



**Own Risk and Solvency Assessment (ORSA) Feedback Pilot Projects
Observations of the ORSA (E) Subgroup
2012-2013 Feedback to Industry**

The following are the ORSA Subgroup's observations of the ORSA Summary Reports that were reviewed as part of the 2012 & 2013 ORSA Feedback Pilot Projects. The Subgroup observed that certain components of the Reports were beneficial to the overall usefulness of the Report and understanding of the insurer/group's Enterprise Risk Management. The following items are feedback and observations that may assist insurers/groups. The Subgroup did not feel all of these observations warranted inclusion in the *ORSA Guidance Manual*; however some may also appear in the Manual. Insurers/groups may choose to consider these observations as they develop their ORSA Summary Reports.

1. Foundation of Report.

- When developing an ORSA Summary Report, the Subgroup noted that the foundation of the ORSA Summary Report may want to consider developing from the reporting of ERM to the insurer/group's Board of Directors and may contain the same basic elements of what is reported to the Board of Directors. The Subgroup cautions insurer/groups not to view the ORSA Summary Report filing as a regulator only compliance report. While some of the format and content of the ORSA Summary Report may be directed to the regulator for the regulator's use in analysis and examination, regulators expect the ORSA Summary Report to be reflective of the actual ERM that the Board of Directors oversees.

2. Table of Contents.

- A comprehensive table of contents aids in the review process.

3. Provide an executive summary for large, complex ORSA reports.

- The Subgroup observed that an executive summary was helpful in that it provided a quick snapshot of the ORSA. The length and format of an executive summary will vary depending on the size and complexity of the ORSA.

4. Comparative view of multi-years of financial data provided in the report.

- While not applicable for all data elements, for some data points it was helpful to see the historical trend illustrated over a multi-year period (e.g. three-to-five years), for example:
 - Economic model parameters over a multi-year period so the reader can see how the parameters changed.
 - Liquidity ratios for multi-years.
 - A variety of graphs depicting different risks. Each graph was illustrated over a multi-year period.

5. Mapping of legal entities to business units described in the Report.

- Some ORSAs referred to business units but did not define which insurers were included in each unit. Mapping of legal entities to the business units in the ORSA would assist in understanding in which unit(s) the domestic insurers are included thereby providing greater clarity to the data provided, for example,

- A chart that lists the business unit in the first column and the insurers which are included in that business unit in the next column.
 - A clearly illustrated flowchart by business unit.
- 6. Glossary of terms and acronyms that are not defined in the body of the Report.**
- The Subgroup noted some ORSAs included a glossary which was helpful because some terms and acronyms may be specific to the insurer/group or may be defined or interpreted differently by different persons reading the ORSA.
- 7. Detail of actual risk limits to support the assertion that the Company has risk limits.**
- Some ORSAs said “we have risk limits” but did not identify the actual risk limits. The Subgroup does not suggest listing all risk limits, but rather those that are key/material to the insurer/group.
- 8. If risk limits, appetites and tolerances have changed, discuss the change.**
- The Subgroup noted that where the insurer/group identified that changes have occurred in risk limits, appetites and tolerances, it is helpful to also include an explanation of why the change was made, who within the risk management structure approved the change, and the decision process for implementing these types of changes.
- 9. Discuss risks prospectively.**
- The Subgroup noted that while the prospective solvency assessment included capital projections, it would also be helpful to better understand the prospective risk associated with those capital projections. The insurer/group may want to consider including a prospective discussion of risks, including risk exposures expected to increase/decrease in the coming years and steps the insurer/group plans to take that may change risk exposures. The term “prospective” may want pertain to both known and potential future risk.
- 10. Discuss Risk Mitigation.**
- The Subgroup noted that a discussion of risk mitigation activities in addition to risk indicator/limit monitoring aids in understanding the management and control of significant risks and to also understand where residual risks exist that are not mitigated.
- 11. Perform combined stress scenarios in addition to single stress scenarios, for example:**
- A table illustrating both individual stress scenarios impact on capital and combined stress scenarios impact on capital if multiple severe events occurred.
 - Combining market distress, interested rate changes and catastrophes.
- 12. When using tables and graphs, provide an explanation of the table or graph.**
- The Subgroup suggests including a key/legend, or explanatory text when including tables and graphs that contain complex data elements, abbreviations or acronyms. Explanatory text is helpful in understanding the graph.
- 13. Provide an explanation of how capital models are calculated and discuss the group capital analysis performed by the insurer/group.**
- In addition to reporting “Our risk capital is \$x at Dec.31 20xx.”, also explain how that capital number was derived (i.e. explain the capital model). For complex calculations, provide a high level summary explanation. The Subgroup noted it was easier to understand the capital number if it was accompanied by an explanation of how the insurer/group calculates its capital model. When a diversification benefit is used, provide a discussion of how the correlation amounts are developed, tested and updated. This information could be provided in a separate exhibit, if lengthy.
 - The Subgroup noted that while an insurer/group may not have discussed internal economic capital model validation, the insurer/group may want to consider a summary discussion of model validations and note that the regulator may ask about the validation process in follow-up discussions in order to better understand the insurer/group’s internal economic capital model process.

14. If the insurer/group is international, include overall group capital in Section 3.

- The Subgroup noted that while there is a group capital assessment in the U.S., the international standards for group capital may differ. The Subgroup noted it was beneficial for those international groups to include a description of their group's overall group capital. (Note that per the *ORSA Guidance Manual*, the group capital assessment is not limited to international groups.)
- To the extent that the U.S. business is interconnected and/or reliant on the international affiliates/parent, the ORSA may include a discussion of the overall group capital (including international) and a discussion of the relationship and interconnectedness.

15. List of risk owners (i.e. department accountable for the risk).

- The Subgroup noted this information helped in understanding the structure of the overall ERM Framework for the insurer/group for example:
 - Within Section One, include an explanation of the governance structure, or a list/table of departments or business units that identifies responsibilities and accountabilities.
 - Identify the individuals/groups/committees responsible for establishing ERM strategies, risk appetites, tolerances and limits; managing risk day-to-day; assessing effectiveness of ERM; and etc.
- The Subgroup noted a table identifying the risk owners, the assigned risk, their role and responsibility, and to which committee/department/chief officer they report on their risk management was helpful in understanding the insurer's risk management structure.

16. Flowchart of Risk Management & Control.

- The Subgroup noted a flowchart or detailed explanation of how enterprise risk management and control processes flow within the organization (bottom-up or top-down or both) was also helpful in understanding the insurer's risk management structure.

17. Explanation of how compensation and incentives are tied to risk management.

- The Subgroup noted that a discussion of how compensation and incentives are tied to ERM was helpful in gaining an understanding of the corporate risk culture. While the report may discuss the topic briefly, detail on the compensation and incentive plans could be helpful to include in a supplemental exhibit.

18. Inclusion of Heat Maps.

- The Subgroup noted that the inclusion of heat maps, accompanied by a brief explanation and interpretation, as needed, helped to identify the key risks of the insurer/group.

19. When using multiple capital models, create a graphical illustration to compare the different model results, for example:

- Where the group capital assessment included three different models, the insurer/group included a full page table that showed each model side-by-side including such information as the definition, assumptions, and target vs. actual capital. This format made it very easy to compare the different capital assessment models.

20. Use of Most Current Data.

- When using capital models, the Subgroup observed that it was helpful if the insurer/groups identified available capital and required capital (if available) as of the most current reporting period.
- When the ORSA Summary Report identifies that ERM data and reports are evaluated or calculated quarterly, the Subgroup observed that it was helpful if the insurer/group included information from the most recent quarter.

21. References to other ORSA documents.

- The Subgroup noted that if other documents were referenced in lieu of further explanation, it would be helpful if those documents are readily available upon request, and/or attached to the ORSA Report.
- The Subgroup observed that an appendix of reports and tools actually used by the insurer/group gave the regulator a good sense of what information is used by ERM committees and the Board of Directors who oversee the insurer/group's ERM. For smaller supplemental reports, consider including them as an appendix.
- For larger supplemental ERM reports, the Subgroup observed that it was helpful to include a list of related ERM reports, including a report description or snapshot, that support the information provided in the ORSA Summary Report, so that the regulator can clearly understand the type of additional information that would be available and which report to request, if necessary.

22. Provide more stress testing on liquidity, especially for life insurance business, rather than a single focus on capital, for example:

- Provide detailed stress scenarios regarding liquidity position along with a brief explanation.
- Consider including a discussion on sources of liquidity and contingent financing.

23. Discuss emerging risks in the prospective risk section of the ORSA.

- The Subgroup observed that as prospective risk is a key component of the regulatory risk-focused surveillance process, understanding the emerging/prospective risks identified in the ORSA will help regulators focus their examination and analysis of the insurer/group.
- The Subgroup also observed that in addition to knowing that emerging risks are monitored it was helpful to identify the key emerging risks and understand how those emerging risks are elevated from an emerging status to a current risk within the risk identification and management process.
- The Subgroup observed that, if applicable, an insurer's material prospective risks may include captive reinsurance or other alternative financing.
- The Subgroup noted that as insurance industry or economic issues arise, the insurer may need to consider addressing these issues as additional emerging risks, if material.

24. Identify risks associated with intercompany dependencies.

- The Subgroup observed this is helpful in understanding affiliate risks.

25. Include a discussion of information technology risk.

- The Subgroup observed this is helpful in understanding risks such as information security, business system failure, costly use of resources, etc.

26. Risk Ranking/Rating.

- The Subgroup observed that where the insurer/group identified the priority ranking/rating of their material risks, it aided in better understanding the risk exposure. Risk ranking/rating can be provided in varying formats (e.g. lists, charts, graphs, or dashboards).

In preparation for the insurer/group's actual filing:**27. Attestation Placeholder.**

- The *Risk Management and Own Risk and Solvency Assessment Model Act* (#505) contains a requirement for an attestation and signature. The Subgroup observed the insurer/group may want to consider inserting a placeholder for this attestation, including contact information, as it develops its ORSA Summary Report.

28. Expected Filing Date.

- In advance of the filing year, the insurer/group and lead state regulator may want to consider reaching an understanding of when the insurer/group expects to file the ORSA Summary Report.

29. Walk-Through Discussion with Regulator.

- Upon filing the ORSA Summary Report annually, the insurer/group and lead state regulator may want to consider scheduling a meeting/webinar/conference call where the insurer/group can describe and walk through their ORSA Summary Report and answer questions from the regulator.