Date: 5/25/21

Virtual Meeting

GROUP SOLVENCY ISSUES (E) WORKING GROUP
June 6, 2022
11:00 a.m. – Noon ET / 10:00 a.m. – 11:00 a.m. CT / 9:00 a.m. – 10:00 a.m. MT / 8:00am – 9:00 a.m. PT

ROLL CALL

Justin Schrader, Chair	Nebraska	Judy Weaver	Michigan
Jamie Walker, Vice Chair	Texas	Debbie Doggett/Shannon Schmoeger	Missouri
Susan Bernard/Kim Hudson	California	Diana Sherman	New Jersey
Kathy Belfi	Connecticut	Margot Small	New York
Charles Santana	Delaware	Dale Bruggeman/Tim Biler	Ohio
Virginia Christy/Carolyn Morgan	Florida	Melissa Greiner	Pennsylvania
Cindy Andersen/Susan Berry/Eric Moser	Illinois	Ted Hurley	Rhode Island
Roy Eft	Indiana	Doug Stolte	Virginia
Kim Cross	Iowa	Amy Malm	Wisconsin
John Turchi	Massachusetts		

NAIC Support Staff: Bruce Jenson/Ramon Calderon

AGENDA

1. Discuss and Consider Exposure of Proposed ComFrame Revisions for Examiners Handbook—*Justin Schrader (NE)* — Attachment A
    - Overview of Proposed Changes
    - Full Text of Proposed Changes

2. Discuss and Consider Exposure of Proposed ComFrame Revisions for ORSA Guidance Manual—*Justin Schrader (NE)* — Attachment B
    - Proposed ORSA Guidance Manual Changes
    - Proposed Changes to ORSA Review Template in Analysis Handbook

3. Receive an Update on International Association of Insurance Supervisors (IAIS) Group-Related Activities—*Justin Schrader (NE)*

4. Any Other Matters—*Justin Schrader (NE)*

5. Adjournment

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NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

TO: Justin Schrader (NE), Chair of the Group Solvency Issues (E) Working Group

FROM: ComFrame Financial Examination Drafting Group

DATE: June 6, 2022

RE: Proposed Financial Condition Examiners Handbook Additions

The ComFrame Financial Examination Drafting Group has developed proposed additions to the NAIC's *Financial Condition Examiners Handbook* (FCEH) that incorporate key elements of the IAIS' *Common Framework for the Supervision of Internationally Active Insurance Groups* (ComFrame) deemed appropriate for the U.S. system of solvency regulation. The Drafting Group consists of financial regulators from California, Connecticut, Missouri, and Nebraska that are actively involved in group supervision efforts. Additionally, the Drafting Group closely monitored the work of the Financial Analysis and ORSA ComFrame drafting groups to ensure that proposed revisions are consistent and complementary.

The Drafting Group recommends that the Working Group expose the proposed additions for a public comment period and encourage the Financial Examiners Handbook (E) Technical Group to monitor and participate in the comment period to ensure that all stakeholders are notified of the proposed revisions. In addition, after any comments received are appropriately addressed, the Drafting Group recommends that the proposed revisions be referred over to the Financial Examiners Handbook (E) Technical Group for consideration of adoption into the 2023 FCEH.

A summary of the proposed additions, including references to their associated ComFrame elements, is provided below:

ICP	Topic(s)	Proposed Addition(s)
ICP 5 ICP 7	Corporate governance framework at IAIG, including suitability of key individuals at IAIG	FCEH Section 2, Part I – Understanding the Corporate Governance Function • Consideration of obtaining governance information at Head of IAIG level (i.e., CGAD, biographical affidavits) and conducting review and assessment procedures at that level, when applicable FCEH Section 4, Exhibit E – Audit Review Procedures • Guidance clarifying that Internal Audit members should not have other operational, risk management, or accounting responsibilities to be considered independent. FCEH Section 4, Exhibit M – Corporate Governance Assessment • Additional section including inquiries/procedures applicable to IAIGs FCEH Section 4, Exhibit Y – Examination Interviews • Additional guidance indicating that interviews may be necessary at the Head of the IAIG, when applicable

ICP	Topic(s)	Proposed Addition(s)
ICP 8 ICP 15 ICP 16	Risk management framework at IAIG, including groupwide considerations for internal control systems; internal audit, compliance, and actuarial functions; and outsourcing activities/functions. Consideration of policies and practices for relevant key activities: • Investments • Claims Management • Reinsurance • Actuarial Function • Capital Management	FCEH Section I, Part III.F – Outsourcing Critical Functions • Additional guidance to evaluate a company's due diligence prior to entering into new, material outsourcing agreements. FCEH Section I, Part XI – Reviewing and Utilizing the ORSA • Additional guidance for reviewing and utilizing the Appendix C – IAIG Risk Management Assessment Considerations (See ORSA Guidance Manual and Financial Analysis Handbook) FCEH Section IV – Exhibit M: Corporate Governance Assessment • Additional section including inquiries/procedures applicable to IAIGs FCEH Section III – Examination Repositories • Added statement to respective examination repositories to indicate that some or all risks within the key activity could be utilized to address relevant ComFrame considerations, and therefore procedures may need to be performed at the Head of the IAIG. When only some risks are deemed applicable, these are identified with the † symbol.
ICP 9	Group-wide risk assessment and inspections	FCEH Section I-I.F - Coordinated Examinations of Internationally Active Insurance Groups • Narrative guidance and procedures reference the fact that some group-wide assessments are more appropriately conducted through coordinated onsite examinations, when relevant FCEH Section 4 – Exhibit AA: Summary Review Memorandum • For coordinated examinations of IAIGs or other groups (as deemed appropriate), documentation on the SRM may need to be expanded to include groupwide conclusions
ICP 23	IAIG and Head of IAIG determination	FCEH Section I-I.F - Coordinated Examinations of Internationally Active Insurance Groups • Added guidance from ComFrame and Model Act on IAIG determination into section for background purposes • Added reference to the *Financial Analysis Handbook* as the primary source for related information and procedures for identifying the IAIG and Head of the IAIG.

I. EXAMINATION OVERVIEW

This section of the Handbook addresses the following subjects:

A. Exam Classifications Defined
B. General Procedures for Scheduling an Examination
C. Coordinating Examinations of Multi-State Insurers
D. Coordination of Holding Company Group Exams
E. Review and Reliance on Another State's Workpapers
F. Examinations of Internationally Active Insurance Groups
~~F.~~G. Examinations of Underwriting Pools, Syndicates and Associations
~~G.~~H. Special Financial Condition (E) Committee Examinations
~~H.~~I. Limited-Scope Examinations
~~I.~~J. Interim Work

D. Coordination of Holding Company Group Exams

A coordinated group examination should attempt to be a comprehensive and simultaneous examination of insurance entities in a holding company group, which may be domiciled in multiple states. The phrases "holding company group" and "group" are used interchangeably throughout this section and are meant to include insurers that meet the definition for inclusion in an "insurance holding company system" as defined in the *Insurance Holding Company System Regulatory Act* (#440), as well as entities that do not belong to the same group code, but may share common systems, and are tied together through large transactions or could otherwise benefit from being examined together. Coordination among the states should include the timing, scope and extent of examination procedures, utilization of specialists (e.g., information systems and actuarial) and their work products, and allocation of work among examiners. This coordination promotes communication among the states and the efficient use of resources, provides an avenue for multiple perspectives to be shared, and minimizes the duplication of work.

Exam coordination among insurers of a group or holding company system is critical for effective solvency regulation. When examinations are conducted on a group of insurers, the goal is to gain efficiencies and prevent duplication of testing wherever possible. Group examinations not only provide information on each insurer individually, but also provide an avenue for regulators to understand and evaluate the risks of the holding company group as a whole. Under Model #440, regulators have the authority to examine "any insurer registered under Section 4 and its affiliates to ascertain the financial condition of the insurer, including the enterprise risk to the insurer by the ultimate controlling party, or by any entity or combination of entities within the insurance holding company system, or by the insurance holding company system on a consolidated basis." Therefore, in conducting a coordinated group exam, the lead state or exam facilitator should work with the assigned financial analyst to identify and address any significant concerns at the group level with the potential to threaten the solvency of the insurers being examined. In this situation, a group examination report may be issued by the lead state, but does not reduce the need to obtain evidence about the solvency of each insurer or eliminate requirements for individual examination reports.

States should coordinate examinations of all types of insurers operating in holding company groups when possible, including health insurers that operate primarily as health maintenance organizations (HMOs). Even though these organizations are often composed of single-state entities, they could still share processes, controls and decision-making that might be more efficiently reviewed through a coordinated group examination.

When conducting a coordinated examination, states participating in the examination will often have access to information that is considered sensitive and/or confidential. The NAIC Financial Regulation Standards and Accreditation Program requires that the states allow for the sharing of otherwise confidential information and administrative or judicial orders to other state regulatory officials, providing that those officials are required, under their law, to maintain its confidentiality. The NAIC Master Information Sharing and Confidentiality Agreement allows for signatory states to share confidential information with another signatory state that can demonstrate that its laws will protect the confidentiality of the shared

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This state should perform a review of the testing state's work program and conclusions to ensure the work being relied upon is sufficient to meet the needs of its examination. When determining the extent of review, the state utilizing the work of another state should consider its comfort and experience with the quality of work performed by that state. In addition, the accreditation status of other states may also be considered in determining the level of review to be performed by the relying state. Exhibit Z, Part Two – Section D should be completed in this scenario.

F. Coordinated Examinations of Internationally Active Insurance Groups

U.S. based insurance holding company systems that operate internationally are identified as Internationally Active Insurance Groups (IAIGs) if they meet the following criteria included in Model #440:

1. Premiums written in at least three countries;
2. The percentage of gross premiums written outside the United States is at least ten percent (10%) of the insurance holding company system's total gross written premiums; and
3. Based on a three-year rolling average, the total assets of the insurance holding company system are at least fifty billion dollars ($50,000,000,000) or the total gross written premiums of the insurance holding company system are at least ten billion dollars ($10,000,000,000).

For coordinated examinations of IAIGs where a state insurance regulator is acting as the global group-wide supervisor (typically the lead state in the case of a U.S. based insurance group), appropriate procedures related to group-wide activities and risks should be conducted. Such areas are largely consistent with the International Association of Insurance Supervisors' (IAIS) *Common Framework for the Supervision of Internationally Active Insurance Groups* (ComFrame) deemed applicable by state insurance regulators. While the financial analyst is typically responsible for many of the group-wide supervision activities, certain elements of ComFrame may be evaluated more effectively through onsite examination procedures. These procedures are incorporated throughout the Handbook (identified by †), as applicable, and are summarized in the chart below.

ICP Ref	Topic	Exam Procedure/Exhibit Reference
ICP 5 ICP7	Corporate governance framework at the IAIG, including suitability of key individuals at the Head of the IAIG	Section 2, Part I Exhibit E – Audit Review Procedures Exhibit M – Corporate Governance Assessment Exhibit Y – Examination Interviews
ICP 8 ICP 15 ICP 16	Risk management framework at the IAIG, including groupwide considerations for internal control systems; internal audit, compliance, and actuarial functions; and outsourcing activities/functions. Considerations of policies and practices for relevant key activities: • Investments • Claims management • Reinsurance • Actuarial function	Section 1, Part III Section 1, Part XI ORSA Exhibit M – Corporate Governance Assessment Respective Key Activity Examination Repositories
ICP 9	Group-wide risk assessment and inspections	Section 1, Part I Exhibit AA – Summary Review Memorandum
ICP 23	Determination of an IAIG and the Head of the IAIG	Section 1, Part I

While the considerations and procedures outlined in the chart above are applicable to insurance groups identified as IAIGs (see state adoption of Model #440 Section 7.1), similar procedures applicable under the state's adoption of Model #440 Section 6 may also be appropriate for use in the supervision of other large insurance groups that do not meet the IAIG criteria. In assessing any such application, state insurance regulators must not exceed their legal authority and any supervisory measures should be risk-based and proportionate to the size and nature of the group.

ComFrame is to be applied flexibly and proportionately and therefore not every additional area of IAIG supervision will apply to each IAIG or will apply in the same way or to the same extent. Group-wide supervisors have the flexibility to tailor implementation of supervisory requirements and application of insurance supervision. ComFrame is not a one-size-fits-all approach to IAIG supervision as the goal is to achieve the outcomes set forth in ComFrame. IAIGs have different models of governance (e.g., more centralized or more decentralized). ComFrame does not favor any particular governance model and is intended to apply to all models. The organization of an IAIG can be structured in various ways as long as the intended outcomes are achieved. Proportionate application, which is called for in IAIS guidance, involves using a variety of supervisory techniques and practices tailored to the insurer. The techniques and practices applied should not go beyond what is necessary in order to achieve the intended outcomes of the IAIS' Insurance Core Principles and ComFrame.

Additional guidance and discussion regarding the state insurance department's supervision of IAIGs, including procedures for identifying IAIGs, identifying the scope and Head of the IAIG, determining the group-wide supervisor, the applicable roles and responsibilities, and authority related to the supervision review process can be found in the *Financial Analysis Handbook.*

~~F~~G. Examinations of Underwriting Pools, Syndicates and Associations

The examination of an underwriting pool, syndicate or association is the responsibility of the state in which the organization operates and, if it operates in more than one state, its examination should be coordinated by the Lead State, if possible.

The Lead State of an underwriting pool, syndicate or association is the one in which the organization's principal office is located. The Lead State shall set the time and supervise the conduct of the examinations and shall have discretion in inviting other states to participate in the examination and in defining their participation. The Lead State shall input the report on examination into FEETS and ensure each interested insurance department, each company that is a subscriber or member of the examined organization and the chair of the Financial Condition (E) Committee has access to a copy of the report. Each state in which an organization operates, however, shall have the right to examine the report, and any such state may commence its own examination, if it deems necessary to do so, upon notice to the Lead State.

Each state is encouraged to recognize such reports on examination as official state documents, obviating the need for duplicative examinations, to establish procedures for reviewing these reports and to investigate and act upon any violations of law that they may disclose.

Where explicit regulatory authority does not exist over an underwriting pool, syndicate or association, each state in which it operates should negotiate with the organization itself, or with its subscribing members, to obtain an agreement that the organization will submit to the insurance department's examination and will pay examination fees and charges assessed against it.

~~G~~H. Special E Committee Examinations

1. A special E Committee examination may be called by the NAIC Financial Condition (E) Committee if:

    a. Written reports from the non-domestic participating examiners indicate the examination conducted by the company's state of domicile is inadequate.
    b. The home state is reluctant to schedule an examination when IRIS results or other information indicate the need.
    c. A state in which a company is licensed requests a special E Committee examination.
    d. A report of examination has not been filed within 22 months of the "as-of" date for an exam on a multi-state insurer and a special E Committee examination is requested by the Examination Oversight (E) Task Force.

2. Special E Committee examinations are staffed with personnel selected from state insurance departments by the Financial Condition (E) Committee.

3. Special E Committee examination reports should be addressed directly to the Financial Condition (E) Committee.

III. GENERAL EXAMINATION CONSIDERATIONS

This section covers procedures and considerations that are important when conducting financial condition examinations. The discussion here is divided as follows:

A. General Information Technology Review
B. Materiality
C. Examination Sampling
D. Business Continuity
E. Using the Work of a Specialist
F. Outsourcing of Critical Functions
G. Use of Independent Contractors on Multi-State Examinations
H. Considerations for Insurers in Run-Off
I. Considerations for Potentially Troubled Insurance Companies
J. Comments and Grievance Procedures Regarding Compliance with Examination Standards

A. General Information Technology Review

The examination of information technology (IT) utilized by an insurer has become an increasingly important part of the examination process as companies have placed a greater reliance on IT systems to run their business. IT general controls (ITGCs) are policies and procedures that help ensure proper operation of computer systems, including controls over network operations, software acquisition and maintenance, and access security. ITGCs provide a foundation necessary to ensure the completeness, integrity and availability of IT systems and data and comprise the environment from which application controls are designed, implemented and operated. An effective IT general control environment can, therefore, provide examiners with greater assurance regarding the overall reliability of a company's IT systems and the reports generated from those systems. In addition, this allows the opportunity to test and rely on automated application controls during Phase 3 of the exam. As such, a formalized process to complete a general IT review has been developed to assist the IT examiner in completing this important section of the financial condition examination. In a risk-focused examination, steps 1–5 of the general IT review process should be performed prior to the completion of planning the overall financial condition examination. Step 6 of the IT review process should be performed in conjunction with the remaining portion of the overall examination. The following steps document the process to be followed in completing the general IT review:

1. Gather Necessary IT Planning Information

   The first step in performing a general IT review is to gather the information necessary to plan the IT review of the insurer. At this time, the examiner-in-charge (EIC) and the IT examiner should work together to request that the insurer complete the Information Technology Planning Questionnaire (ITPQ), included in Exhibit C – Part One, to assist in the planning process. In addition, other relevant information to obtain in planning the IT review might include prior examination workpapers, work on IT systems performed by internal/external auditors or consultants, and information maintained by the insurance department's financial analysts. The reports and results from third-party cyber self-assessment tools may also be utilized for an IT review. Note that if companies do not use these tools, the examiner can continue with the normal IT review process. There are a variety of cyber self-assessment tools that companies may opt to use depending on their business type. Examples of cyber assessment tools that have been developed include, but are not limited to, tools developed by, or to facilitate compliance with the following: the Financial Services Sector Coordinating Council (FSSCC), the Health Information Technology for Economic and Clinical Health Act (HITECH), and the Health Insurance Portability and Accountability Act of 1996 (HIPAA). Based on a consideration of the assessment tool's scope, date of preparation, and quality of information presented (including whether or not the information has been validated by an independent third party), the state insurance regulator may determine the information contained within the assessment that can be extensively leveraged during the IT review. Depending on the assessment of the IT examiner, the results of the cyber self-assessment tool may be used to:

   - Populate Exhibit C with risk statements and controls to be tested.

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F. Outsourcing of Critical Functions

The examiner is faced with additional challenges when the insurer under examination outsources critical business functions to third-parties. It is the responsibility of management to determine whether processes which have been outsourced are being effectively and efficiently performed and controlled. This oversight may be performed through a number of methods including performing site visits to the third-party or through a review of SSAE 18 work that has been performed. In some cases, performance of site visits may even be mandated by state law. However, regardless of where the business process occurs or who performs it, the examination must conclude whether financial solvency risks to the insurer have been effectively mitigated. Therefore, if the insurer has failed to determine whether a significant outsourced business process is functioning appropriately, the examiner may have to perform testing of the outsourced functions to ensure that all material risks relating to the business process have been appropriately mitigated.

When conducting an examination of insurers that are part of a holding company group, including Internationally Active Insurance Groups (IAIGs), the exam team should evaluate whether appropriate due diligence has been performed prior to entering new material outsourcing agreements. The exam team should also take steps to determine the extent to which management at the applicable level (e.g., Head of the IAIG, ultimate parent company level, insurance holding company level, legal entity level, etc.) is able to provide ongoing risk assessment and oversight of outsourced functions and any contingency plans for emergencies and service disruptions.

The guidance below provides examiners additional information about the outsourcing of critical functions a typical insurance company may utilize. The guidance does not create additional requirements for insurers to comply with beyond what is included in state law, but may assist in outlining existing requirements that may be included in state law and should be used by examiners to assess the appropriateness of the company's outsourced functions. Within the guidance, references to relevant NAIC Model Laws have been included to provide examiners with guidance as to whether compliance in certain areas is required by law. To assist in determining whether an individual state has adopted the provisions contained within the referenced NAIC models, examiners may want to review the state pages provided within the NAIC's *Model Laws, Regulations and Guidelines* publication to understand related legislative or regulatory activity undertaken in their state.

Types of Service Providers

Insurance companies have been known to outsource a wide range of business activities including sales & marketing, underwriting & policy service, premium billing & collections, claims handling, investment management, reinsurance and information technology functions. There are a number of different types of entities that accept outsourced business from insurers including the following:

- Managing General Agent – Person who acts as an agent for such insurer whether known as a managing general agent, manager or other similar term, who, with or without the authority, either separately or together with affiliates, produces, directly or indirectly, and underwrites an amount of gross direct written premium equal to or more than five percent (5%) of the policyholder surplus as reported in the last annual statement of the insurer in any one quarter or year together with the following activity related to the business produced adjusts or pays claims in excess of $10,000 per claim or negotiates reinsurance on behalf of the insurer.

- Producer – An insurance broker or brokers or any other person, firm, association or corporation, when, for any compensation, commission or other thing of value, the person, firm, association or corporation acts or aids in any manner in soliciting, negotiating or procuring the making of an insurance contract on behalf of an insured other than the person, firm, association or corporation.

- Controlling Producer – A producer who, directly or indirectly, controls an insurer.

- Custodian – A national bank, state bank, trust company or broker/dealer which participates in a clearing corporation.

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
D Review of Section I – Description of the Insurer's Risk Management Framework
E Review of Section II – Insurer's Assessment of Risk Exposure
F Review of Section III – Group Assessment of Risk Capital
G ORSA Review Documentation
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 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* [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 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 ORSA Guidance Manual, the ORSA has two primary goals:

1. To foster an effective level of enterprise risk management (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 state insurance regulators, it is a tool to supplement the analyst's ongoing reviews of company/group data and filings and document key aspects of the company's/group's ERM. State insurance 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 Guidance Manual, the necessary process and calculations remain the responsibility of management.

The ORSA Guidance Manual states that state insurance regulators should obtain a high-level understanding of the insurer's ORSA framework, and it 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 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 state insurance regulators review ORSA Summary Reports, they should understand that the level of sophistication for each group's ERM program will vary depending upon the size, scope and nature of business operations. Understandably, less complex organizations may not require intricate processes to possess a sound ERM program. Therefore, state insurnace regulators should use caution before using the results of an ORSA review to modify

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		• 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 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.	• Obtain and review information necessary—i.e., biographical affidavit or equivalent—to evaluate the suitability of the CRO (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 human resources (HR), information technology (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 that the insurer is reviewing and updating its framework on a regular basis.

2. **Risk Identification and Prioritization**

The ORSA Guidance Manual defines this as key to the insurer, and responsibility for this activity should be clear. The risk management function is responsible for ensuring the processes are appropriate and functioning properly, and that key risks of the insurer are identified, prioritized and clearly presented. 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 are not limited to:

Review of Appendix C – IAIG Risk Management Assessment Considerations (if applicable)

The ORSA Summary Report is expected to be filed at the Head of the IAIG and should describe the risk management strategy and framework for the Head of the IAIG and legal entities within the IAIG. While the considerations provided throughout this section are generally applicable to all insurers/insurance groups filing and ORSA Summary Report, there are additional risk management assessment considerations that apply to groups identified as Internationally Active Insurance Groups (IAIGs). Therefore, the group-wide supervisor may need to conduct certain assessments at the head of the IAIG or level at which the group manages its aggregated risks to ensure that group-wide considerations are appropriately evaluated and verified through examination procedures, if not already addressed above.

Topics/Considerations	**Possible Test Procedure(s)**
The group-wide risk management strategy and framework encompasses the levels of the Head of the IAIG and legal entities within the IAIG, promotes a sound risk culture, and covers: • diversity and geographical reach of activities; • nature and degree of risks in entities/business lines; • aggregation of risks across entities; • interconnectedness of entities; level of sophistication and functionality of IT/reporting systems at the group level; and • applicable laws and regulations	• Review the risk dashboard used by legal entities to report risk exposures to the group to ensure that material exposures (including legal and regulatory exposures, when applicable) are incorporated into the group exposures. • Review how the group manages aggregated exposures against group risk limits and appetite, including those arising from intra-group transactions. • In conjunction with the IT Review performed in Phase 1 of the exam, consider the ability of the IT/reporting systems to collect risk data from legal entities and aggregate at the group level.
The group-wide risk management strategy is approved by the IAIG Board and implemented at the group-wide level; with regular risk management reporting provided to the IAIG Board or one of its committees	• Review meeting minutes and packets to determine whether group-wide risk management strategy is evaluated and approved by the IAIG Board. • Review the frequency and content of the reporting packet submitted to the IAIG Board or one of its committees.
The risk management function, the actuarial function and the internal audit function are involved in the risk management of the IAIG.	• Obtain and review a listing of internal audit reports to determine active and independent involvement in the risk management function and take additional steps (i.e., conduct interviews, review internal audit reports, etc.), as deemed necessary to verify. • Obtain an understanding of and evaluate the role of the actuarial function in the risk management of the IAIG including quantification of risk exposure and capital needs by conducting interviews, reviewing of actuarial reports, etc.
The group-wide risk management function coordinates and promotes consistent implementation of risk management practices at the group and legal entity level, with any material differences in practices being clearly documented and explained.	• Review the group's risk management policy documentation and correspondence between the group and legal entity risk management functions. • Review the organization chart of the group's risk management function to identify reporting relationships between the group and legal entities. • Interview individuals responsible for risk management at different levels in the organization to verify application of the group's risk management policy and identify areas of practice departing from the policy.
The group-wide risk management function is adequately independent from risk-taking activities.	• Review the organization chart of the group's risk management function and/or conduct interviews to identify reporting relationships and ensure staff are adequately independent from risk-taking and other operational activities.

The group-wide risk management framework is reviewed to ensure that existing and emerging risks as well as change in structure and business strategy are taken into account. • Internal review required annually. • Independent review required once every three years.	• Obtain and review board/committee minutes to verify ongoing review and approval of the group-wide risk management framework on an annual basis. • Obtain and review documentation of modifications to the risk management framework to ensure changes are adequately supported and made in a timely manner. • Obtain and review support of third-party/independent validation of the risk management framework to determine whether it is subject to periodic review, at least once every three years.
IAIG's risk management framework and ORSA adequately incorporate the following: • cross-border risk exposures • economic capital model • fungibility of capital • stress and reverse stress testing • counterparty exposures • liquidity risk exposures and contingency funding plans • summary of recovery plan options	• Follow up on specific recommendations made by the analyst • Consider possible test procedures within section III above to assist in verifying appropriate elements are incorporated in the IAIG's risk management framework. • Conduct exam procedures as deemed appropriate to evaluate the reasonableness of contingency funding and viability of the recovery plan options presented in the ORSA. • Verify that recovery plan options are presented for all severe stress scenarios that pose a serious risk to the viability of the IAIG or any material part of its insurance business.[NAIC1]

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's) 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, International Association of Insurance Supervisors [IAIS] Insurance Core Principle [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 insurance 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 it 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 BOD or committee thereof.

- 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.

SECTION 2—RISK-FOCUSED EXAMINATION PROCESS

PHASE 1 – UNDERSTAND THE COMPANY AND IDENTIFY KEY FUNCTIONAL ACTIVITIES TO BE REVIEWED

In Phase 1 of a risk-focused examination, key activities will be confirmed or identified using background information gathered on the company from various sources. Some of this information will already have been available in the department prior to the initial planning meeting, or can be obtained from the company's internal audit department or external auditors. A Phase 1 goal is to gather any additional or current information necessary to begin a risk-focused examination. Sources of information may include organizational charts, filings required by sections 302 and 404 of the Sarbanes-Oxley Act of 2002 (where applicable), interviews with senior management, or other publicly available information.

To ensure the appropriate risk-focused examination scope, it is important to identify the key functional activities (i.e., business activities) of the company. Information gathered by understanding the company, the company's corporate governance structure, and assessing the company's audit function will form the basis for determining key activities.

Essential to executing the risk-focused surveillance process is interviewing executive management and possibly board members of the company to identify key activities and risks. Risks identified through these interviews and each part of Phase 1 should be documented on Exhibit CC – Issue/Risk Tracking Template or a similar document to ensure they are carried through the remaining phases of the examination. Examiners and company officials should attempt to maintain an ongoing dialogue to assist the examiners in understanding the company and identifying key functional activities. It is also critical for the examination team to understand and leverage the company's risk management program; that is, how the company identifies, controls, monitors, evaluates and responds to its risks. For companies required to submit an Own Risk and Solvency Assessment (ORSA) summary report to the lead or domestic state, the report provided by the company may be a useful tool in this evaluation. The discipline and structure of risk management programs vary dramatically from company to company. "Best practices" are emerging for risk management programs and more companies are appointing chief risk managers whose responsibilities go well beyond the traditional risk management function (the buying of insurance). The Committee of Sponsoring Organizations (COSO) has published internal control standards that are widely-held, although not required, in many industries and has released an Enterprise Risk Management Integrated Framework, which is anticipated to be incorporated by several entities, as well as guidance to apply the integrated framework and internal control standards to small public companies. The examination team should evaluate the strength of the company's risk management process, which can include a "hind-sight" evaluation of why a particular negative surprise or event occurred (i.e., why was it not identified in the current risk management program of the company).

One crucial aspect to a successful planning process is the tailoring of planning procedures to the company under review. As the exam team learns about risks, subsequent planning procedures should be tailored to ensure that they provide further information on the risks already identified. For instance, if after meeting with the Department's analyst, the examination identifies a risk related to the company's planned expansion of business into new jurisdictions, subsequent procedures performed in planning—i.e., "C"-Level Interviews, review of company ERM, etc.—should be tailored to include consideration on the risk.

There are five parts to Phase 1 that are key components of performing a risk assessment, the results of which drive the direction of the risk-focused examination: (1) Understanding the Company; (2) Understanding the Corporate Governance Structure; (3) Assessing the Adequacy of the Audit Function; (4) Identifying Key Functional Activities; and (5) Consideration of Prospective Risks for Indications of Solvency Concerns. The Risk Assessment Matrix (Exhibit K), the tool developed to serve as the central location for the documentation of risk assessment and testing conclusions, should be updated with the identified key activities of the company after the examiner is able to obtain an understanding of the company and corporate governance structure. The five parts of Phase 1 are discussed as follows:

A. Part 1: Understanding the Company
B. Part 2: Understanding the Corporate Governance Structure
C. Part 3: Assessing the Adequacy of the Audit Function
D. Part 4: Identifying Key Functional Activities
E. Part 5: Consideration of Prospective Risks for Indications of Solvency Concerns

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B. Part 2: Understanding the Corporate Governance Structure

This section's purpose is to assist the examiner in documenting the understanding and assessment of an insurer's board of directors and management and its corporate governance policies and practices, including its ERM function. 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 in managing specific risks, in conjunction with other controls designed to manage the same. See Exhibit M – Understanding the Corporate Governance Structure for additional guidance in understanding the corporate governance structure of the company. When completing this assessment, 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 *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 inquire of the financial analyst to gain an understanding of and leverage the analyst's work in assessing the company's corporate governance.

Holding Company Considerations

In conducting examinations of insurers that are part of a holding company group, including Internationally Active Insurance Groups (IAIGs), the work to gain an understanding and perform an assessment of corporate governance should focus on the level at which insurance operations are directly overseen (e.g., Head of the IAIG, ultimate parent company level, insurance holding company level, legal entity level, etc.). However, in certain areas it may be necessary to also 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. Furthermore, if the insurer under examination belongs to a holding company group that has been identiifed as an IAIG, group level governance practices must be evaluated. Because of these factors, 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.

Effectively structured and competent governance independently involved in a company's risk management activities is an essential element in creating and nurturing a self-sustaining risk management culture. The use of specific corporate governance features may be different for entities that are the ultimate parent corporation from those of subsidiary companies. Components of effective corporate governance programs include:

1. Adequate competency (industry experience, knowledge, skills) of members of the board of directors;
2. Independent and adequate involvement of the board of directors;
3. Multiple, informal channels of communication between board, management and internal and external auditors to create a culture of openness;
4. A code of conduct established in cooperation between the board and management, which is reviewed for compliance and is formally approved by senior management;
5. Identification and fulfillment of sound strategic and financial objectives, giving adequate attention to risks;
6. Support from relevant business planning and proactive resource allocation;
7. Support by reliable risk-management processes across business, operations and control functions;
8. Reinforcement of corporate adherence to sound principles of conduct and segregation of authorities;
9. Independence in assessment of programs and assurance as to their reliability;
10. Objective and independent reporting of findings to the board or appropriate committees thereof;

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One aspect of a company's/group's corporate governance is enterprise risk management (ERM). The way a company/group identifies, monitors, evaluates and responds to risks can be very important to the ongoing solvency of the company/group. ERM is, therefore, an important area for an examiner to review during the course of the examination. Exhibit M – Understanding the Corporate Governance Structure contains a section with specific areas of consideration in reviewing the risk management function. For large companies subject to the requirements of the ORSA, including IAIGs, the summary report provided by the company may be used in the evaluation of risk management. Examiners should ~~complete~~ leverage the work completed by the department analyst, as well as consider the possible test procedures outlined in ~~the ORSA Documentation Template located in~~ Section 1, Part XI of this Handbook in ~~conjunction with the review of the ORSA summary report~~evaluating the company's/group's risk management framework.

C. Part 3: Assessing the Adequacy of the Audit Function

Well-planned, properly structured audit programs are essential to a strong corporate risk management process. Effective internal and external audit activities create a critical monitoring control against fraud, provide vital information to the board of directors (or audit committee) about the effectiveness of internal control systems and mitigate operating and financial reporting risk. Examiners should assess and draw conclusions about the adequacy of internal and external audit as part of the corporate risk management process. The conclusions reached from the assessment will significantly influence the scope and the extent of examination activities at the insurer. The guidance in this section pertains to both external and internal audit functions unless specifically identified.

The following guidelines direct the assessment of insurer audit activities:

1. The board of directors and senior management cannot delegate their responsibilities for establishing, maintaining, and operating effective audit activities (e.g., establishment of an annual audit plan that is reviewed by the audit committee).

2. Examiners must assess the adequacy of an insurer's audit function.

3. Insurer audit activities will be performed by independent and competent staff that is objective in assessing and evaluating the insurer's risks and controls.

Effective audit functions have these characteristics:

1. Provide objective, independent input on operating and financial reporting risks and internal controls, including management information systems.

2. Help maintain or improve the effectiveness of insurer risk management processes, controls and corporate governance.

3. Provide reasonable assurance about the accuracy and timeliness with which transactions are recorded and the accuracy and completeness of financial regulatory reports.

4. Provide assistance, guidance or suggestions in areas where needed.

Audit functions may comprise several individual audits that provide various types of information to the board of directors (or audit committee) about the insurer's financial condition and effectiveness of internal control systems. The most common types of audits are financial, operational, compliance, and information technology audits.

One of the objectives of this Handbook is to develop an efficient risk-focused examination approach that provides for more timely detection of potentially troubled insurance companies by focusing examination resources on those companies, or areas within companies, that have a higher likelihood of impact to the financial solvency of the company. Examiners can enhance efficiency in the examination through appropriate communications with the company's auditors, including but not limited to

EXAMINATION REPOSITORY – CAPITAL AND SURPLUS

Own Risk and Solvency Assessment (ORSA)

During the review of the ORSA filing (if applicable), the examiner may identify risks and controls that are relevant to be considered when creating the Capital and Surplus Key Activity Matrix. Additionally, examiners may perform test procedures related to the information contained within the ORSA filing that provides evidence regarding the sufficiency of an insurer's capital and surplus. Examiners are encouraged to leverage the information contained within the ORSA, and associated test procedures, when populating the Key Activity Matrix.

Annual Statement Blank Line Items

Listed below are the corresponding Annual Statement line items that are related to the identified risks contained in this exam repository:

Capital Notes and Interest Thereon
Aggregate Write-ins for Special Surplus Funds
Common Capital Stock
Preferred Capital Stock
Aggregate Write-ins for Other than Special Surplus Funds
Surplus Notes
Gross Paid-in and Contributed Surplus
Unassigned Funds (Surplus)
Treasury Stock

Relevant Statements of Statutory Accounting Principles (SSAPs)

All of the relevant SSAPs related to other liabilities and surplus, regardless of whether or not the corresponding risks are included within this exam repository, are listed below:

No. 41 Surplus Notes
No. 72 Surplus and Quasi-reorganizations

† Items with this symbol may warrant additional procedures or consideration at the Head of the Internationally Active Insurance Group (IAIG) or level at which the group manages its aggregated risks. Refer to Section 1, Part I for additional guidance for examinations of IAIGs.[NAIC1]

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
Other Than Financial Reporting Risks						
The insurer is not monitoring its capital and surplus needs, including how changes may impact RBC and financial strength ratings from rating agencies. **Please Note**: Examiners should utilize information contained in the Own Risk and Solvency Assessment (ORSA) provided by insurers that are subject to this filing requirement.	LQ	Other	CMT	Management performs capital modeling calculations, including assessing capital and liquidity needs in normal and stressed environments, to understand the insurer's current and prospective capital needs. The board of directors (or committee thereof) reviews and approves the capital modeling results performed by management on an annual basis. Management prepares financial projections that include investment, underwriting and expenses, and their projected impact on surplus. Financial projections are reviewed by the board of directors.	Obtain evidence of the capital modeling calculations performed by management, including self-validation efforts. Review the board of directors' (or committee thereof) meeting minutes for evidence of the board's approval of the capital modeling results. Obtain evidence of financial projections and planning by management. Review the board of director meeting minutes for evidence of board review and approval.	Consider utilizing an actuarial specialist to assist with detail test procedures. Consider applying a wide range of scenarios, including severely stressed scenarios, to verify the insurer's available capital is adequate to meet its current and prospective capital needs. Consider the impact of different scenarios on RBC and/or rating agency assessments. Review the insurer's capital modeling and evaluate the appropriateness of input assumptions, methodologies and considerations used in quantifying available capital and risk capital. In the case of stochastic or deterministic modeling, document consideration of appropriateness of diversification of risks. Review the underlying assumptions found in the financial projections for reasonableness. Review prior year projections for a comparison of assumptions and whether management is historically on target.
The insurer does not have access to	ST	Other	CMT	Management performs ongoing analysis of various	Review documentation describing the insurer's	Perform a review of management's available

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
sufficient capital to support its ongoing and future business needs. † **Please Note**: Examiners should utilize information contained in the Own Risk and Solvency Assessment (ORSA) provided by insurers that are subject to this filing requirement.				sources of capital (e.g., issuing bonds, selling common stock, parent contributions, borrowing, etc.) to ensure the insurer maintains a current understanding of the options available. The board of directors (or committee thereof) reviews and approves the strategic capital management plan, including sources of capital, on an annual basis.	overall capital management strategy and the options available to raise capital. **Please Note**: When the source of capital is from an affiliate, consider testing in conjunction with the Related Party Repository. Review the board of directors' (or committee thereof) meeting minutes for evidence of the Board's approval of the overall capital strategy plan and the various options available to raise capital, should the need arise.	sources of capital and assess the feasibility of each option to confirm the insurer has access to sufficient capital, should the need arise. **Please Note**: When the source of capital is from an affiliate, consider testing in conjunction with the Related Party Repository.
The insurer is not effectively managing its gross leverage.	ST CR	Other	AARP	The insurer has established and documented gross leverage limits that are reviewed and approved by senior management. The insurer periodically evaluates its gross leverage and adjusts, as needed.	Review documentation of gross leverage limits and evidence of senior management review/approval.	Review the reasonableness of the insurers gross leverage limit by benchmarking against industry standards.
Financial Reporting Risks						
The underlying quality of the company's capital is not sufficient to support its ongoing and future business operations.	LQ CR OP	AC EX VA PD	CMT	The insurer monitors assets to ensure the quality of capital will support its ongoing business needs. Underlying assets to be considered may include: • Deferred tax assets • Significant receivables • Goodwill • Investment in subsidiary • Encumbered assets	Verify the insurer's process to monitor the quality of underlying assets in relation to required capital needs.	Verify the accuracy of reported amounts for selected assets to determine the quality as they support the insurer's surplus. Include consideration of the liquidity of the assets under review. Review the make-up of the insurer's capital and assess how the categories (e.g.,

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				• Defined benefit pension asset The insurer maintains documentation regarding permitted practices that could impact the quality of available capital and reviews all associated calculations to ensure compliance.	Obtain documentation of the insurer's review of its compliance with permitted practices.	common stock, preferred stock, surplus notes, paid-in-capital, etc.) support the ongoing and future business operations. Review the insurer's calculations to ensure they comply with the permitted practices granted by the domiciliary insurance commissioner. Review the effects of the permitted practice on RBC calculations, including subsequent examination adjustments.
The insurer is not accurately calculating, reporting and monitoring RBC.	OP	CM	CMT	RBC calculations are performed in accordance with instructions and subject to supervisory review. The company has a process to ensure that RBC reports and supporting data are filed with the NAIC in a timely and complete manner. The company reconciles data filed in support of the RBC calculation back to system data and/or source	Test controls relating to the insurer's supervisory review process for RBC. Review the NAIC RBC crosscheck letter from the insurer or the NAIC, if applicable, and response letter from the insurer to determine the completeness and accuracy of the insurer's RBC report. Contact the NAIC quality assurance department if such correspondence is unavailable. Test the insurer's reconciliation of supporting data back to the system and/or source	Obtain and review the insurer's supporting workpapers to test whether material values in the RBC report were properly classified, valued and included (e.g., catastrophe risk exposure data, C-3 Phase II). (This procedure may only be necessary for values not obtained directly from the annual financial statement and not subject to the NAIC RBC crosscheck procedures.) Determine the impact of examination changes on the RBC calculation. Compare the modeling approaches, assumptions and data filed in support of

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				documentation. The company utilizes the same modeling approach, assumptions and data to determine significant components of its RBC charge (e.g., catastrophe risk exposure, C-3 Phase II) as it uses for its own internal risk management and regulatory accounting/reserving purposes.	documentation. Test the operating effectiveness of company controls to verify that modeling approaches, assumptions and data used to determine significant components of RBC charges are reconciled/agreed to those used in internal risk management and accounting/reserving processes.	RBC calculations with those used by the company for internal risk management and regulatory accounting/reserving purposes. Investigate any significant variances for appropriateness.

EXAMINATION REPOSITORY - INVESTMENTS

Annual Statement Blank Line Items

Listed below are the corresponding Annual Statement line items that are related to the identified risks contained in this exam repository:

Bonds
Stocks (Preferred and Common)
Mortgage Loans on Real Estate
Cash, Cash Equivalents and Short-Term Investments
Derivatives
Other Invested Assets
Securities Lending – Reinvested Collateral Assets

Other Annual Statement line items related to investments, whose risks are less common, have not been included in this examination repository. They include the following:

Real Estate
Aggregate Write-Ins for Invested Assets
Contract Loans
Receivables for Securities
Payable for Securities
Investment Income Due and Accrued (*P&C Companies)*
Drafts Outstanding
Unearned Investment Income *(Life Companies)*
Liability for Deposit-Type Contracts *(Life Companies)*
Miscellaneous Liabilities – Asset Valuation Reserve
Contract Liabilities Not Included Elsewhere – Interest Maintenance Reserve
Contract Liabilities Not Included Elsewhere – Surrender Values on Cancelled Contracts *(Life Companies)*

Relevant Statements of Statutory Accounting Principles (SSAPs)

All of the relevant SSAPs related to the investment process, regardless of whether or not the corresponding risks are included within this exam repository, are listed below:

No. 2R	Cash, Cash Equivalents, Drafts, and Short-Term Investments
No. 7	Asset Valuation Reserve and Interest Maintenance Reserve
No. 21R	Other Admitted Assets
No. 23	Foreign Currency Transactions and Translations
No. 26R	Bonds
No. 30R	Unaffiliated Common Stock
No. 32R	Preferred Stock
No. 34	Investment Income Due and Accrued
No. 37	Mortgage Loans
No. 38	Acquisition, Development and Construction Arrangements
No. 39	Reverse Mortgages
No. 40R	Real Estate Investments
No. 41R	Surplus Notes
No. 43R	Loan-Backed and Structured Securities
No. 44	Capitalization of Interest
No. 48	Joint Ventures, Partnerships and Limited Liability Companies

No. 49 Policy Loans
No. 56 Separate Accounts
No. 74 Insurance-Linked Securities Issued Through a Protected Cell
No. 83 Mezzanine Real Estate Loans
No. 86 Derivatives
No. 90 Impairment or Disposal of Real Estate Investments
No. 93 Low-Income Housing Tax Credit Property Investments
No. 97 Investments in Subsidiary, Controlled and Affiliated Entities
No. 103R Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

† Items with this symbol may warrant additional procedures or consideration at the Head of the Internationally Active Insurance Group (IAIG) or level at which the group manages its aggregated risks. Refer to Section 1, Part I for additional guidance for examinations of IAIGs.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
Other Than Financial Reporting Risks						
The insurer's investment portfolio and strategy are not appropriately structured to support its ongoing business plan†.	MK CR	Other	AIPS LC	The insurer has a governance structure that routinely challenges, approves and reviews its investment strategy and portfolio in conjunction with the risks facing the business. The insurer considers, current market conditions (including interest rates) and takes into account shifting markets and near-term expectations. The insurer has an investment strategy based on its tolerance for market risks (including market price volatility, securities lending and interest rate risks) with guidelines as to the quality, maturity/duration, expected rates of return, different investment structures and diversification of investments. The insurer has an investment strategy that includes a counterparty risk appetite statement, if applicable, and outlines asset allocation by asset type, credit quality, duration and liquidity, with acceptable ranges based on the different investments	Review the insurer's investment committee and governance structure related to the portfolio decisions. Consider level of expertise in relation to the complexity of the company's investment strategy, as appropriate. Review recent committee minutes for evidence of discussions related to future market expectations. Review the insurer's investment policy to determine if guidelines relating to the quality, maturity and diversification of investments in accordance with market risk factors have been included in the policy. Review how the insurer tracks performance of different asset classes, with a particular focus on market value volatility and losses/impairments.	Review recent performance and benchmark reports in comparison with the company's plan. Review the insurer's investment policy guidelines for appropriateness relating to market risks. Determine whether market risk management specific to high-risk investments is adequate by using an investment specialist. Use the I-Site+ insurer's Snapshot Investment Summary to identify high risk investments where the company's position is greater than average for its competitors in areas such as: • Bonds with call options and varied payment timing. • Foreign investments. • Hybrid capital securities. • Mezzanine loans. • Affiliated investments. • Residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), asset-backed securities

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				and their specific characteristics. Correlations across different assets are considered within the strategy. The insurer performs routine stress testing and/or scenario analysis that specifically takes into account recent and expected market value volatility by sector and industry in order to determine whether adjustments to the insurer's investment strategy are necessary. The insurer has its own process that is not solely dependent upon credit rating agencies to evaluate the credit worthiness of securities for investment purposes. The process is used prior to significant purchases and on an ongoing basis. The insurer's investment strategy considers the impact of, and market expectations for, climate change on different investments, and the investment policy includes guidelines that require	Review the insurer's most recent stress testing/scenario analysis testing documentation to determine the adequacy of the insurer's analysis. Ensure inclusion of complex and volatile assets in investment policy, director review, stress testing, and asset liability matching. Review the insurer's investment policy and processes to understand the inputs into such decisions and the extent to which it requires credit analysis and is not solely reliant on credit rating agencies. Obtain evidence of the insurer's process to research the quality of the investments. Review the company's investment strategy for consideration of climate change in different sections and asset classes.	(ABS) CO/collateralized loan obligation (CLO) or similar bond collateral types. • Structured securities on negative watch. Perform stress testing/scenario analysis on the insurer's investment portfolio (by using an investment specialist if necessary) to identify potential solvency risks. Test the insurer's investments for compliance with its corporate strategy and investment policy guidelines. Consider use of an investment specialist to evaluate the company's exposure to climate change-related risk regarding its investment portfolio/strategy.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				diversification to protect against the impact of climate change. The insurer's/group's investment strategy establishes criteria for intra-group investments, when applicable, including: • Liquidity • Contagion or reputational risk • Valuation uncertainty • Impact on capital resources • Nature of the group (or IAIG) business • Financial condition of the legal entities within the group.		
The board of directors (or committee thereof) and management do not effectively implement/enforce the investment policy/strategy†.	OP ST	Other	AIPS	The board of directors (or committee thereof) reviews and approves the insurer's investment policy on an annual basis with consideration of changing market conditions. The insurer monitors investments purchased, those sold and what the insurer holds. It also monitors compliance with the investment strategy that	Inspect documentation indicating the board of directors' (or committee thereof) approval of the insurer's investment policy on an annual basis. Consider the level of expertise in relation to the complexity of the company's investment strategy, as appropriate. Obtain a copy of the report that is used by the insurer to report investment policy compliance to the board of directors (or committee thereof), and verify the	Review written policy for reasonableness. Obtain the underlying reports used by the board of directors (or committee thereof) to review the investment strategy results. Discuss with members of the board of directors (or committee thereof) to determine their level of involvement in the monitoring of the investment strategy/risks. Determine if there is sufficient focus on all relevant investment risks.

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EXAMINATION REPOSITORY – REINSURANCE (ASSUMING INSURER)

Annual Statement Blank Line Items

Listed below are the corresponding Annual Statement line items that are related to the identified risks contained in this exam repository:

Reinsurance Payable on Paid Loss and Loss Adjustment Expenses
Funds Held by the Company Under Reinsurance Treaties
Contract Liabilities Not Included Elsewhere – Other Amounts Payable on Reinsurance
Commissions and Expense Allowances Payable on Reinsurance Assumed

Relevant Statements of Statutory Accounting Principles (SSAPs)

All of the relevant SSAPs related to the reinsurance process, regardless of whether or not the corresponding risks are included within this exam repository, are listed below:

No. 5R Liabilities, Contingencies and Impairments of Assets – Revised
No. 6 Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due from Agents and Brokers
No. 25 Affiliates and Other Related Parties
No. 61R Life, Deposit-Type and Accident and Health Reinsurance – Revised
No. 62R Property and Casualty Reinsurance – Revised
No. 63 Underwriting Pools
No. 64 Offsetting and Netting of Assets and Liabilities
No. 65 Property and Casualty Contracts

Note: Risks within this key activity may warrant additional procedures or consideration at the Head of the Internationally Active Insurance Group (IAIG) or level at which the group manages its aggregated risks. Refer to Section 1, Part I for additional guidance for examinations of IAIGs.

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EXAMINATION REPOSITORY – REINSURANCE (CEDING INSURER)

Annual Statement Blank Line Items

Listed below are the corresponding Annual Statement line items that are related to the identified risks contained in this exam repository:

Amounts Recoverable from Reinsurers
Funds Held by or Deposited with Reinsured Companies
Other Amounts Receivable Under Reinsurance Contracts
Ceded Reinsurance Premiums Payable (Net of Ceding Commissions)
Funds Held by Company Under Reinsurance Treaties *(P&C Companies)*
Funds Held Under Reinsurance Treaties with Unauthorized Reinsurers *(Life Companies)*
Provision for Reinsurance
Contract Liabilities Not Included Elsewhere – Other Amounts Payable on Reinsurance
Miscellaneous Liabilities – Reinsurance in Unauthorized Companies (*Life Companies)*
Funds Held Under Coinsurance *(Life Companies)*

Relevant Statements of Statutory Accounting Principles (SSAPs)

All of the relevant SSAPs related to the reinsurance process, regardless of whether or not the corresponding risks are included within this exam repository, are listed below:

No. 5R Liabilities, Contingencies and Impairments of Assets – Revised
No. 25 Affiliates and Other Related Parties
No. 61R Life, Deposit-Type and Accident and Health Reinsurance – Revised (*Health/Life Companies*)
No. 62R Property and Casualty Reinsurance – Revised (*P&C Companies*)
No. 63 Underwriting Pools (*Health/Life Companies*)
No. 64 Offsetting and Netting of Assets and Liabilities
No. 65 Property and Casualty Contracts (*P&C Companies*)

Note: Risks within this key activity may warrant additional procedures or consideration at the Head of the Internationally Active Insurance Group (IAIG) or level at which the group manages its aggregated risks. Refer to Section 1, Part I for additional guidance for examinations of IAIGs.

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EXAMINATION REPOSITORY – RESERVES/CLAIMS HANDLING (HEALTH)

Annual Statement Blank Line Items

Listed below are the corresponding Annual Statement line items that are related to the identified risks contained in this exam repository:

Claims Unpaid (Less Reinsurance Ceded)
Accrued Medical Incentive Pool and Bonus Payments
Unpaid Claims Adjustment Expenses
Aggregate Health Policy Reserves
Aggregate Life Policy Reserves
Property/Casualty Unearned Premium Reserves
Aggregate Health Claim Reserves

Relevant Statements of Statutory Accounting Principles (SSAPs)

The relevant SSAPs related to the health insurance reserving process, regardless of whether or not the corresponding risks are included within this exam repository, are listed below:

No. 5R	Liabilities, Contingencies and Impairments of Assets – Revised
No. 50	Classifications of Insurance or Managed Care Contracts
No. 54R	Individual and Group Accident and Health Contracts
No. 55	Unpaid Claims, Losses and Loss Adjustment Expenses
No. 61R	Life, Deposit-Type and Accident and Health Reinsurance – Revised
No. 66	Retrospectively Rated Contracts
No. 107	Risk-Sharing Provisions of the Affordable Care Act

Note: Risks within this key activity may warrant additional procedures or consideration at the Head of the Internationally Active Insurance Group (IAIG) or level at which the group manages its aggregated risks. Refer to Section 1, Part I for additional guidance for examinations of IAIGs.

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EXAMINATION REPOSITORY – RESERVES/CLAIMS HANDLING (LIFE)

Annual Statement Blank Line Items

Listed below are the corresponding Annual Statement line items that are related to the identified risks contained in this exam repository:

Aggregate Reserve for Life Contracts
Aggregate Reserve for Accident and Health Contracts
Liability for Deposit-Type Contracts
Contract Claims

Relevant Statements of Statutory Accounting Principles (SSAPs)

All of the relevant SSAPs related to the life insurance reserving process, regardless of whether or not the corresponding risks are included within this exam repository, are listed below:

No. 5R Liabilities, Contingencies and Impairments of Assets – Revised
No. 50 Classifications of Insurance or Managed Care Contracts
No. 51R Life Contracts
No. 52 Deposit-Type Contracts
No. 54R Individual and Group Accident and Health Contracts
No. 55 Unpaid Claims, Losses and Loss Adjustment Expenses
No. 61R Life, Deposit-Type and Accident and Health Reinsurance – Revised
No. 63 Underwriting Pools

Note: Risks within this key activity may warrant additional procedures or consideration at the Head of the Internationally Active Insurance Group (IAIG) or level at which the group manages its aggregated risks. Refer to Section 1, Part I for additional guidance for examinations of IAIGs.

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EXAMINATION REPOSITORY – RESERVES/CLAIMS HANDLING (P&C)

Annual Statement Blank Line Items

Listed below are the corresponding Annual Statement line items that are related to the identified risks contained in this exam repository:

Losses
Loss Adjustment Expenses
Ceded Reinsurance Case Loss and Loss Adjustment Expense Reserves
Supplemental Reserve (*Title Companies*)

Relevant Statements of Statutory Accounting Principles (SSAPs)

All of the relevant SSAPs related to the property and casualty insurance reserving process, regardless of whether or not the corresponding risks are included within this exam repository, are listed below:

No. 5R Liabilities, Contingencies and Impairments of Assets – Revised
No. 53 Property and Casualty Contracts – Premiums *(P&C Companies)*
No. 54R Individual and Group Accident and Health Contracts
No. 55 Unpaid Claims, Losses and Loss Adjustment Expenses
No. 57 Title Insurance
No. 62R Property and Casualty Reinsurance – Revised
No. 63 Underwriting Pools
No. 65 Property and Casualty Contracts
No. 70 Allocation of Expenses

Note: Risks within this key activity may warrant additional procedures or consideration at the Head of the Internationally Active Insurance Group (IAIG) or level at which the group manages its aggregated risks. Refer to Section 1, Part I for additional guidance for examinations of IAIGs.

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EXAMINATION REPOSITORY – UNDERWRITING

Annual Statement Blank Line Items

There are no Annual Statement line items directly related to the underwriting process; however, policies underwritten and rate calculations may impact line items associated with areas such as premiums and reserves.

Relevant Statements of Statutory Accounting Principles (SSAPs)

All of the relevant SSAPs related to the underwriting process, regardless of whether or not the corresponding risks are included within this exam repository, are listed below:

No. 6 Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due from Agents and Brokers (*All Lines*)
No. 51R Life Contracts (*Life Companies*)
No. 53 Property and Casualty Contracts – Premiums (*P&C Companies*)
No. 54R Individual and Group Accident and Health Contracts (*Health Companies*)
No. 65 Property and Casualty Contracts (*P&C Companies*)

Note: Risks within this key activity may warrant additional procedures or consideration at the Head of the Internationally Active Insurance Group (IAIG) or level at which the group manages its aggregated risks. Refer to Section 1, Part I for additional guidance for examinations of IAIGs.

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
Other Than Financial Reporting Risks						
The insurer has not developed and followed its overall underwriting strategy†[NAIC1].	ST PR/UW OP	Other	UPSQ	The underwriting strategy indicates the types and lines of business (coverages), geographical areas and other rating classes the organization seeks to write in. The overall underwriting strategy is reviewed, monitored and approved by the board of directors on a regular basis. The underwriting department has established and documented goals in accordance with the insurer's overall underwriting strategy. The insurer reviews its underwriting performance to identify non-compliance with its underwriting strategy.	Review documentation demonstrating that the insurer has developed a formal underwriting strategy. Review board minutes and/or packets for evidence that the board actively reviews and/or approves the insurer's underwriting strategy on a regular basis. Review the underwriting department's goals for compatibility with the insurer's overall underwriting strategy. Review the insurer's process to monitor compliance with underwriting strategy and determine if non-compliance is appropriately remediated.	Review the insurer's underwriting strategy for appropriateness. Review the information provided within underwriting reports reviewed by management and the board for accuracy and appropriateness. Review historical premium written detail as well as underwriting and profitability results and determine whether the underwriting strategy is being followed.
The insurer has not established and maintained appropriate risk exposure limits (including catastrophe coverage) that are consistent with risk	ST PR/UW	Other	UPSQ	The insurer has established and documented risk exposure limits by geography, other rating classes and line of business (coverages) that have been reviewed and approved by senior management.	Review documentation of risk exposure limits and evidence of senior management review/approval. Consider if the risk limits are consistent with the risk appetite and risk tolerance	Utilize audit software to review the insurer's risk exposures for compliance with insurer limits. (For P&C companies, summarize policies by ZIP code, industry code, policy size, etc.; for life and health

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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

The purpose of this section of the memorandum is to summarize an understanding and assessment of the insurer's corporate governance, including its board of directors (BOD), senior management, and organizational structure. 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 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 the planning, fieldwork and completion stages of the examination. In documenting the state insurance regulator's assessment, regulators may consider using the maturity terminology established within the Risk Maturity Model (RMM); i.e., Leadership, Managed, Repeatable, Initial and Ad hoc. In documenting the key points for the state insurance regulator's assessment of the maturity and reliability of the insurer's ERM function, 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. Risk specific commentary should include consideration of 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.).

For coordinated examinations of Internationally Active Insurance Groups (IAIGs), or other groups as deemed appropriate, additional documentation may be necessary. This may include discussion of the group's supervisory plan, an overall assessment of the group's risk management framework and the critiera considered in reaching that conclusion (e.g., capital adequacy and availability, regulatory capital requirements at the group and legal entity level, complexity of the group and its impact on the effectiveness of the group's corporate governance, etc.), and other relevant reporting requirements deemed applicable by the group-wide supervisor.

BRANDED RISK ASSESSMENTS

This section of the memorandum should be organized to address each of the nine branded risk classifications: Credit; Legal; Liquidity; Market; Operational; Pricing/Underwrting; Reputation; Reserving; and Strategic. If needed, an Other category may also be used. In documenting each assessment, consideration should first be given to the branded risk assessments provided by the analyst in the initial IPS. The examiner then summarizes the work performed during the examination to arrive at a final assessment for each classification. For those branded risk classifications that are not impacted by examination results and provide no additional information for the ongoing monitoring of the insurer, this can be noted without further explanation. For those classifications that are impacted, documentation in the summary should focus on new information uncovered during the course of the examination and should not duplicate the summary initially provided in the IPS. The summary for each classification should be prepared at a level of detail that will enable the analyst to update the existing IPS and understand the context for items that require additional follow-up or specific monitoring procedures. This may be done within the table format provided below, referencing other examination documents as necessary.

In documenting the key points for each branded risk classification, consideration should be given to the following areas, if deemed applicable:

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EXHIBIT E
AUDIT REVIEW PROCEDURES

COMPANY NAME____
PERIOD OF EXAMINATION ____
EXAMINATION FIELD DATE ____
PREPARED BY____
DATE____

GUIDANCE

NAIC: Annual Financial Reporting Model Regulation (#205)
AICPA: Statement of Position (SOP) 95-4 – Letters for State Insurance Regulators to Comply with the NAIC Model Audit Rule
AICPA: Practice Alert 94-1 – Dealing with Audit Differences
AICPA: Statement on Auditing Standards (SAS) 89 – Audit Adjustments Federal Law: Sarbanes-Oxley Act of 2002 (SOX)
AICPA: AU Sec. 316 – Consideration of Fraud in a Financial Statement Audit
AICPA: Audit Risk Alert – Obtain current year alert
AICPA: SAS 104–111 – Risk Assessment Standards
AICPA: SAS 114 – The Auditor's Communication with those Charged with Governance
AICPA: Ethics Interpretation No. 501-8 – Failure to Follow Requirements of Governmental Bodies, Commissions, or Other Regulatory Agencies on Indemnification and Limitation of Liability Provisions in Connection with Audit and Other Attest Services

OVERVIEW

The intent of the risk assessment process in a risk-focused examination is to identify areas of higher risk in order to enable more efficient use of examiner resources. A key to determining whether potential for material misstatement exists within the financial statements is to evaluate the insurer's audit function, which is made up of both internal and external audits.

The NAIC *Annual Financial Reporting Model Regulation* (#205) (commonly referred to as the Model Audit Rule (MAR)) was implemented in order to improve state insurance department surveillence of financial insurers by requiring an annual statutory audit of financial statements, which report the financial position and results of operations of insurers by independent certified public accountants. The primary objective of a statutory audit is to enable the external auditors to express an opinion as to whether the insurer's statutory financial statements are presented fairly in all material respects in conformity with the accounting practices prescribed or permitted by the applicable state of domicile. Effective in 2010, the MAR has additional requirements, including a mandatory Attestation of Internal Control by management for insurers with premiums greater than $500 million. Portions of the MAR are referenced throughout this document.

External auditors conduct audits in accordance with Generally Accepted Auditing Standards (GAAS) for non-public companies, and the rules and auditing standards of the Public Company Accounting Oversight Board (PCAOB) for publicly traded companies. GAAS require that the audit be conducted with independence, due professional care, ethical standards, objectivity and adequate planning/supervision. The PCAOB is responsible for the development of auditing and attestation standards related to quality control, ethics and independence for publicly traded companies. When these standards are adhered to, the external auditor's opinion lends credibility to such financial statements and thereby assists in promoting confidence that the insurer's financial condition is fairly presented.

Insurance companies often establish an internal audit function to assist in fulfilling such responsibilites as safeguarding assets, ensuring reliability of financial records, verifying compliance with internal procedures and assessing the efficiency of internal controls. Depending on the nature and extent of the internal auditor's work, the examiner may utilize their work to gain an understanding of the internal control structure or to assess control risk for specific identified risks.

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AUDIT REVIEW PROCEDURES

GENERAL INFORMATION: External

Accounting Firm ____

Years on Engagement ____

Date of Reports ____

Independent Accounting Firm Contacts:

NAME	TITLE

GENERAL INFORMATION: Internal

Accounting Personnel ____

Years of Experience ____

Scope of Audits ____

Date of Reports ____

Internal Audit Contacts:

NAME	TITLE

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Examiner	Date

a. Section 302, *Corporate Responsibility for Financial Reports,* which includes certification from principal officers of the annual and quarterly reports.

b. Section 404, *Management Assessment of Internal Controls,* which includes a management assessment on the effectiveness of the internal control structure and an independent auditor attestation and opinion report on the assessment made by management.

Internal Auditor Workpaper and Report Review

14. Obtain and document an understanding of the internal audit department's role in the internal control structure, including recent changes in the internal audit department, such as personnel, approach and reporting relationship changes.

a. Determine that the board of directors and senior management are restricted from delegating their responsibilities for establishing, maintaining and operating effective audit activities (e.g., establishment of an annual audit plan that is reviewed by the audit committee).

b. Determine that audit activities are performed by an independent and qualified staff that is objective in evaluating the insurer's financial reporting risks and internal controls, including management information systems. In order to be independent, Internal Audit members should not have other operational, risk management or accounting responsibilities.

15. If the internal audit department is deemed independent and qualified, obtain documentation of all the internal audits conducted by the internal audit department since the previous examination. Perform a high-level review of selected internal audit reports to determine whether:

a. Audit activities help maintain or improve the effectiveness of insurer risk management processes, controls and corporate governance.

b. Audit activities provide reasonable assurance about the accuracy and timeliness of recorded transactions and the accuracy and completeness of financial reports.

c. Audit activities provide assistance, guidance and/or suggestions where needed.

16. After review of internal audit reports, if the examiner has determined that the internal audit department is competent, the internal audit department may be used for preparing examination workpapers.

Conclude on the Review of Internal and External Audit Functions

17. Follow up on any unresolved questions and issues identified during the review of the auditors' workpapers. Document any issues and responses provided.

18. Prepare a memorandum documenting:

a. The overall review of the internal and external auditors' workpapers.

EXHIBIT M
UNDERSTANDING THE CORPORATE GOVERNANCE STRUCTURE

Overview

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.

Holding Company Considerations

In conducting examinations of insurers that are part of a holding company group, including Internationally Active Insurance Groups (IAIGs), the work to gain an understanding and perform an assessment of corporate governance should focus on the level at which insurance operations are directly overseen (e.g., Head of the IAIG, ultimate parent company level, insurance holding company level, legal entity level, etc.). However, in certain areas, it may be necessary to also 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. Furthermore, if the insurer under examination belongs to a holding company group that has been identified as an IAIG, group level governance practices must be evaluated. Because of these factors, ~~T~~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 work performed by the lead state's analyst, including the Holding Company Analysis ~~work performed by the lead state's financial analyst~~ and~~,~~ ~~as well as~~ the lead state's review of the ORSA filing~~,~~ and Corporate Governance Annual Disclosure (CGAD).

The CGAD 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 corporate governance framework and structure for insurers and insurance groups, including IAIGs, and may enhance examination efficiencies when leveraged.~~to understand and assess the company's corporate governance, as well as the filings noted above.~~[NAIC1]

A. ASSESSING THE BOARD OF DIRECTORS

An assessment of the board of directors may be determined through discussions with the board of directors and through gaining an understanding of the board's oversight role. The overall assessment should cover the suitability of board members, as well as the suitability, policies and practices of the board as a whole. As a general guideline, the following areas should be considered in the assessment of the board of directors:

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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 XI of this Handbook.

F. CONSIDERATIONS FOR EXAMINATIONS OF INTERNATIONALLY ACTIVE INSURANCE GROUPS

This section identifies additional corporate governance requirements applicable to Internationally Active Insurance Groups (IAIGs). As noted above, when conducting coordinated group exams, the level at which the governance is evaluated may vary. However, if the holding company group under examination has been identified as an IAIG, governance practices must be evaluated at the Head of the IAIG to ensure that appropriate policies and processes are in place to promote effective oversight of the group-wide operations and a sound risk culture. For additional guidance related to the examination of IAIGs, refer to Section 1, Part I in this Handbook.

1. IAIG Board of Directors

    a. Do board members (individually and collectively) and other key individuals (senior management, key persons in control functions, etc.) have the necessary competence to fulfill their role?

    b. Does the board of directors have access to information and processes in place to understand the group's corporate governance framework and corporate structure; activities of the legal entities and associated risks; supervisory regimes applicable to the IAIG; issues that arise from cross-border business and international transactions; and the risk management, compliance, audit, actuarial and related areas of the group?

    c. Has the board of directors developed an adequate conflict of interest policy for officers, management and key personnel that includes processes to identify and avoid, or manage, conflicts of interest that may adversely affect the IAIG as a whole or any of its legal entities?

    d. Does the board of directors provide appropriate oversight of the group's internal control and internal audit functions?

    e. Does the board of directors receive relevant information regarding the group's actuarial function annually on the following topics:
        i. Prospective actuarial analysis of the financial condition of the IAIG
        ii. the reliability and sufficiency of technical provisions (reserves)
        iii. the adequacy of reinsurance credit for technical provisions (reserves)
        iv. consideration of non-insurance legal entities and nonregulated legal entities, if applicable

~~F.~~G. 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 a 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.

EXHIBIT Y
EXAMINATION INTERVIEWS

Overview

Interviews are a useful examination tool to gather information about key activities, risks and risk mitigation strategies. Employees can also provide information on fraudulent activity within the company. It is critical for the examination team to understand and leverage the company's risk management program; i.e., how the company identifies, controls, monitors, evaluates and responds to its risks. The discipline and structure of risk management programs vary dramatically from company to company. Interviews should be performed in the early stages of the examination so that regulators can adjust their procedures accordingly. An examiner can perform alternate, additional or fewer detail and control tests as a result of interviews with the company.

Interviews should be conducted with key members within management of the company, as well as members of the board of directors, audit committee, internal/external auditors and any other employees deemed necessary. These interviews can be used at the beginning of the examination or at any time during the examination, as necessary. In order to conduct a productive interview, the examiner should have a basic understanding of the company prior to commencing the interview process. When possible, the examiner should meet with the department analyst prior to scheduling interviews with company personnel to assist in gaining this basic understanding. Examiners should continue to tailor each interview as information is learned about the company throughout the planning process.

Examiners should consider the size and complexity of the organization in determining which individuals to interview. The interview process is a key step in the "top–down" approach, beginning with senior management and then drilling down through the various levels of management to obtain a thorough understanding of the organization to assist in scoping the examination. In order to select the individuals to interview, the examiners should obtain an organizational chart from the company and compile a list of potential interviewees. Interviews of board members and senior company management should be conducted by examiners who possess the appropriate background and training. The examiner should also carefully consider the order of interviews, as information gleaned from certain "C"-level individuals can inform subsequent interviews. For example, the Chief Risk Officer (CRO) is uniquely positioned to have an awareness of the various risks facing the company from multiple perspectives. The information obtained through an interview with the CRO can help the examiner have a greater understanding of the key risk areas of the company, which can then be used to further customize subsequent interviews, as well as determine which additional members of management should be interviewed. While it can be challenging to coordinate the interview schedule with company personnel at this level, examiners are encouraged to attempt interviewing the CRO as early in the interview process as possible.

If the company under examination belongs to a holding company group that has been identified as an Internationally Active Insurance Group (IAIG), the group-wide supervisor should consider conducting additional interviews at the Head of the IAIG, including key members of management and the board of directors. Such interviews would assist the group-wide supervisor in determining the consistency of governance practices across the IAIG as well as whether the group's risk management framework encompasses the Head of the IAIG and legal entities within the IAIG.

Interviews should be performed in person, if possible. This allows the interviewer to receive both verbal and nonverbal communication. The interviews should be kept confidential when possible; however, if a significant fraud or other pertinent issue was discovered through the interviews, the regulator has a duty to report the conflict to the appropriate officials.

The examiner should conduct the interview in a location where both parties are free to talk openly. The examiner should ask relevant questions, with the most general questions posed first as building blocks for additional conversation. The examiner may want to consider alternating between open-ended questions (e.g., "Explain to me how this process works.") vs. closed-ended questions (e.g., "How many claim processors do you have in your department?") to obtain the information. Open-ended questions are generally better suited for explanation and processes, while closed-ended questions are better suited to obtain concise information. The examiner should be prepared, listen carefully and focus on the speaker's entire message, as well as the non-verbal cues expressed during the interview process.

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Sample Interview Questions for an Internal Auditor

Experience and Background

- How has your experience and background prepared you to serve as an internal auditor for this company?

Duties and Responsibilities

- Briefly describe your duties and responsibilities.
- How is your performance evaluated? Is it based on the performance of the company?
- How much of your department's time is allocated to the NAIC *Annual Financial Reporting Model Regulation* (Model Audit Rule) process, business process reviews, compliance?
- Do you perform any ~~management~~operational, risk management or accounting functions?
- What is the role of the internal audit function in verifying the effectiveness risk management processes?
- How are audit findings communicated to the company and the board/audit committee?
- Please describe any special projects and/or key initiatives.

Reporting Structure

- Describe the reporting structure of the company, including to whom you report, as well as who reports to you.
- Describe your interaction with the board of directors/audit committee, external auditors and/or senior management.
- How do you monitor/follow up on audit findings? Are findings classified as to significance?

Ethics

- Does the company have a code of conduct/ethics in place? Is it enforced? Approved?
- Explain your commitment to ethics and explain how you convey that commitment to your employees.
- How does the company compare to others in terms of its position on ethics?
- Do you have any knowledge or suspicion of fraud within the company?

Risk Areas

- How are key risks faced by the company identified and monitored?
  - What are the key prospective risks the company faces?
  - How are these risks communicated to senior management and throughout the company?
- What key risks do you monitor in your position?
  - What reports or other means do you utilize to evaluate the risks?
- Do you monitor risks relevant to specific components or divisions within the entity?
- How do you determine which audits to perform and the appropriate scope for those audits?

Risk Mitigation Strategies (Internal Controls)

- How does the internal audit department address the potential for override of internal controls?
- Do you discuss with the audit committee/board of directors how the internal control system serves the company? How often?
- How has the NAIC *Annual Financial Reporting Model Regulation* (Model Audit Rule) affected the company, if at all? How has it affected the holding company and/or the internal audit department?
- Describe any internal control issues discussed during the most recent audits.
- Do you review the company's application of accounting guidance?

Corporate Strategy

- Explain strengths or weaknesses of the company, as well as opportunities and threats the company is facing, and how the company is responding to each.
- What key measures do you assess to evaluate the company's performance and competitive position?
- If part of a holding company:
  - How does the holding company contribute to the company's strategy?
  - How might the holding company be impacted by the company's strategy?

National Association of Insurance Commissioners

NAIC OWN RISK AND SOLVENCY ASSESSMENT (ORSA) GUIDANCE MANUAL

Maintained by the
Group Solvency Issues (E) Working Group
of the Financial Condition (E) Committee

As of

Date: ~~December 4, 2017~~

To: **Users of the *NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual***

From: **Group Solvency Issues (E) Working Group**

This edition of the NAIC *Own Risk and Solvency Assessment (ORSA) Guidance Manual* has been revised from the previous edition. The following summarizes the most significant changes since the December 2017 edition:

~~1. Added various updates throughout the Guidance Manual to incorporate additional elements deemed appropriate by state regulators including additions from International Association of Insurance Supervisors (IAIS) guidance to incorporate:~~
   ~~a. Enhancements related to the treatment and disclosure of liquidity and business strategies within the ORSA; and~~
   ~~a. Enhancements related to additional considerations relevant to Internationally Active Insurance Groups (IAIGs) as outlined in the Common Framework for the Supervision of IAIGs (ComFrame).~~

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The requirements outlined in this Manual are based on the requirements of the *Risk Management and Own Risk and Solvency Assessment Model Act* (#505). An insurer using this Manual should refer to the laws adopted by the insurer's state of domicile when determining its requirements for risk management, its Own Risk and Solvency Assessment (ORSA) and for preparing its ORSA Summary Report.

I. INTRODUCTION

The purpose of this Manual is to provide guidance to an insurer and/or an insurance group of which the insurer is a member (hereinafter referred to as "insurer" or "insurers") with regard to reporting on its Own Risk and Solvency Assessment (ORSA) [as required by the domestic state's version of the *Risk Management and Own Risk and Solvency Assessment Model Act* (#505)].

The ORSA, which is a component of an insurer's enterprise risk management (ERM) framework, is a confidential internal assessment appropriate to the nature, scale and complexity of an insurer conducted by that insurer of the material and relevant risks identified by the insurer associated with an insurer's current business plan and the sufficiency of capital resources to support those risks. As described below, an insurer that is subject to the ORSA requirements will be expected to:

(1) Regularly, no less than annually, conduct an ORSA to assess the adequacy of its risk management framework, and current and estimated projected future solvency position;
(2) Internally document the process and results of the assessment; and
(3) Provide a confidential high-level ORSA Summary Report annually to the lead state commissioner if the insurer is a member of an insurance group and, upon request, to the domiciliary state regulator.

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; and

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

An insurer that is subject to the ORSA requirement should consider the guidance provided in this Manual when conducting its ORSA and compiling its ORSA Summary Report. As the process and results are likely to include proprietary and forward-looking information, any ORSA Summary Report submitted to the commissioner shall be confidential by state law.

A. **Exemption**

An insurer shall be exempt from maintaining a risk management framework, conducting an ORSA and filing an ORSA Summary Report, if:

a. The individual insurer's annual direct written and unaffiliated assumed premium, including international direct and assumed premium but excluding premiums reinsured with the Federal Crop Insurance Corporation and the National Flood Insurance Program, is less than $500 million; and

b. If the insurer is a member of an insurance group and the insurance group's (all insurance legal entities within the group) annual direct written and unaffiliated assumed premium, including international direct and assumed premium but excluding premiums reinsured with the Federal Crop Insurance Corporation and the National Flood Insurance Program, is less than $1 billion.

If the insurer does not qualify for exemption, upon the commissioner's request, and no more than once each year, an insurer shall submit to the commissioner an ORSA Summary Report that contains the information described in this Manual. If the insurer is not an IAIG with a US global group-wide supervisor this can be done as a combination of reports. For example, the property/casualty insurers within a group could be included in one ORSA Summary Report or combination of reports, and the life insurers within the same group could be included in another ORSA Summary Report or combination of reports, if those groups operate under different ERM frameworks. Notwithstanding any request from the commissioner, if the insurer is a member of an insurance group, the insurer shall submit the ORSA Summary Report(s) required by this Manual to the lead state commissioner of the insurance group. The lead state is determined by the procedures within the *Financial Analysis Handbook.*

If an insurer qualifies for exemption pursuant to paragraph a., but the insurance group of which the insurer is a member does not qualify for exemption pursuant to paragraph b., then the insurer may supply an ORSA Summary Report in any combination, as long as every insurer within the group is covered by the ORSA Summary Report(s).

If an insurer does not qualify for exemption pursuant to paragraph a., but the insurance group of which it is a member qualifies for exemption under paragraph b., then the only ORSA Summary Report that may be required is the report of that insurer. However, such exemption does not eliminate the requirement for any insurer that is subject to Model #505 to complete Section III – Group Assessment of Risk Capital and Prospective Solvency Assessment.

Notwithstanding the above exemptions, the commissioner may require the insurer to maintain an risk management framework, conduct an ORSA and file an ORSA Summary Report based on unique circumstances including, but not limited to, the type of business written, ownership and organizational structure, federal agency requests, international supervisor requests, regulatory concerns about rapidly growing concentration of risk or risk exposure.

A commissioner also may require the insurer to maintain a risk management framework, conduct an ORSA and file an ORSA Summary Report if the insurer has triggered an RBC company action level event, meets one or more of the standards of an insurer deemed to be in hazardous financial condition, or otherwise exhibits qualities of a troubled insurer, as determined by the commissioner.

If an insurer that qualifies for an exemption subsequently no longer qualifies for that exemption due to changes in premium, as reflected in the insurer's most recent annual financial statement or in the most recent annual financial statements of the insurers within the insurance group of which the insurer is a member, the insurer shall have one (1) year following the year the threshold is exceeded to comply with the ORSA requirements.

B. Application for Waiver

An insurer that does not qualify for exemption may apply to the commissioner for a waiver from the requirements of the ORSA based upon unique circumstances. The commissioner may consider various factors including, but not limited to, the type of business entity, and volume of business written and material reduction in risk or risk exposures. If the insurer is part of a non-exempted insurance group, the commissioner shall coordinate with the lead state commissioner and the other domiciliary commissioners in considering the request for a waiver.

C. General Guidance

The ORSA should be one element of an insurer's ERM framework. The ORSA and the ORSA Summary Report link the insurer's risk identification, assessment, monitoring, prioritization and reporting processes with capital management and strategic planning. Each insurer's ORSA and ORSA Summary Report will be unique, reflecting the insurer's business, strategic planning and approach to ERM. The commissioner will utilize the ORSA Summary Report to gain a high-level understanding of the insurer's ORSA. The ORSA Summary Report will be supported by the insurer's internal risk-management materials.

To allow the commissioner to achieve a high level understanding of the insurer's ORSA, the ORSA Summary Report should discuss three major areas, which will be referred to as the following sections:

- **Section 1** – Description of the Insurer's Risk Management Framework
- **Section 2** – Insurer's Assessment of Risk Exposure
- **Section 3** – Group Assessment of Risk Capital and Prospective Solvency Assessment

When developing an ORSA Summary Report, the content should be consistent with the ERM information that is reported to senior management and/or the board of directors or appropriate committee. While some of the format, structure and content of the ORSA Summary Report may be tailored for the regulator, the content should be based on the insurer's internal reporting of its ERM information. The ORSA Summary Report itself does not need to be the medium of reporting its ERM to the board of directors or appropriate committee, and the report to the board of directors or appropriate committee may not be at the same level of detail as the ORSA Summary Report.

In order to aid the commissioner's understanding of the information provided in the ORSA Summary Report, it should include certain key information. The ORSA Summary Report should identify the basis(es) of accounting for the report (e.g., generally accepted accounting principles, statutory accounting principles or international financial reporting standards) and the date or time period that the numerical information represents. The ORSA Summary Report should also explain the scope of the ORSA conducted such that the report identifies which insurer(s) are included in the report. This may be accomplished by including an organizational chart. In subsequent years, the ORSA Summary Report should also include a short summary of material changes to the ORSA from the prior year, including supporting rationale, as well as updates to the sections listed above, if applicable.

The commissioner may develop a deeper understanding of the insurer's ERM framework upon examination or an annual risk-focused update. Additionally, as part of the risk-focused analysis and/or examination process, the commissioner may also request and review confidential supporting materials to supplement his/ her understanding of information contained in the ORSA Summary Report. These materials may include risk management policies or programs, such as the insurer's underwriting, investment, claims, asset-liability management (ALM), reinsurance counterparty and operational risk policies.

This Manual is intended to provide guidance for completing each section of the ORSA Summary Report. The depth and detail of information is likely to be influenced by the nature and complexity of the insurer and should be updated at least annually for the insurer. The insurer is permitted discretion to determine how best to communicate its ERM processes. An insurer may avoid duplicative information and supporting documents by referencing other documents, provided those documents are available to the regulator upon examination or upon request. In order to ensure that the commissioner is receiving the most current information from an insurer, the timing for filing the ORSA Summary Report during the calendar year may vary from insurer to insurer, depending on when an insurer conducts its internal strategic planning process. In any event, the ORSA Summary Report shall be filed once each year, with the insurer apprising the commissioner as to the anticipated time of filing.

The ORSA Summary Report shall include a signature of the insurer's chief risk officer or other executive having responsibility for the oversight of the insurer's ERM process attesting to the best of his/her belief and knowledge that the insurer applies the ERM process described in the ORSA Summary Report and that a copy of the ORSA Summary Report has been provided to the insurer's board of directors or the appropriate committee.

An insurer may comply with the ORSA requirement by providing the most recent report(s)[1] filed by the insurer or another member of an insurance group of which the insurer is a member to the commissioner of another state or to a supervisor or regulator of a foreign jurisdiction, if that report provides information that is comparable to the information described in this Manual. If a U.S. state insurance commissioner is the global group-wide supervisor of an IAIG, the U.S. state insurance commissioner should receive the ORSA Summary Report covering all material group-wide insurance operations. In addition, the insurer should work with U.S. global group-wide supervisor to identify the Head of the IAIG (using the guidance contained in the NAIC's Financial Analysis Handbook) and determine which non-insurance operations (if any) within the group should be included within the scope of the ORSA Summary Report. However, for all ORSA filers, the non-insurance operations that present material and relevant risks to the insurer should be included in the scope of the ORSA Summary Report.

[1]Reports filed to foreign jurisdictions that are a report on an insurer's ORSA shall henceforth for purposes of this Manual be referred to as an "ORSA Summary Report,"

If the U.S. is not the global group-wide supervisor, the insurer may file ORSA Summary Reports encompassing, at a minimum, the U.S. insurance operations, as long as the lead state receives ORSA Summary Reports encompassing the non-U.S. insurance operations from the global group-wide supervisor. If an ORSA Summary Report encompassing the non-U.S. insurance operations is not provided by the global group-wide supervisor, it should be provided by the insurer. If the insurer files an ORSA Summary Report encompassing only the U.S. insurance operations, and in it the insurer states that the U.S. ERM framework is based on the insurers' global ERM framework, then the global ERM framework should be explained either within the U.S. ORSA Summary Report or in an ORSA Summary Report encompassing the non-U.S. insurance operations and be provided to the lead state at a time agreed to by the insurer and the lead state. If the report is in a language other than English, it must be accompanied by a translation into the English language. The commissioner should discuss with the global group-wide supervisor from the relevant foreign jurisdiction(s) the report received ~~from the global group-wide supervisor~~ to inquire of any concerns and to either confirm that the report was compliant with the foreign jurisdiction's requirements or consistent with the applicable principles outlined in the International Association of Insurance Supervisors (IAIS) Insurance Core Principle (ICP) 16: Enterprise Risk Management (ERM), as well as this Manual to determine if additional information is needed. The commissioner will, where possible, avoid creating duplicative regulatory requirements for internationally active insurers.

In analyzing an ORSA Summary Report, the commissioner will expect that the report represents a work product of the ERM framework that include all of the material risks identified by the insurer to which an insurer or insurers (if applicable) is exposed.

The ORSA Summary Report may assist the commissioner in determining the scope, depth and minimum timing of risk-focused analysis and examination procedures. For example, insurers may have varying ERM frameworks, ranging from a business plan to a combination of investment plans and underwriting policies to more complex risk-management processes and sophisticated modeling. Insurers with ERM frameworks appropriate to their risk profile may not require the same scope or depth of review upon examination and analysis as those with less relatively comprehensive ERM frameworks. Therefore, the insurer should consider whether the ORSA Summary Report demonstrates the strengths of its framework, including how it meets the guidelines within this Manual for the relative risk of the insurer.

In addition to the ORSA Summary Report, the insurer should internally document the ORSA results to facilitate a more in-depth review by the commissioner through analysis and examination processes. Such review may depend on several factors, such as the nature and complexity, financial position and/or prioritization of the insurer, as well as external considerations such as the economic environment. These factors may result in the commissioner requesting additional information about the insurer's ERM framework through the financial analysis or examination processes. The information requested may include, but is not limited to, risk management policies and programs, such as the insurer's underwriting, investment, claims, duration or asset-liability management, as well as reinsurance counterparty or operational risk policies.

D. Maintenance Process

The following establishes procedures of the Group Solvency Issues (E) Working Group or its designated subgroup (collectively referred to as "Working Group") for proposed changes, amendments and/or modifications to the Manual.

1. The Working Group may consider relevant proposals to change the Manual at any conference call, interim or national meeting ("the meeting") throughout the year as scheduled by the Working Group.

2. If a proposal for suggested changes, amendments and/or modifications is submitted to, or filed with NAIC staff support, it may be considered at the next regularly scheduled meeting of the Working Group.

3. The Working Group publishes a formal submission form and instructions that can be used to submit proposals and is available on the Group's webpage. However, proposals may also be submitted in an alternate format provided that they are stated in a concise and complete format. In addition, if another NAIC committee, task force or working group is known to have considered this proposal, that committee, task force or working group should provide any relevant information.

4. Any proposal that would change the Manual will be effective January 1 following the NAIC Summer National Meeting (i.e. of the preceding year) in which it was adopted by the Working Group (e.g., a change proposed to be effective January 1, 2018 must be adopted by the Working Group no later than the 2017 Summer National Meeting) and the Fall National Meeting in which it was adopted by the NAIC.

5. Upon receipt of a proposal, the Working Group will review the proposal at the next scheduled meeting and determine whether to consider the proposal for adoption. If the proposal is to be considered by the Working Group it will be exposed for public comment. The public comment period shall be no less than thirty days and may be extended by the Working Group. The Working Group will consider comments received on each proposal at its next meeting and take action to revise, adopt, reject, refer or continue the consideration of the proposal and comments thereto. Proposals under consideration may be deferred by the Working Group until the following scheduled meeting. The Working Group may form an ad hoc group to study the proposal, if needed. The Working Group may also refer proposals to other NAIC committees for technical expertise or review. If a proposal has been referred to another NAIC committee, the proposal will temporarily be removed from the Working Group's agenda until a response has been received. At that time, it will be added back to the Working Group's agenda.

6. NAIC staff support will prepare an agenda inclusive of all proposed changes. The agenda and relevant materials shall be sent via e-mail to each member of the Working Group, interested regulators and interested parties and posted to the Working Group's webpage approximately 5-10 business days prior to the next regularly scheduled meeting during which the proposal would be considered.

7. In rare instances, or where emergency action may be required, suggested changes and amendments can be considered as an exception to the above stated process and timeline based on a two-thirds majority consent of the Working Group members present. Notwithstanding the foregoing, in no event may a proposal be adopted without an exposure for public comment.

8. NAIC staff support will publish the Manual on or about December 15 each year. NAIC staff will post to the Group Solvency Issues (E) Working Group and the NAIC Publications Web sites the current versions and any material subsequent corrections to these publications.

II. SECTION 1 – DESCRIPTION OF THE INSURER'S ENTERPRISE RISK MANAGEMENT FRAMEWORK

An effective ERM framework should, at a minimum, incorporate the following key principles:

- **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.
- **Risk Identification and Prioritization** – Risk identification and prioritization process that is key to the organization; responsibility for this activity is clear; the risk management function is responsible for ensuring that the process is appropriate and functioning properly at all organizational levels; key risks of the insurer are identified, prioritized and clearly presented.
- **Risk Appetite, Tolerances and Limits** – A formal risk appetite statement, and 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 by the board of directors.
- **Risk Management and Controls** – Managing risk is an ongoing ERM activity, operating at many levels within the organization.
- **Risk Reporting and Communication** – Provides key constituents with transparency into the risk-management processes and facilitate active, informal decisions on risk-taking and management.

Section 1 of the ORSA Summary Report should provide a high-level summary of the aforementioned ERM framework principles, if present. The ORSA Summary Report should describe the main goals and objectives of the insurers' business strategy (for all insurance and non-insurance operations in scope)-and how the insurer identifies and categorizes relevant and material risks and manages those risks as it executes its business strategy. The ORSA Summary Report should also describe risk-monitoring processes and methods, provide risk appetite statements, and explain the relationship between risk tolerances and the amount and quality of risk capital. The ORSA Summary Report should identify assessment tools (feedback loops) used to monitor and respond to any changes in the insurer's risk profile due to economic changes, operational changes or changes in business strategy. Finally, the ORSA Summary Report should describe how the insurer incorporates new risk information in order to monitor and respond to changes in its risk profile due to economic and/or operational changes and changes in strategy.

The manner and depth in which the insurer addresses these principles is dependent upon its own risk-management processes. Any strengths or weaknesses noted by the commissioner in evaluating this section of the ORSA Summary Report will have relevance to the commissioner's ongoing supervision of the insurer, and the commissioner will consider the entirety of the risk management program and its appropriateness for the risks of the insurer.

III. <u>SECTION 2 – INSURER ASSESSMENT OF RISK EXPOSURES</u>

Section 2 of the ORSA Summary Report should provide a high-level summary of the quantitative and/or qualitative assessments of risk exposure in both normal and stressed environments for each material risk category in Section 1. This assessment process should consider a range of outcomes using risk assessment techniques that are appropriate to the nature, scale and complexity of the risks. Examples of relevant material risk categories may include, but are not limited to, credit, market, liquidity, underwriting and operational risks.

Section 2 may include detailed descriptions and explanations of the material and relevant risks identified by the insurer, the assessment methods used, key assumptions made, risk-mitigation activities and outcomes of any plausible adverse scenarios assessed. The assessment of each risk will depend on its specific characteristics. For some risks, quantitative methods may not be well established and, in these cases, a qualitative assessment may be appropriate. Examples of these risks may include certain operational and reputational risks. In addition, each insurer's quantitative methods for assessing risk may vary; however, insurers generally consider the likelihood and impact that each material and relevant risk identified by the insurer will have on the firm's balance sheet, income statement and future cash flows. Methods for determining the impact on future financial position may include simple stress tests or more complex stochastic analyses. When evaluating a risk, the insurer should analyze the results under both normal and stressed environments. Lastly, the insurer's risk assessment should consider the impact of stresses on capital, which may include consideration of risk capital requirements, available capital, as well as regulatory, economic, rating agency and/or other views of capital requirements.

The analysis should be conducted in a manner that is consistent with the way in which the business is managed, whether on a group, legal entity or other basis. Stress tests for certain risks may be performed at the group level. Where relevant to the management of the business, some group-level stresses may be mapped into legal entities. The commissioner may request additional information to map the results to an individual insurance legal entity.

Any risk tolerance statements should include material quantitative and qualitative risk tolerance limits and how the tolerance statements and limits are determined, taking into account relevant and material categories of risk and the risk relationships that are identified.

Because the risk profile of each insurer is unique, each insurer should utilize assessment techniques (e.g., stress tests, etc.) applicable to its risk profile. U.S. insurance regulators do not believe there is a standard set of stress conditions that each insurer should test. The commissioner may provide input regarding the level of stress that the insurer's management should consider for each risk category. The ORSA Summary Report should provide a general description of the insurer's process for model validation, including factors considered and model calibration. Unless a particular assumption is stochastically modeled, the group's management should set assumptions regarding the expected values based on its current anticipated experience, what it expects to occur during the next year or multiple future years, and consideration of expert judgment. The commissioner may provide input to an insurer's management on the assumptions and scenarios to be used in its assessment techniques. For assumptions that are stochastically modeled, the commissioner may provide input on the level of the measurement metric to use in the stressed condition or specify particular parameters used in the economic scenario generator. Commissioner input will likely occur during the financial analysis process and/or the financial examination process.

By identifying each material risk category independently and reporting results in both normal and stressed conditions, insurer management and the commissioner are better placed to evaluate certain risk combinations that could cause an insurer to fail. One of the most difficult exercises in modeling insurer results is determining the relationships, if any, between risk categories. History may provide some empirical evidence of relationships, but the future is not always best estimated by historical data.

IV. Section 3 – Group Assessment of Risk Capital and Prospective Solvency Assessment

Section 3 of the ORSA Summary Report should describe how the insurer combines the qualitative elements of its risk management policy with the quantitative measures of risk exposure in determining the level of financial resources needed to manage its current business and over a longer term business cycle (e.g., the next one to three years). The group risk capital assessment should be performed as part of the ORSA regardless of the basis (group, legal entity or other subset basis) and in a manner that encompasses the entire insurance group. The information provided in Section 3 is intended to assist the commissioner in assessing the quality of the insurer's risk and capital management.

A. Group Assessment of Risk Capital

Within the Group Assessment of Risk Capital, aggregate available capital is compared against the various risks that may adversely affect the enterprise. The insurer should consider how the group capital assessment is integrated into the insurer's management and decision-making culture, how the insurer evaluates its available capital and how risk capital is integrated into its capital-management activities.

The insurer should have sound processes for assessing capital adequacy in relation to its risk profile and those processes should be integrated into the insurer's management and decision-making culture. These processes may assess risk capital through myriad metrics and future forecasting periods, reflecting varying time horizons, valuation approaches and capital management strategies (e.g., mix of capital). While a single internal risk capital measure may play a primary role in internal capital adequacy assessment, insurers may evaluate how risk and capital interrelate over various time horizons, or through the lens of alternative risk capital or accounting frameworks (i.e., economic, rating agency, and/or regulatory frameworks). This section is intended to assist the commissioner in understanding the insurer's capital adequacy in relation to its aggregate risk profiles.

The group capital assessment should include a comparative view of risk capital from the prior year, including an explanation of the changes, if not already explained in another section of the ORSA Summary Report. This information may also be requested by the commissioner throughout the year, if needed (e.g., if material changes in the macroeconomic environment and/or microeconomic facts and circumstances suggest the information is needed for the ongoing supervisory plan).

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 key methodologies, assumptions and considerations used in quantifying available capital and risk capital. Examples might include:

Considerations	Description of Methodologies and Assumptions	Examples (not exhaustive)
Definition of Solvency	Describe how the insurer defines solvency for the purpose of determining risk capital and liquidity requirements.	Cash flow basis; balance sheet basis
Accounting or Valuation Regime	Describe the accounting or valuation basis for the measurement of risk capital requirements and/or available capital.	GAAP; statutory; economic or market consistent; IFRS; rating agency model
Business Included	Describe the subset of business included in the analysis of capital.	Positions as of a given valuation date; New business assumptions
Time Horizon	Describe the time horizon over which risks were modeled and measured.	One-year, multi-year; lifetime; run-off
Risks Modeled	Describe the risks included in the measurement of risk capital, including whether all relevant and material risks identified by the insurer have been considered.	Credit; market; liquidity; insurance; operational
Quantification Method	Describe the method used to quantify the risk exposure.	Deterministic stress tests; stochastic modeling; factor-based analysis
Risk Capital Metric	Describe the measurement metric utilized in the determination of aggregate risk capital.	Value-at-risk (VAR), which quantifies the capital needed to withstand a loss at a certain probability; tail-value-at-risk (TVAR), which quantifies the capital needed to withstand average losses above a certain probability; probability of ruin, which quantifies the probability of ruin given the capital held

Considerations	Description of Methodologies and Assumptions	Examples (not exhaustive)
Defined Security Standard	Describe the defined security standard utilized in the determination of risk capital requirements, including linkage to business strategy and objectives.	AA solvency; 99.X% 1-year VAR; Y% TVAR or CTE; X% of RBC
Aggregation and Diversification	Describe the method of aggregation of risks and any diversification benefits considered or calculated in the group risk capital determination.	Correlation matrix; dependency structure; sum, full/partial/no diversification

The approach and assessment of group-wide capital adequacy should also consider the following:

- Elimination of intra-group transactions and double-gearing where the same capital is used simultaneously as a buffer against risk in two or more entities;
- The level of leverage, if any, resulting from holding company debt;
- Diversification credits and restrictions on the fungibility of capital within the holding company system, including the availability and transferability of surplus resources created by holding company system level diversification benefits;
- The effects of contagion risk, concentration risk and complexity risk in the group assessment of risk capital; and
- The effect of liquidity risk, or calls on the insurer's cash position, due to micro-economic factors (i.e., internal operational) and/or macro-economic factors (i.e., economic shifts). The insurer should demonstrate its resilience against severe but plausible liquidity stresses and whether the current liquidity position is within any liquidity risk appetite and/or limits. The insurer should also describe the policies and processes in place to manage liquidity risk, as well as contingency funding or other plans to mitigate potential liquidity stresses.

The goal of the group capital assessment is to provide an overall determination of risk capital needs for the insurer, based upon the nature, scale and complexity of risk within the group and its risk appetite, and to compare that risk capital to available capital to assess capital adequacy. Group assessment of risk capital should not be perceived as the minimum amount of capital before regulatory action will result (e.g., the triggers in the *Risk-Based Capital (RBC) for Insurers Model Act* (#312)); rather, it should be recognized that this is the capital needed within a holding company system to achieve its business objectives.

B. Prospective Solvency Assessment

The insurer's capital assessment process should be closely tied to business planning. To this end, the insurer should have a robust capital forecasting capability that supports its management of risk over the planning time horizon in line with its stated risk appetite. The forecasting process should consider material and relevant changes identified by the insurer to the insurer's internal operations and the external business environment. It should also consider the prospect of operating in both normal and stressed environments.

The insurer's prospective solvency assessment should demonstrate it has the financial resources necessary to execute its multi-year business plan in accordance with its stated risk appetite. If the insurer does not have the necessary available capital (in terms of quantity and/or quality) to meet its current and projected risk capital requirements then it should describe the management actions it has taken (or will take) to remedy any capital adequacy concerns. These management actions may include or describe any modifications to the business plan or identification of additional capital resources.

The prospective solvency assessment is, in effect, a feedback loop. The insurer should project its future financial position, including its projected economic and regulatory capital to assess its ability to meet the regulatory capital requirements. Factors to be considered are the insurer's current risk profile, its risk management policy, and its quality and level of capital, including any changes to its current risk profile caused by executing the multi-year business plan. The prospective solvency assessment should also consider both normal and stressed environments.

While the prospective solvency assessment includes capital projections, the prospective solvency assessment should also include a discussion of prospective risks impacting the capital projections. This discussion should address whether risk exposures are expected to increase or decrease in the future and what steps the insurer plans to take that may change its risk exposures. The term "prospective" should pertain to both existing risks likely to intensify and emerging risks with the potential to impact the insurer in the future.

If the prospective solvency assessment is performed for each individual insurer, the assessment should take into account any risks associated with group membership. Such an assessment may involve a review of any group solvency assessment and the methodology used to allocate group capital across insurance legal entities, as well as consideration of capital fungibility; i.e., any constraints on risk capital or the movement of risk capital to legal entities.

V. ADDITIONAL EXPECTATIONS FOR INTERNATIONALLY ACTIVE INSURANCE GROUPS

This section identifies additional enterprise risk management expectations that are applicable to IAIGs and should be discussed in the ORSA Summary Report. These expectations are generally consistent with elements outlined in the IAIS ComFrame and have been incorporated into this manual as deemed appropriate by state insurance regulators.

As stated earlier in this document, an aggregated ORSA Summary Report should be filed at the Head of the IAIG level. The Head of the IAIG should ensure that the risk management strategy and framework described in the ORSA encompass both the Head of the IAIG and the legal entities within the IAIG to promote a sound risk culture across the group.

The risk management strategy should be approved by the IAIG Board with regular risk management reporting provided to the IAIG Board or one of its committees.

The risk management framework should be integrated with the organizational structure of the IAIG and within its legal entities as appropriate to ensure that the decision making processes, business operations and risk culture of the IAIG are consistently implemented. In addition, the framework should allow for the measurement of risk exposures of the IAIG against established risk limits on an ongoing basis in order to identify potential concerns as early as possible. This framework should cover, at a minimum:

- The diversity and geographical reach of IAIG activities;
- The nature and degree of risks in individual legal entities and business lines;
- The aggregation of risks across entities;
- The interconnectedness of legal entities;
- The level of sophistication and functionality of information and reporting systems in addressing key risks;
- The applicable laws and regulations of the jurisdictions where the IAIG operates.

The risk management framework should promote a sound risk culture across all legal entities of the IAIG by having policies and processes that include risk management training, address independence, create appropriate incentives for staff involved in risk management and encourage timely evaluation and open communication of emerging risks that may be significant to the IAIG and its legal entities.

The risk management framework of the IAIG should be reviewed at least annually to ensure that existing and emerging risks as well as changes in structure and business strategy are taken into account. Necessary modifications and improvements to the risk management framework should be made in a timely manner.

The IAIG's ORSA should explain how the risk management function, the actuarial function and the internal audit function are involved in the risk management of the IAIG. The ORSA should explain the main activities of each of these functions. Furthermore, the ORSA should describe how the risk management function remains independent from risk taking activities. The ORSA should describe how the actuarial function is involved in the risk assessment and management of the risks emanating from the legal entities, in determining the IAIG's solvency position, in any actuarial-related modeling in the ORSA and in the annual reporting to the IAIG Board of Directors on the risks posed to the IAIG. Finally, the ORSA should describe how the audit function provides an independent assessment and assurance to the IAIG Board of Directors of the operational effectiveness of the internal controls incorporated into the risk management framework.

The risk management strategy and framework of an IAIG should be as consistent as possible across the legal entities with material differences only due to supervisory requirements in the jurisdictions where the IAIG operates and the risks associated with the business conducted in those jurisdictions. Any material differences should be described in the ORSA. The framework should include:

- Strategies, policies and processes to manage risks effectively and in a cross-border context for at least insurance risk, market risk, credit risk, liquidity risk, concentration risk, operational risk, group risk and strategic risk. The investment policies should ensure that assets are properly diversified and asset concentration risk is mitigated across the IAIG;
- Mechanisms to keep track of intra-group transactions that have a significant impact on the IAIG, the risks arising from these transactions and the qualitative and quantitative restrictions on these risks. These intra-group transactions may include for example, loans, guarantees, dividend payments, reinsurance, transactions across different financial services entities within the IAIG and any activity undertaken by individual legal entities that may change the risk profile of the IAIG;

- An economic capital model to measure all relevant and material risks that the IAIG faces in different sectors, jurisdictions and economic environments. The model should estimate the amount of capital needed in reasonably foreseeable adverse situations. The results of the model, how the risks were aggregated in the model, how the diversification benefit was estimated and the underlying assumptions used in the model should be presented in the ORSA. The ORSA should show both the economic and the regulatory capital at the Head of the IAIG level. A discussion of the fungibility of capital and the transferability of assets within the group should also be included;
- Risk measurements that include stress and reverse stress testing and scenario analysis deemed relevant to the risk profile of the IAIG as well as the resilience of its total balance sheet against plausible macroeconomic stresses;
- Risk measurements that assess the aggregate investment counterparty exposures and the effect of severe but plausible stress events on those exposures. In addition, the IAIG should have an investment counterparty risk appetite statement to determine if the current exposures are within the risk appetite and this should be presented in the ORSA.

The risk management framework should include a series of mechanisms to manage the IAIG's liquidity risk and demonstrate the IAIG's resilience against severe but plausible liquidity stresses. These mechanisms include:

- A liquidity risk appetite statement and liquidity risk limits to determine if the current liquidity position of the IAIG is within the risk appetite and the limits;
- Strategy, policies and processes to manage liquidity risk;
- Liquidity stress testing;
- An adequate level of unencumbered highly liquid assets;
- Contingency funding to mitigate potential liquidity stresses.

The group-wide supervisor should determine whether to require that the IAIG develop a formal recovery plan that identifies in advance options to restore the financial position and viability of the group if it comes under severe stress.The full recovery plan is not expected to be included in the ORSA Summary Report; however the ORSA Summary Report should discuss at a high-level the severe stresses that ~~w~~could trigger a recovery plan and the recovery options available.

The risk management framework should be independently reviewed at least once every three years, in order to ascertain that it remains fit for purpose based on the risk profile, structure and business strategy of the IAIG. The review may be carried out by an internal or external body as long as it is not responsible nor involved in the risk management framework that it reviews.

~~V.~~VI. APPENDIX – GLOSSARY

Term	Definition
Available Capital	The amount of resources that an enterprise has at a given point in time under a defined valuation or accounting basis (e.g., economic, statutory, GAAP, or a combination) to support its business and under the defined valuation represents the insurers assessment of the types of capital required to support its business.

Term	Definition
Conditional Tail Expectation (CTE) [Also known as Tail Value at Risk or TVaR]	A measure of the amount of risk that exists in the tail of a distribution of outcomes, expressed as the probability weighted average of the outcomes beyond a chosen point in the distribution. Typically expressed as CTE (1-x), which would be calculated as the probability weighted average of the worst x% of outcomes. For example, CTE 95 is calculated as the probability weighted average of the worst 5% of outcomes, CTE 97 is the probability weighted average of the worst 3% of outcomes, etc. CTE can be used as a way of defining a particular *security standard*.
Correlation Matrix	A symmetric matrix specifying pairwise interactions between a set of variables or data. A correlation matrix is commonly applied to risks or capital amounts and is an important determinant of calculated *risk capital,* including levels of *diversification*.
Deficit Capital	If the amount of *available capital* is less than the determined *risk capital* of an enterprise, then the enterprise is said to have *deficit capital*.
Defined Security Standard	Minimum threshold of *available capital* that a company wishes to achieve or maintain, consistent with the company's business strategy, *risk appetite* and *risk tolerance*.
Dependency Structure	Specification of the relationship between different variables. Commonly specified in a *correlation matrix.*
Diversification	The extent to which the combined impact of risks inherent to assets and liabilities is less than the sum of the impacts of each risk considered in isolation.
Double Gearing	Used to describe situations where multiple companies (typically parent and subsidiary) are using shared capital to buffer against risk occurring in separate entities.
Excess Capital	If the amount of *available capital* is greater than the determined *risk capital* of an enterprise, the enterprise is said to have *excess capital*.
Fungibility	Within a group context, the ability to redeploy *available capital* from one entity to another. Fungibility is reduced where the movement of *available capital* within the group is constrained or regulation prohibits it.
Group Capital	Group capital represents the aggregate *available capital* or *risk capital* for the entire group. It will be impacted by the interaction of the risks and capital of the individual entities within the group, with properties such as *diversification, fungibility* and the quality and form of capital being important drivers.
Internationally Active Insurance Group	An insurance holding company system meeting the following criteria: 1. Premiums written in at least three countries; 2. The percentage of gross premiums written outside the home country is at least ten percent (10%) of the insurance holding company system's total gross written premiums; and

Term	Definition
	~~2.~~3.Based on a three-year rolling average, the total assets of the insurance holding company system are at least fifty billion dollars ($50,000,000,000) or the total gross written premiums of the insurance holding company system are at least ten billion dollars ($10,000,000,000).
Probability of Ruin	Likelihood of liabilities exceeding assets for a given time horizon.
Risk Appetite	Documents the overall principles that a company follows with respect to risk-taking, given its business strategy, financial soundness objectives and capital resources. Often stated in qualitative terms, a risk appetite defines how an organization weighs strategic decisions and communicates its strategy to key stakeholders with respect to risk-taking. It is designed to enhance management's ability to make informed and effective business decisions while keeping risk exposures within acceptable boundaries.
Risk Capital	An amount of capital calculated to be sufficient to withstand adverse outcomes associated with various risks of an enterprise, up to a pre-defined *security standard*.
Risk Capital Metric	Quantitative variable used to gauge risk.
Risk Exposure	For each risk listed in the company's *risk profile*, the amount the company stands to lose due to that particular risk at a particular time, as indicated by a chosen metric.
Risk Limit	Typically quantitative boundaries that control the amount of risk that a company takes. Risk limits are typically more granular than *risk tolerances* and may be expressed at various levels of aggregation: by type of risk, category within a type of risk, product or line of business, or some other level of aggregation. Risk limits should be consistent with the company's overall *risk tolerance*.
Risk Profile	A delineation and description of the material risks to which an organization is exposed.
Risk Tolerance	The company's qualitative and quantitative boundaries around risk-taking, consistent with its *risk appetite*. Qualitative risk tolerances are useful to describe the company's preference for, or aversion to, particular types of risk, particularly for those risks that are difficult to measure. Quantitative risk tolerances are useful to set numerical limits for the amount of risk that a company is willing to take.
Reverse Stress Test	Analysis of those scenarios that would render the insurer insolvent.
Security Standard	The level of a *measurement metric* used to determine *risk capital*. It signifies the strength of capital, and in practice, should be chosen to be consistent with the *risk appetite* and *risk tolerance.*
Solvency	For a given accounting basis, the state where, and extent to which, assets exceed liabilities.
Stochastic Analysis	A methodology designed to attribute a probability distribution to a range of possible outcomes. May use closed form solutions, or

Term	Definition
	large numbers of scenarios in order to reflect the shape of the distribution.
Scenario Analysis	Analysis of the impact of possible future outcomes, based on alternative projected assumptions. This can include changes to a single assumption or combination of assumptions.
Stress Test	A type of scenario analysis in which the change in parameters is considered significantly adverse or even extreme.
Time Horizon	In the context of risk capital calculations, the period over which the impact of changes to risks is tested.
Value-at-Risk (VaR)	An estimate of the maximum loss over a certain period of time at a given confidence level.

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Appendix C – IAIG Risk Management Assessment Considerations

While the considerations provided in this template are generally applicable to all insurers/insurance groups filing an ORSA Summary Report, there are additional risk management assessment considerations for the supervision of Internationally Active Insurance Groups (IAIGs) that have been incorporated into this template. As such, U.S. lead states functioning as group-wide supervisors should document their assessment of specific IAIG risk management practices here, if not already addressed above.

1. Based on the analyst's review of the ORSA Summary Report and any additional information received, assess whether the Head of the IAIG ensures that the risk management strategy and ~~system~~ framework encompasses the levels of the Head of the IAIG and legal entities within the IAIG, promotes a sound risk culture, and covers:
    - diversity and geographical reach of activities;
    - nature and degree of risks in entities/business lines;
    - aggregation of risks across entities;
    - interconnectedness of entities; level of sophistication and functionality of IT/reporting systems at the group level; and
    - applicable laws and regulations.

2. Assess whether the risk management strategy is approved by the IAIG Board and implemented at the group level; with regular risk management reporting provided to the IAIG Board or one of its committees.

3. Assess whether the risk management function, the actuarial function and the internal audit function are involved in the risk management of the IAIG and which activities they perform.

~~3.~~ 4. Assess whether the risk management function coordinates and promotes consistent implementation of risk management practices at the group and legal entity level, with any material differences in practices being clearly documented and explained.

~~4.~~ 5. Assess whether the risk management function is adequately independent from risk taking activities.

~~5.~~ 6. Assess whether the head of the IAIG reviews, at least annually, the risk management ~~system~~ framework to ensure that existing and emerging risks as well as changes in structure and business strategy are taken into account.

VI.F. Group-Wide Supervision – Own Risk and Solvency Assessment (ORSA) Review Template

- Assess whether the group-wide risk assessment framework, or components thereof, is independently reviewed[1] at least once every three years, in order to ascertain that it remains fit for the risk profile, structure and business strategy of the IAIG~~purpose.~~
- Assess whether necessary modifications and improvements are made to the risk management ~~systems~~ framework in a timely manner.

~~6.~~7. Assess whether the following key elements are appropriately incorporated and addressed within the IAIG's ORSA framework:
- The ORSA should describe how risks are managed in a cross-border context across the IAIG. These risks should include at least: insurance risk, market risk, credit risk, liquidity risk, concentration risk, operational risk, group risk and strategic risk. The ORSA should also explain how assets are properly diversified and asset concentration risk is mitigated across the IAIG.
- Mechanisms to keep track of intra-group transactions that have a significant impact on the IAIG, the risks arising from these transactions and the qualitative and quantitative restrictions on these risks.
- The ORSA framework measures risks using an economic capital model that takes into account the risks faced in different sectors, jurisdictions and economic environments
- The ORSA shows both the economic and the regulatory capital at the Head of the IAIG level and it includes a discussion of the fungibility of capital and the transferability of asset within the group
- Risk measurement includes stress testing, including reverse stress testing and scenario analysis, as appropriate for its risk profile to demonstrate the resilience of its total balance sheet against plausible macroeconomic stresses
- Risk measurement also includes an assessment of aggregate investment counterparty exposures and analyzes the effect of stress events on those exposures through scenario analysis or stress testing
- The ORSA reports on the IAIG's management of liquidity risks and assesses its resilience against severe but plausible liquidity stresses to determine whether current exposures are within the liquidity risk appetite and limits
    - The ORSA demonstrates that the IAIG maintains an adequate level of unencumbered highly liquid assets in appropriate locations, as well as a contingency funding plan to mitigate potential stresses
- The ORSA discusses at a high-level the severe stresses that would trigger a recovery plan and the recovery options available. The ORSA should also discuss how the management information systems are able to produce information relevant to the recovery plan on a timely basis.

[1] Independent review could be performed by internal audit function, if deemed independent from risk management functions of the group

