. In developing such analysis, the lead state analyst is encouraged to use judgment and critical thinking in evaluating if the risks and quantification of such risks under normal and stressed conditions are reasonable and generally consistent with expectations. The lead state analyst should be aware that the lead state examiner is tasked to update the assessment by supplementing the lead state analyst's assessment with additional on-site verification and testing. The lead state analyst should direct the lead state examiner to those areas where such additional verification and testing is appropriate and could not be performed by the lead state analyst. Suggested information to be documented on each key risk, including supporting considerations, is outlined below:

- **Risk Title and Description** – Provide the title for each key risk as identified/labeled by the insurer as well as a basic description.
- **Branded Risk** – Provide information on the primary branded risk classification(s) that apply to the key risk and briefly discuss how they apply/relate.
- **Controls/Mitigation** – Summarize information known about the controls and mitigation strategies put in place by the insurer to address the key risk.
- **Risk Limits** – Provide information on any specific risk tolerances or limits associated with the key risk and how they are monitored and enforced.
- **Assessment** – Discuss how the key risk is assessed by the insurer, including whether the assessment is performed on a quantitative (QT) or qualitative (QL) basis. Describe the methodology used, the key underlying assumptions and the process utilized to set these assumptions.
- **Normal Exposure** – Summarize the insurer's normal exposure to this key risk based on budget information or historical experience.
- **Stress Scenario(s)** – Discuss the stress scenario(s) identified and applied to the key risk and how they

were determined and validated by the insurer.

- **Stressed Exposure** – Provide information on the impact of the stress scenario(s) on the key risk and potential impact on the insurer's surplus position and business strategy/operations.
- **Inclusion on IPS/GPS** – Discuss whether the key risk will be recognized on the IPS/GPS of the insurer, including the risk component it will be incorporated into.
- **Regulator Review & Assessment** – Assess the adequacy of the risk assessment performed by the insurer on each key risk (including the appropriateness of controls/limits and reasonableness of methodology, assumptions and stress scenarios used) and whether any specific issues or concerns are identified that would require further investigation or follow-up communication

After completing a summary and assessment for each key risk addressed in~~of~~ Section II, the lead state analyst should use the information to update the risk assessment in either the GPS (if the ORSA is prepared on a group basis) or the IPS (if the ORSA is prepared on a legal entity basis) and supporting documentation if deemed necessary. In addition, key information from the review should be incorporated into the RAW during the next full analysis (quarterly or annual) of the insurer ~~if~~where relevant.

Overall ~~Risk Assessment Summary~~Section 2 Assessment

~~In addition, t~~The lead state analyst should complete an overall assessment of the information provided in Section II, including an evaluation of the insurer's risk assessment processes and whether all material and relevant risks were assessed and presented at an appropriate level of detail. This should include consideration of whether there is consistency between the insurer's Risk Identification and Prioritization process discussed in Section I and risks that are assessed and reported on in Section II (i.e. have all key risks been addressed). In addition, this should focus on critical concerns associated with the assessment of individual key risks as well as whether the insurer's overall assessment process (i.e. methodology, assumptions and stress scenarios) is adequate and well-supported.~~After considering the various risks identified by the insurer through Section II, develop an overall risk assessment summary of possible concerns that may exist.~~

Review of Section III - Group Assessment of Risk Capital

~~Section III of the ORSA is unique in that it is required to be completed at the insurance group level as opposed to the other sections which may be completed at a legal entity level. However, in many cases, insurers will choose to also complete Section I and Section II at the group level. This requirement is important because it provides the means for lead state regulators to assess the reasonableness of capital of the entire insurance group based upon its existing business plan.~~

In reviewing Section III of the ORSA Summary Report, the lead state analyst should recognize this section is generally presented in a summarized form. Although this section requires disclosure of aggregate available capital compared against the enterprise's risk capital (i.e. the amount deemed necessary to withstand unexpected losses arising from key risks), the report may not provide sufficient detail to fully evaluate the group capital position. As such, the lead state analyst may need to request the assistance of staff actuaries when available in evaluating the reasonableness and adequacy of the stress tests selected, request additional detail from the insurer in order to understand and evaluate the group capital position and/or refer additional investigation to the financial examination function.

The *ORSA Guidance Manual* (Manual) requires the insurer to estimate its prospective solvency under stressed conditions by identifying stress scenarios that would give rise to significant losses that have not been accounted for in reserves. Furthermore, the Manual requires the insurer to estimate its prospective solvency in Section III by projecting the aggregate capital available and comparing it against the enterprise's risk capital. Insurers may include information in the ORSA Summary Report developed as part of their strategic planning and may include pro forma financial information that displays anticipated changes to key risks as well as projected capital adequacy in those future periods based on the insurer's defined capital adequacy standard. In reviewing information on

prospective solvency, the lead state analyst should carefully consider projected changes to the group capital position as well as significant shifts in the amount of capital allocated to different risks, which could signal changes in business strategy and risk exposures.

~~Section III will be directly used as part of the lead state's insurance holding company analysis evaluation of group capital.~~

Documentation for Section III

Insurance groups will use different means to ~~measure risk (i.e., required)~~manage capital and they will use different accounting and valuation frameworks. For example, they may determine the amount of capital they need to fulfil regulatory and rating agencies' requirements, but also determine the amount of capital (risk capital) they need to absorb unexpected losses that are not accounted for in the reserves. The lead state analyst may need to request management to discuss their overall approach to ~~both of these items~~capital management and the reasons and details for each approach so that they can be considered in the evaluation of estimated risk capital.

Many insurers use internally developed capital models to quantify the risk capital. In these cases, ~~T~~the ORSA Summary Report should summarize the insurer's process for model validation to support the quantification methodology and assumptions chosen to determine risk capital~~, including factors considered and model calibration~~. The lead state analyst should use the model validation information to assess the reasonableness of the quantification methodology and assumptions used. If the ORSA Summary Report does not provide a summary of the model validation process, the lead state analyst should request copy of the validation report prepared by the insurer. With regard to the determination of the risk capital under stressed conditions, ~~B~~because the risk profile of each insurer is unique, there is no standard set of stress conditions that each insurer should run.~~;~~ ~~h~~However, the lead state regulator should be prepared to dialogue with management about the selected stress scenarios if there is concern with the rigor of the scenario. In discussions with management, the lead state analyst should gain an understanding of the modeling methods used to project available and risk capital over the duration of the insurer's business plan as well as the potential changes to the risk profile of the insurer over this time horizon (i.e. changes to the list of key risks) based on the business plan~~(e.g., stochastic vs. deterministic) and be prepared to dialogue about and understand the material assumptions that affected the model output, such as prospective views on risks~~. The aforementioned dialogue may occur during either the financial analysis process and/or the financial examination process.

The lead state analyst, after completing a summary of Section III, should assess the overall reasonableness of the capital position compared to the group's estimated risk capital. Additionally, the lead state analyst should also consider if any of the information, or any specific conclusions, should be used to update either the GPS or IPS.

~~Support the~~An assessment of the reasonableness of group risk capital and the process to measure it should be provided by developing a narrative that ~~considers~~ provides the following for each individual element of the insurer's assessment of risk capital:

- **Discussion of Capital Metric(s) Used** – Discuss the method(s) used by the group in assessing group risk capital and their basis for such a decision. Identify the capital metric(s) used to estimate group risk capital, as well as the level of calibration selected. Consider whether the capital metric(s) utilized to assess the group's overall capital target are clearly presented and described. Metrics may consist of internally developed economic capital models (deterministic or stochastic) and/or externally developed models, such as regulatory capital requirements (RBC) or A.M. Best's Capital Adequacy Ratio (BCAR). In discussing calibration, consider both the method used (e.g. Value at Risk, Tail Value at Risk) and its level ~~(e.g. 99.5%)~~ to evaluate whether the results are calibrated to an appropriate confidence level. Discuss whether the capital metric(s) selected address all key risks of the group. Of particular importance is considering whether the metric used fits the approach used to determine the group's risk appetite. Document the extent to which the lead state analyst believes the approach used by the insurer is reasonable for the nature, scale and complexity of the group and if this has any impact on the lead state analyst's assessment of the insurer's overall risk management.
- **Group Risk Capital - By Risk and in Aggregate** – Provide information on the amount of risk capital determined for each individual key risk and in aggregate. In reviewing the results for each individual risk, evaluate whether

all key risks are adequately accounted for in the metric by assessing the amount of capital allocated to each risk. Consider significant changes in group risk capital from the prior filing, the drivers of such change, and any decisions made as a result of such movement.

- **Impact of Diversification Benefit** – Discuss the impact of any diversification benefit calculated by the group in aggregating its group risk capital. Diversification benefit is typically calculated by aggregating individually modeled risk capital and then accounting for potential dependencies among those risks to allow for an offset or reduction in the total amount of required capital (group risk capital). In evaluating the group's diversification benefit, consider whether the benefit is calculated based on dependencies/correlations in key risk components that are reasonable/appropriate.
- **Available Capital** – Provide information on and discuss the amount of capital available to absorb losses across the group, recognizing that there may be fungibility issues relating to capital trapped within various legal entities and jurisdictions for which regulatory restrictions and supervisory oversight constrain the extent and timing of capital movement across the group. Describe management's strategy to obtain/deploy additional capital across the group should the need arise.~~. Evaluate the quality of available capital from the standpoint of whether that capital is freely available to meet policyholder obligations~~. Determine if there is any double counting of capital through the stacking of legal entities~~ or challenges in accessing group capital due to fungibility issues (i.e. capital trapped within various legal entities)~~.
- **Excess Capital** – Discuss the extent to which the group available capital amount exceeds the group risk capital amount per the ORSA Summary Report. In evaluating the overall adequacy of excess capital, consider any concerns outlined above relating to the capital metric(s), group risk capital, impact of diversification and available capital. If the level of excess capital or its availability/liquidity is of concern, evaluate the group's ability to remediate capital deficiencies by obtaining additional capital or reducing risk where required. If further concerns exist, contact the group to discuss and communicate with department senior management to determine whether additional investigation or regulatory action is necessary.
- **Impact of Stresses on Group Risk Capital** – Discuss whether additional stress scenarios have been applied to the model results to demonstrate the group's resiliency to absorb extreme unexpected losses. This step is particularly important when reviewing the use of external capital models that may not be tailored to address the enterprise's specific exposures. Evaluate the range and adequacy of any stress scenarios applied and the resulting impact on the group's ability to accomplish its business strategy, provide sufficient liquidity and meet the capital expectations of rating agencies and regulators.
- **Governance and Validation** – Discuss and evaluate the group's model governance process and the means by which changes to models are overseen and approved. Consider whether ~~the board of directors (or committee thereof) and~~ members of senior management are adequately involved. Discuss the extent to which the group uses model validation (including validation of data inputs) and independent review to provide additional controls over the estimation of group capital.
- **Prospective Solvency Assessment** – Discuss the information provided by the group on its prospective solvency position, including any capital projections. Consider whether the business goals of the ~~company~~insurer and its strategic direction are adequately discussed and incorporated into the prospective solvency assessment. For example, are expected changes in risk profile presented and discussed? Also consider whether prospective solvency is projected across the duration of the current business plan. To the extent the prospective assessment suggests that the group capital position will weaken, or recent trends may result in certain internal limits being breached, the lead state analyst should understand and discuss what actions the insurer expects to take as a result of such an assessment (e.g., reduce certain risk exposure, raise additional capital, etc.).

Overall Section 3 Assessment

In addition, after summarizing the assessment of each individual element above, the lead state analyst should provide an overall assessment of the insurer's risk capital assessment process, including any concerns or areas requiring follow-up investigation or communication. The overall evaluation should focus on critical concerns associated with any of the individual elements noted above and should also address any other risk capital assessment concerns that may not be captured within these principles.

The lead state analyst, after completing a summary of Section 3, should consider if the overall assessment, or any specific conclusions, should be used to update either the ERM section of the GPS~~)~~ (if the ORSA Summary Report is prepared on a group basis) or information in the IPS (if the ORSA Summary Report is prepared on a legal entity basis). In addition, key information from the review should be incorporated into the RAW during the next full analysis (quarterly or annual) of the insurer if relevant.

- ~~Actual Capital Amount – Discuss the extent to which the group available capital amount exceeds the group risk capital amount per the ORSA Summary Report. In the rare situation where the calculation revealed group capital was not sufficient compared to internal/rating agency/regulatory capital, immediately contact the group to determine what steps it is taking to address the issue. Consider in that discussion, the section below, which requires the lead state analyst to consider the controls the group has in place relative to this issue. For all other groups, when considering if group capital is either well in excess of internal/rating capital or currently sufficient, consider all of the following considerations, but paying particular attention to the cushion based upon the use of economic capital scenarios and/or stress testing.~~

- ~~Cushion Based Upon Use of Economic Capital Scenarios and/or Stress Perhaps the most subjective determination when considering group capital is determining the sufficiency of such amount compared to a predefined minimum. That minimum, be it regulatory, rating agency, or economic, uses certain assumptions, including assumptions that may already provide a cushion. The lead state analyst shall bear in mind the "Own" in ORSA, noting that each insurer's methodology and stress testing will vary. However, the lead state analyst should be able to develop and document the general methodology applied and how outputs from the prospective solvency calculations compare with recent trends for the group and, in general, be able to determine the sufficiency of capital.~~

- ~~Method of Capital Measurement~~
  ~~Discuss the method used (e.g., internal, rating agency) by the insurer in assessing group capital and their basis for such decision. If no information on this issue exists within the ORSA Summary Report, consider asking the insurer the question. Document the extent to which the lead state analyst believes the approach used by the insurer is reasonable for the nature, scale and complexity of the group and if this has any impact on the lead state analyst's assessment of the insurer's overall risk management.~~

- ~~Quality of Capital~~
  ~~If the insurer uses an internal capital model, evaluate the quality of available capital included in the report from the standpoint of whether that capital is freely available to meet policyholder obligations. In addition, determine if there is any double counting of capital through the stacking of legal entities. If the insurer used rating agency capital, verify if capital used internally in the ORSA Summary Report meets such firm's requirements. If no information on this issue exists within the ORSA Summary Report, the lead state analyst should consider asking the insurer the question.~~

- ~~Prior Year Considerations~~
  ~~Some insurers will provide qualitative information in the ORSA Summary Report that describes their movement of required capital from one period to the next, the drivers of such change, and any decisions made as a result of such movement. If no information on this issue exists within the ORSA Summary Report, consider asking the insurer questions, particularly if there have been material changes in the group capital position year over year or material changes to business plans, operations or market conditions, without a corresponding change in group capital position. This information, as well as the lead state analyst's existing knowledge of the group, and its financial results, should be used to determine the overall reasonableness of the change in group capital and should be an input into evaluating the group capital calculation.~~

- ~~Quantification of Reasonably Foreseeable and Relevant Material Risks~~
  ~~Discuss and document if the group capital fails to recognize any reasonably foreseeable and relevant material risks the lead state analyst is aware of.~~

- ~~Controls over Capital~~

~~Discuss the extent to which the ORSA Summary Report demonstrates the group has a strategy, including senior management or the board oversight, for ensuring adequate group capital is maintained over time. This includes plans for obtaining additional capital or for reducing risk where required. If no information on this issue exists within the ORSA Summary Report, consider asking the insurer the question.~~

- ~~Controls over Model Validation and or Independent Reviews~~
  ~~If the insurer uses an internal capital model, discuss the extent to which the group uses model validation and independent review to provide additional controls over the estimation of group capital. If no information on this issue exists within the ORSA Summary Report, consider asking the insurer the question. Lead state analysts and lead state examiners are encouraged to: 1) look to the insurer's own process by which they assess the accuracy and robustness of its models; look how the insurer governs model changes and parameter or assumption setting; and 3) limit lead state examiner-lead validation of model output to more targeted instances where conditions warrant additional analysis.~~

~~Review of Section III – Prospective Solvency Assessment~~

~~The *ORSA Guidance Manual* requires the insurer to estimate its prospective solvency. Insurers may include in the ORSA Summary Report information developed as part of their strategic planning and may include pro-forma financial information that displays possible outcomes as well as projected capital adequacy in those future periods based on the insurer's defined capital adequacy standard. The lead state analyst should understand the impact such an exercise has on the ongoing business plans of the insurer. For example, to the extent such an exercise suggests that at the insurer's particular capital adequacy under expected outcomes the group capital position will weaken, or recent trends may result in certain internal limits being breached, the lead state analyst should understand what actions the insurer expects to take as a result of such an assessment (e.g., reduce certain risk exposure, raise additional capital, etc.). It should be kept in mind, however, that a mere "weakening" of a group capital position, or even trends, are less relevant than whether group available capital exceeds the group's risk capital over the forecast period. The lead state analyst should document its findings/review of this section.~~

Feedback to the Insurer

After completing a review of the ORSA Summary Report, the lead state should provide practical and constructive feedback to the insurer related to the review. Feedback plays a critical role in ensuring the compliance and effectiveness of future filings. Feedback also provides a means for asking follow-up questions or requesting additional information to facilitate the review and incorporation of ORSA information into ongoing solvency monitoring processes.

During the review, topics for feedback communication to the insurer can be accumulated on **Appendix A** of the template. The appendix encourages the lead state to accumulate positive attributes to reinforce the effectiveness of certain practices and information in the summary report. In addition, the appendix encourages the lead state to identify areas for constructive feedback to encourage the insurer to provide additional information or clarify the presentation of certain items in future filings. Finally, the appendix encourages the lead state to list requests for additional information that may be necessary to complete a review and evaluation of the insurer's ORSA/ERM processes.

Suggested Follow-up by the Examination Team

~~As noted at the end of each section~~After completing a review of the ORSA Summary Report, the lead state analyst should direct the lead state examiner to those areas that could benefit from focused inquiries and interviews during an on-site risk-focused examination. In some instances, the analyst may want the examiner to determine through limited testing, if the data provided and processes described in the ORSA Summary Report are consistent with the insurer's ERM/ORSA operations. ~~where such additional verification and testing is appropriate and could not be performed by the lead state analyst~~. These items can be accumulated on **Appendix B** of the template for follow-up and communication. If there are specific reports, information and/or control processes addressed in the

ORSA Summary Report that the lead state analyst feels should be subject to additional review and verification by the examination team, the lead state analyst is expected to provide direction as to its findings of specific items and/or recommended testing and such amounts should be listed in the template by the lead state analyst. During planning for a financial examination, the lead state examiner and lead state analyst should work together to develop a plan for additional testing and follow-up where necessary. The plan should consider that the lead state examiner may need to expand work to address areas of inquiry that may not be identifiable by the lead state analyst.

In addition to this specific expectation, during each coordinated financial condition examination, the exam team as directed by the lead state examiner and with input from the lead state analyst will be expected to review and assess the insurer's risk management function through utilization of the most current ORSA Summary Report received from the insurer. Also, ~~T~~the lead state analyst will ~~direct~~ ask the examination team to address the unresolved questions and concerns arising from the analyst's review of the ORSA documented in the template (see Appendix B), through focused inquiries and interviews and testing during an on-site risk-focused examination. ~~take steps to verify i~~Information included in the report and ~~test~~ the operating effectiveness of various risk management processes can be supported/tested on a sample basis (e.g., reviewing certain supporting documentation from Section I; ~~testing~~ assessing the reasonableness of certain inputs into stress testing from Section II; and reviewing certain inputs, assumptions and outputs from internal capital models).

Detail Eliminated to Conserve Space

ORSA Review Template

Group/Insurer: _____
Group Code/Cocode: _____
Valuation Date: _____
Submission Date: _____

General Instructions:

This template is intended to be used to document a review and assessment of the ORSA Summary Report by the lead/domestic state. Regulators should document the results of their annual review of the ORSA and utilize the appendixes to track and communicate feedback to the ~~company~~insurer and procedures for regulatory follow-up. See VI.E. Group-Wide Supervision – Enterprise Risk Management Process Risks Guidance for additional guidance in completing this template.

Prepared/Reviewed By:	Date:

Date of Last Exam:	
Date of Next Exam:	

Background Information

Summarize and assess background information provided in the report, where available. Key documentation elements are presented below.

1. **Attestation**:

2. **Entities in Scope:**

3. **Accounting Basis:**

4. **Key Business Goals:**

5. **Changes from Prior Filing(s):**

~~6. **Planned ERM Enhancements:**~~

Section I – Description of the Insurer's ERM Framework

Summarize and assess key information from Section I of the ORSA Summary Report for each of the five principles of a risk management framework.

1. **Risk Culture and Governance:**

2. **Risk Identification and Prioritization:**

3. **Risk Appetite, Tolerances and Limits:**

4. **Risk Management and Controls:**

5. **Risk Reporting and Communication:**

Overall Section 1 Assessment—After reviewing and considering each principle individually, develop an overall assessment of the group's/insurer's risk management framework including any concerns or areas requiring follow-up investigation or communication:

Section II – Insurer Assessment of Risk Exposures

Prepare documentation summarizing a review and assessment of information provided on the reasonably foreseeable and relevant material risks of the insurer/group.

THE FOLLOWING TABLE SHOULD BE COMPLETED FOR EACH KEY RISK

Risk Title/Description	
Branded Risk(s)	
Controls/Mitigation	
Risk Limits	
Assessment (QT/QL)	
Normal Exposure	
Stress Scenario(s)	
Stressed Exposure	
Inclusion on GPS/IPS	
Regulator Review & Assessment:	

Overall Section 2 Assessment—After reviewing and considering each key risk individually, develop an overall conclusion regarding the group's/insurer's process to assess key risk exposures including any concerns or areas requiring follow-up investigation or communication:

Section III – Assessment of Risk Capital and Prospective Solvency

Prepare documentation summarizing a review and assessment of key elements of the risk capital and prospective solvency process as follows.

1. **Discussion of Capital Metric(s) Used:**

2. **Group Risk Capital (GRC) – By Risk and In Aggregate:**

3. **Impact of Diversification Benefit:**

4. **Available Capital:**

5. **Excess Capital:**

6. **Impact of Stresses on GRC:**

7. **Governance and Validation:**

8. **Prospective Solvency Assessment:**

Overall Section III Assessment—After reviewing and considering each of the key elements individually, develop an overall assessment of the risk capital and prospective solvency of the insurer/group including any concerns or areas requiring follow-up investigation or communication:

Appendix A – Feedback to Insurer

Feedback to the insurer on the ORSA Summary Report is critical for the compliance and effectiveness of future filings. The purpose of this form is to help the lead/domestic state gather and provide constructive and practical feedback to the insurer.

Positive Attributes:
1.
2.
3.

Constructive Feedback:
1.
2.
3.

Requests for Additional Information:
1.
2.
3.

Appendix B – Recommended Exam Procedures/Areas for Follow-up Investigation

In completing a review of the ORSA Summary Report, the lead state/domestic regulator should consider whether certain elements could benefit from focused inquiries and review during an on-site risk-focused examination. In some instances, the analyst may want the examiner to determine through limited testing, if the data provided and processes described in the ORSA Summary Report are consistent with the insurer's actual ERM/ORSA operations ~~verification/testing in an examination or additional monitoring and follow-up investigation by the financial analyst~~. Such procedures and issues can be accumulated here for communication and tracking.

Background Information

1.
2.
3.

Section I - ERM Framework

1.
2.
3.

Section II - Risk Assessment

1.
2.
3.

Section III - Risk Capital and Prospective Solvency

1.
2.
3.

Attachment C

Updated NAIC Financial Condition Examiners Handbook Revisions

XI. REVIEWING AND UTILIZING THE RESULTS OF AN OWN RISK AND SOLVENCY ASSESSMENT

This section of the Handbook provides general guidance for use in reviewing, assessing and utilizing the results of an insurer's confidential Own Risk and Solvency Assessment (ORSA) in conducting risk-focused examinations. Therefore, this guidance may be used in support of the risk management assessments outlined in other sections of the Handbook (e.g., Phase 1, Part Two: Understanding the Corporate Governance Structure, Exhibit M – Understanding the Corporate Governance Structure) at the discretion of Lead State examiners.

A Background Information
B General Summary of Guidance for Each Section
C Review of Background Information
~~C~~D Review of Section I – Description of the Insurer's Risk Management Framework
~~D~~E Review of Section II – Insurer's Assessment of Risk Exposure
~~E~~F Review of Section III – Group Assessment of Risk Capital
~~F~~G ORSA Review Documentation ~~Template~~
~~G~~H Utilization of ORSA Results in the Remaining Phases of the Examination

A. Background Information

The NAIC's *Risk Management and Own Risk and Solvency Assessment Model Act* (#505) requires insurers above a specified premium threshold, and subject to further discretion, to submit a confidential annual ORSA Summary Report. The model gives the insurer and insurance group ~~(hereinafter referred to as "insurer" or "insurers" throughout the remainder of this guidance)~~ discretion as to whether the report is submitted by each individual insurer within the group or by the insurer group as a whole. (See the *NAIC ORSA Guidance Manual* for further discussion.) Throughout the remainder of this chapter, the term "insurer" is used to refer to both a single insurer for those situations where the report is prepared by the legal entity, as well as to refer to an insurance group when prepared at that level. However, in some cases, the term group is used to reinforce the importance of the group-wide view.

As stated in the *NAIC ORSA Guidance Manual* (Guidance Manual), the ORSA has two primary goals:

1. To foster an effective level of ERM for all insurers, through which each insurer identifies, assesses, monitors, prioritizes and reports on its material and relevant risks identified by the insurer, using techniques appropriate to the nature, scale and complexity of the insurer's risks, in a manner adequate to support risk and capital decisions.

2. To provide a group-level perspective on risk and capital, as a supplement to the existing legal entity view.

The ORSA is the company's "own" process. For insurance regulators, it is a tool to supplement the analyst's ongoing reviews of company/group data and flings, and to document key aspects of the company's /group's ERM. Regulators are expected to assess the ORSA and what it suggests about the state of ERM at the levels of the company/group and group-wide risks. While there are reporting requirements in the ORSA Manual, the necessary process and calculations remain the responsibility of management.

The Guidance Manual states that regulators should obtain a high-level understanding of the insurer's ORSA framework, and discusses how the ORSA Summary Report may assist in determining the scope, depth and minimum timing of risk-focused analysis and examination procedures.

These determinations can be documented as part of each insurer's ongoing supervisory plan. However, the Guidance Manual also states that each insurer's ORSA will be unique, reflecting the insurer's business model, strategic planning and overall approach to ERM. As regulators review ORSA Summary Reports, they should understand that the level of sophistication for each group's ERM program will vary depending upon size, scope and nature of business operations. Understandably, less complex organizations may not require intricate processes to possess a sound ERM program. Therefore, regulators

should use caution before using the results of an ORSA review to modify ongoing supervisory plans, as a variety of practices may be appropriate depending upon the nature, scale and complexity of each insurer.

There is no expectation with respect to specific information or specific action that the Lead State regulator is to take as a result of reviewing the ORSA Summary Report. Rather, each situation is expected to result in a unique ongoing dialogue between the insurer and the Lead State regulator focused on the key risks of the group. For this reason, as well as others, the Lead State analyst may want to consider including the Lead State examiner or any other individual acting under the authority of the commissioner or designated by the commissioner with special skills and subject to confidentiality that may be of assistance in their initial review of the ORSA Summary Report in possible dialogue with the insurer since the same team will be part of the ongoing monitoring of the insurer and an ORSA Summary Report is expected to be at the center of the regulatory processes. A joint review such as this prior to the Lead State analyst documenting his or her summary of the ORSA report may be appropriate.

In completing a review of the ORSA Summary Report, the lead state analyst should direct the lead state examiner to those areas where such additional support is necessary to address unresolved questions or issues that may have arisen from the analysts review of the ORSA through on-site inquiries and interviews, observation and, where necessary, testing. These items can be accumulated by the analyst on Appendix B of the template in the Financial Analysis Handbook for follow-up and communication. If there are specific reports, information and/or control processes addressed in the ORSA Summary Report that the lead state analyst feels should be subject to such additional procedures by the examination team, the lead state analyst is expected to provide direction as to its findings of specific items and/or recommended testing and such amounts should be listed in the template by the lead state analyst. During planning for a financial examination, the lead state examiner and lead state analyst should work together to develop a plan for additional testing and follow-up where necessary. The plan should consider that the lead state examiner may need to expand work to address areas of inquiry that may not be identifiable by the lead state analyst.

In addition to this specific expectation, during each coordinated financial condition examination, the exam team as directed by the lead state examiner and with input from the lead state analyst will be expected to review and assess the insurer's risk management function through utilization of the most current ORSA Summary Report received from the insurer. The lead state will direct the examination team to take steps to verify information included in the report and test the operating effectiveness of various risk management processes on a sample basis (e.g., reviewing certain supporting documentation from Section I; testing the reasonableness of certain inputs into stress testing from Section II; and reviewing certain inputs, assumptions and outputs from internal capital models).

~~After participating in the initial review of information provided in the ORSA Summary Report, the Lead State examiner is expected to incorporate a review of ORSA information into ongoing on-site examination activities.~~ Examiners are reminded that ORSA information is highly sensitive, proprietary and confidential, and examiners should exercise caution to ensure that no ORSA or ORSA-related materials are inadvertently made public in any way, including in any Exam Report. Depending upon the examination schedule or cycle, the Lead State examiner may consider performing a limited-scope exam to conduct on-site examination activities related to ORSA information on a timely basis. In incorporating a review of ERM/ORSA information into financial exam activities, the Lead State examiner should seek to utilize existing resources to avoid duplication of efforts and provide exam efficiencies.

In cases where one insurer provides an ORSA Summary Report, the domestic state is responsible for verifying, assessing and utilizing the information received to facilitate and gain efficiencies in conducting on-site examinations. In cases where a group of insurers provides an ORSA Summary Report (or multiple legal entities within an insurance group provide separate ORSA Summary Reports), the Lead State is expected to coordinate the review, assessment and utilization of the information received to facilitate and gain efficiencies in conducting coordinated examinations in accordance with Section 1, Part I of the Handbook. To the extent that an insurance group is organized into subgroups for examination purposes, the review, assessment and utilization of various aspects of the insurance group's ORSA Summary Report may require delegation of responsibilities to an Exam Facilitator. However, in all cases, examination teams should seek to avoid duplication and utilize existing work in reviewing, assessing and utilizing the ORSA Summary Report to conduct examinations of entities that are part of an insurance group. Throughout the remainder of this document, the term "Lead

State" is used before the term "examiner" or "regulator" with the understanding that in most situations, the ORSA Summary Report will be prepared on a group basis, and, therefore, primarily reviewed by the Lead State. However, this does not remove the requirement for the domestic state to perform these responsibilities in the event of a single-entity ORSA Summary Report.

For additional guidance for sharing the ORSA Summary Report and/or the Lead State's analysis of the ORSA Summary Report with other regulators and/or other third parties, refer to the ORSA Information Sharing Best Practices found on the ORSA Implementation (E) Subgroup webpage.

~~As stated in the *NAIC ORSA Guidance Manual* (Guidance Manual), the ORSA has two primary goals:~~

~~1. To foster an effective level of ERM for all insurers, through which each insurer identifies, assesses, monitors, prioritizes and reports on its material and relevant risks identified by the insurer, using techniques appropriate to the nature, scale and complexity of the insurer's risks, in a manner adequate to support risk and capital decisions.~~

~~2. To provide a group-level perspective on risk and capital, as a supplement to the existing legal entity view.~~

~~The Guidance Manual states that regulators should obtain a high-level understanding of the insurer's ORSA framework, and discusses how the ORSA Summary Report may assist in determining the scope, depth and minimum timing of risk-focused analysis and examination procedures.~~

~~These determinations can be documented as part of each insurer's ongoing supervisory plan. However, the Guidance Manual also states that each insurer's ORSA will be unique, reflecting the insurer's business model, strategic planning and overall approach to ERM. As regulators review ORSA Summary Reports, they should understand that the level of sophistication for each group's ERM program will vary depending upon size, scope and nature of business operations. Understandably, less complex organizations may not require intricate processes to possess a sound ERM program. Therefore, regulators should use caution before using the results of an ORSA review to modify ongoing supervisory plans, as a variety of practices may be appropriate depending upon the nature, scale and complexity of each insurer.~~

~~Collectively, the goals above are the basis upon which the guidance is established. However, the ORSA Summary Report will not serve this function or have this direct impact until the Lead State becomes fairly familiar with and comfortable with evaluating each insurer's report and its processes. This could take more than a couple of years to occur in practice since the Lead State would likely need to review at least one or two ORSA Summary Reports to fully understand certain aspects of the processes used to develop the report.~~

B. General Summary of Guidance for Each Section

This section is designed to assist the examiner through general guidance regarding how each section of the ORSA Summary Report is expected to be reviewed and assessed during a financial examination. This guidance is expected to evolve over the years, with the first couple of years focused on developing a general understanding of ORSA and ERM. Each of the sections of the ORSA Summary Report requires distinct consideration to be adequately understood and assessed. However, each of the sections can supplement the understanding and assessment of the other sections. For example, Section II provides an insurer the opportunity to demonstrate the robustness of its process by including a detailed description of the reasonably foreseeable and relevant material risks it faces and their potential impact to the insurer. This can allow the Lead State regulator to gain a better understanding and increased appreciation for the insurer's processes to identify and prioritize reasonably foreseeable and relevant material risks described in Section I. Alternately, the Lead State regulator may assess stresses applied to individual risks in Section II as appropriate, but may not feel stresses are appropriately aggregated to determine an adequate group capital assessment in Section III. Therefore, the review and assessment of each section requires a full understanding of each of the other sections, and the Lead State regulator should exercise caution in the allocation of review responsibilities in this area.

Further, regulators do not believe there is a standard set of stress conditions each insurer should test. The Lead State examiner should never specify the stresses to be performed, nor what should be included in the insurer's ORSA Summary Report, as this would eliminate the "Own" aspect of the ORSA and defeat its purpose, which is to permit the Lead State

regulator to better understand the risk from the perspective of the insurer. This is not to suggest that the Lead State examiner should not consider asking questions about the extent to which the insurer considers particular risks, as these questions may provide the insurer an opportunity to discuss the robustness of its processes and considerations, either in specifically identified stresses or the inclusion of similar risks within a stochastic economic capital model for a particular risk.

Possible test procedures are provided for each section of the ORSA Summary Report as procedures that could be performed to address unresolved questions or issues that may have arisen from the analysts review of the ORSA. They are not intended to imply that procedures are necessary in every area or that all (or any) procedures are necessary for a given area. Instead, such procedures are intended to be applied in accordance with the examination budget, based on the judgment and discretion of the Lead State analyst and examination team, and in accordance with the concept of proportionality.

In applying the concept of proportionality, regulators should recognize that ORSAs of various insurers/ groups will inherently vary based on a multitude of factors including their size, geographic /international scope, lines of business, the nature and degree to which risks are assumed and mitigated, and managerial/professional and board judgement involving ERM and risk appetite. The scope of examination procedures to be applied with respect to the ORSA should therefore consider proportionality in application in all respects. For example, in assessing implementation, regulators should consider whether the design of ERM/ORSA practices appropriately reflects the nature, scale and complexity of the insurer.

Background Information

Background information procedures are provided to assist the regulator in gaining an overall understanding of the ORSA Summary Report and assessing compliance with ORSA Guidance Manual reporting requirements ~~in several critical areas~~ (i.e. attestation, entities in scope).

Section I

The guidance in Section I is designed to assist the Lead State examiner in performing procedures to verify and validate relevant information and assess~~reaching an assessment of~~ the risk management framework of the insurer. The Lead State examiner's assessment should utilize existing assessments of the insurer's risk management framework performed by the Lead State financial analyst through a review of the ORSA Summary Report, but should supplement the Lead State analyst's assessment with additional on-site verification and testing to reach a final conclusion.

The Section I procedures are focused on ~~determining the insurer's maturity level in regards to its~~the overall risk management framework of the insurer/group. . The procedures are presented as considerations to be taken into account when reviewing and assessing an insurer's implementation of each of the risk management principles highlighted in the NAIC's ORSA Guidance Manual. ~~The maturity level may be assessed through several ways, one of which is the incorporation of concepts developed within the Risk and Insurance Management Society's (RIMS) Risk Maturity Model (RMM). While insurers or insurance groups may utilize various frameworks in developing, implementing and reporting on their ORSA processes (e.g. COSO Integrated Framework, ISO 31000, IAIS ICP 16, other regulatory frameworks, etc.), elements of the RMM have been incorporated into this guidance to provide a framework for use in reviewing and assessing ERM/ORSA practices. However, as various frameworks may be utilized to support effective ERM/ORSA practices, Lead State regulators should be mindful of differences in frameworks and allow flexibility in assessing maturity levels. The RMM, which is only one of several processes that may be used to determine maturity levels, provides a scale of six maturity levels upon which an insurer can be assessed. The six maturity levels can generally be defined as follows:~~

~~Level 5: Risk management is embedded in strategic planning, capital allocation and other business processes, and is used in daily decision-making. Risk limits and early warning systems are in place to identify breaches and require corrective action from the board of directors or committee thereof (hereafter referred to as "board") and management.~~

~~Level 4: Risk management activities are coordinated across business areas, and tools and processes are actively utilized. Enterprise-wide risk identification, monitoring, measurement and reporting are in place.~~

~~Level 3: The insurer has risk management processes in place designed and operated in a timely, consistent and sustained way. The insurer takes action to address issues related to high priority risks.~~

~~Level 2: The insurer has implemented risk management processes, but the processes may not be operating consistently and effectively. Certain risks are defined and managed in silos, rather than consistently throughout the organization.~~

~~Level 1: The insurer has not developed or documented standardized risk management processes and is relying on the individual efforts of staff to identify, monitor and manage risks.~~

~~Level 0: The insurer has not recognized a need for risk management, and risks are not directly identified, monitored or managed.~~

~~The guidance developed for use in this Handbook integrates the concepts of the RMM with the general principles and elements outlined in Section I of the Guidance Manual to assist Lead State regulators in reaching an overall assessment of the maturity of an insurer's risk management framework. The design of ERM/ORSA practices should appropriately reflect the nature, scale and complexity of the company. Lead State regulators should understand the level of maturity that is appropriate for the company based on its unique characteristics. Attainment of Level 5 maturity for ERM/ORSA practices is not appropriate, nor should be expected, for all companies or for all components of the framework.~~

Section II

The guidance for use in reviewing Section II is primarily focused on assisting the Lead State examiner in gaining an understanding of management's assessment of its reasonably foreseeable and relevant material risks. In addition, the guidance assists the Lead State examiner in understanding the potential impact of reasonably foreseeable and relevant material risks by considering the stress scenarios and stress testing presented by the insurer. Finally, information in Section II can inform or support the assessment of key principles reached during a review of Section I.

In order for the Lead State examiner to understand and utilize the information on reasonably foreseeable and relevant material risks provided in Section II, the Lead State examiner must obtain a minimum level of confidence regarding the reasonability of the information presented. ~~Much of the~~ Section II guidance has been developed around reviewing key risks assessed by the insurer and classifying them within the nine branded risk classifications outlined in Exhibit L of this Handbook, which are used as a common language in the risk-focused surveillance process. However, examiners should not expect or require insurers to organize or present their risks in a particular manner (i.e. by branded risk classification). Rather, the guidance should be used in a way to allow the lead state to better understand, assess and document the information presented, as well as a way to verify or validate the summary review and assessment prepared by the financial analyst (if available). ~~The primary reason for this approach is that insurers may utilize similar risk classifications in their ORSA Summary Reports. However, Lead State regulators should not restrict their focus to only the nine branded risk classifications as such an approach may not encourage independent judgment in understanding the risk profile of the insurer. Therefore, the use of the nine branded risk classifications provides a framework to organize the Lead State's summary, but should not discourage regulators from documenting other risks or excluding branded risk categories that aren't relevant. From this standpoint, Section II will also provide regulators with information to better understand current insurance market risks, changes in those risks as well as macroeconomic changes, and the impact they have on insurers' risk identification and risk management processes.~~

As part of evaluating the information presented on reasonably foreseeable and relevant material risks, the Lead State examiner may document how the insurer determines the appropriateness of its stress scenarios identified and stress testing performed by the insurer. However, regulators do not believe there is a standard set of stress conditions each insurer should test. Consistent with the language in the Guidance Manual, the Lead State examiner should not specify the stresses to be performed (other than in rare situations deemed necessary by the commissioner), nor what should be included in the ~~company~~insurer's ORSA Summary Report beyond the basic framework necessary to understand the work performed. Therefore, guidance has been provided to assist the Lead State examiner in considering the reasonableness of the assumptions and methodologies used in conducting stress scenarios/testing and to facilitate discussion with the insurer.

Section III

The guidance for reviewing Section III of the ORSA Summary Report is intended to assist the Lead State examiner in understanding and assessing the estimated amount of capital the insurer determines is ~~reasonable~~ needed to sustain its current ~~business model~~risk profile, as well as its prospective solvency position on an ongoing basis. This determination typically utilizes internally developed capital models that estimate the distribution of potential losses and associated probabilities. Other insurers might base their determination on rating agency or regulatory capital models to determine the amount of capital needed to support a particular rating or to quantify the amount of capital at risk in case of extreme shocks. ~~and/or aggregates the outputs of Section II (i.e., stress testing) to calculate the amount of capital required to support ongoing business operations for a wide range of potential outcomes.~~ All of these approaches require the insurer to establish a capital quantification methodology and select supporting assumptions. Therefore, much of the guidance in this section relates back to how the insurer determines the reasonableness of the ~~assumptions and~~capital quantification methodology~~ies~~ and assumptions, as well as the process undertaken by the insurer to validate the inputs, calculations and outputs.~~utilized to calculate and allocate capital to the reasonably foreseeable and relevant material risks it faces. Often, this calculation may be wholly or partially based on internal models developed by the insurer for this purpose. Therefore, the guidance also directs the Lead State examiner to consider and evaluate the insurer's processes to validate the suitability, reasonability and reliability of its internal models.~~

C. Review of Background Information

The ORSA Guidance Manual encourages discussion and disclosure of key pieces of information to assist regulators in reviewing and understanding the ORSA Summary Report. As such, the following considerations are provided to assist the Lead State examiner in reviewing and assessing the information provided in these areas.

Consideration	Description	Possible Test Procedure(s)
Attestation	The report includes an attestation signed by the Chief Risk Officer (or other executive responsible for ERM) indicating that the information presented is accurate and consistent with ERM reporting shared with the Board of Directors (or committee thereof).	• Consider the results of review/test procedures performed in Sections I - III to evaluate the accuracy of information in the ORSA Summary Report to verify this attestation • Obtain and review BOD (or appropriate committee) minutes or packets to verify that ORSA Summary Report (or similar ERM documentation) is subject to an appropriate level of review and oversight
Entities in Scope	The scope of the report is clearly explained and identifies all insurers covered. The scope of a group report also indicates whether material non-insurance operations have been covered.	• Compare insurance entities covered in ORSA report to Schedule Y, Lead State report and holding company filings to ~~identify any missing entities~~review which entities are accounted for in the filing for discussion with the ~~company~~insurer • Obtain and review information provided in Form F to get an understanding of whether non-insurance entities pose a risk to the insurance entities • If necessary, obtain and review the non-U.S. ORSA report(s) to get a full understanding of the group's risk capital ○ Review the home jurisdiction's ORSA requirements and compare against the NAIC ORSA Guidance Manual to understand differences
Accounting Basis	The report clearly indicates the accounting basis used to present financial information in the report, as well as the primary valuation date(s).	• Compare valuation date and accounting basis utilized across various sections of the report to ensure consistency • If multiple accounting bases are used, gain an understanding of which basis is used to manage capital
Key Business Goals	The report provides an overview of the insurer's/group's key business goals in order to demonstrate alignment with the relevant and material risks presented within the report.	• Compare the key business goals summarized in the report against other insurer filings and documents (e.g., MD&A, Holding Company Filings, submitted business plans, etc.) other regulatory documents (i.e. IPS/GPS) and the regulator's understanding of the insurer ○ If inconsistencies are noted, discuss with the insurer to determine if any key risks are excluded from assessment within the ORSA

Changes from Prior Filing(s)	The report clearly discusses significant changes from the prior year filing(s) to highlight areas of focus in the current year review including changes to the ERM framework, risks assessed, stress scenarios, overall capital position, modeling assumptions, etc.	• Focus test procedures in Section I, II and III on significant changes from prior filings • Verify appropriate governance over changes by requesting supporting documentation and approvals for a sample of changes made • After completing a review of other sections of the ORSA, consider whether all significant changes from the PY filing were appropriately summarized and disclosed
~~Planned ERM Enhancements~~	~~The report provides information on planned enhancements for improving the effectiveness of the insurer's/group's ERM practices to demonstrate ongoing development and a functioning feedback loop.~~	• ~~Perform procedures to understand and evaluate the current status of planned enhancements to verify information reported and assess the adequacy of governance over planned enhancements~~

D. Review of Section I - Description of the Insurer's Risk Management Framework

The Guidance Manual requires the insurer to discuss five key principles of an effective risk management framework in Section I of the ORSA Summary Report. Therefore, the Lead State examiner is required to review and assess the insurer's risk management framework by considering and evaluating each of the key principles. Upon receipt of the ORSA Summary Report, the Lead State financial analyst should perform an initial, high-level assessment of each of the key principles. During an on-site examination, the Lead State examiner is expected to supplement this initial assessment with additional procedures to verify the reported information and test the operating effectiveness of the insurer's risk management processes and practices. Upon conclusion of these procedures, the Lead State examiner should reach his or her own assessment regarding each of the five principles. This should be utilized to adjust the scope of the risk-focused examination and communicated back to the Lead State financial analyst for ongoing monitoring and adjustment of the supervisory plan.

Guidance is provided to assist the Lead State examiner in ~~developing review procedures and to give examples of attributes that may indicate the insurer is more or less mature in its handling of the individual~~assessing the effectiveness of the insurer's key risk management principles.~~ These attributes are meant to assist the Lead State examiner in reaching an assessment of the insurer's maturity level for each key principle.~~

Key Principles

1. Risk Culture and Governance
2. Risk Identification and Prioritization
3. Risk Appetite, Tolerances and Limits
4. Risk Management and Controls
5. Risk Reporting and Communication

Considerations When Reviewing and Testing Key Principles

When reviewing processes described in the ORSA Summary Report, the Lead State examiner should consider the extent to which the above principles are integrated into the ~~organization~~insurer. To do so, the Lead State examiner may need to review processes and practices beyond those documented within the ORSA Summary Report. In addition, the Lead State examiner may need to review and consider changes made to risk management processes since the filing of the last ORSA Summary Report. ~~In so doing, the Lead State examiner may consider information beyond what is included in the ORSA Summary Report to reach an assessment of the insurer's maturity level for each key principle.~~

In reviewing these key principles, examples of various ~~attributes/traits associated with various maturity levels~~considerations and possible test procedures for each key principle are provided. However, these ~~attributes~~ considerations and procedures only ~~demonstrate common currently known practices associated with each of the various maturity levels,~~ address certain elements associated with the key principles and practices of individual insurers may vary significantly. ~~from the examples provided. It is possible that the insurer has mature practices in place, even if those practices differ from the example attributes provided.~~ Therefore, the Lead State examiner should exercise professional judgment in determining the appropriate

~~maturity level to select~~considerations and procedures to be performed when assessing each of the key risk management principles.

~~The following table provides example test procedures that may be performed by the Lead State examiner to verify information on risk management processes included in the ORSA Summary Report or to test the operating effectiveness of such practices.~~ Several of these procedures may be performed in conjunction with other risk-focused examination processes, and Lead State examiners should attempt to gain efficiencies by coordinating testing and review efforts wherever possible. Lead State examiners should use professional judgment in selecting or tailoring procedures to assist in the assessment of each of the five risk management principles for the insurer. In addition, the Lead State examiner should incorporate any specific verification or testing recommendations made by the Lead State financial analyst into the planned examination procedures for Section I and consider the extent to which additional procedures should be utilized to test the changes that have been made to the insurer's ERM framework since the last on-site examination.

1. **Risk Culture and Governance**

It's important to note some ~~organization~~insurers view risk culture and governance as the cornerstone to managing risk. The Guidance Manual defines this item to include a structure that clearly defines and articulates roles, responsibilities and accountabilities, as well as a risk culture that supports accountability in risk-based decision making. Therefore, the objective is to have a structure in place within the ~~organization~~insurer that manages reasonably foreseeable and relevant material risk in a way that is continuously improved. Key considerations and possible test procedures for use in reviewing and assessing risk culture and governance might include, but aren't limited to:

Consideration	Description	Possible Test Procedure(s)
Roles & Responsibilities	Roles and responsibilities of key stakeholders in ERM are clearly defined and documented, including members of the board (or committee thereof), officers and senior executives, risk owners, etc.	• Review documentation to determine whether key stakeholders are identified and roles are clearly defined within the ERM framework • Consider the results of review/test procedures performed across Sections I-III to determine whether roles are effectively implemented
Board or Committee Involvement	The Board of Directors or appropriate committee thereof demonstrates active involvement in ~~and~~the oversight of ERM activities through receiving regular updates from management on ERM monitoring, reporting and recommendations	• Obtain and review management, board or committee minutes/packets for the director group responsible for ERM oversight and evaluate the level of oversight provided • Interview board member(s) with responsibilities for risk management oversight to determine level of knowledge and involvement of directors in risk oversight activities
Strategic Decisions	Directors, officers and other members of senior management utilize information generated through ERM processes in making strategic decisions	• Interview management or board member(s) to determine how risk management processes and results are utilized in strategic decision making • Evaluate the consistency between the insurer's business strategy and its risk management processes • Evaluate whether the insurer utilizes ERM to identify strategic opportunities, as opposed to focusing only on limiting exposures
Staff Availability & Education	The insurer/group maintains suitable staffing (e.g. sufficient number, educational background, experience) to support its ERM framework and deliver on its risk strategy	• Obtain and review information on the staffing and activity of key ERM functions (e.g. ERM group, Internal Audit, etc.) to evaluate their level of activity and involvement • Select a sample of key individuals to review job descriptions and biographical information for appropriateness and suitability • Interview a sample of key individuals to assess their suitability and verify their involvement in the operation of the ERM framework • Obtain and review evidence of formalized risk training programs for staff and consider whether the training matches the risk profile of the insurer/group

Leadership	The Chief Risk Officer (or equivalent position) possesses an appropriate level of knowledge and experience related to ERM and receives an appropriate level of authority to effectively fulfill responsibilities	• Obtain and review information necessary (i.e. biographical affidavit or equivalent) to evaluate the suitability of the Chief Risk Officer (or equivalent position) • Obtain and review information necessary to evaluate the authority and resources provided to the CRO to fulfill responsibilities • Review BOD/committee minutes to verify CRO access and reporting to the BOD/committee on a regular basis and assess the CRO's response to BOD recommendations
Compensation	The insurer/group demonstrates that incentives, compensation and performance management criteria have been appropriately aligned with ERM processes and do not encourage excessive risk taking given the capital position of the insurer/group	• Obtain and review information on the insurer's compensation plans to determine that risk management decision-making is not undermined by compensation structure • Obtain and review job descriptions or performance review criteria for select management positions to determine whether risk management elements are incorporated • Interview a member(s) of the BOD (or appropriate committee thereof) to discuss oversight of compensation and understand if there are concerns about excessive risk taking
Integration	The insurer/group integrates and coordinates ERM processes across functional areas of the insurer including HR, IT, internal audit, compliance, business units, etc.	• Interview selected executives from different functional areas to get a feel for the "tone at the top" of the insurer and the level of consistency in applying risk management processes across departments
Assessment	The insurer's ERM framework is subject to regular review and assessment, with updates made to the framework as deemed necessary	• Gain an understanding of the insurer's process to review and update its ERM framework to ensure involvement of appropriate stakeholders • Perform procedures to verify the insurer is reviewing and updating its framework on a regular basis

~~Level 5~~

~~Risk culture is analyzed and reported as a systematic view of evaluating risk. Executive sponsorship is strong, and the tone from the top has sewn an ERM framework into the corporate culture. Management establishes the framework and the risk culture, and the board reviews the risk appetite statement in collaboration with the chief executive officer (CEO), chief risk officer (CRO) where applicable and chief financial officer (CFO). Those officers translate the expectations into targets through various practices embedded throughout the organization. Risk management is embedded in each material business function. Internal audit, information technology, compliance, controls and risk management processes are integrated, and coordinate and report risk issues. Material business functions use risk-based best practices. The risk management life cycle for business process areas are routinely evaluated and improved (when necessary).~~

~~Level 4~~

~~The insurer's ERM processes are self-governed with shared ethics and trust. Management is held accountable. Risk management issues are understood and risk plans are conducted in material business process areas. The board, CEO, CRO (if applicable) and CFO expect a risk management plan to include a qualitative risk assessment for reasonably foreseeable and relevant material risks with reporting to management or the board on priorities, as appropriate. Relevant areas use the ERM framework to enhance their functions, communicating on risk issues as appropriate. Process owners incorporate managing their risks and opportunities within regular planning cycles. The insurer creates and evaluates scenarios consistent with its planning horizon and product timelines, and follow-up activities occur accordingly.~~

~~Level 3~~

~~ERM risk plans are understood by management. Senior management expects that a risk management plan captures reasonably foreseeable and relevant material risks in a qualitative manner. Most areas use the ERM framework and~~

~~report on risk issues. Process owners take responsibility for managing their risks and opportunities. Risk management creates and evaluates scenarios consistent with the business planning horizon.~~

~~Level 2~~
~~Risk culture is enforced by policies interpreted primarily as compliance in nature. An executive champions ERM management to develop an ERM framework. One area has used the ERM framework, as shown by the department head and documented team activities. Business processes are identified, and ownership is defined. Risk management is used to consider risks in line with the insurer's business planning horizon.~~

~~Level 1~~
~~Corporate culture has little risk management accountability. Risk management is not interpreted consistently. Policies and activities are improvised. Programs for compliance, internal audit, process improvement and IT operate independently and have no common framework, causing overlapping risk assessment activities and inconsistencies. Controls are based on departments and finances. Business processes and process owners are not well defined or communicated. Risk management focuses on past events. Qualitative risk assessments are unused or informal. Risk management is considered a quantitative analysis exercise.~~

~~Level 0~~
~~There is no recognized need for an ERM process and no formal responsibility for ERM. Internal audit, risk management, compliance and financial activities might exist, but they aren't integrated. Business processes and risk ownership are not well defined.~~

2. **Risk Identification and Prioritization**

The Guidance Manual defines this as key to the ~~organization~~insurer, and responsibility for this activity should be clear. The risk management function is responsible for ensuring the processes are appropriate and functioning properly. Therefore, an approach for risk identification and prioritization may be to have a process in place that identifies risk and prioritizes such risks in a way that potential reasonably foreseeable and relevant material risks are addressed in the framework. Key considerations and possible test procedures for use in reviewing and assessing risk identification and prioritization might include, but aren't limited to:

Consideration	Description	Possible Test Procedure(s)
Resources	The insurer/group utilizes appropriate resources and tools (e.g. questionnaires, external risk listings, brainstorming meetings, regular calls, etc.) to assist in the risk identification process that are appropriate for its nature, size and structure	• Obtain and review information and tools associated with the risk identification and prioritization process for appropriateness • Determine whether appropriate external sources have been used to assist in risk identification (e.g. rating agency information, emerging risk listings, competitor 10K filings, etc.) where applicable • Obtain and review lists of key risks (or risk register) at different dates to identify which risks have been added/removed to understand and assess the process
Stakeholder Involvement	All key stakeholders (i.e. directors, officers, senior management, business unit leaders, risk owners, etc.) are involved in risk identification and prioritization at an appropriate level	• Interview select process owners/business unit leaders to verify their role in risk identification and prioritization • Interview risk management staff to understand and evaluate how risks are identified and aggregated across the insurer
Prioritization Factors	Appropriate factors and considerations are utilized to assess and prioritize risks (e.g. likelihood of occurrence, magnitude of impact, controllability, speed of onset, etc.)	• Assess the insurer's process and scale by which it prioritizes the key risks identified • Review the approach for, and results of, the insurer's likelihood, severity and speed of onset risk assessments, if applicable
Process Output	Risk registers, key risk listings and risk ratings are maintained, reviewed and updated on a regular basis	• Obtain and review a current copy of the insurer's risk register • Verify that the insurer's risk register is updated/reviewed on a regular basis by requesting copies at various dates

Emerging Risks	The insurer has developed and maintained a formalized process for the identification and tracking of emerging risks	• Obtain and review tools and reports utilized to identify and evaluate emerging risks to determine whether appropriate stakeholders and resources are utilized in this process

~~Level 5~~
~~Information from internal and external sources on reasonably foreseeable and relevant material risks, including relevant business units and functions, is systematically gathered and maintained. A routine, timely reporting structure directs risks and opportunities to senior management. The ERM framework promotes frontline employees' participation and documents risk issues' or opportunities' significance. Process owners periodically review and recommend risk indicators that best measure their areas' risks. The results of internal adverse event planning are considered a strategic opportunity.~~

~~Level 4~~
~~Process owners manage an evolving list of reasonably foreseeable and relevant material risks locally to create context for risk assessment activities as a foundation of the ERM framework. Risk indicators deemed critical to their areas are regularly reviewed in collaboration with the ERM team. Measures ensure downside and upside outcomes of risks and opportunities are managed. Standardized evaluation criteria of impact, likelihood and controls' effectiveness are used to prioritize risk for follow-up activity. Risk mitigation is integrated with assessments to monitor effective use.~~

~~Level 3~~
~~An ERM team manages an evolving list of reasonably foreseeable and relevant material risks, creating context for risk assessment as a foundation of the ERM framework. Risk indicator lists are collected by most process owners. Upside and downside outcomes of risk are understood and managed. Standardized evaluation criteria of impact, likelihood and controls' effectiveness are used, prioritizing risk for follow-ups. Enterprise-level information on risks and opportunities are shared. Risk mitigation is integrated with assessments to monitor effective use.~~

~~Level 2~~
~~Formal lists of reasonably foreseeable and relevant material risks exist for each relevant business unit or function, and discussions of risk are part of the ERM process. Corporate risk indicators are collected centrally, based on past events. Relevant business units or functions might maintain their own informal risk checklists that affect their areas, leading to potential inconsistency, inapplicability and lack of sharing or under-reporting.~~

~~Level 1~~
~~Risk is owned by specialists, centrally or within a business unit or function. Risk information provided to risk managers is probably incomplete, dated or circumstantial, so there is a high risk of misinformed decisions, with potentially severe consequences. Further mitigation, supposedly completed, is probably inadequate or invalid.~~

~~Level 0~~
~~There might be a belief that reasonably foreseeable and relevant material risks are known, although there is probably little documentation.~~

3. **Risk Appetite, Tolerances and Limits**

The Guidance Manual states that a formal risk appetite statement, and associated risk tolerances and limits, are foundational elements of a risk management framework for an insurer. While risk appetites, tolerances and limits can be defined and used in different ways across different insurers, this guidance is provided to assist the regulator in understanding and evaluating the insurer's practices in this area. Risk appetite can be defined as the amount of specific and aggregate risk that an insurer chooses to take during a defined time period in pursuit of its business objectives. ~~Understanding~~ Articulation of the risk appetite statement ensures alignment ~~with~~ of the risk strategy with the business strategy set by senior management and reviewed and evaluated by the board. Not included in the Guidance Manual, but widely considered, is that risk appetite statements should be easy to communicate, understood and closely tied to the ~~organization~~insurer's strategy.

After the overall risk appetite for the ~~organization~~insurer is determined, the underlying risk tolerances and limits can be selected and applied to business units and specific key risks identified by ~~areas as~~ the ~~company~~insurer ~~deems appropriate~~.

Risk tolerance can be defined as the aggregate risk-taking capacity of an insurer. Risk limits can be defined as thresholds used to monitor the actual exposure of a specific risk or activity unit of the insurer to ensure that the level of actual risk remains within the risk tolerance. The ~~company~~insurer may apply appropriate quantitative limits and qualitative statements to help establish boundaries and expectations for risks that are hard to measure. These boundaries may be expressed in terms of earnings, capital or other metrics, such as growth and volatility. The risk tolerances/limits provide direction outlining the insurer's tolerance for taking on certain risks, which may be established and communicated in the form of the maximum amount of such risk the entity is willing to take. However, in many cases, these will be coupled with more specific and detailed limits or guidelines the insurer uses.

Due to the varying level of detail and specificity different ~~organization~~insurers incorporate into their risk appetites, tolerances and limits, Lead State regulators should consider these elements collectively to reach an overall assessment in this area and should seek to understand the insurer's approach through follow-up discussions and dialogue. Key considerations and possible test procedures for use in reviewing and assessing risk appetite, tolerance and limits might include, but aren't limited to:

Consideration	Description	Possible Test Procedure(s)
Risk Appetite Statement	The insurer/group has ~~adopted~~developed an overall risk appetite statement consistent with its business plans and operations that is updated on a regular basis and ~~approved by the board of directors (or committee thereof)~~subject to appropriate governance oversight	• Determine whether the insurer considers legal entity regulations and capital requirements in setting its overall risk appetite (if applicable) • Consider whether the insurer appropriately considers both qualitative and quantitave measures of risk appetite • Evaluate the appropriateness of the risk appetite statement and its consistency with the insurer's business strategy • Review board/committee minutes or supporting materials to verify that the insurer's risk appetite is reviewed~~, updated and approved~~ as appropriate
Risk Tolerances/Limits	Tolerances and limits are developed for key risks in accordance with the overall risk appetite statement	• Select a sample of key risks to verify that specific tolerances and limits have been put in place • Gain an understanding of the checks and balances (i.e. supervisory review) in place to ensure that tolerances and limits are in accordance with the risk appetite • Review and evaluate the consistency between the insurer's risk appetite, tolerances and limits, as well as their appropriateness in light of the business strategy
Risk Owners	Key risks are assigned to risk owners with responsibility for ~~monitoring and reporting on~~ risk tolerances and limits, including actions to address any breaches	• Verify, as applicable, that all key risks are assigned appropriate risk owners • Interview select risk owners to get an understanding of and assess their roles and responsibilities in setting/updating tolerances and limits

~~Level 5~~

~~A risk appetite statement has been developed to establish clear boundaries and expectations for the organization to follow. A process for delegating authority to accept risk levels in accordance with the risk appetite statements is communicated throughout the organization. The management team and risk management committee, if applicable, may define tolerance levels and limits on a quantitative and/or qualitative basis for relevant business units and functions in accordance with the defined risk appetite. As part of its risk management framework, the company may compare and report actual assessed risk versus risk tolerances/limits. Management prioritizes resource allocation based on the gap between risk appetite and assessed risk and opportunity. The established risk appetite is examined periodically.~~

~~Level 4~~

~~Risk appetite is considered throughout the ERM framework. Resource allocation decisions consider the evaluation criteria of business areas. The organization forecasts planned mitigation's potential effects versus risk tolerance as part of the ERM framework. The insurer's risk appetite is updated as appropriate and risk tolerances are evaluated from various perspectives as appropriate. Risk is managed by process owners. Risk tolerance is evaluated as a~~

~~decision to increase performance and measure results. Risk-reward tradeoffs within the business are understood and guide actions.~~

~~Level 3~~
~~Risk assumptions within management decisions are clearly communicated. There's a structure for evaluating risk on an enterprise-wide basis and for gauging risk tolerance. Risks and opportunities are routinely identified, evaluated and executed in alignment with risk tolerances. The ERM framework quantifies gaps between actual and target tolerances. The insurer's risk appetite is periodically reviewed and updated as deemed appropriate by the company, and risk tolerances are evaluated from various perspectives as appropriate.~~

~~Level 2~~
~~Risk assumptions are only implied within management decisions and are not understood outside senior leadership with direct responsibility. There is no ERM framework for resource allocation. Defining different views of business units or functions from a risk perspective cannot be easily created and compared.~~

~~Level 1~~
~~Risk management might lack a portfolio view of risk. Risk management might be viewed as risk avoidance and meeting compliance requirements or transferring risk through insurance. Risk management might be a quantitative approach focused on the analysis of high-volume and mission-critical areas.~~

~~Level 0~~
~~The need for formalizing risk tolerance and appetite is not understood.~~

4. **Risk Management and Controls**

The Guidance Manual stresses managing risk is an ongoing ERM activity, operating at many levels within the ~~organization~~insurer. This principle is discussed within the governance section above from the standpoint that a key aspect of managing and controlling the reasonably foreseeable and relevant material risks of the ~~organization~~insurer is the risk governance process put in place. For many companies, the day-to-day governance starts with the relevant business units. Those units put mechanisms in place to identify, quantify and monitor risks, which are reported up to the next level based upon the risk reporting triggers and risk limits put in place. In addition, controls are also put in place on the back end, by either the ERM function or the internal audit team ~~or an independent consultant~~, which are designed to ensure compliance and a continual enhancement approach. Therefore, one approach may be to put controls in place to ensure the ~~organization~~insurer is abiding by its limits. Key considerations and possible test procedures for use in reviewing and assessing risk management and controls might include, but aren't limited to:

Consideration	Description	Possible Test Procedure(s)
Lines of ~~Defense~~Accountability	Multiple lines of ~~defense~~accountability (i.e. business unit or risk owners, ERM function, internal audit) are put in place to ensure that control processes are effectively implemented and maintained	• Gain an understanding of business unit involvement in risk management and control processes to assess appropriateness • Review, verify and evaluate the role of ERM staff in setting and enforcing risk management processes and controls • Obtain a listing of internal audit reports to determine whether risk management processes are subject to periodic review. • Perform procedures to verify and evaluate segregation of duties between business units, ERM staff and the internal audit department in carrying out risk management responsibilities.
Control Processes	Specific control activities and processes are put in place to manage, mitigate and monitor all key risks	• Obtain minutes of internal risk management committee (or equivalent management group) meetings to review frequency and extent of oversight activities.

		• Review and evaluate how specific controls are mapped to legal entities (as appropriate if mapping is relevant to understanding of control). • Select a sample of key risks to verify that risk controls and mitigation activities are identified and implemented
Implementation of Tolerances /Limits	Risk tolerances and limits are translated into operational guidance and policies around key risks through all levels of the insurer	• Select a sample of key risks to verify that operational guidance and policies at mutliple levels/areas of the insurer are in place and consistent with risk limits identified through ORSA process • Identify and test the operating effectiveness of preventive controls in select areas to determine how risk tolerances/limits are enforced.
Indicators/Metrics	Key risk indicators or performance metrics are put in place to monitor exposures, provide early warnings and measure adherence to risk tolerances/limits	• Select a sample of key risks to verify that risk metrics have been identified to monitor exposures, provide early warnings and measure adherence to tolerances/limits • Perform procedures to verify that risk metrics are measured and monitored accurately and on a regular basis • Review and evaluate escalation process and remediation efforts when limits on key risks are breached

~~Level 5~~

~~ERM, as a management tool, is embedded in material business processes and strategies. Roles and responsibilities are process-driven, with teams collaborating across material central and field positions. Risk and performance assumptions within qualitative assessments are routinely revisited and updated. The organization uses an ERM process of sequential steps that strive to improve decision-making and performance. A collaborative, enterprise-wide approach is in place to establish a risk management committee staffed by qualified management. Accountability for risk management is woven into all material processes, support functions, business lines and geographies as a way to achieve goals. To evaluate and review the effectiveness of ERM efforts and related controls, the organization has implemented a "Three Lines of Defense" model or similar system of checks and balances that is effective and integrated into the insurer's material business processes. The first line of defense may consist of business unit owners and other front-line employees applying internal controls and risk responses in their areas of responsibility. The second line of defense may consist of risk management, compliance and legal staff providing oversight to the first line of defense and establishing framework requirements to ensure reasonably foreseeable and relevant material risks are actively and appropriately managed. The third line of defense may consist of auditors performing independent reviews of the efforts of the first two lines of defense to report back independently to senior management or the board, as appropriate.~~

~~Level 4~~

~~Risk management is clearly defined and enforced at relevant levels. A risk management framework articulates management's responsibility for risk management, according to established risk management processes. Management develops and reviews risk plans through involvement of relevant stakeholders. The ERM framework is coordinated with managers' active participation. Opportunities associated with reasonably foreseeable and relevant material risks are part of the risk plans' expected outcome. Authentication, audit trail, integrity and accessibility promote roll-up information and information sharing. Periodic reports measure ERM progress on all reasonably foreseeable and relevant material risks for stakeholders, including senior management or the board, as appropriate. The organization has implemented a "Three Lines of Defense" model to review and assess its control effectiveness, but those processes may not yet be fully integrated or optimized.~~

~~Level 3~~

~~The ERM framework supports material business units' and functions' needs. ERM is a process of steps to identify, assess, evaluate, mitigate and monitor reasonably foreseeable and relevant material risks. ERM frameworks include the management of opportunities. Senior management actively reviews risk plans. The ERM process is collaborative and directs important issues to senior management. The "Three Lines of Defense" are generally in place but are not yet performing at an effective level.~~

~~Level 2~~
~~Management recognizes a need for an ERM framework. Agreement exists on a framework, which describes roles and responsibilities. Evaluation criteria are accepted. Risk mitigation activities are sometimes identified but not often executed. Qualitative assessment methods are used first in all material risk areas and inform what needs deeper quantitative methods, analysis, tools and models. The "Three Lines of Defense" are not yet fully established, although some efforts have been made to put these processes in place.~~

~~Level 1~~
~~Management is reactive, and ERM might not yet be seen as a process and management tool. Few processes and controls are standardized and are instead improvised. There are no standard risk assessment criteria. Risk management is involved in business initiatives only in later stages or centrally. Risk roles and responsibilities are informal. Risk assessment is improvised. Standard collection and assessment processes are not identified.~~

~~Level 0~~
~~There is little recognition of the ERM framework's importance or controls in place to ensure its effectiveness.~~

5. **Risk Reporting and Communication**

The Guidance Manual indicates risk reporting and communication provides key constituents with transparency into the risk-management processes and facilitates active, informal decisions on risk-taking and management. The transparency is generally available because of reporting that can be made available to management, the board or compliance departments, as appropriate. However, most important is how the reports are being utilized to identify and manage reasonably foreseeable and relevant material risks at either the group, business unit or other level within the ~~organization~~insurer where decisions are made. Therefore, one approach may be to have reporting in place that allows decisions to be made throughout the ~~organization~~insurer by appropriately authorized people, with ultimate ownership by senior management or the board, as appropriate. Key considerations and possible test procedures for use in reviewing and assessing risk reporting and communication might include, but aren't limited to:

Consideration	Description	Possible Test Procedure(s)
Training	The importance of ERM processes and changes to the risk strategy are clearly communicated to all impacted areas and business units through ongoing training	• Obtain and review formal ERM training materials provided by the insurer to relevant employees and directors • Review records of recent training sessions to verify sessions are regular and ongoing and attended by all key stakeholders involved in the design, oversight and operation of the ERM framework
Key Risk Indicator Reporting	Summary reports on risk exposures (i.e. key risk indicators) and compliance with tolerances/limits are maintained and updated on a regular basis	• Obtain a current copy of the insurer's risk dashboard (or equivalent report) to verify that tracking for key risks is appropriate and to obtain a more current view of risks since the last ORSA valuation date • Verify the frequency with which risk information is accumulated and reported by selecting a sample of historical risk dashboards (or equivalent reports) to review • Test the reasonableness of key risk indicator information included on the risk dashboard (or equivalent report) on a sample basis
Oversight	Summary reports are reviewed and discussed by the appropriate members of management, and when appropriate, directors~~, officers and other members of senior management~~ on a regular basis	• Review meeting minutes and packets to determine whether risk reporting information is evaluated by the board and used by senior management for strategy and planning purposes • Gain an understanding of and evaluate the BOD's (or committee thereof) role in ~~overseeing,~~ reviewing and ~~approving~~discussing the ORSA process and resulting Summary Report

		• Select a sample of ERM information reported to the BOD for comparison against the ORSA Summary Report to validate accuracy and consistency in reporting
Breach Management	Breaches of limits and dashboard warning indicators are addressed in a timely manner through required action by management and, when appropriate, directors~~—and officers~~	• Select a sample of breaches from recent dashboard reports to determine whether Senior Management and/or the BOD take an active role in addressing breaches and/or significant changes in risk exposure • For the sample selected, review and evaluate the timeliness with which breaches in risk limits are reported and communicated to the appropriate authority
Feeback Loop	A feedback loop is embedded into ERM processes to ensure that results of monitoring and review discussions on key risks by senior management and the board are incorporated by business unit leaders and risk owners into ongoing risk-taking activities and risk management processes	• Discuss with ERM staff how input and feedback from BOD/committee or Senior Management review of summary reports is incorporated into risk management processes • Review relevant BOD/committee minutes and select a sample of decisions made on ERM to verify that they were appropriately incorporated into ongoing processes

~~Level 5~~
~~The ERM framework is an important element in strategy and planning. Evaluation and measurement of performance improvement is part of the risk culture. Measures for risk management include process and efficiency improvement. The organization measures the effectiveness of managing uncertainties and seizing risky opportunities. Deviations from plans or expectations are also measured against goals. A clear, concise and effective approach to monitor progress toward strategic goals is communicated regularly with relevant business units or functional areas. Individual, management, departmental, divisional and corporate strategic goals are linked with standard measurements. The results of key measurements and indicators are reviewed and discussed by senior management and the board, as appropriate, on a regular basis and as frequently as necessary to address breaches in risk tolerances or limits in a timely manner.~~

~~Level 4~~
~~The ERM framework is an integrated part of strategy and planning. Risks are considered as part of strategic planning. Risk management is a formal part of strategic goal setting and achievement. Investment decisions for resource allocation examine the criteria for evaluating opportunity impact, timing and assurance. The organization forecasts planned mitigation's potential effect on performance impact, timing and assurance prior to use. Employees at all relevant levels use a risk-based approach to achieve strategic goals. The results of key measurements and indicators are shared with senior management and the board, as appropriate, on a regular basis.~~

~~Level 3~~
~~The ERM framework contributes to strategy and planning. Strategic goals have performance measures. While compliance might trigger reviews, other factors are integrated, including process improvement and efficiency. The organization indexes opportunities qualitatively and quantitatively, with consistent criteria. Employees understand how a risk-based approach helps them achieve goals. Accountability toward goals and risk's implications are understood and are articulated in ways frontline personnel understand. The results of key measurements and indicators are shared with senior management and the board, as appropriate.~~

~~Level 2~~
~~The ERM framework is separate from strategy and planning. A need for an effective process to collect information on opportunities and provide strategic direction is recognized. Motivation for management to adopt a risk-based approach is lacking.~~

~~Level 1~~
~~Not all strategic goals have measures. Strategic goals aren't articulated in terms the frontline management understands. Compliance focuses on policy and is geared toward satisfying external oversight bodies. Process~~

~~improvements are separate from compliance activities. Decisions to act on risks might not be systematically tracked and monitored. Monitoring is done, and metrics are chosen individually. Monitoring is reactive.~~

~~Level 0~~
~~No formal framework of indicators and measures for reporting on achievement of strategic goals exists.~~

~~Examination Procedures for Section I~~

~~The following table provides example test procedures that may be performed by the Lead State examiner to verify information on risk management processes included in the ORSA Summary Report or to test the operating effectiveness of such practices. Several of these procedures may be performed in conjunction with other risk-focused examination processes, and Lead State examiners should attempt to gain efficiencies by coordinating testing and review efforts wherever possible. Lead State examiners should use professional judgment in selecting or tailoring procedures to assist in the assessment of each of the five risk management principles for the insurer. In addition, the Lead State examiner should incorporate any specific verification or testing recommendations made by the Lead State financial analyst into the planned examination procedures for Section I and consider the extent to which additional procedures should be utilized to test the changes that have been made to the insurer's ERM framework since the last on-site examination.~~

~~Principle~~	~~Possible Test Procedures~~
~~Risk Culture and Governance~~	• ~~Obtain and review management, board or committee minutes/packets for the director group responsible for ERM oversight and evaluate the level of oversight provided.~~ • ~~Obtain and review formal ERM training materials provided by the insurer to relevant employees and directors.~~ • ~~Interview management or board member(s) with responsibilities for risk management oversight to determine level of knowledge and involvement of management or directors in risk management processes.~~ • ~~Interview insurer executives to get a feel for the "tone at the top" of the organization and the level of consistency in applying risk management processes across departments.~~ • ~~Obtain and review information on the insurer's compensation plans to determine that risk management decision making is not undermined by compensation structure.~~ • ~~Obtain and review job descriptions or performance review criteria for select management positions to determine whether risk management elements are incorporated.~~
~~Risk Identification and Prioritization~~	• ~~Obtain a current copy of the organization's risk listing/universe.~~ • ~~Determine whether appropriate external sources have been used to assist in risk identification (e.g. rating agency information, competitor 10K filings, etc.) where applicable.~~ • ~~Verify that the organization's risk listing/universe is updated/reviewed on a regular basis by requesting copies at various dates.~~ • ~~Assess the insurer's process and scale by which it prioritizes the key risks identified.~~ • ~~Review the approach for and results of the insurer's likelihood, severity and speed of onset risk assessments, if applicable.~~ • ~~Interview select process owners/business unit leaders to verify their role in risk identification and prioritization.~~ • ~~Interview risk management staff to understand and evaluate how risks are identified and aggregated across the organization.~~

~~Principle~~	~~Possible Test Procedures~~
~~Risk Appetite, Tolerances and Limits~~	• ~~Review the management committee's or board's supporting materials to verify that the organization's risk appetite is reviewed as appropriate.~~ • ~~Review and evaluate how risk appetite, tolerances and limits are set for the insurer.~~ • ~~Determine whether the insurer considers legal entity regulations and capital requirements in setting its overall risk appetite (if applicable).~~ • ~~Review and evaluate steps taken to address breaches in risk limits on a sample basis (if applicable).~~ • ~~Verify, as applicable, whether reasonably forseeable material and relevant risks are assigned risk owners to monitor risks and oversee mitigation plans.~~ • ~~Interview select risk owners to get an understanding of how risk limits are set and updated.~~ • ~~Verify that checks and balances (i.e., supervisory review) are in place to ensure that risk limits are set in accordance with the organization's overall risk appetite.~~
~~Risk Management and Controls~~	• ~~Obtain minutes of internal risk management committee (or equivalent management group) meetings to review frequency and extent of oversight activities.~~ • ~~Obtain a listing of internal audit reports to determine whether risk management processes are subject to periodic review.~~ • ~~Identify and test the operating effectiveness of preventive controls in select areas to determine how risk limits are enforced.~~ • ~~Review and evaluate how specific controls are mapped to legal entities (as appropriate if mapping is relevant to understanding of control).~~
~~Risk Reporting and Communication~~	• ~~Obtain a current copy of the organization's risk dashboard (or equivalent report) to verify that tracking for reasonably foreseeable material and relevant risk areas exists.~~ • ~~Verify the frequency with which risk information is accumulated and reported by selecting a sample of historical risk dashboards (or equivalent reports) to review.~~ • ~~Test the reasonableness of information included on the risk dashboard (or equivalent report) on a sample basis.~~ • ~~Determine whether risk reporting information is evaluated by the board and used by senior management for strategy and planning purposes.~~ • ~~Review and evaluate the timeliness with which breaches in risk limits are reported and communicated to the appropriate authority.~~

~~**Documentation for Section I**~~

~~The Lead State examiner should prepare documentation summarizing the results of the risk management framework assessment by addressing each of the five principles set forth in the Guidance Manual using the template at the end of this section. Each assessment should first provide a summary of the Lead State analyst's initial assessment, followed by a summary of the results of exam procedures, leading to a final exam assessment for each principle. The summary of exam results should provide rationale for any deviation from the Lead State analyst's initial assessment of the principle.~~

~~D~~E. Review of Section II - Insurer's Assessment of Risk Exposure

Section II of the ORSA Summary Report is required to provide a high-level summary of the insurer's quantitative and/or qualitative assessments of its exposure to reasonably foreseeable and relevant material risks. There may be a great deal of variation in how this information is displayed from one insurer to the next, but in most cases, insurers tend to organize this information around the reasonably foreseeable and relevant material risks of the insurer. The Guidance Manual does give

possible examples of relevant material risk categories (credit, market, liquidity, underwriting, and operational risks). In reviewing the information provided in this section of the ORSA, Lead State regulators may need to pay particular attention to risks and exposures that may be emerging or significantly increasing over time.

Lead State examiners may find the information regarding reasonably foreseeable and relevant material risk exposures the most beneficial aspect of the ORSA Summary Report, as this information may be useful in identifying risks and controls for use in the remaining phases of a risk-focused examination. This may be attributed to the fact that Section II provides risk information on the insurance group that may be grouped in categories similar to the NAIC's nine branded risk classifications (see Exhibit L). However, the grouping of risk information in the report is entirely up to the insurer, and the Lead State examiner should not expect each of the nine branded risk classifications to be directly addressed within Section II.

Stress Testing

In addition to providing background information on reasonably foreseeable and relevant material risks the insurer is facing, Section II anticipates the risk exposures to be analyzed under both normal and stressed environments. Therefore, as part of evaluating the information presented, the Lead State examiner is expected to consider the stress scenarios identified and assessment techniques performed by the insurer to quantify the financial impact of risks. In so doing, the Lead State examiner should note the assumptions and methodologies used by the insurer in conducting stress scenarios/testing. The Lead State examiner should obtain information from the Lead State analyst to determine the extent to which the state has already been provided information on the assumptions and methodologies.

The Lead State examiner should consider the assessment techniques the insurer has utilized to evaluate the impact that reasonably foreseeable and relevant material risks could have on its ongoing operations. In reviewing the insurer's efforts in this area, the Lead State examiner's focus would be on considering if additional information and support for the stress testing of individual risks or groups of risks are available in order to test the effectiveness of such processes. In reviewing the insurer's assessment techniques for ~~each of the nine branded risk classifications (if applicable) and other relevant risks~~its material and relevant (key) risks, the Lead State examiner should consider ~~each of~~ the following elements and possible test procedures:

Note: Possible test procedures that could duplicate or overlap with procedures listed in Section I or Section III are marked with an asterisk.

Consideration	Description	Possible Test Procedure(s)
Risks Assessed	Key risks assessed are consistent with the insurer's risk identification and prioritization process, its business strategy and the regulator's understanding of exposures	• Evaluate the effectiveness of risk presentation and classification ○ If necessary, prepare feedback to the financial analyst related to the mapping of the insurer's key risks to branded risk classifications • Compare risks discussed in Section II to the insurer's risk register and prioritization documentation to ensure that all significant risks have been assessed • Consider the completeness of the key risks identified by considering the insurer's business operations and strategy, as well as information presented in Form F, SEC reports and other filings • Compare risks identified by the insurer to those tracked by regulators on the IPS/GPS and risk-focused examinations • If key risks appear missing, consider discussing/addressing with the insurer
Presentation and Design of ERM Controls	Mitigation strategies and controls to address exposures are accurately presented and effectively designed for all key risks	• Verify that mitigation strategies and controls are clearly presented for all key risks identified in the summary report* • Request and review additional information on mitigation strategies/controls that aren't clearly presented in the report • Determine whether relevant metrics are in place to monitor risk exposures on a regular basis by selecting and reviewing a sample of key reports for review*

Consideration	Description	Possible Test Procedure(s)
		• In conjunction with work performed in Ph. 3 of a risk-focused examination, perform procedures to test the design effectiveness of mitigation strategies/controls for the insurer's key risks
Operating Effectiveness of ERM Controls	Mitigation strategies and controls are operating effectively in addressing the insurer's key risks	• Determine whether risk measurement metrics are compared against tolerances and risk limits by selecting a sample of key risks for review and testing* • Select a sample of risks that have breached tolerances/limits to review and assess the steps taken by the insurer to escalate, remediate and address issues* • In conjunction with work performed in Ph. 3 of a risk-focused examination, perform procedures to test the operating effectiveness of mitigation strategies/controls for the insurer's key risks
Rationale for Assessment Techniques	Assessment techniques and underlying assumptions are appropriately described and supported	• Verify that all significant risks are clearly assessed and presented in Section II of the ORSA Summary Report • Review the descriptions of and rationale for assessment techniques utilized in the ORSA Summary Report for appropriateness • Review the process used to select and document rationale for assumptions used in risk assessment and select a sample of risks to verify documented support for the assumptions used • Request and review additional information on assessment techniques not clearly presented in the report
Effectiveness of Assessment Tecnniques	Assessment techniques and underlying assumptions appear reasonable and in accordance with insurer standards and industry best practices	• Evaluate whether risks have been subjected to quantitative and qualitative analysis in accordance with their underlying characteristics ○ For those risks only subject to qualitative assessment, determine why they have not been quantitatively assessed (e.g. lack of data, lack of methodology) and consider its appropriateness • Evaluate the reasonableness of assumptions used and scenario/stress testing used by the insurer to assess risks by comparing to historical results and industry best practices and/or consulting with a specialist • Review scenario analysis and stress testing performed to verify that both capital adequacy and liquidity are addressed for all relevant key risks* • Assess whether the time horizons used to measure key risks are appropriate given their nature
Impact of Assessments	Results of assessments indicate that key risks have been effectively mitigated	• Review the results of stress testing and scenario analysis to assess the sufficiency of the insurer's capital/liquidity resources in the event of adverse situations* • If concerns are identified related to scenario results, inquire regarding the insurer's remediation plans and evaluate their adequacy

- ~~Was each of the most significant solvency risks facing the insurer identified and subjected to assessment techniques?~~
- ~~If scenarios were utilized to evaluate/stress the impact of such risks, were they appropriately described and justified?~~
- ~~Were techniques utilized to assess reasonably forseeable material and relevant risks in accordance with insurer standards and industry best practices?~~
  - ~~Did the time horizon or duration of the risks identified have an impact on the nature and extent of the assessment techniques selected?~~

- ~~Did the results of the assessment techniques indicate that the insurer had appropriately mitigated the impact that the risk might have on the insurer?~~
- ~~Do the assessment techniques utilized address issues from both a capital and liquidity perspective?~~

~~**Documentation for Section II**~~

~~Upon the conclusion of the Lead State examiner's review and testing of the information provided in Section II and related processes, documentation should be prepared to discuss whether the insurer included an appropriate discussion of reasonably foreseeable and relevant material risks. The nine branded risk classifications may be discussed within this summary, as well as any additional risk categories that the Lead State examiner deems relevant. In addition, the Lead State examiner should provide an assessment of the corresponding stress assumptions and test results presented for each of the risk categories discussed, keeping in mind that a company is not required to solely focus on the nine branded risk classifications.~~

~~E~~F. Review of Section III - Group Assessment of Risk Capital

~~Section III of the ORSA is unique in that it is required to be completed at the insurance group level, as opposed to the other sections, which may be completed at a legal entity level. However, in many cases, insurers will choose to also complete Sections I and II at the group level. The requirement to complete Section III at the group level is important because it provides the means for Lead State insurance regulators to assess the reasonableness of capital of the entire insurance group based upon its existing business plan.~~ The focus of financial analysis in reviewing Section III will be to understand the insurer's assessment of the ~~reasonableness of~~risk capital of the entire group to withstand potential unexpected losses and detrimental events, as well as the prospective outlook of the insurer's solvency position. The focus of the Lead State examiner in reviewing Section III should be on understanding the process the insurer used to ~~accumulate and present the information provided~~determine its capital needs. To perform this review, the Lead State examiner may need to request additional detail supporting the group capital calculations that the insurer performed.

Insurance groups will use different approaches to group capital calculation~~means to measure estimated risk (required) capital,~~ and they will use different accounting and valuation frameworks. For example, they may determine the amount of capital they need to fulfil regulatory and rating agencies' requirements, but also determine the amount of risk capital they need to absorb unexpected losses that are not accounted for in the reserves. While the insurer is free to select whichever approach or combination of approaches are appropriate to meet its needs, the Lead State examiner should consider whether the approach selected is consistent with the nature, size and extent of risks that the group faces.The Lead State examiner, in conjunction with the Lead State analyst, may need to request that management ~~to~~ discuss their overall approach to capital management and the reasons and details of the approach so that they can be considered in evaluating the estimation of group risk capital~~both the accounting and valuation frameworks, as well as the reasons and details for each. A different accounting basis can result in a significant difference in perceived risk exposures and capital needs.~~

The ORSA Summary Report should summarize the insurer's process for model validation to support the quantification methodology and assumptions chosen to determine the risk capital. The Lead State examiner should evaluate the work that the insurer performed to validate the reasonableness of the quantification methodology and assumptions used. If the ORSA Summary Report does not provide a summary of the model validation process, the Lead State examiner should request copy of the validation report prepared by the insurer.

Many insurers use internally developed capital models to quantify the risk capital. In these cases, ~~T~~the ORSA Summary Report should summarize the insurer's process for model validation to support the quantification methodology and assumptions chosen to determine risk capital.~~, including factors considered and model calibration.~~ The Lead State examiner should evaluate the work that the insurer performed to validate the reasonableness of the quantification methodology and assumptions used. If the ORSA Summary Report does not provide a summary of the model validation process, the Lead State examiner should request copy of the validation report prepared by the insurer. With regard to the determination of the risk capital under stressed conditions, ~~B~~because the risk profile of each insurer is unique, there is no standard set of stress conditions that each insurer should run. However, the Lead State regulator should be prepared to dialogue with management about the selected stress scenarios if there is concern with the rigor of the scenario. In discussions with management, the Lead State regulator should gain an understanding of the modeling methods used to project available and risk capital over

the duration of the insurer's business plan as well as the potential changes to the risk profile of the insurer over this time horizon (i.e. changes to the list of key risks) based on the business plan~~(e.g., stochastic vs. deterministic) and be prepared to dialogue about and understand the material assumptions that affected the model output, such as prospective views on risks~~. Thi~~s~~e ~~aforementioned~~ dialogue may occur during either the financial analysis process and/or the financial examination process.

~~In focusing on the insurer's process to calculate and assess its group risk capital, the Lead State examiner will need to consider the source of the group's internal capital assessment. Some insurers may develop a group capital assessment based upon external models developed by third-party vendors, regulators or rating agencies, while other insurers may also consider and assess the results of an internal capital model. While the insurer is free to select whichever approach or combination of approaches are appropriate to meet its needs, the Lead State examiner should consider whether the approach selected is consistent with the nature, size and extent of risks that the group faces. In addition, the Lead State examiner should evaluate the work that the insurer performed to validate the approach and model utilized.~~

Internal Capital Models

The Guidance Manual states the analysis of an insurer's group assessment of risk capital requirements and associated capital adequacy description should be accompanied by a description of the approach used in conducting the analysis. This should include model design decisions, key methodologies, assumptions and considerations used in quantifying available capital and risk capital. Examples of information to be provided in Section III describing an insurer's processes in this area are provided in the Guidance Manual, and Lead State examiners should become familiar with these elements in order to assess an insurer's processes in this area.

In some situations, the insurer might purchase or license economic capital modeling software tools developed by third-party vendors that can be customized and tailored to by the insurer to operate as an internal capital model. Regardless of whether the internal capital model is developed in-house or licensed from a third-party vendor~~In reviewing an insurer's use of internal models~~, the Lead State examiner should gain an understanding of the work that the insurer performed to validate its own models, whether completed by internal audit, a third-party consultant or some other party. The importance of reviewing the insurer's self-validation process is not only to gain comfort on the information provided in Section III of the report, but also due to the fact that the insurer may be making business decisions based on the results of its modeling. This is an important step because the Lead State examiner is encouraged to look to the insurer's own process by which it assesses the accuracy and robustness of its models, as well as how it governs model changes and parameter or assumption setting, and limits Lead State examiner validation of reports to more targeted instances where conditions warrant additional analysis.

Depending upon the strength of the insurer's internal model validation processes, Lead State examiners may need to perform some level of independent testing to review and evaluate the controls over internal model(s) utilized by the insurer for its group economic capital calculation. This is largely due to the challenges inherent in developing, implementing and maintaining an effective internal capital model. In instances where independent testing is deemed necessary, this testing may consist of procedures to evaluate the appropriateness of assumptions and methodologies used in stochastic/deterministic modeling scenarios for individual risks or in estimating the amount of diversification benefit realized. In so doing, the Lead State examiner may need to select a sample of individual risks for review and consideration and involve an actuary to assist in the evaluation. When involving an actuary, the primary focus of this review would be on evaluating the reasonableness of the inputs and outputs of the models. An actuary may be able to provide input on the reasonableness of the inputs, while the outputs may be most easily tested by performing a walkthrough in which the inputs are modified, and the Lead State examiner or actuary evaluates and discusses with the insurer the impact that the change has on the outputs. There is no one set of assumptions or methodologies that fits every ~~company~~insurer. ~~The Lead State examiner may consider asking questions about the modeling approach that the company uses, as such questions may provide the company an opportunity to elaborate on information provided in the ORSA Summary Report and further the Lead State examiner's understanding.~~

External Capital Models

~~For some insurers, the group capital assessment may be based upon~~Many insurers utilize the output of external ~~capital~~ models (e.g., cat models, economic scenario generators) as an input into their internally developed capital models. These models are typically developed by third-party vendors and made available to the insurer through either a licensing or outsourced service agreement. In other instances, the insurer may use an external capital model developed for rating agency

or regulatory purposes to assist in quantifying its own capital needs. ~~If an insurer presents its standing in relation to external capital models, the insurer may provide information showing its potential standing after considering the impact of stresses. This information may be beneficial as it can demonstrate what types of events an insurer could withstand before potentially losing its rating or violating regulatory capital requirements. While some of this information may be presented in Section II of the report, the impact of stresses on external capital models, while not required, should be considered in an assessment of Section III. There are several ways this can be demonstrated, including the rigor the insurer applies to its stress scenarios.~~

If an insurer bases its group capital assessment ~~largely~~ on third-party vendor tools, rating agency capital calculations or regulatory capital requirements, the Lead State examiner should consider what validation efforts have been conducted to allow reliance to be placed on external models~~the appropriateness of such reliance based upon the nature, scale and complexity of the insurer's reasonably foreseeable and relevant material risks~~. In addition, the Lead State examiner should consider whether the insurer ~~has applied~~applies a reasonable range of stress scenarios to the outputs of these ~~its available capital to determine its prospective standing in relation to external capital~~ models under a wide range of different scenarios.

Prospective Solvency Assessment

The Guidance Manual requires the insurer to consider the prospective solvency of the group. Many companies will include information developed as part of their strategic planning, including pro forma financial information displaying possible outcomes as well as projected capital adequacy in those future periods based on the insurer's defined capital adequacy standard. However, the Lead State examiner should review the information provided to understand the impact such an exercise has on the ongoing business plans of the group. For example, to the extent such an exercise suggests that at the insurer's particular capital adequacy under expected outcomes, the group capital position will weaken, or recent trends may result in certain internal limits being breached, the Lead State examiner should understand what actions the insurer/group expects to take as a result of such an assessment (e.g., reduce certain risk exposure, raise additional capital, etc.). In addition, the Lead State examiner should consider how any planned changes in risk exposure or strategy may affect both the insurer's short- and long-term solvency positions. Finally, the Lead State examiner should consider whether the assumptions and methodologies used in preparing the prospective solvency assessment are consistent with the insurer's business strategy and should assess whether these assumptions and methodology are reasonable.~~industry best practices~~. However, there is no one set of assumptions or methodologies that fit every insurer. Regulators must use professional judgment to assess the reasonability and plausibility of capital model inputs and outputs. ~~This is not to suggest that the Lead State examiner should not consider asking questions about the modeling approach used by the insurer, as such questions may provide the insurer an opportunity to elaborate on information provided in the ORSA Summary Report and further the Lead State examiner's understanding.~~

In conducting examination procedures to verify and evaluate the insurer's processes for calculating group risk capital and a prospective solvency assessment, the Lead State examiner should consider the following elements and possible test procedures:

Topic	Considerations	Possible Test Procedure(s)
Capital Metric(s) Used	The capital metric(s) utilized to assess the group's overall capital target are clearly presented and described.	• Review and validate information presented on capital measurement tools for completeness and accuracy • Gain an understanding of and evaluate the scope and purpose of each of the capital models used by the group (internal and external)
	The capital metric(s) selected address all key risks of the group.	• Gain an understanding of the risks assessed through the capital metric(s) used and determine whether all key risks of the group are included in the quantification of risk capital • For external capital metrics, evaluate the appropriateness of their use considering the risk profile of the insurer/group ○ If necessary, involve a specialist in this evaluation
	Individual risk components are subject to reasonable/appropriate modeling scenarios.	• Gain an understanding and evaluate the use of stochastic/deterministic scenarios in modeling the group's exposure to key risks • If necessary, involve a specialist in evaluating the appropriateness of scenarios, assumptions and

		methodologies used to calculate and allocate capital to individual risk components • Gain an understanding of and evaluate the insurer's/group's processes for addressing key risks not directly quantified in its capital metrics into the risk capital process
	Model results are calibrated to an appropriate security standard	• Gain an understanding of the risk capital metric (e.g. Value at Risk, Tail Value at Risk) and security standard ~~(e.g. 99.5%)~~ used in the capital model and evaluate their appropriateness considering the insurer's risk profile and exposure to tail risk
Group Risk Capital (GRC)	Group risk capital is clearly presented and described on both an aggregate and per risk basis.	• Verify that the group risk capital presented in the ORSA Summary Report appropriately reconciles to modeled results and investigate any significant differences • Identify and review significant changes in group risk capital (individual components and in aggregate) from the prior filing
Impact of Diversificiation Benefit	Diversification benefit is calculated based on correlations in key risk components that are reasonable/appropriate	• Obtain and review information on the risk aggregation process used by the insurer (i.e. correlation matrixes or copulas) to address risk correlations and review the process and the overall diversification benefit taken for reasonableness • If necessary, involve a specialist in reviewing and testing the aggregation process and diversification benefit calculation
Available Capital	The group's capital is of high quality and sufficient to meet its business needs	• Provide information on and discuss the amount of capital available to absorb losses across the group, recognizing that there may be fungibility issues relating to capital trapped within various legal entities and jurisdictions for which regulatory restrictions and supervisory oversight constrain the extent and timing of capital movement across the group. • Describe management's strategy to obtain/deploy additional capital across the group should the need arise. Determine if there is any double counting of capital through the stacking of legal entities.~~Consider whether the group's capital is freely available to absorb losses and is permanent and fungible (i.e. available to be distributed as needed) in form~~ • Assess the quality of group capital by determining whether it includes items such as double counting/stacking of capital and/or excessive amounts of goodwill, intangible assets or deferred tax assets, etc.
Excess Capital	Results of capital metrics demonstrate the group has sufficient capital to meet its obligations over a wide range of expected outcomes	• Compare methods utilized and overall results to those from prior periods to assess consistency and identify/evaluate significant changes. • If concerns are identified over the level of excess capital available, perform procedures to determine whether sufficient additional sources of capital are available to the group and whether there are plans to access these additional sources of capital • Review the results of stress testing and scenario analysis to assess the sufficiency of the insurer's capital/liquidity resources in the event of adverse situations
Impact of Stresses on GRC	The results of external capital models are subject to consideration under a wide range of stress scenarios	• Assess how the insurer has determined the number of scenarios to run under a stochastic modeling approach (if utilized) • Assess whether the insurer has applied reasonable unfavorable stress scenarios in determining an appropriate level of risk capital and liquidity through use of a deterministic modeling approach, particularly if relying primarily on external capital metrics

		○ Evaluate whether rating downgrades or regulatory intervention could impact the insurer's ability to achieve its business strategy under certain scenarios
Governance and Validation	Capital models and metrics utilized are subject to a sufficient level of governance, oversight and ongoing validation.	• Obtain and review the model governance policy to understand and evaluate the role of the BOD and Senior Management in overseeing internal capital models • Obtain and review the model change authority policy to understand who is authorized to make changes to the capital model • Verify the operating effectiveness of oversight responsibilities by reviewing supporting documentation on a sample basis. • Select a sample of significant changes in the internal capital model to verify appropriate levels of change authority and supervisory review and approval. • Assess the level of oversight in place over the selection and application of the risk capital metric and security standard used in the internal capital model. • Obtain and review the data quality policy (if available) and review work performed by the insurer to validate data inputs for completeness and accuracy
Prospective Solvency Assessment	Prospective solvency is projected and evaluated in accordance with the group's ongoing business strategy/plans	• Evaluate whether the assessment covers an appropriate time horizon, considering the insurer's business plan and strategy. • Evaluate the methodologies to project available and risk capital over the time horizon and whether these methodologies take into account future new business. • Evaluate whether the expected changes in risk profile are consistent with the business strategy and plans presented by the group and how these changes have been incorporated into the capital projections • If concerns are identified through a review of the prospective solvency assessment, discuss with the insurer and perform additional procedures as necessary.

~~**Documentation for Section III**~~

~~The Lead State examiner should summarize exam conclusions regarding the insurer's assessment of group risk capital by describing the method used (e.g., internal, external, combination) by the insurer to assess its overall group capital target and its basis for such a decision.~~

~~If internal capital models are utilized in the process to assess group risk capital, a discussion of material assumptions and methodologies utilized in calculating capital allocated to individual risk components should be provided. In addition, material assumptions and methodologies utilized in calculating a diversification credit should be discussed. Finally, controls over model validation and/or results of independent testing performed in this area should be discussed.~~

~~If external capital models are utilized in the process to assess group risk capital, the Lead State examiner should describe the external capital models utilized and their importance to the insurance group. In addition, a discussion of the stress scenarios and testing applied to the external capital model to account for a wide range of potential events should be provided.~~

~~The Lead State examiner should also summarize exam conclusions regarding the prospective solvency assessment provided by the insurance group. This summary should discuss the group's prospective solvency projections and projected changes in risk exposures. For example, the Lead State examiner should discuss the material assumptions and methodologies that the insurer used in performing a prospective solvency assessment and whether the assumptions are consistent with the insurer's overall business plan and strategy. Finally, the Lead State examiner should discuss any material changes in individual risk exposures outlined by the insurer and whether any of the information provided presents concerns to be addressed in the remaining phases of the examination.~~

Overall Assessment of ORSA/ERM Function

After conducting procedures to verify, validate and assess the processes and information reported on the insurer's ERM function in each section of the ORSA Summary Report, the Lead State examiner should reach an overall conclusion regarding the maturity and reliability of the function. In so doing, the Lead State examiner should consider both processes covered in the ORSA and verified during the onsite exam, as well as ERM processes that may not have been covered in the ORSA Summary Report but were identified and tested during the exam. In reaching an overall assessment, the Lead State examiner can consider the use of Handbook guidance, examiner judgment and/or the use of third-party tools such as the Risk and Insurance Management Society's (RIMS) Risk Maturity Model (RMM).

Insurers or insurance groups may utilize various frameworks in developing, implementing and reporting on their ORSA processes (e.g. COSO Integrated Framework, ISO 31000, IAIS ICP 16, other regulatory frameworks, etc.). Elements of the RMM have been outlined in this guidance to provide a reference for use in reviewing and assessing ERM/ORSA practices. However, as various frameworks may be utilized to support effective ERM/ORSA practices, Lead State regulators should be mindful of differences in frameworks and allow flexibility in assessing ERM. The RMM provides a scale of five maturity levels upon which an insurer can be assessed. The five maturity levels can generally be defined as follows:

- Leadership: Risk management is embedded in strategic planning, capital allocation and other business processes, and is used in daily decision-making. Risk limits and early warning systems are in place to identify breaches and require corrective action from management and, where appropriate, the board of directors or committee thereof ~~(hereafter referred to as "board") and management~~.

- Managed: Risk management activities are coordinated across business areas, and tools and processes are actively utilized. Enterprise-wide risk identification, monitoring, measurement and reporting are in place.

- Repeatable: The insurer has risk management processes in place designed and operated in a timely, consistent and sustained way. The insurer takes action to address issues related to high priority risks.

- Initial: The insurer has implemented risk management processes, but the processes may not be operating consistently and effectively. Certain risks are defined and managed in silos, rather than consistently throughout the insurer.

- Ad hoc: The insurer has not developed or documented standardized risk management processes and is relying on the individual efforts of staff to identify, monitor and manage risks.

The design of ERM/ORSA practices should appropriately reflect the nature, scale and complexity of the insurer. In assessing the effectiveness of an insurer's ERM program, Lead State regulators should understand the level of maturity that is appropriate for the insurer based on its unique characteristics. Attainment of "Leadership" or "Managed" levels of maturity for ERM/ORSA practices may not be appropriate, nor should it be expected, for all companies. Additionally, it would be expected that the level of testing performed in an examination to verify or validate ERM maturity would be commensurate with the level of maturity assessed. For example, ERM programs assessed at a "Leadership" or "Managed" level of maturity would typically be subject to more of the suggested exam procedures highlighted above than those programs assessed at a lower level of maturity.

~~F~~G. ORSA Review Documentation ~~Template~~

As outlined above, the Lead State examiner is expected to incorporate a review of ORSA information into ongoing on-site examination activities, including workpaper documentation. This includes documenting the work completed to verify and validate information presented in the three sections of the ORSA Summary Report, as well as assessing the effectiveness and maturity of the insurer's ERM processes. The results of such work can be documented in various areas of the examination file (e.g. Phase 1 documentation, Exhibit M, various risk matri~~x~~ces, etc.), as deemed appropriate.

T~~t~~he Lead State examiner is also expected to summarize the results and key findings/assessments in the Summary Review Memorandum (SRM) for communication to others within the department. See Exhibit AA – Summary Review Memorandum for additional guidance on relevant information to be included in the SRM on the ORSA/ERM function.

~~ORSA Summary Report Examination Results~~
~~Insurer XYZ 12/31/XX Examination~~
~~Using ORSA Summary Reported Dated XX/XX/XXXX~~

~~**Section I**~~

~~Prepare documentation summarizing the results of the risk management framework assessment by addressing each of the five principles set forth in the Guidance Manual. Each assessment should first provide a summary of the Lead State analyst's initial assessment, followed by a summary of the results of Lead State exam procedures, leading to a final exam assessment for each principle. The final Lead State exam assessment should provide adequate rationale for any deviation from the Lead State analyst's initial assessment of the principle.~~

~~A **Risk Culture and Governance** – Governance structure that clearly defines and articulates roles, responsibilities and accountabilities, and a risk culture that supports accountability in risk-based decision making.~~

~~Initial Lead State Analyst Assessment:~~

~~Summary of Lead State Exam Results:~~

~~Final Lead State Exam Assessment:~~

~~☐5 ☐4 ☐3 ☐2 ☐1 ☐0~~

~~B **Risk Identification and Prioritization** – Risk identification and prioritization processes are key to the organization. Responsibility for this activity is clear. The risk management function is responsible for ensuring the process is appropriate and functioning properly.~~

~~Initial Lead State Analyst Assessment:~~

~~Summary of Lead State Exam Results:~~

~~Final Lead State Exam Assessment:~~

~~☐5 ☐4 ☐3 ☐2 ☐1 ☐0~~

~~C **Risk Appetite, Tolerances and Limits** – A formal risk appetite statement, associated risk tolerances and limits are foundational elements of risk management for an insurer. Understanding of the risk appetite statement ensures alignment with risk strategy set by senior management and reviewed and evaluated by the board.~~

~~Initial Lead State Analyst Assessment:~~

~~Summary of Lead State Exam Results:~~

~~Final Lead State Exam Assessment:~~

~~☐5 ☐4 ☐3 ☐2 ☐1 ☐0~~

~~D **Risk Management and Controls** – Managing risk is an ongoing ERM activity, operating at many levels within the organization.~~

~~Initial Lead State Analyst Assessment:~~

~~Summary of Lead State Exam Results:~~

~~Final Lead State Exam Assessment:~~

~~☐5 ☐4 ☐3 ☐2 ☐1 ☐0~~

~~E **Risk Reporting and Communication** – Provides key constituents with transparency into the risk-management processes and facilitates active, informal decisions on risk-taking and management.~~

~~Initial Lead State Analyst Assessment:~~

~~Summary of Lead State Exam Results:~~

~~Final Lead State Exam Assessment:~~

~~☐5 ☐4 ☐3 ☐2 ☐1 ☐0~~

~~**Overall Section I Assessment**~~
~~After considering the assessment of each of the five previously identified principles and taking into account any additional factors that the examiner identified during the review of the ERM framework, develop an overall assessment of the insurer's risk management framework using the same risk maturity model. The assessment, along with findings from Section II and Section III, will assist the examination team in determining the extent of reliance to be placed on the insurer's ORSA/ERM processes throughout the remaining phases of a full-scope examination and through modifications to the ongoing supervisory plan. Results should also be provided to the analyst at the conclusion of the examination.~~

~~Overall Lead State Assessment Rationale:~~

~~☐5 ☐4 ☐3 ☐2 ☐1 ☐0~~

~~**Section II**~~

~~Prepare documentation summarizing a review and assessment of information that the insurer provided on its reasonably foreseeable and relevant material risks, and corresponding stress assumptions and test results.~~

~~A Based on your knowledge of the group, did the insurer include in its ORSA a discussion of risks and related stresses that you consider appropriate for the group? **Note whether the following are applicable or not.**~~

~~A **Credit** – Amounts actually collected or collectible are less than those contractually due or when payments are not remitted on a timely basis.~~

~~Lead State Examiner Summary of Risks and Stress Testing:~~

~~B **Legal** – Nonconformance with laws, rules, regulations, prescribed practices or ethical standards in any jurisdiction in which the entity operates will result in a disruption in business and financial loss.~~

~~Lead State Examiner Summary of Risks and Stress Testing:~~

~~C **Liquidity** This is the inability to meet contractual obligations as they become due because of an inability to liquidate assets or obtain adequate funding without incurring unacceptable losses.~~

~~Lead State Examiner Summary of Risks and Stress Testing:~~

~~D **Market** Movement in market rates or prices (such as interest rates, foreign exchange rates or equity prices) adversely affects the reported and/or market value of investments.~~

~~Lead State Examiner Summary of Risks and Stress Testing:~~

~~E **Operational** The risk of financial loss resulting from inadequate or failed internal processes, personnel and systems, as well as unforeseen external events.~~

~~Lead State Examiner Summary of Risks and Stress Testing:~~

~~F **Pricing/Underwriting** Pricing and underwriting practices are inadequate to provide for risks assumed.~~

~~Lead State Examiner Summary of Risks and Stress Testing:~~

~~G **Reputation** Negative publicity, whether true or not, causes a decline in the customer base, costly litigation and/or revenue reductions.~~

~~Lead State Examiner Summary of Risks and Stress Testing:~~

~~H **Reserving** Actual losses or other contractual payments reflected in reported reserves or other liabilities will be greater than estimated.~~

~~Lead State Examiner Summary of Risks and Stress Testing:~~

~~I **Strategic** Inability to implement appropriate business plans, make decisions, allocate resources or adapt to changes in the business environment will adversely affect competitive position and financial condition.~~

~~Lead State Examiner Summary of Risks and Stress Testing:~~

~~J **Other** Discuss any other reasonably foreseeable and relevant material risks facing the insurer that do not fit into one of the nine branded risk classifications identified above.~~

~~Lead State Examiner Summary of Risks and Stress Testing:~~

~~**Overall Risk Assessment Summary**~~
~~After considering the various risks that the insurer identified, as well as an analysis of such risks, develop an overall risk assessment summary of possible concerns that may exist.~~

~~**Section III**~~

~~Prepare documentation summarizing a review of the group capital assessment and prospective solvency assessment provided by the group as follows:~~

~~A Summarize exam conclusions regarding the insurer's assessment of group risk capital by addressing each of the following elements:~~

~~1. **Overall Method of Capital Measurement**: Discuss the method(s) (e.g., internal, external, combination) that the insurer used in assessing its overall group capital target and its basis for such a decision.~~

~~Lead State Examiner Summary:~~

~~2. **Internal Capital Models**: If internal capital models are utilized in the process to assess group risk capital, discuss each of the following items:~~

~~1. Material assumptions and methodologies utilized in calculating capital to be allocated to individual risk components.~~

~~Lead State Examiner Summary:~~

~~2. Stress scenarios and testing applied to individual risk components.~~

~~Lead State Examiner Summary:~~

~~3. Material assumptions and methodologies utilized in calculating a diversification credit based on the correlation between risk components.~~

~~Lead State Examiner Summary:~~

~~4. Controls over model validation and/or results of independent testing performed in this area.~~

~~Lead State Examiner Summary:~~

~~3. **External Capital Models**: If external capital models are utilized in the process to assess group risk capital, discuss each of the following items:~~

~~1. External capital models utilized and their importance to the insurance group.~~

~~Lead State Examiner Summary:~~

~~2. Stress scenarios and testing applied to the external capital model to account for a wide range of potential events.~~

~~Lead State Examiner Summary:~~

~~B. Summarize exam conclusions regarding the prospective solvency assessment that the insurance group provided by discussing each of the following elements:~~

~~1. **Prospective Solvency Projections**: Discuss the material assumptions and methodologies that the insurer utilized in performing a prospective solvency assessment. Are assumptions consistent with the insurer's overall business plan and strategy?~~

~~Lead State Examiner Summary:~~

~~2. **Changes in Risk Exposure**: Discuss material changes in individual risk exposures that the insurer outlined. Document whether any of the information provided present concerns to be addressed in the remaining phases of the examination.~~

~~Lead State Examiner Summary:~~

~~G~~H. Utilization of ORSA Results in the Remaining Phases of the Examination

The review and assessment of the insurer's ORSA/ERM processes during an on-site examination is meant to provide input and feedback to the Lead State financial analyst for updating the insurer's ongoing supervisory plan and in reaching a final assessment regarding the maturity of the insurer's ERM framework. A maturity assessment should consider the results of work performed to verify, validate, and assess ERM/ORSA processes as described in the previous sections above. In

addition, a maturity assessment should consider the size and complexity of the insurer/group, as well as the concept of proportionality in reaching the overall assessment.

~~However, t~~The knowledge that the Lead State examiner gains in performing this review and assessment should ~~also~~ be utilized to gain efficiencies, if appropriate, in the seven-phase risk-focused examination process.

The extent to which the Lead State examination team utilizes information from the insurer's ORSA/ERM processes to create efficiencies should depend upon the overall assessment of the insurer's ERM framework as follows:

Maturity Level	Resulting Examination Impact
~~5~~ Leadership	The Lead State examination team may place a high degree of reliance on the insurer's general ERM framework and related controls and may utilize ORSA conclusions to substantially reduce and focus the scope of remaining examination activities. For example, in examining insurers with ERM functions at a "Leadership" level, most (if not all) other than financial reporting risks reviewed during the exam would be expected to come from risks assessed within Section II of the ORSA Summary Report, with corresponding mitigation strategies and controls sourced from ERM/ORSA functions.
~~4~~ Managed	The Lead State examination team may place a moderate-high degree of reliance on the insurer's general ERM framework and related controls, while considering additional testing for significant individual controls/strategies. ORSA conclusions may be utilized to reduce and focus the scope of remaining examination activities. For example, in examining insurers with ERM functions at a "Managed" level, many other than financial reporting risks reviewed during the exam would be expected to come from risks assessed within Section II of the ORSA Summary Report, with corresponding mitigation strategies and controls sourced from ERM/ORSA functions.
~~3~~ Repeatable	The Lead State examination team may place a moderate degree of reliance on the insurer's general ERM framework and related controls, but significant individual controls/strategies should be subject to testing. ORSA information should be considered in limiting and focusing the scope of remaining examination activities. For example, in examining insurers with ERM functions at a "Repeatable" level, some other than financial reporting risks reviewed during the exam would be expected to come from risks assessed within Section II of the ORSA Summary Report.
~~2~~ Initial	The Lead State examination team may place a low degree of reliance on the insurer's general ERM framework and related controls. Individual controls/strategies should be subject to examination testing. ORSA information should be considered in focusing the scope of remaining examination activities.
~~1~~ Ad hoc	The Lead State examination team should not place reliance on the insurer's ERM framework and related controls without performing testing on individual controls/processes. ORSA information can be considered in scoping examination activities, but it should be supplemented by additional tools and resources.
~~0~~	~~The Lead State examination team should not place any reliance on nor consider the results of the insurer's ERM/ORSA framework in scoping examination activities.~~

While this guidance is developed with ORSA-compliant insurers in mind, the concepts may also be applied to non-ORSA companies that have implemented risk management functions. Therefore, the Lead State examination team should customize the consideration of ERM processes during each examination to meet the needs of the insurer being reviewed.

While the results of the ERM maturity assessment can be broadly utilized in customizing risk-focused examination activities, additional guidance has been prepared to provide examples of specific information obtained through the

ERM/ORSA review process that may be utilized to reduce or facilitate the remaining phases of the financial examination. The Lead State examination team may be able to utilize information obtained through a review of ERM/ORSA processes to gain exam efficiencies as outlined in the following table:

ERM/ORSA Information	Related Examination Process(es)	Explanation
Section I – Description of the Insurer's Risk Management Framework	Phase 1, Part Two: Understanding the Corporate Governance Structure	The Lead State examiner's work to review and assess the insurer's ERM framework (as reported in the ORSA) may be used to satisfy the requirement to review the insurer's risk management practices as part of the Phase 1 corporate governance review. The overall assessment of ORSA/ERM ~~maturity level assessment~~framework discussed above should be completed during the planning stage of an exam.
Section I – Risk Identification & Prioritization; Section II – Insurer's Assessment of Risk Exposure	Phase 1, Part Five: Prospective Risk Assessment; Exhibit V – Overarching Prospective Risk Assessment; Phase 2: Identifying and Assessing Inherent Risks	The risks described, prioritized and quantified through the insurer's ERM/ORSA processes should assist the Lead State examiner in identifying and assessing reasonably foreseeable and relevant material risks to be reviewed during the exam.
Section I – Risk Appetites Tolerances and Limits; Section II – Insurer's Assessment of Risk Exposure	Phase 3 – Identify and Evaluate Risk Mitigation Strategies/ Controls; Exhibit V – Overarching Prospective Risk Assessment	Risk tolerances and limits that the insurer set may represent strategies/controls that can be relied upon to mitigate reasonably foreseeable and relevant material risks in Phase 3 of the examination process or to address overarching prospective reasonably foreseeable and relevant material risks.
Section II – Insurer's Assessment of Risk Exposure; Section III – Group Assessment of Risk Capital	Phase 5 – Establish/ Conduct Detail Test Procedures	The results of stress testing that the insurer performed, as well as the amount of capital allocated to individual risk components, may assist the Lead State examiner in determining the ultimate impact of unmitigated residual risks on the insurer. To the extent that the insurer accepts certain residual risks and capital is allocated to the risk under a wide range of potential outcomes, the Lead State examiner may choose to document this fact in Phase 5 ~~and~~ to avoid documenting a finding or ongoing concern in this area. However, the documentation should discuss reasonably foreseeable and relevant material risks, capital and liquidity in sufficient detail to address future solvency concerns in these areas.
Section III – Group Assessment of Risk Capital	Exhibit DD – Critical Risk Categories (Capital Management)	The overall results of the group risk capital assessment, as well as the prospective solvency assessment that the insurer performed, should provide evidence of whether the insurer's capital management ~~plans are~~is adequate. This information may be used to address reasonably foreseeable and relevant material risks related to capital management required to be considered by Exhibit DD – Critical Risk Categories.

Section III – Prospective Solvency Assessment	Phase 6 – Update Prioritization & Supervisory Plan; Phase 7 – Draft Exam Report & Management Letter	Information provided in the insurer's prospective solvency assessment should address the insurer's ongoing strategy and business outlook. This information may be useful in reaching overall exam conclusions and determining steps for future monitoring efforts required to be documented in Phases 6 and 7 of the examination and communicated to financial analysis through the SRM.

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EXHIBIT M
UNDERSTANDING THE CORPORATE GOVERNANCE STRUCTURE

The purpose of this exhibit is to assist the examiner in documenting the understanding and assessment of an insurer's corporate governance policies and practices, including its ERM function. As insurers are expected to demonstrate different corporate governance practices in accordance with the nature and extent of their operations, examiners should not expect the practices of each individual insurer to specifically match the guidance provided in this exhibit. Therefore, the focus of an examination team's considerations in this area should be to determine whether the practices implemented by the insurer are reasonable and effective.

The examination team should first attempt to utilize information obtained through Exhibit B – Examination Planning Questionnaire, Exhibit Y – Examination Interviews and other planning sources (including information provided to the financial analyst and any other information available to the examiner) before requesting any additional information that may be necessary to gain an understanding and perform an assessment of corporate governance. A favorable overall assessment of governance does not, by itself, serve to reduce the scope or extent of examination procedures; rather, specific governance controls need to be assessed for their adequacy of the management of specific risks, in conjunction with other controls designed to manage the same.

In conducting examinations of insurers that are part of a holding company group, the work to gain an understanding and assess corporate governance should focus on the level at which insurance operations are directly overseen (e.g., ultimate parent company level, insurance holding company level, legal entity level, etc.). However, in certain areas, it may be necessary to review governance activities occurring at a level above or below the primary level of focus. Many critical aspects of governance usually occur at the holding company level. The exam team should seek to coordinate the review and assessment of group corporate governance in accordance with the exam coordination framework and lead state approach outlined in Section 1 of this Handbook. Where possible, in a coordinated examination, the lead state's work on the corporate governance assessment should be utilized to prevent duplication of effort and to leverage examination efficiencies. Additionally, the examiner should utilize the Corporate Governance Annual Disclosure (CGAD), which is required to be filed with the Department of Insurance (DOI) annually in accordance with the *Corporate Governance Annual Disclosure Model Act* (#305) and *Corporate Governance Annual Disclosure Model Regulation* (#306). The CGAD provides a narrative description of the insurer's or insurance group's corporate governance framework and structure and may enhance examination efficiencies when leveraged. Examiners should also ensure they understand/leverage the Holding Company Analysis work performed by the lead state's financial analyst, as well as the Lead State's review of the ORSA filing, to understand and assess the company's corporate governance, as well as the filings noted above.

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E. REVIEWING THE RISK MANAGEMENT FUNCTION

A review of the entity's risk management function should be conducted through discussions with senior management and the board of directors and through gaining an understanding of the risk management function including inspection of relevant risk management documentation.~~.~~ ~~For companies subject to the Own Risk and Solvency Assessment (ORSA),~~ The ORSA guidance outlined in Section 1, Part X of this Handbook includes procedures which may assist the examiner in conducting a robust review of the company's risk management practices and policies. ~~a review of the ORSA summary report – including completion of the ORSA Documentation Template in Section 1, Part X of this Handbook – may be used in place of completing this section. For companies that do not submit an ORSA summary report, the ORSA guidance contained in this Handbook may still be a helpful tool in assessing the maturity of an insurer's risk-management framework, which should include an assessment of each of five key principles.~~ While each of the key principles can be applicable to all insurers, it is important to consider variations in size and complexity and alter expectations appropriately. As a general guideline, the following areas should be considered in conducting a review of the risk-management function:

1. Risk Culture and Governance

a. What kind of risk-management culture is demonstrated throughout the organization? What does the culture indicate regarding the importance of risk management to the organization?

2. Risk Identification and Prioritization
   a. How are existing risks identified, monitored, evaluated and responded to? Does risk assessment take probability, potential impact and time duration into account?
   b. How are emerging and/or prospective risks identified, monitored, evaluated and responded to?

3. Risk Appetite, Tolerances and Limits
   a. How are risk tolerances, appetites and limits defined and communicated throughout the organization? Does the insurer maintain appropriate policies outlining specific obligations of employees in dealing with risk?
   b. How does the organization use the risk information it gathers to determine its capital needs?

4. Risk Management and Controls
   a. How are responsibilities for risk-management functions delegated and monitored within the organization?

5. Risk Reporting and Communication
   a. What is the involvement of the board of directors in the risk-management function of the organization?

An effective risk-management function is essential in providing effective corporate governance over financial solvency. During the latter phases of the risk-focused examination, the examiner will document a review of the entity's individual risk-management functions within the system. However, during a review of the entity's corporate governance, the examiner should document the review of the entity's risk-management function as a whole, as well as its place and importance in the entity's corporate governance structure. For ORSA companies, the knowledge gained in performing a review and assessment of enterprise risk management (ERM) may also be utilized to gain efficiencies, if appropriate, in accordance with the insurer's assessed maturity level, in the latter phases of the risk-focused examination as described in Section 1, Part X of this Handbook.

F. DOCUMENTATION

The examination team should document its understanding and assessment of the entity's governance, as well as its assessment on the related impact on the examination. This summary should include a description of any unique examination procedures, including special inquiries that are considered necessary to any significant risks identified as a result of the assessment.

The Risk Assessment Matrix, as the central documentation tool, should be utilized for the identification and assessment of individual solvency risks requiring review through the risk assessment process. However, documentation on the understanding and assessment of corporate governance is at the discretion of the examiner and would not typically be presented in a Risk Assessment Matrix. For most companies, a memorandum and/or corresponding documentation in the electronic workpapers addressing the items presented in this exhibit should provide sufficient documentation. For example, the documentation could summarize the attributes and techniques supporting the examiner's overall evaluation, any resulting examination scope implications, and the approach used to validate the more significant attributes and techniques. For smaller companies, documentation of the examination's consideration of corporate governance may be provided in the appropriate section of Exhibit I – Examination Planning Memorandum.

Specific findings or concerns related to an insurer's corporate governance practices should be accumulated for inclusion in a management letter (or similar document) to provide feedback and recommendations to the insurer. In addition, the examination should utilize Exhibit AA – Summary Review Memorandum (or similar document) to summarize its understanding and assessment of the insurer's overall corporate governance framework, as well as the maturity and reliability of its ERM function, to ensure appropriate communication back to the financial analyst. ~~it may be necessary for the examination to document information on the corporate governance assessment for communication back to the financial analyst through the use of Exhibit AA – Summary Review Memorandum (or similar document).~~

EXHIBIT AA
SUMMARY REVIEW MEMORANDUM

The following is an illustration of how a summary review memorandum (SRM) may be set up to assist examiners in documenting the key issues and results of a risk-focused examination that should be shared with the Chief Examiner and the assigned analyst. The illustration also includes a high-level overview of the insurer's holding company structure (if applicable) and how that structure affected exam coordination with other states. Additionally, the SRM includes discussion of the insurer's governance and risk management practices, and a summary, by branded risk classification, of significant exam findings and/or concerns warranting communication. These findings may include overarching solvency concerns, examination adjustments, other examination findings, management letter comments, subsequent events and other residual risks or concerns the examiner may want to communicate to department personnel. The final sections, prioritization level and changes to the supervisory plan, provide discussion of the examiner's overall conclusions regarding ongoing monitoring, including specific follow-up recommended to the analyst .

This exhibit provides an example template, which is not intended to be all-inclusive and should be tailored to each examination. Reference to each branded risk classification is necessary and should be included in the examination's SRM; however, it is not necessary to address each of the supporting areas and points discussed herein. Therefore, the examiner-in-charge should use his or her judgment in determining which sections of this illustration are applicable and document any other relevant information deemed necessary. The purpose of the SRM is to provide interpretative analyses relative to significant examination areas and to provide a basis for communicating examination findings and recommendations to department personnel. In so doing, the SRM will provide input into the Insurer Profile Summary (IPS) and the supervisory plan. In fulfilling this purpose, the SRM should not merely repeat comments made in the examination report or management letter, but instead provide a comprehensive summary of examination conclusions both objective and subjective in nature. Conclusions should provide information necessary for ongoing supervision of the insurer that includes areas of concern as well as areas that support a positive outlook for the insurer.

COMPANY NAME: **EXAMINATION DATE:**

EXAMINATION BACKGROUND

The purpose of this section of the memorandum is to document at a high level what, if any, group the insurer belongs to, if the insurer was part of a coordinated exam and how the coordinated exam was conducted. Additional information regarding the timing of the exam, staffing resources utilized—including what specialists were used—or other background information necessary to understand the results presented in the memo should also be included.

CORPORATE GOVERNANCE~~ AND RISK MANAGEMENT~~

The purpose of this section of the memorandum is to summarize an understanding and assessment of the ~~an~~ insurer's corporate governance including its board of directors, senior management and organizational structure.~~, as well as the results of the review of the enterprise risk management (ERM) function of the insurer.~~ This assessment should include information obtained during both the planning and the completion stages of the examination. Therefore, consideration of information gathered during C-level interviews, completion of Exhibit M and review of the insurer's Own Risk and Solvency Assessment (ORSA), if applicable, should be combined with information obtained during detail testwork to reach a concise final assessment that focuses on communicating significant areas of strength or weakness within the overall corporate governance structure ~~and ERM functions~~ of the insurer. When the insurer is part of a holding company, documentation should reference the level at which conclusions are reached. Additional assessment may be necessary at the individual entity level, but the primary focus of the assessment will commonly be at the holding company level in a coordinated examination.

RISK MANAGEMENT

The purpose of this section of the memorandum is to summarize an understanding and assessment of the insurer's enterprise risk management (ERM) function of the insurer. This assessment should include information obtained during ~~both~~ the planning, fieldwork, and ~~the~~ completion stages of the examination. ~~Therefore, consideration of information gathered during~~

~~C-level interviews, completion of Exhibit M and review of the insurer's Own Risk and Solvency Assessment (ORSA), if applicable, should be combined with information obtained during detail testwork to reach a concise final assessment.~~In documenting the regulator's assessment, regulators may consider using the maturity terminology established within the Risk Maturity Model (i.e. Leadership, Managed, Repeatable, Initial, and Ad hoc). ~~that focuses on communicating significant areas of strength or weakness within the overall ERM functions of the insurer~~In documenting the key points for the regulator's assessment of the maturity and reliability of the insurer's ~~company's~~ ERM~~'s~~ function~~maturity and reliability~~, consideration should be given to the following areas, if applicable:

- Information on key entity level ERM controls that were validated during the examination
- Summary assessment of significant areas of strength and weaknesses within the ERM framework
- Work performed to review the company's capital modeling processes
- Work performed to review the company's stress testing framework
- Evaluation of the company's key risks, risk appetites, tolerances and limits
- Evaluation of the company's capital and surplus (i.e. quality of capital, availibility of capital, etc.)
- Evaluation of the company's prospective risk assessment and capital position
- Recommendations to be made to the company based on ERM work performed

When the insurer is part of a holding company, documentation should reference the level at which conclusions are reached. Additional assessment may be necessary at the individual entity level, but the primary focus of the assessment will commonly be at the holding company level in a coordinated examination. Documentation should clearly indicate the exam's utilization and reliance on the company's ORSA/ERM processes to assist in the identification of key risks and/or controls.

It may also be appropriate to provide additional risk specific commentary related to ERM/ORSA review within the Branded Risk Assessments. Documentation should provide summary level information for key risks, with reference to examination workpapers for additional detail, when necessary. ~~on~~ Risk specific commentary should include consideration the following areas, if applicable:

- New risks for the analyst to consider in its ongoing financial surveillance
- Risk specific controls/risk mitigation strategies that were validated during the examination
- Evaluation of risk assessment techniques, including appropriateness of stress scenarios and underlying quantification techniques and assumptions
- Risks that may require further ongoing surveillance or recommended follow--up by the Department
- Other sources of information to evaluate key risks not referenced in the ORSA (e.g. key risk indicators, presentations to the BOD, project plans, etc.)

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Attachment D

Memo on Examiner Compensation Rates

MEMORANDUM

TO: Risk-Focused Surveillance (E) Working Group

FROM: NAIC Staff

DATE: October 27, 2020

RE: Examiners' Salary Guidelines

For its work in 2020, the Risk-Focused Surveillance (E) Working Group received the following charge from the Financial Condition (E) Committee:

- Continually maintain and update standardized job descriptions/requirements and salary range recommendations for common solvency monitoring positions to assist insurance departments in attracting and maintaining suitable staff.

To address this charge, in 2019 the Risk-Focused Surveillance (E) Working Group finalized newly recommended salary range guidelines for departments of insurance to utilize when determining appropriate compensation for its examiners and analysts. These guidelines were subsequently adopted by the Financial Examiners Handbook (E) Technical Group and the Financial Analysis Solvency Tools (E) Working Group and incorporated into the respective Handbooks. The Working Group plans to review the recommended salary ranges every two years, with the next detailed review expected during 2021.

The Working Group recognizes that several states currently base examiner compensation on the previously existing salary and per diem guidelines contained in Section 1 – II (D) of the *Financial Condition Examiners Handbook* and plans to continue this practice going forward. Therefore, the per diem rates in this section will continue to be maintained and updated as outlined within this memo.

The Consumer Price Index (CPI), as defined by the U.S. Bureau of Labor Statistics (BLS), is a measure of the average change in prices of goods and services purchased by households over time. The CPI is based on prices of food, clothing, shelter, fuels, transportation fares, charges for doctors' and dentists' services, drugs, and other goods and services purchased for day-to-day living. In 2008, it was decided that because the CPI takes into consideration most costs incurred by the average household, it is reasonable that an increase in salary should be within the same parameters as the increase in the cost of living. It was therefore proposed, and that proposal accepted, that the CPI be used as a basis for examiner salary increases. In years in which the CPI does not accurately reflect market conditions, additional work—including surveys and salary studies—may be completed to ensure proper salary suggestions. Consistent with past years, inflation has continued to show modest increases in prices and appears appropriate as a metric on which to base a suggested compensation increase.

The following data table shows the average annual salary increases adopted in the previous five years as compared to the CPI, as well as the proposed increase for the following year. The information "as published by BLS" compares the CPI as of July of each year, consistent with the analysis performed in past years.

	2015	**2016**	**2017**	**2018**	**2019**	**2020**
As Published in *Financial Condition Examiners Handbook*	2.00%	2.75%	3.00%	3.00%	2.00%	*1.00%
As Published by BLS	0.17%	0.83%	1.73%	2.95%	1.53%	0.99%
Difference	0.83%	1.92%	1.27%	0.05%	0.47%	0.01%

**Suggested change*

As shown above, the rates suggested by the NAIC have been consistently comparable to those published by the BLS, regardless of the method used.

Based upon the current CPI data available (July 2019–July 2020), the estimated annual change in CPI is approximately 0.99%. As such, if the Committee intends to base salary increases on changes in the CPI, we recommend a 1% increase in all position classifications as shown below.

Classification	2019 Daily Rates	Suggested Increase	2020 Daily Rates
Insurance Company Examiner, AFE*	$ 336	1.00%	$ 339
Automated Examination Specialist, AFE (no AES**)	$ 411	1.00%	$ 415
Senior Insurance Examiner, CFE***	$ 411	1.00%	$ 415
Automated Examination Specialist, AES	$ 462	1.00%	$ 467
Automated Examination Specialist, CFE (no AES)	$ 462	1.00%	$ 467
Insurance Examiner In-Charge, CFE	$ 495	1.00%	$ 500
Supervising or Administrative Examiner	$ 525	1.00%	$ 530

* Accredited Financial Examiner
** Automated Examination Specialist
*** Certified Financial Examiner