

(Comments submitted by Robert Kasinow, New Jersey)**U.S. Own Risk and Solvency Assessment (ORSA) Proposal****Comment Submission**

Comments on this U.S. Own Risk and Solvency Assessment (ORSA) proposal should be addressed to Director Christina Urias, Chair of the International Solvency (EX) Working Group, and sent via e-mail to Kris DeFrain, NAIC, at kdefrain@naic.org. Comments should be submitted by **March 18, 2011**.

Introduction

1. As defined in the International Association of Insurance Supervisor (IAIS) Insurance Core Principle (ICP) 16, Enterprise Risk Management (ERM) is the process of identifying, assessing, measuring, monitoring, controlling and mitigating risks. ICP 16 applies to insurance legal entities and insurance groups with regard to risks posed to insurance legal entities by non-insurance entities within a group.
2. ERM involves the self-assessment of all reasonably foreseeable and relevant material risks and the interrelationships of risks faced by an insurer. ERM provides a link between the operational management of risk and the long-term business goals and strategies. Since ERM is primarily focused on the actions an insurer takes to manage and control risk, ERM is a rigorous discipline of enforcement of risk standards, policies and tolerance limits. In setting risk tolerance limits, the insurer must consider its current solvency position as well future solvency positions based on projected outcomes of scenarios run using a range of plausible future business assumptions which reflect sufficiently adverse scenarios.

Solvency Regime Requirements

3. ICP 16 imposes several requirements of the Solvency Regime related to ERM. The Solvency Regime must:
 - A. Require the insurer's ERM framework to provide for the identification and quantification of risk under a sufficiently wide range of outcomes using techniques which are appropriate to the nature, scale and complexity of the risks the insurer bears and adequate for capital management and solvency purposes.
 - B. Require the insurer's ERM process of risk identification and quantification to be supported by accurate documentation providing appropriately detailed descriptions and explanations of risks identified, the measurement approaches used, key assumptions made and outcomes of any plausible adverse scenarios that were run.
 - C. Require the insurer's ERM framework to include a risk management policy which:
 - Outlines how all relevant and material categories of risk are managed, both in the insurer's business strategy and its day-to-day operations.
 - Describes the relationship between the insurer's tolerance limits, regulatory capital requirements, economic capital and the processes and methods for monitoring risk.
 - Includes an explicit asset-liability management (ALM) policy which clearly specifies the nature, role and extent of ALM activities and the relationship with product development, pricing and investment management functions.
 - Includes an explicit investment policy which specifies the nature, role and extent of the insurer's investment activities, specifies how compliance with solvency regime investment requirements are performed and specifies explicit risk management procedures regarding more complex and less transparent classes of assets and investments in markets or instruments that are subject to less governance or regulation.
 - Includes explicit policies relating to underwriting risk.

- D. Require the insurer's ERM framework to establish and maintain a risk tolerance statement setting out overall quantitative and qualitative risk tolerance levels and limits taking into account relevant and material categories of risk and risk relationships.
- E. Require the insurer's ERM framework to use its risk tolerance levels and limits in its business strategy and its day-to-day operations via its risk management policies and procedures.
- F. Require the insurer's ERM framework to be responsive to changes in its risk profile and to incorporate a feedback loop based on appropriate and quality information, management processes and objective assessments enabling it to take necessary action in a timely manner in response to changes in its risk profile.
- G. Charge the insurer's Board and Senior Management with the responsibility of regularly performing its Own Risk and Solvency Assessment (ORSA) to assess the adequacy of its risk management and current and likely future solvency position.
- H. Require the insurer to address as part of its ORSA all reasonably foreseeable and relevant material risks including as a minimum underwriting, credit, market, operational and liquidity risks as well as any risks associated with group membership and identifying the relationship between risk management and the level and quality of financial resources needed and available.
- I. Require the insurer to determine as part of its ORSA the overall financial resources it needs to manage its business given its risk tolerance limits and business plans and demonstrate that supervisory regime requirements are met.
- J. Require the insurer to base its risk management actions on consideration of its economic capital, regulatory capital requirements and financial resources as determined in its ORSA.
- K. Require the insurer, as part of its ORSA, to assess the quality and adequacy of its capital resources to meet regulatory capital requirements and any additional capital needs.
- L. Require the insurer, as part of its ORSA, to analyze its ability to continue in business and the risk management and financial resources required to over a longer time horizon that is typically used to determine regulatory capital requirements.
- M. Require the insurer, as part of its ORSA, to address a combination of quantitative and qualitative elements in the medium and longer-term business strategy of the insurer and include projections of its future financial position and analysis of its ability to meet future regulatory capital requirements.
- N. Require the Supervisor to undertake the review of an insurer's risk management processes, the review of the insurer's financial condition and a review of the insurer's ORSA.
- O. Require the Supervisor to take action to strengthen the insurer's risk management, solvency assessment and capital management processes where necessary.

Comment [BIKASIN1]: It may be necessary to have legislation passed in some states to do this.

Compliance Requirements for U.S. Companies

I. Background

- 4. Over the past 20 years, U.S. state insurance regulators and insurance companies have been working toward a common goal of improving the processes for understanding and measuring risks inherent in the business of insurance. Recent examples include the introduction of the actuarial opinion and memorandum regulation in assessing the risk of formula reserve adequacy given the assets a company holds to fund those formula reserves, the implementation of actuarial guideline 43 addressing risks inherent in variable annuities that provide guaranteed death and living benefits, updates to the risk based capital framework addressing interest rate and market risk (C-3 Phase I and II), implementation of a risk focused financial examination process and the more recent work to implement a principle-based approach to valuation of insurance risk.
- 5. The principle-based approach to the valuation of insurance risk recognizes that insurance companies are diverse in the type and amount of insurance risk they assume as well as diverse in how they go about managing and mitigating insurance risk and as a result, there is not a "one size fits all" level of reserve or capital that should be established nor is there a "one size fits all" method of managing and mitigating insurance risk.

6. Given the need for a holistic approach to risk management, U.S. state insurance regulators believe that each insurance company legal entity must perform an ORSA and share that assessment with the state insurance regulators. As part of the ORSA, the insurance company legal entity must document their ERM process and disclose information about the risks the insurance company legal entity is exposed to and the magnitude of those risks and provide a prospective solvency assessment based upon the impact those risks have on the insurance company legal entity. Like a disaster recovery program, companies must keep the ORSA up-to-date through an annual update and review.
7. If an insurance company legal entity is part of a group of companies that includes other insurance and non-insurance legal entities, the ORSA needs to address any risks posed to the insurance legal entity by other insurance and non-insurance legal entities within the group due to any legal or contractual relationships between legal entities within the group.

II. Implementation Authority

8. Through state insurance statute and/or regulation, the state shall charge an insurance company's board of directors and/or senior management with conducting an annual ORSA and reporting the results of the ORSA to the state regulator. The state statute and/or regulation will address confidentiality protection of the ORSA. Such confidentiality protection will be similar to such protections granted to state insurance examinations under the state insurance examination statutes.

Comment [BIKASIN2]: Additional legislation needed here as stated. Becomes a time factor to get this done in 50 states.

III. Purpose

9. The purpose of charging the company's board of directors and/or senior management with conducting an ORSA is to insure that the company has developed a risk management policy that clearly identifies material risks and the amount of material risks the company is exposed to, how the company measures the amount of material risk, how the company expects to monitor, manage and mitigate those material risks and to insure that the company has communicated the risk management policy to all company management personnel so that they understand how their actions and decisions they make in executing the company's business strategy impacts overall risk tolerance limits. The company will document through the combination of qualitative elements of risk management policy and quantitative measures of risk exposure, their prospective solvency assessment which determines financial resources necessary for the next 3 – 5 years.
10. The ORSA will also assist the state insurance regulator in evaluating for each insurance company legal entity the amount of risk exposure and quality of the risk management processes within the insurance company legal entity thereby leading to a better allocation of regulatory resources in conducting risk focused financial examinations (frequency and depth of examination) and determining the overall financial condition of the insurance company legal entity. The ORSA will also assist U.S. insurance regulators in developing an understanding of the vital role the U.S. insurance industry plays in the U.S. economy and communicating that vital role to other domestic and international regulatory bodies.

Comment [BIKASIN3]: In this section the purpose is described. Suggest adding further clarification here on Prospective Solvency Assessment as a key purpose as described in Section 3. Edit below includes suggested wording to further emphasis the prospective piece.

Deleted: and economic and regulatory capital needed to continue to operate in a strong and healthy manner.

IV. U.S. Own Risk and Solvency Assessment (ORSA) Requirements

11. While the ORSA is completed entirely by the insurance company legal entity and therefore represents their internal risk management assessment, U.S. insurance regulators believe that the resulting U.S. ORSA output document should contain three major sections as follows:
 - **Section 1** - Description of the Risk Management Policy
 - **Section 2** - Quantitative Measurements of Risk Exposure in Normal and Stressed Environments
 - **Section 3** - Prospective Solvency Assessment

Section 1 – Description of the Risk Management Policy

12. Section 1 of the ORSA shall document in complete detail the company's risk management policy which shall identify all relevant and material risk categories and describe how those risk categories are

managed on a day-to-day operational basis as the company executes its business strategy. The risk management policy shall describe any processes and methods used for monitoring risk and shall include any risk tolerance statements and describe the relationship between any risk tolerance statements and capital requirements both regulatory and economic. Any risk tolerance statements shall include all quantitative and qualitative risk tolerance limits, how the tolerance statements and limits are determined, taking into account relevant and material categories of risk and risk relationships that are identified.

13. The risk management policy shall also include the company's investment policy which shall specify the nature, role and extent of the insurer's investment activities, how the investment policy complies with the solvency regime investment requirements and specifies explicit risk management procedures regarding more complex and less transparent classes of assets and investments in markets or instruments that may be subject to less governance or regulation. The investment policy shall address credit risk, market risk, liquidity risk and any counterparty risk that may be associated with any hedging programs. The ORSA shall provide the company's own internal analysis processes used to identify such risks and not rely exclusively on investment managers or rating agencies and their use of diversification to mitigate such risks.
14. The risk management policy shall also include any underwriting policy used by the company to manage underwriting risk and describe the relationship of the underwriting policy to product design and product pricing.
15. The risk management policy shall also include any claims underwriting or claims processing policies implemented by the company to manage any risks associated with determining whether claims are covered under the contract and how claim amounts are determined.
16. The risk management policy shall also include a description of any anti-fraud policies that have been implemented to detect fraud in filing of claims.
17. The risk management policy shall also include a description of any asset-liability management (ALM) activities which clearly specifies the nature, role and extent of ALM activities and the relationship with product development, pricing and investment management functions.
18. The risk management policy shall also include a description of any retention or conservation policy or program designed to retain assets, policies in force or market share. Such programs may include multiple coverage discounts, extra interest credits or other policyholder options.
19. The risk management policy shall also include a description of any reinsurance counterparty policy related to any reinsurance programs the company has in effect.
20. The risk management policy shall also include, if applicable, any management activities or policy related to processes of identifying, assessing, measuring, monitoring, controlling and mitigating risks associated with group membership.
21. The ORSA must also disclose how the company's management uses its risk management policy including any tolerance statements and limits in its day-to-day operations as it executes its business strategy. The ORSA must disclose company information, management processes, and assessment tools (feedback loops) used to monitor and respond to any changes in its risk profile due to economic changes, operational changes, or changes in its business strategy. The ORSA must also disclose how the risk management policy is related and tied to the determination of the amount and quality of its economic capital and regulatory capital.

Section 2 - Quantitative Measurements of Risk Exposure in Normal and Stressed Environments

22. Section 2 of the ORSA shall document the quantitative measurements of risk exposure in both normal and stressed environments for each risk category identified in Section 1. This quantitative

measurement process shall require a quantification of risks under a range of outcomes using risk measurement techniques that are appropriate to the nature, scale and complexity of the risks. Section 2 shall include detailed descriptions and explanations of the risks identified, the measurement approaches used, key assumptions made and outcomes of any plausible adverse scenarios that are run. Examples of relevant material risk categories may include, but not be limited to, credit, market, liquidity, cash flow mismatch, underwriting, claim, expense, operational and risks associated with group membership.

23. Attached are three examples that illustrate how the outcomes of risk measurement could be presented for risk categories identified within a life insurance company (attachment 1), a property casualty company (attachment 2) and a health insurance company (attachment 3). For each risk category identified, the minimum quantitative elements that should be reported are the notional amount of risk which identifies the total exposure the company has to that particular risk, the expected value of that risk under normal conditions which identifies the amount of expected payment under normal conditions due to that risk over the next year and the expected value of that risk under stressed conditions which identifies the amount of expected payment under stressed conditions due to that risk over the next year. The company shall also report for each risk category a reverse stress test which would identify, given the company's current economic capital, the level of the stress factor which would have to unfold to cause the insurer to fail. Reverse stress testing can be helpful in identifying the risks that are most likely to cause an insurer to fail.
24. Because the risk profile of each company is unique, U.S. insurance regulators do not believe there is a standard set of stress conditions that each company should run, however the regulator may have input regarding the level of stress that company management should consider for each risk category. Unless a particular assumption is stochastically modeled, the company management will be setting their assumptions regarding the expected values based on their current anticipated experience studies and what they expect to unfold over the next year. The regulator may provide input to company management on a stress factor that should be applied for a particular assumption that is not stochastically modeled. For assumptions that are stochastically modeled, the regulator 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.
25. By identifying each material risk category independently and reporting notional amounts, expected amounts in both normal and stressed conditions, company management and the regulator are in a much better position to evaluate certain risk combinations that could cause a company to fail. One of the most difficult exercises in modeling company 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.

Section 3 – Prospective Solvency Assessment

26. Section 3 of the ORSA shall document how the company combines the qualitative elements of its risk management policy and the quantitative measures of risk exposure in determining the level of financial resources it needs to manage its business over the longer term business cycle such as the next 3-5 years. Most companies, as part of their strategic planning process, compile a 3-5 year business plan. Section 3 of the ORSA shall contain a demonstration that; given the current capital requirements both economic and regulatory, the quality of that capital, the current risk management policy consisting of its current risk tolerance limits, current risk exposure amounts in both a normal and stressed environments and the projected 3-5 year business plan; the company has the financial resources necessary to execute its 3-5 year business plan. If the company does not have the necessary financial capital or quality of capital to execute the 3-5 year business plan, the company shall describe the management actions it will take or describe any modifications to the business plan it has made to resolve the adequacy of its financial capital.
27. The prospective solvency assessment is in effect a feedback loop. The company shall project its future financial position including its projected economic and regulatory capital to assess its ability to meet

the regulatory capital requirements given its current risk profile, its current risk management policy, its current quality and level of capital and reflecting any changes to its current risk profile caused by executing the 3-5 year business plan. The prospective solvency assessment shall also consider both normal and stressed environments.

28. Since the prospective solvency assessment will be done for each individual insurance company legal entity, the assessment shall take into account any risks associated with group membership. Such an assessment may involve a review of any group solvency assessment and consider any constraints on group capital or the movement of group capital to legal entities.

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March 18, 2011

To: DeFrain, Kris; Fritsch, Joseph
Cc: Caryn Bailey; Peltonen, Matti
Subject: Re: NY ERM document

NY fully supports the February 11, 2011 U.S. Own Risk and Solvency Assessment Proposal. Regarding Section II on Implementation Authority, we would suggest efforts be initiated to create a Model Rule to give states the authority to require an ORSA and ERM function of insurance companies.

Regarding smaller companies, we do not believe there should be a small company exclusion from the ORSA requirements as even the smallest companies have risks. We feel a requirement that states the ORSA should be in proportion to the size, nature and complexity of the company addresses small companies.

Regarding reporting requirements, we feel the attachments are a good first draft but need some enhancement. The method to quantify and report risks needs some more vetting. We suggest looking to other regulators around the world to see what they have done in terms of what they require to be reported.

NY has begun conducting ERM reviews in conjunction with the exam and is happy to share our experiences thus far and looks forward to working with the NAIC and the other states on this project.

Tim Nauheimer
Chief Risk Management Specialist
Office: 212 480-7213
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March 16, 2011

Director Christina Urias
Chair of the International Solvency (EX) Working Group

Director Urias:

Thank you for the opportunity to comment on the Own Risk and Solvency Assessment Proposal (“Proposal”). While it is obvious that a great deal of thought and effort has gone into the Proposal, Ohio has a number of questions and concerns.

The Proposal as written does not make an allowance for proportionality; therefore all insurance entities, regardless of size, would be subject to the cost of compliance. While Ohio believes that this Proposal makes sense for extremely large companies/groups that should already have an Own Risk and Solvency Assessment (ORSA) like process in place, we believe the requirements in the Proposal would impose an unnecessary burden on our small and medium size companies. Ohio does not believe that the benefits derived by the Proposal as written are sufficient to justify the costs of compliance.

In addition, not all of the proposed requirements are appropriate for every type of company. For example one would not need the same rigor in the asset-liability analysis of a health insurer as with a life insurer. The Proposal as written makes no such distinctions by type of insurance.

During regulator to regulator meetings, assertions were made that there would be a sizeable initial cost to develop the ORSA with a small maintenance cost thereafter. After reviewing the insurer’s requirements outlined in the *Solvency Regime Requirements* section of the Proposal, Ohio disagrees with the assertion that maintenance cost would be small. Are you able to provide cost studies that would support these assertions?

For those companies/groups required to complete an ORSA, the requirements seem quite prescriptive. Will the ORSA instructions be detailed and prescriptive as well or will companies have some flexibility in constructing ORSA’s that fit their individual business models?

How do we intend to eliminate the duplication of the Enterprise Risk Report (Form F) with the ORSA?

Is it anticipated that the Proposal’s capital adequacy requirements will replace the current Risk Based Capital requirements?

The Proposal does not identify the accompanying benefits that the insurer would receive from the ORSA. As written, the proposal may seem to some to be just another layer of regulation with no beneficial offset (reduced capital requirements, reduced examination fees)?

Paragraph 3 Section N of the Proposal requires the regulator to undertake a review of an insurer's risk management processes, the review of the insurer's financial condition and a review of the insurer's ORSA without defining the depth of the review. Currently a review of an insurer's risk management and financial condition would happen every three to five years during a risk focused exam. In Ohio, the Analysis Area reviews financial results regularly and meets with nationally significant companies every 18 months to review their financial results and their risk management. Would these reviews be deemed sufficient enough to meet this requirement? If not, what additional review or oversight is contemplated?

While paragraph 6 of the Proposal states that US state regulators believe that each insurance company legal entity must perform an ORSA, we have not found this to be the case. Rather, we believe most regulators would prefer a Group ORSA that addresses any specific risks posed by individual companies in the group not a series of individual ORSA's that each address group risks.

Paragraph 8 of the Proposal requires states' insurance statutes and/or regulations be changed to charge an insurance company's board of directors and/or senior management with conducting an annual ORSA. Ohio is concerned that no input has been solicited from state legislators on the Proposal. Ohio believes that the state regulators should be polled on the likelihood of passage of these changes to statute and/or regulations.

If you have any questions concerning Ohio's comments, please contact Bill Harrington at (614) 728-1067 or via e-mail at bill.harrington@insurance.ohio.gov.

Sincerely,

Mary Taylor
Lt. Governor/Director



AMERICAN ACADEMY *of* ACTUARIES

March 18, 2011

Director Christina Urias
Chair of the International Solvency (EX) Working Group
National Association of Insurance Commissioners (NAIC)
Via email: kdefrain@naic.org

The American Academy of Actuaries¹ ERM Committee is pleased to provide comments on the NAIC's International Solvency (EX) Working Group's *U.S. Own Risk and Solvency Assessment (ORSA) Proposal*.

We agree that introduction of an ORSA requirement into the US solvency framework could provide regulators with meaningful insights into a company's risk management practices. In addition, we recognize the regulatory principles described within the International Association of Insurance Supervisor (IAIS) Insurance Core Principle (ICP) 16, Enterprise Risk Management. Our prepared comments do not discuss or address these principles.

We are pleased that the NAIC clarified several of the questions that we raised within our [comment letter](#) dated October 4, 2010. Therefore, most of our Committee's recent discussion on this proposal focused on the regulatory reporting requirements identified in paragraph 11.

We understand that one of the primary goals of the NAIC is to develop an understanding of the processes by which insurers identify, assess, monitor, and mitigate risk. We believe that the intent of a US ORSA requirement is to provide regulators access to internally prepared ORSAs; it is not to create a separate "regulatory prescribed ORSA." We therefore reiterate the comment made in our prior letter that overly onerous or standardized reporting requirements will likely make the information less valuable to the regulators. We encourage the NAIC to focus on the appropriateness of the risk management assessments performed by insurers and allow for potentially wide diversity in the form of the reporting on this assessment.

As currently identified, the proposed US ORSA regulatory reporting requirements could prove to be very challenging for many insurers regardless of their size. The NAIC should consider a requirement that insurers provide a comprehensive initial report of the results of their ORSA, and then file subsequent reports based on material changes only. For example, while an insurer would provide a description of its material risks and risk management policies in the first reporting period, subsequent reporting would highlight only those material changes to the

¹The American Academy of Actuaries is a 17,000-member professional association whose mission is to serve the public on behalf of the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

policies and risk outcomes previously shared. This type of change-based reporting could benefit both regulators and insurers by mitigating the cost and effort of unnecessary regulatory reporting in subsequent periods while still providing the relevant information that the filing is intended to document.

In the remainder of this submission, we offer specific comments to select sections of the exposure draft:

- Paragraph 6 We strongly believe that ORSA should be conducted and reported on the same basis as risk is managed within an insurance group. Other requirements could create a level of compliance which is of less value to insurers and regulators. We do, however, recognize the need for state regulators to understand the specific risk profile of individual legal entities should it differ from the group. At a minimum, we strongly urge the NAIC to allow pooled reporting for members of inter-company pools since the risk profile of these entities would not differ by insurance legal entity.
- Paragraph 7 We agree that this reporting should be done as described in paragraph 7. We also agree that the risks associated with non-insurance entities within a group should be considered within an ORSA, especially if the risks arising from these entities could affect the risk profile of the group. We believe that an ORSA should cover all material risk exposures of the group, whether or not they are reported on the balance sheet.
- Paragraph 8 The frequency and extent of ORSA reporting should be dependent upon how the regulators intend to use the information provided. In most cases, annual reporting of the full ORSA would be a burdensome requirement of little practical use, particularly those of insurance groups with literally dozens of companies or on very small well capitalized companies with fewer available resources. Full annual reporting will also place an unnecessary burden on regulators to review literally hundreds of ORSAs in a short period of time. We acknowledge, however, that special circumstances such as an economic crisis or a significant change in risk profile or risk management approach may trigger a need for more frequent reporting. Weakly capitalized companies may also need more frequent reporting and analysis.
- An option discussed by the ERM Committee is a modified approach to this new requirement. While all insurers would be required to perform this assessment internally as part of their ERM activities, the frequency and extent of the regulatory reporting of ORSAs could be increased (e.g., annual reporting) for only certain insurers based upon criteria or triggers established by the regulators. Once the regulators are able to refine their intended use of this new information and develop their departments' internal resources and expertise required to review ORSAs, an appropriate reporting frequency could then be determined.

Also, to underscore a comment from our October 2010 communication, the need

for regulators to ensure the confidentiality of the information contained within the ORSA report is critical as it would likely include highly sensitive and proprietary information.

- Paragraph 9 We believe the ORSA should be the delegated responsibility of a senior officer of the management team with the appropriate level of experience, and the Board should provide an appropriate level of review and oversight.
- Paragraph 21 The ORSA report should contain an examination and quantification of any material deviation of actual risks from the risk tolerance levels established by the group, including whether this deviation is temporary, and any future plans/recommendations in this regard. Significant changes to risk tolerance levels should be communicated to and approved by the Board and discussed in the ORSA report.
- Paragraph 26 It is our understanding that three to five year business plans may not be as prevalent as currently envisioned within the proposal and, in situations where extended planning does take place, there may be less rigor to the business planning process for years three through five than for years one and two. The focus of the ORSA should be more about a company's ability to withstand multi-year stress scenarios than about multi-year business plans.

Thank you for this opportunity to comment. If you have any questions, please contact Tina Getachew, senior policy analyst, Risk Management and Financial Reporting Council, via email (getachew@actuary.org) or phone (202/223-8196).

Sincerely,



Maryellen Coggins
Chairperson, ERM Committee
Risk Management & Financial Reporting Council
American Academy of Actuaries

The members of the ERM Committee:

Mary Bahna-Nolan
Nancy Bennett
Rowen Bell
Wayne Blackburn
Maryellen Coggins, chairperson
Karen Detoro
Lijia Guo
Malgorzata Jankowiak-Roslanowska
Shiraz Jetha
Bruce Jones
Matthew Lantz
Joseph Lebens

Melissa Salton
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Thomas Rhodes
Larry Rubin
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Debbie Schwab
Poojan Shah
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March 18, 2011

Director Christina Urias
Arizona Department of Insurance
Chairwoman, International Solvency (EX) Working Group
kdefrain@naic.org

Re: ACLI Comments on Enterprise Risk Management/Own Risk and Solvency Assessment Proposal,
dated February 4, 2011

Dear Director Urias:

The American Council of Life Insurers (ACLI) represents more than 300 legal reserve life insurer and fraternal benefit society member companies operating in the United States. The member companies represent over 90% of the assets and premiums of the U.S. life insurance and annuity industry. We appreciate the opportunity to offer our views on the International Solvency (EX) Working Group's Enterprise Risk Management/Own Risk and Solvency Assessment Proposal dated February 4, 2011.

OVERVIEW

ACLI supports the NAIC's efforts.

We commend the International Solvency Working Group for taking into account many of the comments received on the Consultation Paper. The draft Proposal recognizes that insurers, their risks, and their risk management processes are diverse. It recognizes that enterprise risk management processes appropriate to the nature, scale, and complexity of each insurer cannot be formulaic or prescribed. We endorse these principles, believing them essential to effective risk management and to effective supervision.

ACLI believes that consideration of the scope and effectiveness of an insurer's risk management framework should be an integral part of the supervisor's assessment of an insurer's solvency. Our members believe that an insurer must have a sound process for assessing its capital adequacy in relation to its risk profile. That process must be integrated into its management processes and decision-making culture, and the culture must in turn embrace an active internal risk assessment and risk management processes. Our members would therefore support a requirement that an insurer regularly assess its reasonably foreseeable material risks to ensure that its total financial resources are adequate to meet its insurance obligations at all times.

Further, we understand that the Financial Stability Board's efforts to strengthen global financial stability are placing significant demands on functional regulators, including U.S. state insurance regulators. We offer to assist U.S. state insurance regulators and the NAIC in meeting those demands. Given the scope of those demands and the timetable for meeting them, a collaborative approach is critical to developing an effective proposal.

ACLI's proposal

Risk-focused financial examination: ACLI members believe the ORSA should be part of the risk-focused financial examination process. That context offers the best route to the best information. In that context, regulators would gain optimal understanding of the soundness of an insurer's enterprise risk management processes, including its internal modeling and ORSA. The examiner's one-on-one conversations with senior management during the examination will be more informative than any quantitative report, as an insurer's management would engage in a dialogue with the regulator.

We believe our common goal should be to add guidance to the Financial Condition Examiners' Handbook that would enhance the effectiveness of insurer-regulator communication about the insurer's risk management processes. We urge that the Working Group consult with financial examiners who have performed risk-focused exams, asking what has proved useful to them in understanding an insurer's risk management processes and what additions they might suggest to the Financial Condition Examiners' Handbook. It might be, for example, that adding a requirement for a qualitative summary of how an insurer manages itself—whether it uses a run-off approach, a one-year horizon, or a five-year horizon—would be useful to financial examiners mapping an insurer's or an insurance group's processes. Consideration might also be given to adding language to the Model Law on Examinations, given the May 2010 Detailed Assessment of Report by the IMF Team re ICP 18 on Risk Assessment and Management and new IAIS Insurance Core Principle 16. Developing appropriate guidance for Form F could provide timely and confidential updates to the home state regulator during the periods between financial examinations. We could also discuss whether a high level periodic certification might prove to be a helpful complement, with detail available upon request, for the home state regulator.

Confidentiality: An insurer's ORSA and the models it uses are highly sensitive proprietary information best protected in the context of a financial examination. We note also that the confidentiality protections constructed for sharing the Form F material under the new amendment to the Model Insurance Holding Company System Regulatory Act may be useful. We suggest the latter may need further discussion as the details of the construct have yet to be worked out.

ACLI's concerns about this proposal

We appreciate the drafters' thoughtful work in formulating this proposal. We express these concerns as part of our constructive approach to assisting state regulators in meeting the IMF's recommendations and the FSB's demands.

Coordination: We appreciate that, after the Austin Spring Meeting, further discussion of these issues will be joined with that of the recently released NAIC Proposed Group Capital Assessment for ORSA. We believe the discussion of these issues should also be coordinated with the implementation of Form F, as they are all closely tied. Closer coordination with other SMI working parties, such as the SMI RBC Working Group, would also be desirable.

Paradigm shift: U.S. insurance regulation has historically been liquidation-focused. It requires a life insurer to calculate its liabilities conservatively and to have sufficiently liquid assets to meet those liabilities, assuming immediate insolvency. It appears that this draft Proposal would create a new capital requirement—i.e., "going-concern" capital—in addition to RBC. It is unclear how any "going concern" capital requirement would fit into our current regulatory framework. We urge that regulators' goal be to

ensure that each insurer has robust enterprise risk management processes; an ORSA can be part of the documentary evidence to examiners that those processes are embedded into the company's culture.

Scope of Board's responsibility: Paragraphs 3.G, 8, and 9 of the Proposal would charge an insurer's Board of Directors with conducting an ORSA. This would not be workable under U.S. corporate governance law. Charging the Board with conducting such an analysis would not be consistent with the differing roles of the Board of Directors and senior management under well-established laws and practices in the U.S. The role of the Board is to establish the overall direction of the company and to oversee senior management's implementation of the company's goals and policies. Senior management is responsible for implementing proper risk management systems and internal controls, which would include performing an ORSA, while the Board would be responsible for overseeing such an assessment.

Lack of incentives: We believe that an insurer that manages its risks and capital well should be recognized and the level of supervision adapted; this does not mean a low level of supervision but rather a level of supervision more appropriate to the level of risk to which the insurer is exposed and its ability to manage such risk. We urge the Working Group to endorse the concept and to work with industry to implement more tailored risk-focused examinations.

Analysis of legal entity: Most insurers have established enterprise risk management frameworks and strategic business plans at a group level, not at the legal entity level. As a result, this proposal would seemingly require insurers to develop information that they neither possess nor believe is necessary, contrary to the intent of an Own Risk and Solvency Assessment. We believe that any ORSA should focus on risk at the group level.

Over-emphasis on prescribed quantification: We believe that it would be much more useful to regulators to add further guidance on risk-focused examinations to the Examiners' Handbook, as we noted above. That approach is more compatible with the U.S. regulatory framework and would also meet the Standards in ICP 16. More importantly, it has the most potential for giving our regulators the clearest view into how insurers describe and manage their risks. Any prescribed quantifications would likely fall well short of that goal.

TECHNICAL COMMENTS

Paragraph 3.G.: This paragraph revises the IAIS language in Standards 16.11 and 16.12. For reasons noted above, we think that the Board is not, and should not be, responsible for performing the ORSA. We realize that this restatement may be inadvertent; and we urge its revision to clarify that the Board's responsibility is to oversee senior management's conducting of the ORSA.

Paragraph 6: We believe, as we've noted above, that regulatory insight into an insurer's risk management processes, including its internal models and business plans, is most fruitful and most confidential within the context of a risk-focused examination.

Paragraph 8: We've noted above our concern with charging the Board with conducting an ORSA. We strongly urge that an insurer be required to share its risk management/ORSA with its home state regulator only.

Paragraph 9: As noted above, we believe that the Board should not be charged with conducting an ORSA.

Paragraph 10: We agree with the first sentence, *i.e.*, in principle, a proper framework for risk-focused examinations should provide incentives/rewards for insurers that manage their risks and capital well. We would appreciate further discussion of the second sentence, as we believe that NAIC members collectively have a clear understanding of the vital role of the U.S. insurance industry and have communicated that role effectively domestically and internationally.

Paragraph 12: This paragraph is overly prescriptive. It creates a significant risk of overwhelming both companies and regulators without obtaining the insightful information that informs. It also exceeds IAIS recommendations. Standard 16.2, for example, requires “appropriately detailed information,” not “complete detail.” Guidance 16.1.2 suggests that an ERM framework “should address all reasonably foreseeable and relevant material risks...,” not “all relevant...material risks.” Standard 16.3 recommends “outlin[ing]” how risk categories are managed, as distinguished from “describ[ing]” that. We strongly urge the Working Group to recognize that the value of risk management processes does not lie in the level of detail that they produce.

Paragraphs 13-21: These paragraphs imply that an insurer’s policies are policy statements rather than living processes and practices embedded in the insurer’s culture and operations. If policies are overly technical or not easily understood, they will not be used in day-to-day operations. The focus of the regulatory process should not be on the level of documentation present but rather on the extent to which a risk management culture is truly embedded into the operations of an insurer. That is why these considerations, among others, might be appropriately considered as additional guidance in the Examiners’ Handbook.

Paragraph 21: We request further discussion of the last sentence. IAIS Standard 16.14 recommends that an insurer be required to “determine the overall financial resources that it needs to manage its business...and to demonstrate that supervisory requirements are met...” In our view the last sentence of paragraph 21 is more prescriptive than the IAIS Standard. We think that makes the “answers” less useful to insurers and to regulators, obscuring insights into the insurer’s risk management processes and culture.

Again, the regulatory focus should be on the quality and effectiveness of the ERM program and processes in managing risk, not on setting prescriptive standards on contents and use of a risk policy statement. That insight, as we’ve noted, is most suited to the risk-focused examination process.

Paragraphs 22-25: We earnestly believe that such prescriptive quantifications do not inform. Insurers do calculate quantitative sensitivities and would share them with financial examiners. The issue is that quantifications alone are misleading; they tell only part of the story. We urge a less prescriptive and more process-oriented approach that occurs in the context of a risk-focused examination.

Paragraphs 26-28: We urge the Working Group to revise these paragraphs to focus regulatory and company attention on processes and culture rather than on numbers.

CONCLUSION

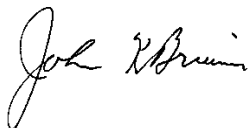
Our observations are offered in support of the NAIC's effort to meet the expectations being imposed on U.S. state-based insurance regulation. We believe that ICP 16—*Enterprise Risk Management* and its Standards can be met within the existing U.S. state-based insurance regulatory framework. We also believe that ICP 16 compliance can be achieved quickly and effectively by drafting guidance for financial examiners who are reviewing an ORSA as part of evaluating the entire scope of an insurer's enterprise risk management processes.

We urge that this effort might be accomplished by tasking subgroups to (1) review the NAIC Model Law on Examinations, (2) obtain input from examiners who have done risk-focused examinations on what guidance might be useful to them, and (3) obtain input from risk management professionals working in the insurance industry, including the new North American professional association of Chief Risk Officers. Reports with recommendations might be requested from these subgroups in preparation for an interim meeting scheduled for a time in early June. Subgroup members would then be asked to forward revised drafts to this Working Group by the end of June. That timetable would allow this Working Group to take action at the NAIC Summer National Meeting (August 29 – September 1). Decisions about how to proceed are, of course, the province of the Working Group and the Task Force. We offer this example timeline to show our commitment to the achieving the contemplated goal.

Very truly yours,



Carolyn Cobb
Vice President



John Bruins
Vice President & Senior Actuary



Robert Neill,
Senior Counsel

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March 18, 2011

VIA E-MAIL

Honorable Christina Urias
Chair
International Solvency (EX) Working Group

Honorable John Huff
Mr. Danny Saenz
Co-Chairs
Group Solvency Issues Work Group

National Association of Insurance Commissioners
444 N. Capitol Street, Suite 701
Washington, D.C. 20001

Dear Directors Urias and Huff and Mr. Saenz:

I write on behalf of America's Health Insurance Plans (AHIP). AHIP is the national trade association representing nearly 1300 member companies providing health, long-term care, dental, disability and supplemental coverage to more than 200 million Americans. We appreciate the opportunity to provide our input and thoughts regarding the recently released *Enterprise Risk Management/Own Risk and Solvency Assessment Proposal*. We have a number of thoughts on this project, which are outlined below.

These thoughts stem from our shared goal of ensuring that policyholder interests are protected. Consequently, our constituents' needs will best be met by using the right tools for the job. Our thoughts are variations on our belief that risk in the health insurance industry is unique; the nature and type of risks inherent in providing health insurance are very different from those found in life insurance, banking, property and casualty insurance, and other financial services industries.

Proportionality

As has been noted on a number of occasions, in the United States insurance market the variation in size, capacity and structure or business model among carriers, even within the same industry, is extraordinary. Nowhere is this more starkly illustrated than in the health sector, where carriers range from small non-profit companies organized to do business in only one county in one state to multi-national, publicly-traded conglomerates operating across many countries. Any kind of enterprise risk management (ERM) or Own Risk and Solvency Assessment (ORSA) proposal must take into account these wide variations in capacity and the varying levels of risk that carriers with different business models will have. A one-size-fits-all

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approach to solvency oversight will have the potentially perverse impact of creating solvency issues for the very carriers whose solvency it is intended to regulate; it is critical that the NAIC and industry have a uniform and clear understanding of what kind of risk analysis will be required, and that the analysis be appropriately tailored to the level of risk and the type of risk that different carriers assume. We therefore urge that the NAIC undertake a careful study and discussion of the burden and impact that any decisions regarding ORSA requirements will have on these companies.

In addition, as the NAIC works through the ORSA/ERM issues, it is critical to keep in mind that the appropriate treatment of health and financial services companies are quantitatively and qualitatively different. Health carriers will generally have short-term risks while life and property/casualty companies will have significantly more long-term risk. Also, health carriers are generally unique because at least in the comprehensive coverage arena, carriers will have an involvement with the provider of services prior to the services being rendered, through the vehicle of provider networks. This, too, must be taken into account as the NAIC develops the framework for internal risk assessment as the carrier involvement with the service providers significantly decreases many risk elements.

Streamlining and Uniformity

We urge the NAIC to be sensitive to the extraordinary effort that will likely be required of all carriers to complete a risk assessment appropriate to the company's risk profile. As discussed above, different types of carriers, those with different business models, and those with different books of business or levels of risk will all need much different levels of analysis. In order to streamline what can be an extremely costly and burdensome task, we suggest that once an initial ERM or risk assessment has been done, that the regulatory community focus on annual updates to issues, situations or environmental concerns that have changed rather than to require a completely new assessment each year.

The ORSA assessment results are required to be submitted to each state separately and potentially on different dates. Additionally, each state may have clarifying questions that the plans will need to respond to. This distribution mechanism multiplies the effort required to comply with the requirement. It is critical that the NAIC address uniformity up front and create a system that will minimize – not maximize – the burdens on carriers required to provide ORSA reports to their domiciliary regulators.

Granularity

We question the level of granularity that will be required of an ORSA or ERM. We note that there are a myriad of ways that an appropriate risk management can be undertaken, and that depending upon the size and type of carrier, varying levels of granularity are appropriate. The draft ORSA proposal dated February 4 does not make clear the level of specificity that will be required of carriers but, we note, the table provided along with the proposal suggests a single level of granularity. Use of a single level reduces the flexibility and potential usefulness of a

risk-management oriented approach. We urge the NAIC to take all appropriate opportunities to ensure that maximum flexibility is built into the final proposal in order to ensure that carriers can make the appropriate assessments for their situations.

Leveraging

We urge the NAIC to ensure that all existing and available documentation, such as SEC filings, work papers used to meet Model Audit Rule requirements or Sarbanes-Oxley Act reports, state examinations or any other risk examinations or reports are permitted to be included in ORSA reports and that carriers not be required to duplicate work already done. To the extent that these documents are available and contain relevant information, they should be incorporated by reference rather than duplicated.

Confidentiality

There must be clear, precise and strong confidentiality protections for any ORSA/ERM documentation. Discussions of internal risk management, forward looking financial protections, discussions of specific risk factors such as litigation risk are acutely sensitive and should not, under any circumstances, be available for general dissemination. Publicly traded companies are under strict requirements regarding the kind of financial information can be make publicly available before both the SEC and shareholders are notified. There are, as well, many states that have prior-notice requirements that could be violated should certain business decisions inadvertently be made public prematurely through an ORSA. And it is easy to understand how damaging it would be to any carrier should a competitor be able to access the carriers' internal business plans for the following three to five years. Regulators are certainly entitled to this information, but gathering it should not undermine the solvency of the very companies for which the review is intended.

Scope of Review

The ORSA requirement must be implemented at the appropriate level within a holding company group. That is, a rigid legal-entity rule will be ineffective in many situations where decision-making takes place at multiple levels within the group. Instead, the requirement must be tailored to apply at the corporate level within the enterprise where the risk analysis occurs. Enterprise risk management is generally understood to focus on risk at the enterprise level. It is therefore not effective to conduct the ORSA at a legal entity level, as the correlations and cross-enterprise risk view will be lost. Carriers that are not part of holding company systems will also have entirely different needs with respect to risk analysis than those in more complex systems.

Other General Questions and Comments

In general AHIP members did not find the concept of an ORSA requirement objectionable. They have noted, however, that the development of a proposal will require clear and detailed guidance in order to ensure consistent compliance and to ensure that the benefits of

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the ORSA outweigh the cost of implementation. Therefore, a clear road map from the NAIC regarding how the ORSA should be implemented in the states is critically important to ensure this consistency in compliance. A commitment by the NAIC to developing this clear and detailed guidance is critical.

As a first step in this development, it is important that regulators articulate clearly how the ORSA tool is intended to be used by the regulatory community, and how it will fit more broadly into the SMI framework. We question whether the ORSA is a tool primarily designed to assist regulators in gathering risk-based information, whether it is intended to assist preparers in strengthening ERM practices at the legal entity level, or whether it is, instead, intended to directly influence the determination of statutory capital. Under Solvency II, for example, the ORSA is part of an integrated approach that specifies integrated, minimum standards for reserves and capital using public accounting reporting values with adjustments that rely heavily on the use of company models. The United States, however, does not use this model; hence the reason for the ORSA requirement and the purposes for which it will be used will necessarily differ from the Solvency II regimes. It is vitally important that there be a general, and uniform, understanding of the basis for the ORSA requirement and how it will be used before specific details of the proposal can be commented upon.

We thank you for the opportunity to provide our initial comments on this proposal and we look forward to discussing these with you in greater detail as the proposal evolves. If you have any questions or need further information I may be reached at rreichel@mwlaw.com or at (202) 220.3061.

Sincerely,

MITCHELL, WILLIAMS, SELIG,
GATES & WOODYARD, P.L.L.C.

A handwritten signature in blue ink that reads "Randi Reichel".

By

Randi Reichel

cc: Kris DeFrain, NAIC (kdefrain@naic.org)
Mark Pratt, Senior Vice President (mpratt@ahip.org)
America's Health Insurance Plans

Candy Gallaher, Vice President (cgallaher@ahip.org)
America's Health Insurance Plans



March 17, 2011

Director Christina Urias
Chair, International Solvency Working Group
c/o National Association of Insurance Commissioners
2301 McGee Street, Suite 800
Kansas City, Missouri 64108-2662

Re: Comments on US Own Risk and Solvency Assessment Proposal

Dear Director Urias:

On behalf of the 39 independent members of the Blue Cross Blue Shield Association (BCBSA), who collectively provide health insurance benefits to nearly 100 million Americans, we appreciate the opportunity to provide comments to the International Solvency Working Group (Working Group) of the Solvency Modernization Initiative (SMI) Task Force regarding the draft of US Own Risk and Solvency Assessment (ORSA) proposal dated February 11, 2011.

While we understand the NAIC's desire to incorporate the Insurance Core Principle 16 of the International Association of Insurance Supervisors into the US systems, we have several concerns regarding the overall value of additional requirements given the current solvency system plus the scope of the requirements. Also, we believe that the current US solvency system is functioning well.

Comments on Value of Additional Requirements

1. During the recent period of major financial failures, the lack of insurer insolvencies has been a source of pride for the NAIC. This outcome suggests that the current solvency regulatory system is ample, if not robust. While there may always be room for improvement, it would be a stretch to suggest that the current system is broken and should be revamped. This proposal seems to increase the overall regulatory requirements without deriving tangible benefits. Therefore, we recommend focusing efforts on opportunities for improvement, such as the current initiative to identify missing risks within the RBC formulas and to recalibrate the formulas, rather than adding additional layers of regulatory requirements.
2. The proposal includes a broad scope of requirements, some of which are duplicative with or overlap with current requirements such as the risk-based capital model acts, the Management Discussion & Analysis, the Annual Financial Reporting Model Regulation, the Holding Company Model Act, and the Risk-Focused Surveillance Framework. Additionally, the Group Solvency Working Group of the SMI Task Force is considering another ORSA at the group level. We struggle to understand the need for overlapping regulations. We recommend that if the NAIC still believes that specific additional regulatory requirements are critical, then the Working Group should consider combining or consolidating many of the current requirements into one cohesive set.
3. The breadth of requirements outlined in the proposal would necessitate additional staffing for most Blue Plans in order to complete annual risk quantification and modeling. This comes at a time when insurers, especially health insurers, are under extreme pressure to lower administrative costs. An alternative may be to leverage existing reporting so as not to increase the administrative burden for compliance.

Comments on Requirements

4. The proposal refers to charging the company's board of directors with conducting the ORSA. We believe that this should not be the role of the board of directors but rather the role of management. The role of the board of directors is to ensure that management fulfills its duties and obligations, but to manage the company directly.
5. Many of the items included within the description of the risk management policy and the attachment do not apply to short-tailed health insurance business. We presume that it is acceptable to distinguish as such within the documentation.
6. The risks assumed by health plans vary from those of other types of carriers. Quantifying these risks may take quite a different form as contracts do not include specified values such as face amounts or property value. Health risks are more commonly measured in aggregate than at a policy level. We recommend inclusion of aggregate modeling language.
7. The requirement for stress testing would seem to be already significantly incorporated into the current solvency system. The first level of regulatory intervention is the company action level (currently set at a 200% RBC ratio). Carriers with capital above this threshold have, by definition, more resources to absorb some stress. We recommend that carriers with capital above a specified threshold (to be determined) not be required to perform an ORSA.

The absence of significant insurer failures in recent history is strong evidence that the current US solvency regulatory system is functioning well. Therefore, the regulatory benefit from requiring every legal entity within the US to perform an ORSA appears immaterial. However, the administrative costs could be substantial and seem to be unjustified at this time.

Thank you for your consideration of these comments. We look forward to participating in the continuing discussions of this issue during the upcoming conference calls and at the NAIC Spring National Meeting. Please contact me at 312.297.6093 if I can be of assistance in the interim.

Sincerely yours,



Shari Westerfield, FSA, MAAA
Actuary, Brand Protection & Financial Services

cc: Kris DeFrain, NAIC Staff



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March 17, 2011

Director Christina Urias
Chair of the International Solvency (EX) Working Group
c/o Kris DeFrain, Director, Actuarial and Statistical
National Association of Insurance Commissioners
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Kansas City, Mo 64108-2662
Via email:kdefrain@naic.org

Re: U.S. Own Risk and Solvency Assessment Proposal

Dear Director Urias:

We appreciate the opportunity to provide commentary on the NAIC's Own Risk and Solvency Assessment (ORSA) proposal. We believe it represents a positive first step toward implementing this developing international standard. We have historically taken the view that an organization with a robust enterprise risk management (ERM) culture has a comprehensive understanding of the potential risks to its operations and, accordingly, is in a position to effectively manage those risks going forward. To that end, our commentary, both general and technical in nature, offers suggestions to potential proposal modification that we believe is appropriately reflective of how ERM functions in actual practice.

General Comments

I. One item that we believe should be included in the proposal, as it is critical to realizing the ORSA objectives, is a discussion of the appropriate level of supervision required for those organizations possessing a strong risk management environment. The International Association of Insurance Supervisors (IAIS) Insurance Core Principal (ICP) 16, Enterprise Risk Management, from which the proposal is modeled, recognizes the importance of this concept and recommends the following in paragraph 16.3 thereof:

" ... an insurer that manages its risks and capital well should be recognized and the level of supervision adapted, noting that this does not mean a low level of supervision but rather a level of supervision appropriate to the level of risk to which the insurer is exposed and its ability to manage them."

We firmly believe this concept is critical for realization of the ORSA's stated objective of encouraging organizations to develop a strong risk management culture for making strategic decisions because

without such concept as a motivating factor, certain organizations may simply implement a minimal ERM environment needed to produce an ORSA output. One potential enticement could be to extend the duration between financial examinations for those organizations deemed to have a strong risk management environment. This would be appropriate since the goal of a risk-focused examination is to gain a better understanding of the risks impacting an organization and then determine if those risks are being adequately managed. The primary difference between the two is that the ORSA will provide both a real time assessment of these risks and a more prospective view, thereby allowing more time for the relevant parties to address any shortcomings. Accordingly, the primary objective of the risk-focused exam can be achieved through an annual review of an entity's ORSA reducing the need for frequent financial exams.

II. Our next general comment relates to the prescriptive nature in which the proposal requires an insurer to look at its risk management environment and the type of analysis required to be performed on an annual basis. For example, the current proposal includes a requirement that the ORSA be completed on a legal entity basis and additionally provides for the potential of an additional group-based ORSA requirement. Not only is this redundant, but it also is not consistent with manner in which most organizations currently review their risk environment. Mandating legal entity-level presentation is also inconsistent with the premise that the ORSA should be an output of an insurer's existing ERM environment and a regulatory resource to monitor that same environment. Most ERM programs look at risk holistically across an enterprise, recognizing where there may be concentration risks across legal entities, as well as diversification benefits. Viewing the risk at a legal entity-level is inconsistent with this approach. To address this point, we recommend allowing organizations the ability to complete and satisfy ORSA requirements in a manner that is consistent with their existing ERM protocol and infrastructure. Accordingly, a company that manages its operations at a group level should be able to present its ORSA on a group level only. This will ensure that the ORSA submitted is genuinely reflective of how the business risk is managed on a day-to-day basis.

III. Finally, like many U.S. insurance groups, we have a growing international operation and likely will be required to provide an ORSA to several different international jurisdictions in the very near future. We believe the ORSA standard should be consistently implemented internationally so that an organization can file the exact same ORSA in each required jurisdiction. Therefore, wherever possible, we request the flexibility necessary in preparing the ORSA so it can meet the needs of its various users.

Technical Comments

I. In Section I, we have concerns regarding the requirement that the entity's risk management policy be provided in "complete detail" to regulators on an annual basis. Our concern lies not with providing annual information to the regulators regarding our risk management policies, but with the fact that this information would need to be provided in "complete detail," a phrase easily interpreted in various ways. For perspective, the underwriting policies alone for most national multi-line property and casualty carriers could exceed several thousands pages. Our recommendation would be to submit an overview document annually highlighting the significant and material qualities of each risk management policy relevant to the solvency of the group. Such approach would provide the regulators with the relevant information they desire and not be burdened by a vast amount of information to sift through. If additional information is needed it could be requested by the regulators and submitted on an individual and confidential basis.

II. In Section II, while we agree with the premise that an organization should be free to select the relevant stresses impacting the organization, we strongly believe that there should be some uniformity in the confidence levels proscribed for utilization (e.g., a 1 in 200 return period on an after-tax basis). This standardization is necessary in order to provide some basis of comparability across organizations. While an argument can be made that not every stress impacts every organization, use of inconsistent confidence levels by reporting entities would impair regulators' ability to make meaningful comparisons of the relative level of risk taken by different reporting entities. This approach is also in line with what we understand is current positioning among European Union and Bermuda regulators regarding the ORSA .

As always, we are happy to engage in direct dialogue with NAIC regarding the commentary discussed herein or any related matters. We look forward to hearing from the Working Group on initiating such discussions.

Respectfully,

Jeffery C. Alton /dlu



335 Madison Avenue
New York, NY 10017-4605

March 18, 2011

Director Christina Urias
Chair of the International Solvency (EX) Working Group
c/o Kris DeFrain, Director, Actuarial and Statistical
National Association of Insurance Commissioners
2301 McGee Street, Suite 800
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Via email: kdefrain@naic.org

Dear Director Urias:

U.S. Own Risk and Solvency Assessment (ORSA) Proposal Comment Submission

The North American CRO Council ("CRO Council" or "Council") appreciates the opportunity to comment on the U.S. Own Risk and Solvency Assessment ("ORSA") Proposal exposed for public comment by the National Association of Insurance Commissioners ("NAIC") on February 11, 2011.

The CRO Council is a recently-formed professional association of the Chief Risk Officers of leading insurers based in the United States, Bermuda, and Canada. Member CROs represent 11 of the 15 largest Life insurers and 12 of the 15 largest Property & Casualty insurers in North America. The Council seeks to develop and promote best practices in risk management throughout the insurance industry, and has established an active agenda for 2011 that includes offering comments, briefings, or other forms of assistance to support the NAIC's Solvency Modernization Initiative.

As a body formed to promote best practices in risk management, the Council welcomes the introduction of risk management concepts and principles into the NAIC's regulatory framework. Further, we believe that it is becoming standard practice for insurers to identify material risks, measure the potential financial impact of those risks, develop plans to mitigate unacceptable risks, and assess the adequacy of their financial resources in relation to those risks. Many insurers are well along in developing the systems and processes needed to support this type of formal risk assessment and capital adequacy testing, and more companies are now beginning to report the results to their Boards. We expect that these systems and processes will be refined and strengthened over time, as insurers gain more experience with them. And, insightful regulatory review of these risk management systems and processes will strengthen solvency surveillance.

That being said, we have a number of concerns with the NAIC's current ORSA proposal. Rather than detailing numerous questions and comments on specific paragraphs of the proposal, this letter intentionally focuses on a number of "bigger picture" concerns, which we believe need to be addressed before it makes sense to go into further specific detail. It is our hope that through a process of open dialogue with the NAIC, we will continue to have an opportunity to support and provide input to the NAIC as these proposed regulations are developed.

Purpose of the regulatory review of the ORSA is not sufficiently clear

In our reading of the proposal, we did not see a sufficiently clear articulation of the principal objectives of the regulatory review of the company's ORSA. It is hard to evaluate the specifics of any proposed set of requirements without a clear understanding of how the ORSA review will be used by regulators. We

recommend the NAIC clarify its objectives and provide the needed context for the ORSA review, before developing its reporting requirements further. Specificity regarding the use of the regulators' review of the company's ORSA, including what types of regulatory actions could result from the review, will allow reporting requirements to be tailored to suit the objectives.

In our view, the most appropriate role for a regulatory review of the company's ORSA is to assure that the company has established a robust set of risk management systems, processes, and controls; and that these are used to guide the management of the company. This is a qualitative assessment, and its results could logically feed into the new risk-focused examination process. We suggest the NAIC consider strengthening its stated objectives for the ORSA review along these lines, including defining how the linkage to the examination process should work.

Given some of the concurrent work on other NAIC Solvency Modernization Initiative items, there appears to be overlap and conflict with the proposed regulatory review of the ORSA (for example, the Form F of the Model Holding Company Act also calls for an enterprise risk report). We would encourage the NAIC to provide more specificity on how these other proposals integrate and coordinate with the regulatory review of the ORSA, and into the NAIC's overall supervisory framework, before making substantive decisions about ORSA requirements.

Requirements need to be aligned with internal company risk management practices

The Council would like to stress the importance of the "own" in ORSA. The ORSA is an *internal* company assessment, through which the management of the company identifies and describes risk and solvency from its own corporate perspective. This would include the rationale and level of planned risks in relation to the company's risk appetite, the potential for liquidity or capital stresses to arise, and the ability of planned liquidity and capital facilities to respond. The function is comprehensive, in that it addresses all material risks (but not *all* risks, as suggested by the proposal), and is central to the internal strategic planning of the company. While the results will include some quantitative measures to be comprehensive, the conclusions will be more qualitative in nature.

Clearly, insurance companies vary significantly as to their resources, operations, and complexity, as well as their strategy. Thus internal ORSAs should vary considerably from company to company, as well as over time as best practices continue to emerge. Given these circumstances, a prescriptive approach to ORSA requirements is not likely to be effective. We therefore recommend allowing sufficient flexibility in the ORSA reporting to handle the full range of variation in company practices and potential qualitative conclusions. We encourage the NAIC to consider greater use of a principles-based approach in the development of its ORSA review requirements.

A major concern, upon reading the NAIC's draft requirements, is that the regulatory review of the company's ORSA has the potential to create additional compliance costs for the company, without corresponding benefits. For example, we would expect that many companies will conduct their internal ORSAs primarily at the enterprise level, with appropriate consideration of risks, returns, and capital utilization at the business unit level. In other words, as opposed to the NAIC proposal, in the internal ORSA the assessments will take place in a manner that is aligned with the internal business management structure of the company, which may not necessarily be fully aligned with its legal entity structure. For many large insurers, their network of legal entities is a product delivery system that is structured to meet a complex set of legal requirements by jurisdiction. The risks and capital requirements of these entities are monitored centrally, with due regard for local entity-level regulatory requirements. However, requiring ORSAs at the legal entity level in these cases would mandate extensive documentation and reporting that would be artificial and wasteful.

Similarly we would encourage the adoption of ORSA requirements that follow a uniform standard, to minimize the possibility of differing documentation requirements by jurisdiction (both across the fifty states and internationally).

Companies will, of course, document the results of their internal ORSA, so that the results can be communicated within the management of the company and to the Board. This documentation should be sufficient for an outside reviewer to gain an understanding of the work that was done, the results that were obtained, and the recommended actions that were developed — especially if the regulatory oversight process is supplemented with live interviews, presentations, and dialogue with those involved in conducting the internal ORSA. We would encourage the NAIC to consider looking at the sufficiency of existing internal documentation before defining extensive documentation requirements. Here again, a principles-based approach is likely to obtain a more workable result.

Given that the internal ORSA is a key process supporting the management of the business, one can reasonably expect that its significant results and conclusions will be shared with the company's Board. However, it is the Council's view that the Board's role in an ORSA, as in other aspects of corporate governance, is one of oversight rather than the actual performance of the analyses. As such, the responsibility for "regularly performing" the ORSA must remain with the insurer's managers or the "insurer" itself as referenced in Insurance Core Principle 16 of the International Association of Insurance Supervisors. We recommend the NAIC amend these references in its proposal accordingly.

The Council would like to stress the importance of confidentiality in the regulatory review of the company's ORSA. Data and analyses contained within the ORSA are likely to be proprietary, strategic and highly confidential; representing trade secrets that form the basis for decision making and competitive advantage in the marketplace. The Council strongly urges that the NAIC communicate a clear standard for the treatment of this confidential information; the standard should go beyond its standard policy for regulatory exams by providing explicit guidance on how state regulators will protect ORSA information and recourse for breaches of these mandatory confidentiality standards. It is also preferable that the ORSA materials and supporting documents remain in the possession of the company, available for regulatory review, rather than being filed with the regulator.

Given that ORSAs are central to risk management, the CRO Council is well-qualified to advise and support the NAIC in the development of regulatory review requirements. The Council would welcome the opportunity to continue to work with the NAIC in the continuing development of these regulations.

Sincerely,

A handwritten signature in blue ink, reading "Michael W. Mahaffey". The signature is fluid and cursive, with the first name "Michael" being the most prominent part.

Michael W. Mahaffey, Chair
North American CRO Council

Attachment

Participating Chief Risk Officers

Joel D. Aronchick	Chubb Group of Insurance Companies
Anant Bhalla	Lincoln Financial Group
Greg Elming	Principal Financial Group
Helen Galt	Prudential Financial, Inc.
Stephen Gruppo	TIAA-CREF
Alex Guertin	Great-West Lifeco Inc.
Michael W. Mahaffey	Nationwide Mutual Insurance Company
Beverly Margolian	Manulife Financial Corporation
Hank McMillan	Pacific Life Insurance Company
Gideon Pell	New York Life Insurance Company
Michel Perreault	Genworth Financial
Gary A. Poliner	Northwestern Mutual Life Insurance Company
Sean Ringsted	ACE Group
Jacob Rosengarten	XL Group plc
Sid Sankaran	American International Group
Paul Smith	State Farm Mutual Automobile Insurance Company
Sara Stehlik	The Progressive Corporation
Michael Stein	Reinsurance Group of America, Incorporated
Mike Stramaglia	Sun Life Assurance Company of Canada
Mike Temple	Unum Group
Mark Verheyen	CNA Financial Corporation
Steve Verney	The Allstate Corporation
Elizabeth Ward	Massachusetts Mutual Life Insurance Company
Lizabeth H. Zlatkus	The Hartford Financial Services Group, Inc.



March 18, 2011

Director Christina Urias
Arizona Department of Insurance
2910 N. 44th Street, Suite 210
Phoenix, AZ 85018-7269

Re: GNAIE Comments on Enterprise Risk Management/Own Risk and Solvency Assessment Proposal, dated February 4, 2011

The Group of North American Insurance Enterprises (GNAIE) welcomes the opportunity to provide comments to the NAIC on the International Solvency (EX) Working Group's Enterprise Risk Management/Own Risk and Solvency Assessment Proposal dated February 4, 2011.

GNAIE believes that consideration of the scope and effectiveness of an insurer's risk management framework should be an integral part of the supervisor's assessment of an insurer's solvency.

Basis for requirement:

A solvency regime's evaluation of Enterprise Risk should utilize an outcome based approach. An Own Risk and Solvency Assessment (ORSA) should be considered a company process and not an outcome. Rather than drafting a rigid definition of what is in an ORSA, the requirement should be more broadly interpreted such as "a regulatory solvency regime should evaluate an entity's enterprise risk management processes in light of their capital needs and available resources appropriately addressing all relevant and material risks." Such a broader goal would allow for a more flexible approach that fits better with the existing regulatory tools and is more compatible with the disparate nature of the U. S. insurance industry. Such an approach would allow for the use of the risk focused examination process as a primary tool to understand a company's risk exposure and related risk management processes.

Link to Risk Focused Examinations:

The use of the risk focused examination would provide a deeper understanding for the regulator and provide a more effective and efficient method of achieving the goal. Such an approach would allow for questions and dialogue between the regulator and company. The exam could be customized to the

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Executive Director

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examined company in accordance with its nature, scale, and complexity while avoiding unnecessary burdensome standardized reporting that may not otherwise be of benefit to the company.

We believe that the risk focused exam is the best place to review a company's ERM program. Because ERM is still an evolving science it is inappropriate, at this time, to embed detailed requirements into a model law or regulation. The criteria included in the ORSA proposal (particularly Section 1) would best fit, after appropriate changes, as examination guidance of common criteria generally found in ERM programs. It would provide a basis for examiner evaluation without setting out de-facto requirements for ERM programs. Such requirements would seem to cross the line between regulator and management. As ERM practices further evolve, it would be easier to change examination guidance rather than a model law or regulation.

The Risk Focused exam process already has in place confidentiality requirements necessary for the examination of the highly confidential material included in the ORSA.

Legal entity:

We are concerned with the requirement that an ORSA be provided on a legal entity basis. Most companies conduct their risk management program on a higher level: either on an enterprise wide basis or by groups of business (including pooling arrangements). Although some components of the ORSA may be built upon some analysis at a legal entity basis, much of the information requested is only available at a higher level. Any ORSA requirement should recognize that some information may not be available or may have little meaning (e.g. due to quota share pools) at the legal entity level

Annual reporting:

We believe that much of the information requested in the proposed ORSA will not change on an annual basis. To the extent interim information regarding a company's enterprise risk is necessary, we would suggest a scaled down requirement focused on changes to the company's enterprise risks or ERM program. Such interim reporting would simply build on the more detailed information collected during the previous examination.

A periodic ORSA filing would then only contain a high level summary of an insurer's risk management policy with the entire policy being available for review upon examination. Including the entire policy in complete detail would make the ORSA filing unmanageable due to the size of the policy for many insurers and would be an excessive data call which would serve little purpose. Regulators could also make a special request or perform a targeted or limited scope examination if concerns arise from the interim reporting.

Role of the Group supervisor:

A review of the ERM or ORSA process should be coordinated with the lead state or under the leadership of the group supervisor. It would be very burdensome to have multiple reviews of this material. Again, the risk focused examination process already includes coordinated efforts among states that could be leveraged for this review.

**Capital requirements:**

The SMI Task Force has confirmed the NAIC view that capital requirements will continue to be based on Risk Based Capital (RBC) methodology focused on minimum capital levels needed to identify weakly capitalized companies. We are concerned that the requirements in Section 3 comparing capital levels to economic capital needs embedded in 3-5 year business plans will become a de-facto secondary capital requirement. We urge the SMI to clarify its intent and further describe how section 3 results would be utilized.

Technical Issues:

- ERM analysis is done on multiple accounting bases, but do not include creating statutory projections for non-insurance companies.
- As stated earlier, some of the material to be included, such as claims settlement policies or anti-fraud practices, is already evaluated as part of SOX compliance or the risk focused exam. Such operational controls, while considered risk mitigation practices, do not rise to the level needing additional regulatory review.
- Care should be taken in identifying stress tests to be applied to all companies because of the varying nature of the risks faced by individual companies.
- Reverse stress testing is acceptable
- The role of cash flow testing should be considered.
- Notional amounts of exposure will not provide useful information for many product types and risk exposures (e.g., Workers Compensation).

We look forward to working with you in the development of the proposal and are prepared to speak to these points at the upcoming NAIC meetings.

Sincerely,

William R. Sergeant, CPA, CPCU, CLU, ChFC, FLMI
Chair, GNAIE Solvency Committee

Submitted by email to Kris DeFrain, NAIC, kdefrain@naic.org



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March 18, 2011

The Hon. Christina Urias, Chair
NAIC Solvency Modernization Task Force and
NAIC International Solvency Working Group
National Association of Insurance Commissioners
2301 McGee Street, Suite 800
Kansas City, Missouri 64108
By E-Mail
Attn.: Ms. Kris DeFrain, Mr. Larry Bruning

Dear Chairman Urias:

NAMIC is a trade association comprising approximately 1,300 mutual property-casualty member insurers domiciled in the United States and another 100 in Canada. Those members domiciled here write about 37 per cent of the annual property-casualty premium in this country. On behalf of those members NAMIC regularly participates in matters pending before NAIC bodies and does so here with respect to the Internal Risk Management Assessment, also known as an Own-Risk Solvency Assessment, proposed and discussed in concept in a February 4, 2011, NAIC memorandum.

We perceive the February 4, 2011, IRMA/ORSA memorandum as an effort to give form and substance to an incremental regulatory tool intended to require insurers to manage through attention to risks of assets and liabilities and to the current and prospective operating milieu those insurers face. We acknowledge that the discipline of enterprise risk management, or ERM, as articulated in IAIS Insurance Core Principle 16 and elsewhere, is utterly relevant to operation of an insurer—an entity in the business of accepting and carrying risk.

What galvanizes the reader of the February 4, proposal is its contemplation and description of a massive new regulatory filing. Fundamental questions of regulatory philosophy must be posed at the outset of this project that happens to be based on non-U. S. jurisdictions' judgments—yet unproven—as to what will efficiently regulate insurers. We state below what we believe is an accurate description of regulation's rational scope, costs, and limitations:

- Regulation can not perfectly preclude or prevent failure.
- The more a regulatory regime attempts such perfection or near perfection, the greater the cost and burden of that regulatory regime.
- An optimum that recognizes and balances the costs and burdens of regulation is the only tenable mode of regulation.

Those considerations and requirements, both qualitative and quantitative, described or specified in paragraphs 3. through 28., are indeed relevant in most cases for a) assessing management's structures and processes for managing risk and b) the solvency of the entity, yet we are given huge discomfort by the sheer mass of what is sought for an annual filing, e. g. (references are to paragraphs):

- 3.C. "how all relevant and material categories are managed"
- Ibid. "the relationship between the insurer's tolerance limits, regulatory capital requirements, economic capital ..." et seq.
- Ibid. "an explicit investment policy"
- Ibid. "explicit policies relating to underwriting risk."
- 3.H. "all reasonably foreseeable and relevant material risks"
- 3.K. "require the insurer ... to assess the quality and adequacy of its capital resources"
- 3.L. "analyze ...ability to stay in business ...and resources to continue in business over a longer time horizon"
- 3.M. "Address a combination of ...elements in the medium and longer term"
- 12. "Any risk-tolerance statements shall include all quantitative and quantitative risk-tolerance limits, how the the tolerance statements and limits are determined"
- 13. "The nature, role, and extent of the insurer's investment activities, how the investment policy complies with the solvency regime investment requirements"
- 14. "any underwriting policy used by the company to manage underwriting risk"
- 15. "any claims underwriting or claims processing policies ...to manage risks"

These examples comprise significantly less than half the specifications for components of the IRMA as described in the February 4, document. Many of the responses sought here would exceed thirty pages. Some, including those not listed, would require more—plus supporting schedules.

Is it within the capabilities of the states to annually review such a behemoth compliance filing? Will management incompetence or criminality be precluded or diminished? How many different species of regulator-analysts would be required to competently review such annual filings? For what tenable reason should these data be filed annually, if they do not change?

Again, we do not deny the relevance for managing an insurer of most of this compliance reporting. However, we vigorously contest a) regulators' need for such massive filing and

b) their capacity to analyze and to practically use such potentially massive amounts of data.

Perhaps the February 4, document is intended only as an expression of concept, rather than a framework for further specification and detailing of respondent insurers' filing requirements. We hope it is the former, but its plain language, especially when read with IAIS Insurance Core Principle 16, suggests it is a framework for an objectionably massive compliance filing. The "principles-v.-rules" debate and the "one size does not fit all" dictum become irrelevant in the shadow of such a potentially mountainous filing.

Is the purpose of the proposed IRMA/ORSA to give comfort to regulators that reasonable ERM processes and structures are in place and that solvency is or is not projected? Perhaps such comfort—or evidentiary material for recriminations—can be purchased at far less cost by telescoping the mass that is visible now into a small number of pages under the board's statement that it has caused management to exercise all appropriate prudence in stewardship of the insurer's assets and satisfaction of obligations and planning for viable future operation. We suggest that these assurances—or relevant admissions of departure from an "all-clear" status—could be made in ten pages that touch generally on the ERM and solvency topics discussed in the February 4, concept document.

What argues mostly strongly, we suggest, for this compaction of a potentially monumental filing from large insurers, is that financial examinations are conducted now largely on a risk-focused basis and would duplicate insurers' efforts required for an insurer's IRMA/ORSA filing. The testing and observation done by financial examiners can be enhanced to encompass the prospective solvency questions posed in the concept document. A compacted ORSA/IRMA filing should recognize observations or shortcomings noted in financial examiners' reports. Moreover, the separate and independent observations made by examiners should allow very substantial reduction of the concept document's very large set of prescriptions.

The February 4, concept document does not, and *we believe should*, acknowledge the "proportionality" principle described in Solvency II. We suggest the following, in recognition of that principle:

- For a given industry, e. g. property-casualty, life-health) those insurers with less than, for example, \$500 million in direct premium should be exempt from an IRMA/ORSA filing. Small insurers, perhaps the bottom quintile in terms of the total premium in each sector of the primary industry, should be candidates for such an exemption.
- Insurers of medium size might be subject to a standard set of ERM and solvency screens—even to the extent of checking the box.
- Great saving of filing effort can be made via recognition of information from and findings made in periodic, risk-based financial examinations. The same may also be true with respect to the annual independent audit.

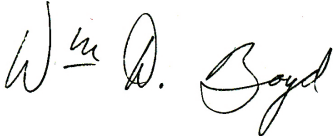
- Any primary insurer ceding the majority of its risk, e. g. greater than 80 per cent, need not comply with an IRMA/ORSA.

Whatever the form and substance sought in a refined proposal intended for application, a gradual, i. e. “piloted” approach is most rational. Even a proposal that is drastically reduced in scope or volume or both, should be subject to a “shakedown” or test period that allows subject insurers and regulators to reach common ground in some degree. The largest insurers may be best qualified for such a beginning, with smaller insurers following.

Mutual insurers, we hasten to remind readers of these comments, experience insolvencies at a rate significantly lower than that present with public or privately owned insurers. Significant among reasons for that lower incidence of insolvency is that mutual insurers’ access to the capital markets is highly circumscribed in comparison with that of investor-owned insurers, and that constrained access motivates a more conservative approach to risks carried and the capital required to safely support those risks.

Finally, we reiterate our profound concern that such a monumental compliance/analytic tool as described in the February 4, memorandum generates regulatory cost for both insurers and regulators far in excess of what is practical and efficient. The insurance industry, we would remind the Working Group, has somehow survived rather well without the incremental and potentially monumental filing addresse here.

Respectfully,

A handwritten signature in black ink, appearing to read "Wm D. Boyd". The signature is fluid and cursive, with the first name "Wm" and last name "Boyd" clearly distinguishable.

William Boyd, CPA
Financial Regulation Manager



Property Casualty Insurers
Association of America
Shaping the Future of American Insurance

Stephen W. Broadie
Vice President, Financial Policy

March 18, 2011

Director Christina Urias
Arizona Department of Insurance
Chair, NAIC International Solvency (EX) Working Group
2910 N. 44th Street, Suite 210
Phoenix, AZ 85108-7269

Re: U.S. Own Risk and Solvency Assessment (ORSA) Proposal

Dear Director Urias,

The Property Casualty Insurers Association of America (PCI) is pleased to comment on the Working Group's ORSA proposal. PCI represents over 1000 member property/casualty insurers which write over \$174 billion in direct written premiums annually, over 37% of the property/casualty premiums written in the United States. PCI's membership ranges from the largest international groups to small, single-state writers, giving us the broadest cross-section of insurers of any national property/casualty trade association.

PCI strongly supports effective and efficient regulatory oversight of insurer enterprise risk management (ERM). Risk management is what our members do, and they are justly proud of it. As the U.S. reviews potential application of the ORSA concept developed in Solvency II and discussed in the standards supporting Insurance Core Principle (ICP) 16, we believe that regulators need to recognize the extent to which review of insurer ERM is already part of the NAIC's risk-focused examination process and integrate any additional requirements with that process. Our comments begin with general concepts that we believe should govern the development of a U.S. ORSA, and we will then discuss specific paragraphs in the draft proposal.

Key concepts

- Insurer ERM should be assessed at the level at which the insurance enterprise actually performs its risk management. If an insurance group performs its ERM at the holding company level, the insurance group level, or at subgroup level, a legal entity-based ORSA requirement will be unworkable. The solvency of an individual member of a group of companies is generally heavily dependent on the solvency of the group, and in most instances groups do not manage their risk and business operations at the individual company level. Additionally, for companies within a group, requiring an ORSA at the individual company level does not properly reflect the effects of diversification. For these reasons, a group ORSA would be more informative than an individual company ORSA.
- Any ORSA requirement must be integrated with the risk-focused examination process. This requires review of the ERM analysis that is already contained in the NAIC's Financial Condition Examiners Handbook, and a conscious decision as to what requirements, if any, should be added. Otherwise imposition of an ORSA atop the examination process will waste company and regulator resources without providing a commensurate benefit in improved solvency regulation.
- Proportionality is critical. Application of a full-blown ORSA process to all insurers is disproportionate to the solvency risk that smaller and simpler insurers pose, and would require regulatory resources that do not exist. Depending upon the additional requirements to be imposed, we suggest that the NAIC consider adding portions of the ORSA as levels of company size and complexity increase.

- Application of the ORSA should be as flexible as possible. Insurer ERM should be assessed using methods which the insurance enterprise actually uses in performing its risk management. The purpose of the ORSA should be to assess the insurer's risk management process, not to impose a new parallel process that is duplicative and inconsistent. This means that the ORSA process should have the flexibility to evaluate the different ERM processes that different insurers use. Some insurers may use full internal models, while others may not. The ORSA should appropriately evaluate model use for insurers that use models, but should not impose models upon insurers that do not believe it is appropriate to use them.
- Any information requests must be proportionate to the need for and difficulty of providing that information. The ORSA will likely require a significant amount of resources and time to prepare. The drafters of the ORSA requirement should be sensitive to the detail being requested and make sure that
 - The information requested is consistent with the objective of an ORSA, and can be generated in a cost-effective manner.
 - The information requested is not contained in other filings. If the information is provided in other filings, and is important to the ORSA, the information should either no longer be requested under a separate filing or the regulators should obtain the information from the previously filed information.
 - A full ORSA should not be required on an annual basis, although material changes should be reported annually (the full ORSA should be included in the company's financial examination and updated for material changes in the interim).
 - An effective date should be provided that allows companies enough time to prepare for the disclosure requirements.
 - The ORSA information and other requirements should be coordinated with other NAIC and international initiatives (such as the IAIS' ComFrame project and other NAIC Solvency Modernization Initiative proposals). One ORSA should be implemented that can cross state and national borders.
 - The ORSA involves sophisticated analytical techniques and concepts. The Working Group should consider the level of training and increased expertise that will be needed at the state insurance department level.
 - Data prepared for rating agencies should be suitable for use in the ORSA at the company's option. For example, A.M. Best's questionnaire includes an ERM section and capital is stress-tested for catastrophe events.
- Confidentiality is critical. The ORSA concept requires provision of highly-proprietary information that could cause extreme competitive harm if publicly disclosed. We appreciate that the proposal mentions this concern and suggests that the examination law confidentiality provisions should apply, but some states have not enacted those provisions. If an ORSA Model Law is drafted, it must have adequate confidentiality provisions.
- Companies/groups should only be required to file their ORSA with their lead regulator. This is necessary for the process to be efficient and in order to protect confidential information.
- Companies disclosing "forward-looking information" must be protected.

Comments on specific paragraphs

Our comments on specific paragraphs follow:

- Paragraph 5 (and wherever else the legal entity requirement appears) – The ORSA for insurance groups should be performed at the level at which the group performs its ERM. The concept of proportionality should also apply, and small legal entities should not be required to perform an ORSA.

- Paragraph 10 – The last sentence should be deleted. We fail to see how reviewing ORSAs will help regulators “understand the vital role the U.S. insurance industry plays in the U.S. economy” and communicate that role to international supervisors.
- Paragraph 12 and the following paragraphs require excessive detail. In particular the phrase “in complete detail” in paragraph 12 should be deleted. The stated purpose of the ORSA is for a company to perform its own risk assessment and provide information on that assessment to the regulators. Much of the information required in these paragraphs does not add to or facilitate a company’s self-assessment. The ERM policies and the other policies mentioned are reviewed in detail as part of a risk-focused examination and should not be separately required in the ORSA.
- Paragraph 23 – For property/casualty insurers, it is not clear what “notional amount of risk” is intended to mean. This concept is not in general use in the property/casualty business. If it is intended to mean the maximum amount of exposure on all contracts, it is neither appropriate nor relevant.
- Paragraph 26 – We believe strongly that the last sentence should be deleted. Otherwise the proposal is creating an entirely new and unjustified economic capital-based risk-based capital action level. In the risk-based capital system, the NAIC and the states have set forth the capital levels they deem to be inadequate (and revision of RBC requirements is a separate part of the Solvency Modernization Initiative). It is fundamental to our regulatory system that companies should be free to choose the capital levels (in excess of RBC requirements) at which they intend to operate. The requirement proposed here would be a significant (and we believe harmful) change to the U.S. regulatory system.
- Paragraph 28 – The paragraph should read “If the prospective solvency assessment will be done at the individual insurance company legal entity level, ...”). This allows for a clear view of diversification and concentration of risks across the enterprise for those companies that choose to perform the ORSA at a legal entity level while ensuring that companies that perform the ORSA at the group level are not required to also conduct this exercise at the legal entity level. Most companies manage their ERM program at the enterprise level and the ORSA should be consistent with an insurer’s internal risk management programs.

PCI looks forward to discussing these comments with you and the Working Group in more detail at the upcoming Austin NAIC meeting. If you, other members of the Working Group or NAIC staff have any questions or comments about our views in the meantime, please contact me at your convenience.

Sincerely,



Stephen W. Broadie

Via E-Mail

March 18, 2011

Director Christina Urias, Chair
NAIC International Solvency (EX) Working Group
Arizona Department of Insurance
2910 North 44th Street, Suite 210
Phoenix, Arizona 85018

Re: RAA Comments on NAIC U.S. ORSA Proposal

Dear Director Urias:

The RAA is the leading trade association of property and casualty reinsurers and life reinsurers doing business in the United States. RAA membership is diverse, including reinsurance underwriters and intermediaries licensed in the U.S. and those that conduct business on a cross border basis. RAA members maintain sophisticated enterprise risk management (ERM) systems and many are, or will be subject to ORSA requirements in other jurisdictions.

The RAA appreciates the opportunity to comment on the NAIC's U.S. Own Risk and Solvency Assessment (ORSA) proposal dated February 11. We appreciate the considerable effort involved in drafting the proposal and support the development of an appropriately designed U.S. ORSA requirement.

General Observation

The RAA believes that an appropriately designed U.S. ORSA requirement will encourage the improvement of ERM processes among U.S. insurance enterprises, will enhance regulators' understanding of how insurers evaluate and manage their risks and will help to ensure that the existing high quality standard of U.S. regulation is recognized by other jurisdictions. We believe that the most important and basic element of a properly designed ORSA requirement is that it be principles-based and flexible so that compliance is a logical extension of an entity's or group's existing ERM processes.

ICP 16 and the NAIC proposal recognize to varying degrees that different approaches to ERM are appropriate depending on the nature scale and complexity of an insurer's risks as well as the availability of reliable data (ICP 16.1.7). To be effective, the insurance enterprise's ERM framework must be tailored to its business model so that it is integrated into its overall business strategy and its day-to day operations. An appropriate ORSA requirement must not be overly prescriptive and instead should reflect how the insurance enterprise measures, evaluates and responds to its risks. The integrated relationship of an insurer's ERM framework and the IAIS ORSA requirement is clearly illustrated in Figure 16.1 of ICP 16.

An advantage of a principles-based ORSA is that it would be applied in a manner consistent with the insurer's/group's business model and the unique nature, scale and complexity of its risks. We believe such a filing would be more informative to U.S. regulators than a prescriptive approach that requires

standard risk tolerances, specified time horizons and/or prescribed stress scenarios that may or may not be appropriate to every situation.

Group versus Legal Entity

Our understanding of ICP 16 leads us to conclude that the NAIC ORSA proposal should not be required on a legal entity basis. Consistent with their business model, reinsurers typically design and implement their ERM processes on a group or supra-entity basis. This means that while risk policies, risk identification and risk tolerances are maintained, measured and evaluated at the legal entity level, they are “rolled-up” into a higher overall evaluation by management for decision making purposes. We believe that most direct insurance groups follow similar practices. The explanation for this is that reinsurers’ and other insurance groups’ business models rely on diversification benefits and portfolio effects across several pools of capital. While entity level solvency and compliance with minimum regulatory capital levels are critical, we believe the ORSA requirement must pass the “use test” and reflect how the overall enterprise (group) is managed.

A shift in focus to a group level ORSA will also address other concerns that we have with the NAIC proposal. First, documentation of risk management (RM) policies, quantification and modeling of risk exposures and prospective solvency assessment on a legal entity basis in an annual ORSA filing would be cost prohibitive. We do not believe that the resulting disaggregated risk information would be useful to regulators. It would be too voluminous and would not provide insight about how the business is managed. Second, the risk management framework is typically set by holding company management and approved by the holding company board. Detailed documentation of (RM) policies, risk tolerance statements and quantitative measures of risk exposure are not normally performed or determined on a legal entity level. Instead, these elements are more often established at the holding company or supra-entity level and then applied by subsidiary entities as part of the overall group’s ERM system.

Third, a shift in focus to a group level ORSA would address the developing proposal by the Group Solvency Issues (EX) Working Group for a group capital assessment. We understand that the NAIC intends to address group capital in response to the Financial Sector Assessment Program (FSAP) recommendations. We believe that existing ERM practices performed on a group basis will provide the perspective of economic capital for the holding company system that is required for this purpose. Finally, the RAA believes that a group level ORSA would meet the new annual enterprise risk filing requirement in the recently revised holding company act.

As noted above, we recognize the importance to U.S. regulators of entity level solvency including compliance with minimum capital requirements. To address these concerns, a group level ORSA could include qualitative disclosure of risks that may have a material impact to the regulatory minimum capital of individual insurance legal entities. We do not believe that modeling of individual stress scenarios and prospective solvency assessments is practical for individual insurance legal entities on an annual basis.

Instead, these issues should be evaluated by the domestic insurance regulator as part of the periodic risk focused examination. During the examination of individual insurers, regulators should evaluate the entities’ policies and ERM processes to gain an understanding of how management uses the information in its strategic planning, day to day operations and critically, how it rolls-up into the overall ERM framework and group level ORSA.

Cross-Border Applicability

Many U.S. reinsurers are subsidiaries of groups domiciled in other major insurance jurisdictions. Most U.S. domiciled reinsurance groups also operate in major offshore markets through subsidiaries or branch

operations. Since one benefit of the ORSA is to ensure compliance with the FSAP and achieve U.S. equivalence, ORSA filings should meet the ICP 16 standard and be generally consistent regardless of home jurisdiction.

The RAA recommends that the U.S. ORSA guidance include a provision to accept an offshore (re)insurance group's ICP 16 equivalent ORSA as an optional mode of compliance. The alternative of filing separate unique ORSA's in every jurisdiction would be unnecessarily burdensome and is contrary to the objectives of the IAIS standards and the FSAP program. U.S. acceptance of offshore group ORSA filings should encourage other jurisdictions to accept appropriately designed U.S. ORSA filings to meet their requirements, which will similarly benefit U.S. based insurance groups that operate globally.

Relationship to Entity Level Risk-Based Capital

The RAA believes that the NAIC should carefully consider the relationship between entity level RBC and the proposed ORSA. Section 3 of the proposal requires a prospective quantitative solvency assessment on both an economic and regulatory basis over a prescribed time horizon. In substance, this creates two new entity level RBC capital requirements since the ORSA requires documentation of a company action plan to describe how it will remediate any projected capital shortfall under both stressed and normal scenarios.

The first new RBC requirement is a stress scenario for statutory RBC over a 3 to 5 year time horizon. The second new RBC requirement is an economic or going concern stress scenario over the same prospective period. We do not believe an entity level, economic and forward looking RBC is appropriate or necessary. A prospective statutory RBC calculation is problematic, because most ERM frameworks do not measure risks or capital levels on a statutory accounting basis. This is particularly true for groups that contain non-insurance entities or non-U.S. (re)insurers.

Given the demonstrated success of the U.S. regulatory system in preventing major insolvencies over the last decade or more, we question whether the development of these new RBC requirements is necessary. We also question whether state regulators have the existing authority to require changes to an insurer's business plan based solely on this type of modeled (and necessarily subjective) information.

We believe that a less costly, more practical and likely more effective approach would include the following elements:

- A prospective, group level economic capital assessment in the annual ORSA.
- The time horizon, risk tolerances and stress conditions should not be prescribed, but should instead be determined by the reporting entity based on the nature, scale and complexity of its risks and as defined in its own ERM framework.

If entity level regulatory capital modeling is required, a better approach would involve:

- Require full modeling of prospective RBC only when an insurer breaches company action level RBC under the existing "current" formula (including trend test), or
- In the annual ORSA, require modeling of statutory RBC using simplified assumptions and considering only normal rather than stressed assumptions.

Regulator Review, Resources and Simplification

An annual, all embracing ORSA of the nature described in the proposal will require a major commitment of insurers' financial and personnel resources, especially if it is required to be prepared on a legal entity basis. Similarly, a meaningful regulatory review of these annual filings may be overwhelming to state regulators. Setting aside the sheer volume of data and analysis that would require review, the examiners

or analysts reviewing the ORSA filings will need a high degree of sophistication and understanding of ERM systems.

In order to address this reality, we urge the NAIC to consider the following possible ways to simplify the proposal:

- First and foremost, the ORSA should only be filed on a group or supra-entity basis, consistent with the reporting entity's ERM framework and business model.
- Certain elements, such as the detailed list of risk management policies should be amended to be more general or purely self-defined. Since these policies are unlikely to change significantly from period to period, it should not be necessary to document the policies in each annual filing.
- Similarly, documentation of individual risk tolerances and the explanation of how these limits are applied in the insurer/group's day-to-day operations need not be filed annually except to the extent that they are materially changed.
- Once an insurer group has been subject to an initial review of its ORSA and ERM practices, there should be flexibility for the regulator to determine the timing, scope and extent of the next full review. Insurers or groups that have demonstrated sophisticated and comprehensive ERM processes need not be subject to annual reviews. Instead, the regulator should focus on insurers with extensive risks that may not have, in the regulators' judgment, an adequate ERM framework.
- Given the depth of review necessary to fully understand the ERM framework of an insurer or group, the NAIC should consider whether most elements of the ORSA filing and ORSA review should take place in the context of the risk focused exam process. For example, after the initial review, in depth reviews may be required on a periodic basis coincident with the on-site examination cycle.

Proportionality

Proportionality in the application of the ORSA requirement is unlikely to be a consideration for RAA members due to their size and the complexity of the risks to which they are exposed. Nevertheless, we believe that the NAIC will need to determine threshold levels or perhaps a "stair-step" application of the proposed ORSA requirement. Smaller insurers often do not require sophisticated ERM frameworks and are unlikely to have the resources to comply with the full ORSA requirement.

The NAIC should consider either defining a single threshold for applicability to smaller, less risky entities or consider applying the ORSA requirement in a stair-step fashion. We believe that the smallest, "least risky" insurers should have no ORSA requirement. Larger insurers or those that have exposure to more complex risks might be required to only file the risk management policies in section 1. Still larger and more complex insurers/groups might also complete section 2 regarding quantitative measurement of risk exposure. A full ORSA filing should be required only where necessary based on the nature, scale and complexity of the insurer's risks.

Specific Comments on the NAIC Draft Proposal

Paragraph 6: We do not believe a legal entity ORSA is practical nor would it provide useful information to regulators when the ERM framework that supports it is designed and implemented on a group or supra-entity basis. This paragraph also implies that the ORSA is a single assessment that must be kept up to date on an annual basis. We believe that ERM and the integrated ORSA is not a single process but rather is supported by many different processes that are consistent with the organizational structure and risk management systems of the insurer/group. These varied processes may differ in their frequency and timeframes, so it is not possible to define a single frequency for the ORSA. We believe it should be

sufficient to report the outcome of the regular ORSA in annual intervals, even if the information relevant to supporting ERM processes is updated in shorter intervals for internal purposes.

Paragraph 7: The language of this requirement is in substance similar to section 4L of the recently amended Insurance Holding Company System Regulatory Act. The language of this section IHCSRA states:

The report shall, to the best of the ultimate controlling person's knowledge and belief, identify the material risks within the insurance holding company system that could pose enterprise risk to the insurer.

We believe that the ORSA proposal should conform to the holding company act language and we question whether the holding company act requirement will be necessary if a similar disclosure is required in the ORSA. In addition, the draft ORSA proposal should also include the materiality threshold contained in the IHSCRA. Finally, we note that the draft proposal refers only to risks due to legal and contractual relationships, which is likely too narrow a definition. Moving the future deliberations of the ORSA proposal to the Group Solvency Issues (EX) Working Group should help to avoid inconsistent or duplicative regulatory requirements.

Paragraph 8: Because the ORSA will necessarily contain information about an insurer or group's ERM processes that is proprietary and commercially sensitive, protection of the confidentiality of this information is of paramount importance. Recognizing that states' examination statutes typically provide sufficient confidentiality protection, the ORSA proposal should be explicit that the ORSA filing is subject to those protections. Given the significance of the new ORSA requirement as an integral regulatory resource, we believe that the ORSA requirement should be adopted in the form of a new model law. The model law should specifically address confidentiality protections and the limitations on sharing the report with other regulatory agencies.

Paragraph 10: We agree that an insurer which demonstrates that it possesses a comprehensive and well designed ERM framework should be subject to less frequent and less exhaustive financial examinations. We would urge the NAIC and states to consider what other benefits may also be appropriate. For example, should such an insurer/group obtain relief from defined investment limits in its state investment laws? Are there elements of statutory accounting or risk-based capital that could be relaxed such as the treatment of deferred tax assets? From an industry perspective, the ORSA proposal seems to involve "a lot of squeeze for very little juice."

Paragraphs 13-20: The RAA believes that the proposed requirements for what shall be included in the insurer/group's risk management policies are far too detailed and prescriptive. Many elements may be inapplicable or immaterial to a specific insurer or group. We recommend that the guidance in this area be limited to elements that are material and that it be made sufficiently broad to allow the reporting entity to categorize its risk management policies in a manner consistent with their unique risk inventory, organizational structure and risk management system. Regulators are apt to learn more about the reporting entity's risk management system by observing how it has designed its risk management policies rather than how well it conforms to these specific requirements.

Paragraph 21: We request that the NAIC clarify what is meant by the term "quality" with respect to its economic and regulatory capital in the last sentence.

Paragraph 24: We agree that standard stress scenarios will not be optimal or effective because they would not pass the "use test." We do not agree that the regulator should recommend or prescribe stress levels, model assumptions, the measurement metrics or specific model parameters. The RAA believes this is

contrary to the spirit of the ORSA as management's assessment. Prescribing these elements could cross the line between regulation and the role of management.

Paragraph 26: Please refer to our comments in the sections above on the relationship to entity level risk-based capital and review, resources and simplification. We do not believe that the ORSA filing should create new entity level regulatory and economic risk-based capital thresholds. The requirement of a 3 to 5 year time horizon for the prospective solvency assessment is too prescriptive. While most sophisticated insurance groups have these plans in place, they do not necessarily extend their ERM assessments that far in the future. We believe our recommendations referenced above offer sound alternatives to the NAIC proposal.

Thank you for the opportunity to comment on the draft NAIC proposal. We look forward to working with the NAIC to develop an appropriate U.S. ORSA requirement. Should you have comments or questions about this letter, please contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Joe Sieverling", with a stylized flourish at the end.

Joseph B. Sieverling
Senior Vice President

cc: Kris DeFrain, NAIC

VIA E-mail to kdefrain@naic.org and dvacca@naic.org

March 18, 2011

Honorable Christina Urias
Chair, International Solvency (EX) Working Group

Honorable John Huff
Mr. Danny Saenz,
Co-Chairs, Group Solvency Issues Work Group

National Association of Insurance Commissioners
444 N. Capitol Street, Suite 701
Washington, D.C. 20001

Re: U.S. Own Risk and Solvency Assessment (ORSA) Proposal

Dear Directors Urias and Huff and Mr. Saenz:

WellPoint, Inc. appreciates this opportunity to submit comments to the NAIC's draft *U.S. Own Risk and Solvency Assessment (ORSA) Proposal*. WellPoint is the nation's largest health benefits company in terms of medical enrollment, with more than 33 million members in its affiliated health plans, and a total of more than 69 million individuals served through all subsidiaries.

WellPoint acknowledges the importance of Enterprise Risk Management (ERM) in the insurance industry. ERM is a strategic business discipline that supports the achievement of a company's business objectives by addressing the full spectrum of its risks and managing the combined impact of those risks as an interrelated risk portfolio. It is WellPoint's view that all companies in the insurance industry should have robust ERM processes, and thus we support the overall concept of the NAIC's ORSA proposal. However, as we outline below, we do have some concerns with some of the details of the proposal as initially drafted, and we provide recommendations to address those concerns.

1 Coordination of Efforts on Overlapping NAIC Projects

Our initial concern is that, over the past year, there have been several initiatives that appear to have similar and potentially overlapping requirements, and we encourage the NAIC to coordinate these efforts to ensure that there is neither conflict between the requirements nor duplication of effort. The revisions to the holding company act and regulations, and corporate governance practices, as well as the ORSA and group capital assessments proposals all tie together. Although we were pleased to hear of the recent announcement that the ORSA proposal will be transferred to the Group Solvency workgroup, we believe there needs to be coordination between the Corporate Governance and Group Solvency workgroups.

2 Proportionality Based on Level of Enterprise Risk

WellPoint does not believe that a one-size-fits-all approach to solvency oversight will adequately recognize the diverse nature of the insurance industry. It is our view that the level of scrutiny that insurance regulators apply to company solvency should be commensurate with the level of risk of the organization as represented by the entity's current solvency position. We recommend that the NAIC consider leveraging a multi-stage process that provides for an initial high level ORSA assessment to score the enterprise level of risk, with subsequent detailed inquiries to take place for those health insurers that warrant further due diligence. This type of process will allow state regulators to efficiently prioritize plans and to perform selective deep dives, thereby preserving state insurance regulator and insurer resources.

3 Evaluating the Company's Enterprise Risk Management Process

Another concern we have with the ORSA proposal is that it should acknowledge the company's ERM process, rather than attempting to substitute the regulator's judgment of risk. As the ORSA proposal states, "ERM is a rigorous discipline of enforcement of risk standards, policies and tolerance limits," and each company sets its own unique risk tolerance limits, based upon its current and future solvency positions.

WellPoint appreciates the need for regulators to ensure that insurers have a robust ERM process and that the ERM process is timely and effective. However, certain of the ORSA proposal requirements seem to substitute the regulator's judgment for the company's decisions, which would create challenges.

4 Reducing Administrative Burden and Expense

There are three potential mechanisms that can be employed to reduce the administrative burden imposed on carriers in the course of conducting the ORSA, as described below.

4.1 NAIC Should Set One ORSA Filing Deadline for All States

The scope of the ORSA requirements will be exceedingly burdensome in terms of the administrative overhead for both the insurers and regulators. The human resources required to collect, submit, and review these materials annually, on a legal entity basis, threaten to further increase insurers' administrative expense, at a time when all efforts need to be made to reduce administrative expense. Therefore, we recommend that the NAIC set one deadline for all states for insurers to submit the ORSA to streamline the submission process and reduce the administrative burden.

4.2 NAIC Should Permit Insurers to Perform and Report ERM at the Enterprise Level

The ORSA assessment results are required to be submitted to each state separately by each legal entity, and potentially on different dates. Additionally, each state may have clarifying questions that the legal entities will need to respond to. This distribution mechanism multiplies the effort required to comply with the requirement. The results of the ORSA will result in a significant volume of materials to be reviewed by state insurance regulators, making timely responses and effective prioritization of reviews challenging.

Moreover, ERM as a discipline is focused on risk at the enterprise level. It is therefore not effective to conduct the ORSA at a legal entity level as the correlations and cross-enterprise risk view will be entirely lost. A legal entity level review will also not give regulators the broad perspective they need to assess overall solvency of the enterprise. We thus recommend that the ORSA be conducted at an enterprise, rather than a legal entity, level.

4.3 Information Available Elsewhere

In cases where the information is already available through NAIC or state insurance department reports, corporate filings or other public documents, we recommend that insurers not be required to resubmit this information as part of the ORSA, but merely reference it and provide document links, where appropriate.

5 Protecting Information that is Confidential, Proprietary, or Protected by Attorney-Client Privilege

While much of the information requested in the ORSA is available publically, certain categories of information are either confidential, proprietary, or protected by attorney-client privilege. While information protected by the attorney-client privilege cannot be disclosed, we recommend that information that is confidential and proprietary only be disclosed to regulators on a face-to-face basis, such as during onsite financial audits, to avoid inadvertent inappropriate disclosure to unauthorized parties.

Our concern with the risk of unauthorized disclosure is great; disclosure of information such as a company's 3 to 5 year plan, or material open internal audits, could be disastrous to a company's competitive position in the market, or give rise to legal liability. The NAIC should consider that one potential unintended consequence of failing to give adequate protection to company confidential and proprietary information is that companies may take defensive actions such as drafting strategy only at a very high level, to avoid providing too much strategic information which may work its way into the public eye.

Additionally, we are concerned that disclosure of some of the information requested by the ORSA proposal may expose publicly traded companies like WellPoint to potential liability under federal securities laws if there occurs inappropriate disclosure of forward-looking information. For example, SEC Regulation FD may require the company to publicly disclose information that would otherwise remain nonpublic. We ask the NAIC to work closely with

publicly traded companies as the ORSA proposal develops to ensure that they are not required to disclose information that would subject them to federal securities laws violations.

We thank you for the chance to provide our initial comments on this proposal, and we look forward to discussing these with you in greater detail as the proposal evolves. If you have any questions or need further information I may be reached at (414) 459-6062 or Judith.A.Langer@wellpoint.com.