NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual

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NATIONAL ASSOCIATION OF
INSURANCE COMMISSIONERS

NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual

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

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NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Date: July 23, 2026

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

From: Group Solvency Issues (E) Working Group

This edition of the ORSA Guidance Manual has been revised from the previous edition. The following summarizes the most significant changes since the December 2025 edition:

1. Added guidance to reference the core questions addressed in an ORSA filing.
2. Added guidance to clarify that if states have a specific filing date the company should file by that date. Regulatory oversight is enhanced when the ORSA Summary Report is received early enough in the calendar year to allow the report to be reviewed in conjunction with Holding Company Analysis.
3. Added guidance to clarify expectations for discussions of controls in Section 1 vs. the use of controls in assessing the risks.
4. Added guidance to clarify that current and prospective solvency assessment should also present a summary of how each material risk classification or category contribute to the overall risk capital calculation.
5. Added guidance to identify that use of the Group Capital Calculation (GCC) is an appropriate choice for reporting the regulatory capital at the head of the IAIG level.

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

Introduction

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

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

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

The ORSA has two primary goals:

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

In support of these objectives, the ORSA Summary Report is structured around a set of core questions designed to organize and communicate key elements of the insurer's ERM and capital assessment:

- What are the insurer's **key risks**, and what ERM framework governs those risks? (Section 1)
- What is the **magnitude of the insurer's key risks**, under both normal (budgeted) and stress conditions? (Section 2)
- What **controls** are in place to manage those key risks? (Sections 1 and 2)
- How much **risk capital** is required to support the key risks currently and prospectively over the business planning time horizon, and how does that compare to available capital, **current and projected**? (Section 3)

These questions are intentionally aligned with the objectives of the ORSA and provide a structured framework for addressing complex ERM and capital considerations. By framing the ORSA Summary Report around these core questions, the insurer can present a coherent and accessible view of its risk profile, risk management practices, and capital adequacy, thereby facilitating understanding by senior management, the board of directors, and regulators.

An insurer that is subject to the ORSA requirement should consider the guidance provided in this manual when conducting its ORSA and compiling its ORSA Summary Report. The ORSA Summary Report is not expected to fully address all risk management activities, but sufficient details to present the insurer's enterprise risk management framework, risk exposures, controls, and capital adequacy are expected. As the process and results are likely to include proprietary and forward-looking information, any ORSA Summary Report submitted to the commissioner shall be confidential under state law.

A. Exemption

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

1. The individual insurer's annual direct written and unaffiliated assumed premium, including international direct and assumed premium but excluding premiums reinsured with the Federal Crop Insurance Corporation (FCIC) and the National Flood Insurance Program (NFIP), is less than $500 million.
2. The insurer is a member of an insurance group and the insurance group's (i.e., all insurance legal entities within the group) annual direct written and unaffiliated assumed premium, including international direct and assumed premium but excluding premiums reinsured with the FCIC and the NFIP, is less than $1 billion.

To determine the applicability of exemption No. 2 above, the U.S. lead state of an insurance group with international operations may request and verify group-wide premium volume on a regular basis, if not otherwise reported through holding company filings (i.e., Form B financial statements).

If the insurer does not qualify for an exemption, upon the commissioner's request, and no more than once each year, an insurer shall submit to the commissioner an ORSA Summary Report that contains the information described in this manual. If the group is an internationally active insurance group (IAIG) with a U.S. global group-wide supervisor, a group ORSA Summary Report should be filed; otherwise, a single or combination of reports may be used by the insurer to represent the group perspective.

For example, the property/casualty (P/C) insurers within a group could be included in one ORSA Summary Report or a combination of reports, and the life insurers within the same group could be included in another ORSA Summary Report or a combination of reports if those groups operate under different ERM frameworks. Notwithstanding any request from the commissioner, if the insurer is a member of an insurance group, the insurer shall submit the ORSA Summary Report(s) required by this manual to the lead state commissioner of the insurance group. The lead state is determined by the procedures within the *Financial Analysis Handbook.*

If an insurer qualifies for exemption No. 1 but the insurance group of which the insurer is a member does not qualify for exemption No. 2, then the insurer may supply an ORSA Summary Report in any

combination, as long as every insurer within the group (including Captive Insurance Companies) is covered by the ORSA Summary Report(s).

If an insurer does not qualify for exemption No. 1 but the insurance group of which it is a member qualifies for exemption No. 2, then the only ORSA Summary Report that may be required is the report of that insurer. However, such an exemption does not eliminate the requirement for any insurer that is subject to the Model #505 to complete Section III—Group Assessment of Risk Capital and Prospective Solvency Assessment.

Notwithstanding the above exemptions, the commissioner may require the insurer to maintain a risk management framework, conduct an ORSA, and file an ORSA Summary Report based on unique circumstances, including, but not limited to, the type of business written, ownership and organizational structure, federal agency requests, international supervisor requests, and regulatory concerns about the rapidly growing concentration of risk or risk exposure.
A commissioner may also require the insurer to maintain a risk management framework, conduct an ORSA, and file an ORSA Summary Report if the insurer has triggered a risk-based capital (RBC) company-action-level event, meets one or more of the standards of an insurer deemed to be in hazardous financial condition, or otherwise exhibits qualities of a troubled insurer, as determined by the commissioner.

If an insurer that qualifies for an exemption subsequently no longer qualifies for that exemption due to changes in premium, as reflected in the insurer's most recent annual financial statement or in the most recent annual financial statements of the insurers within the insurance group of which the insurer is a member, the insurer shall have one year following the year the threshold is exceeded to comply with the ORSA requirements. For example, if Company A exceeded the premium threshold on 12/31/202X, they would prepare an ORSA Summary Report for the year ended 12/31/202X+1, which would be filed no later than 12/31/202X+2 (or at the state's specified filing date in 202X+2).

B. Application for Waiver

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

C. General Guidance

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

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

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

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

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

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

This manual is intended to provide guidance for completing each section of the ORSA Summary Report. The depth and detail of information are likely to be influenced by the nature and complexity of the insurer and should be updated at least annually for the insurer. The insurer is permitted discretion to determine how best to communicate its ERM processes. An insurer may avoid duplicative information and supporting documents by referencing other documents, provided that those documents are available to the state insurance regulator upon examination or request. In order to ensure that the commissioner is receiving the most current information from an insurer, the timing for filing the ORSA Summary Report during the calendar year may vary from insurer to insurer depending on when an insurer conducts its internal strategic planning process, unless the domiciliary state has adopted a specific filing date. In general, regulatory oversight is enhanced when the ORSA Summary Report is received early enough in the calendar year to allows the report to be reviewed in conjunction with Holding Company Analysis. In all cases, the ORSA Summary Report shall be filed annually, with the insurer informing the commissioner of the anticipated filing timeframe.

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

An insurer may comply with the ORSA requirement by providing the most recent report(s)[1] filed by the insurer or another member of an insurance group of which the insurer is a member to the commissioner of another state or a supervisor or regulator of a foreign jurisdiction if that report provides information that is comparable to the information described in this manual. If a U.S. state insurance commissioner is the global group-wide supervisor of an IAIG, the U.S. state insurance commissioner should receive the ORSA Summary Report covering all material group-wide insurance operations. In addition, the insurer should work with a U.S. global group-wide supervisor to identify the scope of the group, whether the group is an IAIG or not, identify the head of the IAIG using the guidance contained in the *Financial Analysis Handbook*, and determine which noninsurance operations, if any, within the group should be included within the scope of the group and, therefore, the ORSA Summary Report. However, for all ORSA filers, the noninsurance operations that present material and relevant risks to the insurer should be included in the scope of the ORSA Summary Report.

If the U.S. is not the global group-wide supervisor, the insurer may file ORSA Summary Reports encompassing, at a minimum, the U.S. insurance operations, as long as the lead state receives ORSA Summary Reports encompassing the non-U.S. insurance operations from the global group-wide supervisor. If an ORSA Summary Report encompassing the non-U.S. insurance operations is not provided by the global group-wide supervisor, it should be provided by the insurer. If the insurer files an ORSA Summary Report encompassing only the U.S. insurance operations, and in it, the insurer states that the U.S. ERM framework is based on the insurers' global ERM framework, then the global ERM framework should be explained either within the U.S. ORSA Summary Report or in an ORSA Summary Report encompassing the non-U.S. insurance operations and be provided to the lead state at a time agreed upon by the insurer and the lead state.

If the report is in a language other than English, it must be accompanied by a translation into the English language. The commissioner should discuss with the global group-wide supervisor from the relevant foreign jurisdiction(s) the report received to inquire about any concerns and either confirm that the report was compliant with the foreign jurisdiction's requirements or consistent with the applicable principles outlined in the International Association of Insurance Supervisors (IAIS) Insurance Core Principle (ICP) 16 (Enterprise Risk Management) to the extent included in this manual, as well as this manual to determine if additional information is needed. The commissioner will, where possible, avoid creating duplicative regulatory requirements for internationally active insurers.

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

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

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

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

D. Maintenance Process

The following establishes procedures of the Group Solvency Issues (E) Working Group or its designated subgroup for proposed changes, amendments, and/or modifications to the manual:

1. The Working Group may consider relevant proposals to change the manual at any conference call, interim, or national meeting throughout the year as scheduled by the Working Group.
2. If a proposal for suggested changes, amendments, and/or modifications is submitted to or filed with NAIC staff support, it may be considered at the next regularly scheduled meeting of the Working Group.
3. The Working Group publishes a formal submission form and instructions that can be used to submit proposals, which are available on the Working Group's web page. However, proposals may also be submitted in an alternate format provided that they are stated in a concise and complete format. In addition, if another NAIC committee, task force, or working group is known to have considered this proposal, that committee, task force, or working group should provide any relevant information.
4. Any proposal to change the manual will take effect on Jan. 1 following the NAIC Summer National Meeting in which it was adopted by the Working Group and the Fall National Meeting in which it was adopted by the NAIC. For example, a change proposed to be effective on Jan. 1, 2018, must be adopted by the Working Group no later than the 2017 Summer National Meeting.
5. Upon receipt of a proposal, the Working Group will review the proposal at the next scheduled meeting and determine whether to consider the proposal for adoption. If the proposal is to be considered by the Working Group, it will be exposed for public comment. The public comment period shall be no less than 30 days and may be extended by the Working Group. The Working Group will consider comments received on each proposal at its next meeting and take action to revise, adopt, reject, refer, or continue the consideration of the proposal and comments thereto. Proposals under consideration may be deferred by the Working Group until the following

scheduled meeting. The Working Group may form an ad hoc group to study the proposal, if needed. The Working Group may also refer proposals to other NAIC committees for technical expertise or review. If a proposal has been referred to another NAIC committee, the proposal will temporarily be removed from the Working Group's agenda until a response has been received. At that time, it will be added back to the Working Group's agenda.

6. NAIC support staff will prepare an agenda that includes all proposed changes. The agenda and relevant materials shall be emailed to each member of the Working Group, interested state insurance regulators, and interested parties and posted to the Working Group's web page approximately five to 10 business days prior to the next regularly scheduled meeting during which the proposal would be considered.
7. In rare instances, or where emergency action may be required, suggested changes and amendments can be considered as an exception to the above-stated process and timeline based on a two-thirds majority consent of the Working Group members present. Notwithstanding the foregoing, a proposal may not be adopted without an exposure for public comment.
8. NAIC staff support will publish the manual on or about Dec. 15 of each year. NAIC staff will post the current versions to the Working Group and NAIC Publications web pages and any subsequent corrections to these publications.

Section 1—Description of the Insurer's Enterprise Risk Management (ERM) Framework

It may be useful to cover general background information before providing a description of the insurer ERM framework. Some potential background items include: the attestation, a discussion of the entities in scope, a discussion of the accounting basis used in the report, an overview of the insurer's key goals and strategic initiatives, and a discussion of changes from prior filings.

Additionally, if there are overarching issues that affect the entire ORSA filing, the insurer is encouraged to discuss those up front, before proceeding with a description of the ERM framework. One example of an overarching issue might include the fact that the insurer is a Solvency II framework filer and that much of the information presented in the ORSA (i.e., risk presentation, stress testing performed, model used for quantification) is based on Solvency II standards and capital structure. Another example could be an insurance group's structure and expectations to pay dividends. In this case, dividend-paying capacity could represent a key risk, with stress testing used to evaluate scenarios that could constrain or prohibit dividend payments and corresponding capital projections prepared under varying dividend assumptions. The final example would be an insurer that is in a RBC recovery plan with the department of insurance and the monthly reporting which is the only quantitative part of the ORSA.

Presenting this background information upfront—particularly any overarching issues that influence risk categorization, stress testing, or capital assessment across the ORSA—helps frame the filing, enhances transparency, and enables regulators to more efficiently understand and evaluate the insurer's ERM framework and capital analysis.

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

- **Risk Culture and Governance**—A governance structure that clearly defines and articulates roles, responsibilities, and accountabilities; a risk culture that supports accountability in risk-based decision making.
- **Risk Identification and Prioritization**—A risk identification and prioritization process that is key to the organization; responsibility for this activity is clear; the risk management function is responsible for ensuring that the process is appropriate and functioning properly at all organizational levels; key risks of the insurer are identified, prioritized, and clearly presented.
- **Risk Appetite, Tolerances, and Limits**—A formal risk appetite statement and associated risk tolerances and limits are foundational elements of risk management for an insurer; an understanding of the risk appetite statement ensures alignment with risk strategy by the board of directors.
- **Risk Management and Controls**—Managing risk is an ongoing ERM activity, operating at many levels within the organization. The insurer's overall control framework/policies should be discussed in this section (e.g., lines of accountability, general control processes), with information on any individual controls associated with specific key risks discussed in Section 2.
- **Risk Reporting and Communication**—Provides key constituents with transparency into the risk management processes and facilitates active, informal decisions on risk-taking and management.

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

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

Section 2—Insurer's Assessment of Risk Exposures

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

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

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

Any risk tolerance statements should include material quantitative and qualitative risk tolerance limits and how the tolerance statements and limits are determined, taking into account relevant and material categories of risk and the risk relationships that are identified. In addition to risk limits, the insurer should discuss other relevant controls in place to limit exposure to, or the impact from, material risks discussed in this section (for example, the maintenance of cyber insurance coverage to reduce the impact of a cyber event, or reinsurance coverage in place to limit the impact of a catastrophic event.)

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

By identifying each material risk category independently and reporting results in both normal and stressed conditions, insurer management and the commissioner are better placed to evaluate certain risk combinations that could cause an insurer to fail. One of the most difficult exercises in modeling

insurer results is determining the relationships, if any, between risk categories. History may provide some empirical evidence of relationships, but the future is not always best estimated by historical data.

Section 3—Group Assessment of Risk Capital and Prospective Solvency Assessment

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

A. Group Assessment of Risk Capital

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

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

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

The analysis of an insurer's group assessment of risk capital requirements and associated capital adequacy description should be accompanied by a description of the approach used in conducting the analysis. This should include key methodologies, assumptions, and considerations used in quantifying available capital and risk capital. Examples might include:

Considerations	Description of Methodologies and Assumptions	Examples (not exhaustive)
Definition of Solvency	Describe how the insurer defines solvency for the purpose of determining risk capital and liquidity requirements.	Cash flow basis; balance sheet basis
Accounting or Valuation Regime	Describe the accounting or valuation basis for the measurement of risk capital requirements and/or available capital.	GAAP; statutory; economic or market consistent; International Financial Reporting Standards (IFRS); rating agency model
Business Included	Describe the subset of business included in the analysis of capital.	Positions as of a given valuation date; new business assumptions
Time Horizon	Describe the time horizon over which risks were modeled and measured.	One-year, multi-year; lifetime; run-off.
Risks Modeled	Describe the risks included in the measurement of risk capital, including whether all relevant and material risks identified by the insurer have been considered.	Credit; market; liquidity; insurance; operational
Quantification Method	Describe the method used to quantify the risk exposure.	Deterministic stress tests; stochastic modeling; factor-based analysis
Risk Capital Metric	Describe the measurement metric utilized in the determination of aggregate risk capital.	Value at risk (VaR), which quantifies the capital needed to withstand a loss at a certain probability; tail value at risk (TVaR), which quantifies the capital needed to withstand average losses above a certain probability; probability of ruin, which quantifies the probability of ruin given the capital held
Defined Security Standard	Describe the defined security standard utilized in the determination of risk capital requirements, including linkage to business strategy and objectives.	AA solvency; 99.X% one-year VaR; Y% TVaR or conditional tail expectation (CTE); X% of RBC

Considerations	Description of Methodologies and Assumptions	Examples (not exhaustive)
Aggregation and Diversification	Describe the method of aggregation of risks and any diversification benefits considered or calculated in the group risk capital determination.	Correlation matrix; dependency structure; sum; full/partial/no diversification

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

- Elimination of intra-group transactions and double gearing, where the same capital is used simultaneously as a buffer against risk in two or more entities.
- The level of leverage, if any, resulting from holding company debt and the debt servicing capacity of the insurer.
- Diversification credits and restrictions on the fungibility of capital within the holding company system, including the availability and transferability of surplus resources created by holding company system-level diversification benefits.
- The effects of contagion risk, concentration risk, and complexity risk in the group assessment of risk capital.

The goal of the group capital assessment is to provide an overall determination of risk capital needs for the insurer based on the nature, scale, and complexity of risk within the group and its risk appetite; and compare that risk capital to available capital to assess capital adequacy. Group assessment of risk capital should not be perceived as the minimum amount of capital before regulatory action will result (e.g., the triggers in the *Risk-Based Capital (RBC) Model Act* [#312]); rather, it should be recognized that this is the capital needed within a holding company system to achieve its business objectives. The goal of the group capital assessment is to determine risk capital needs, and the ORSA Summary Report should describe how the company makes that determination. Accordingly, the insurer should present its group capital assessment by summarizing how each material risk classification or category contributes to the overall risk capital calculation. Presenting capital assessment in terms of each material risk's contribution to overall risk capital provides a clearer link between the insurer's risk profile and its capital adequacy assessment, helping demonstrate how available capital supports both current and evolving risk exposures.

The insurer should also monitor the effect of liquidity risk, including calls on the insurer's cash position due to microeconomic factors (i.e., internal operational) and/or macroeconomic factors, i.e., economic shifts. The insurer should assess its resilience against severe but plausible liquidity stresses and whether the current liquidity position is within any liquidity risk appetite and/or limits. In the ORSA, the insurer should describe the policies and processes in place to manage liquidity risk, as well as contingency funding or other plans to mitigate potential liquidity stresses.

B. Prospective Solvency Assessment

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

external business environment. It should also consider the prospect of operating in both normal and stressed environments.

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

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

While the prospective solvency assessment includes capital projections, the prospective solvency assessment should also include a discussion of prospective risks impacting the capital projections. This discussion should address whether risk exposures are expected to increase or decrease in the future and what steps the insurer plans to take that may change its risk exposures. The term "prospective" should pertain to both existing risks likely to intensify and emerging risks with the potential to impact the insurer in the future. The prospective solvency assessment should also present a summary of how each material risk classification or category contributes to the overall risk capital calculation projected out across the current business plan of the insurer. This explanation by risk classification allows the insurer to elaborate upon how those risks are expected to change over the life of the business plan. Presenting capital assessment in terms of each material risk's contribution to overall risk capital provides a clearer link between the insurer's risk profile and its capital adequacy assessment, helping demonstrate how available capital supports both current and evolving risk exposures.

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

Additional Expectations for Internationally Active Insurance Groups

This section identifies additional ERM expectations that are applicable to IAIGs and should be discussed in the ORSA Summary Report. These expectations are generally consistent with elements outlined in the IAIS Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), and they have been incorporated into this manual to the extent deemed appropriate by state insurance regulators.

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

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

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

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

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

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

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

The risk management strategy and framework of an IAIG should generally be consistent, and any material differences should be described in the ORSA strategic risk. The investment policies should ensure that assets are properly diversified and asset concentration risk is mitigated across the IAIG:

- Mechanisms to keep track of intra-group transactions that have a significant impact on the IAIG, the risks arising from these transactions, and the qualitative and quantitative restrictions on these risks. These intra-group transactions may include loans, guarantees, dividend payments, reinsurance, transactions across different financial services entities within the IAIG, and any activity undertaken by individual legal entities that may change the risk profile of the IAIG.
- An economic capital model to measure all relevant and material risks that the IAIG faces in different sectors, jurisdictions, and economic environments. The model should estimate the amount of capital needed in reasonably foreseeable adverse situations. The results of the model, how the risks were aggregated in the model, how the diversification benefit was estimated, and the underlying assumptions used in the model should be presented in the ORSA. The ORSA should show both the economic capital including a summary of how each material risk classification or category contributes to the overall risk capital calculation and the regulatory capital at the head of the IAIG level. Use of the Group Capital Calculation (GCC) is an appropriate tool for reporting the regulatory capital at the head of the IAIG level for US groups that use the GCC. A discussion of the fungibility of capital and the transferability of assets within the group should also be included.
- Risk measurements that include stress and reverse stress testing and scenario analysis deemed relevant to the risk profile of the IAIG.
- Risk measurements of the resilience of its total balance sheet against plausible macroeconomic stresses.
- Risk measurements that assess the aggregate investment counterparty exposures and the effect of severe but plausible stress events on those exposures. In addition, the IAIG should have an investment counterparty risk appetite statement to determine if the current exposures are within the risk appetite, and this should be presented in the ORSA.

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

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

The IAIG may be asked by the group-wide supervisor to develop a recovery plan, if warranted. A recovery plan identifies in advance options to restore the financial position and viability of the group if it comes under severe stress. The full recovery plan is not expected to be included in the ORSA Summary Report; however, the ORSA Summary Report should discuss at a high level the severe stresses that could trigger a recovery plan, and it should summarize the recovery options available.

The risk management framework should be reviewed by the insurer at least once every three years in order to ascertain that it remains fit for purposes based on the risk profile, structure, and business strategy of the IAIG. The review may be carried out by an internal or external body as long as it is neither responsible nor involved in the risk management framework that it reviews.

Appendix I—Glossary

Term	Definition
Attestation	A signed statement included in the ORSA Summary Report by the insurer's chief risk officer or other responsible executive attesting, **to the best of their knowledge and belief**, that the enterprise risk management (ERM) process described in the report has been applied and that the report has been provided to the insurer's board of directors or the appropriate committee. See Appendix II - Examples.
Available Capital	The amount of resources that an enterprise has at a given point in time under a defined valuation or accounting basis (e.g., economic, statutory, generally accepted accounting principles [GAAP], or a combination) to support its business and under the defined valuation represents the insurer's assessment of the types of capital required to support its business.
Captive Insurance Company	An insurance company that is owned and controlled by its insureds, typically formed to insure the risks of its parent company or affiliated entities, and licensed and regulated under specific captive insurance legislation.
Conditional Tail Expectation (CTE) (also known as Tail Value at Risk [TVaR])	A measure of the amount of risk that exists in the tail of a distribution of outcomes, expressed as the probability-weighted average of the outcomes beyond a chosen point in the distribution. Typically expressed as CTE (1-x), which would be calculated as the probability-weighted average of the worst x% of outcomes. For example, CTE 95 is calculated as the probability-weighted average of the worst 5% of outcomes, CTE 97 is the probability-weighted average of the worst 3% of outcomes, etc. CTE can be used as a way of defining a particular *security standard*.
Correlation Matrix	A symmetric matrix specifying pairwise interactions between a set of variables or data. A correlation matrix is commonly applied to risks or capital amounts and is an important determinant of calculated *risk capital,* including levels of *diversification*.

Term	Definition
Deficit Capital	If the amount of *available capital* is less than the determined *risk capital* of an enterprise, then the enterprise is said to have *deficit capital*.
Defined Security Standard	The minimum threshold of *available capital* that a company wishes to achieve or maintain, consistent with the company's business strategy, *risk appetite*, and *risk tolerance*.
Dependency Structure	Specification of the relationship between different variables. Commonly specified in a *correlation matrix.*
Debt Servicing Capacity	A metric or indicator of an organization's ability to meet its debt obligations by comparing current and projected cash flows against scheduled debt payments.
Diversification	The extent to which the combined impact of risks inherent to assets and liabilities is less than the sum of the impacts of each risk considered in isolation.
Double Gearing	Used to describe situations where multiple companies, typically parent and subsidiary, are using shared capital to buffer against risk occurring in separate entities.
Economic Capital	The amount of capital that an insurer is required to absorb in unexpected losses based on its risk profile and risk appetite.
Excess Capital	If the amount of *available capital* is greater than the determined *risk capital* of an enterprise, the enterprise is said to have *excess capital*.
Fungibility	Within a group context, the ability to redeploy *available capital* from one entity to another. Fungibility is reduced where the movement of *available capital* within the group is constrained or regulation prohibits it.
Group Capital	Group capital represents the aggregate *capital* or *risk capital* for the entire group. Insurers should utilize an appropriate metric to assess group capital, which could include: economic capital models, foreign jurisdiction risk capital requirements, or other capital metrics. The group risk capital metric selected should include a summary of how each material risk classification or category contributes to the overall risk capital calculation. It will be impacted by the interaction of the risks and capital of the individual entities within the group, with properties such as *diversification, fungibility,* and the quality and form of capital being important drivers.
Internationally Active Insurance Group (IAIG)	An insurance holding company system meeting the following criteria: 1. Premiums written in at least three countries. 2. The percentage of gross premiums written outside the home country is at least 10% of the insurance holding company system's total gross written premiums.

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

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

Appendix II—Example Attestation

The ORSA Summary Report must include an attestation signed by the chief risk officer or other executive with responsibility for oversight of the ERM framework, as described in Section C—General Guidance.

Illustrative Attestation Language

ABC Insurance Company

To the best of my knowledge and belief, ABC Insurance Company applies the enterprise risk management framework described in this ORSA Summary Report. A copy of this ORSA Summary Report has been provided to the Company's Board of Directors or an appropriate committee thereof.

John M. Smith

John M. Smith
Vice President and Chief Risk Officer
Date: May 1, 20XX_____

This example includes all elements required by this manual. Insurers may adapt the wording, provided the required elements are retained.

The National Association of Insurance Commissioners (NAIC) is the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia, and five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer reviews, and coordinate regulatory oversight. NAIC staff support these efforts and represent the collective views of state insurance regulators, domestically and internationally. NAIC Members, together with the central resources of the NAIC, form the national system of state-based insurance regulation in the U.S.

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