
NAIC ORSA Pilot Feedback: 2014 Update

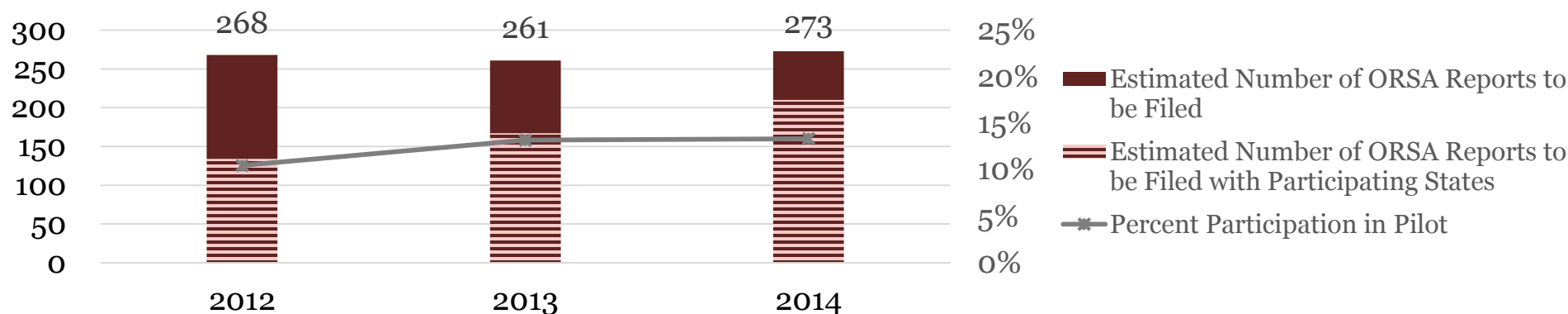
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The NAIC has provided updated feedback to the industry in the 2014 ORSA pilot

The feedback relates to various elements of the ORSA and provides insurers with insights into how to structure their reports and an indication of the type of content expected.

- Overall, the ORSA Summary Reports submitted were generally found to be in compliance.
- 28 insurers/groups participated in the 2014 pilot program (22 in 2013 and 14 in 2012 pilot programs).
- The reports of life insurers generally demonstrate more mature frameworks than the other segments of the industry, namely property and casualty (P/C) and health.



- Selection bias needs to be considered when reviewing the results of the pilot feedback, as the types of insurers willing to participate in this process are likely more mature in their ERM program. Additionally, they may disproportionately represent Life Insurers.
- Regulatory expectations will continue to rise over time. ERM maturity considered a B+ today will need to be more advanced a year from now to retain the B+ rating then.
- While these observations are not included in the ORSA Guidance Manual, it is advisable that insurers/groups choose to consider these observations as they develop their ORSA Summary Reports.

Pilot feedback summary

The NAIC's comments were significantly more detailed than in the prior two pilots. They emphasized consistency throughout the ORSA Summary Report, in addition to many other key recommendations.



ORSA Section 1

- A self-assessment of current ERM Maturity will help the regulator understand the current process as well as processes still in development.
- An explanation of how the ERM framework is incorporated into strategic decisions enables the regulator to understand how deep risk management is embedded within the organization.

ORSA Section 2/3

- Reference to Section 1 of the ORSA Summary Report allows the regulatory to see risk management in action. For example, referencing Risk Tolerances and Limits, the report should demonstrate how the insurer would react in the event of a breach
- Description of the validation process allows the regulatory to be comfortable that results are accurate.

Pilot feedback: Overall Report

The 3 Pilots have provided feedback specific to the three sections of the ORSA Summary Report, but additional feedback has been provided on the overall report.

- The report should be well-organized and follow the three-section structure. It should include an informative executive summary, a detailed table of contents, a glossary of terms, accurate page numbers and cross-references, and clearly labeled exhibits.
- A brief explanation of the genesis, development, and current/future state of the ERM program should be included.
- Graphic depictions of processes should be included where possible to help illustrate ERM processes and how they are embedded in the business.
- A timeline for the annual ORSA cycle should be provided to explain when ERM activities occur throughout the year and the frequency of each activity.
- Balance the amount of information provided in the main body of the ORSA Summary Report and the supplemental information provided in the appendix or otherwise made available by request.
- A self assessment of ERM Maturity, relative to the Maturity Matrix, should be considered. To the extent that certain areas (quantification of risk limits, assessment of risk exposures, etc.) are not yet fully developed, the current maturity should be noted and plans to complete development should be discussed.

Pilot feedback: Section 1 – Description of Insurer’s Risk Management Framework

Overall, Section 1 of the report received the most favorable feedback. Many of the items noted below are positive attributes the NAIC observed from the ORSA Summary Reports submitted.

Principle	2014 Pilot Feedback	Corresponding '12 / '13 Feedback
Risk Culture and Governance	<ul style="list-style-type: none"> Clearly define roles and responsibilities of all key stakeholders involved in risk management, as well as the reporting and communication lines among them. 	<ul style="list-style-type: none"> Not applicable
	<ul style="list-style-type: none"> Identify who the “risk-go-to” person is and the extent of his/her engagement with the management team. 	<ul style="list-style-type: none"> List risk owners (2012/2013).
	<ul style="list-style-type: none"> Tie compensation/incentive plans to risk management objectives. 	<ul style="list-style-type: none"> Explain how compensation is tied to risk management (2012/2013).
Risk Identification and Prioritization	<ul style="list-style-type: none"> Include a robust and detailed process of identification of risks describing prioritization criteria, tools used, and participants involved. 	<ul style="list-style-type: none"> Priority ranking/rating of material risks aids in better understanding the risk exposure (2013).
	<ul style="list-style-type: none"> Define the key risk selection process and emerging risk identification process. 	<ul style="list-style-type: none"> Discuss identified emerging risks (2012/2013).
	<ul style="list-style-type: none"> Provide additional clarity to demonstrate how deep the risk identification process is embedded in the organization. 	<ul style="list-style-type: none"> Not applicable

Pilot feedback: Section 1 – Description of Insurer’s Risk Management Framework (Cont.)

Overall, Section 1 of the report received the most favorable feedback. Many of the items noted below are positive attributes the NAIC observed from the ORSA Summary Reports submitted.

Principle	2014 Pilot Feedback	Corresponding '12 / '13 Feedback
Risk Appetite, Tolerances, and Limits	<ul style="list-style-type: none"> • Explicitly state tolerance/ limits for each of the key risks and explain tolerance/limits. 	<ul style="list-style-type: none"> • Detail actual risk limits (2012/2013).
	<ul style="list-style-type: none"> • Maintain consistency with key risks identified in “Risk Identification and Prioritization.” 	<ul style="list-style-type: none"> • Not applicable
Risk Management and Controls	<ul style="list-style-type: none"> • Outline processes in place to monitor and control risks provided, key risk controls, and key risk mitigation activities. 	<ul style="list-style-type: none"> • Explain how enterprise risk management and controls flow within the organization (2013).
	<ul style="list-style-type: none"> • Clarify how risk limits are translated into operational guidance. 	<ul style="list-style-type: none"> • Not applicable
	<ul style="list-style-type: none"> • Provide escalation process in event of a breach. 	<ul style="list-style-type: none"> • Not applicable
	<ul style="list-style-type: none"> • Document involvement of internal audit to test risk management controls. 	<ul style="list-style-type: none"> • Not applicable
Risk Reporting and Communication	<ul style="list-style-type: none"> • Describe risk reports, summary of content, intended audience, and owner of the report. 	<ul style="list-style-type: none"> • Not applicable
	<ul style="list-style-type: none"> • Explain how feedback loops are embedded into the ERM process. 	<ul style="list-style-type: none"> • Not applicable

Pilot feedback: Section 2 – Insurer’s Assessment of Risk Exposure

Section 2 received substantial additional feedback in the 2014 pilot compared to the prior two years.

Principle	2014 Pilot Feedback	Corresponding '12 / '13 Feedback
Risk Description	<ul style="list-style-type: none"> Describe exposure assessment for each key risk, as well as an explanation of the methodology 	<ul style="list-style-type: none"> Not applicable
	<ul style="list-style-type: none"> Ensure consistency between the key risks identified in Section 1 and assessed in Section 2. 	<ul style="list-style-type: none"> Not applicable
Risk Quantification	<ul style="list-style-type: none"> Assess risks either qualitatively or quantitatively and under both normal and stressed environments 	<ul style="list-style-type: none"> Not applicable
	<ul style="list-style-type: none"> Provide methodology used to assess exposures. 	<ul style="list-style-type: none"> Not applicable
	<ul style="list-style-type: none"> Explain the selection of scenarios used for stress testing, as well as rationale. 	<ul style="list-style-type: none"> Perform combined stress scenarios (2012/2013)
	<ul style="list-style-type: none"> Compare risk quantification results to tolerances and limits identified in section 1. In the event of a breach, discuss resulting action. 	<ul style="list-style-type: none"> Not applicable

Pilot feedback: Section 3 – Group Assessment of Risk Capital and Prospective Solvency Assessment

Section 3 has the most opportunity for improvement, specifically the prospective assessment of risk and capital adequacy.

Principle	2014 Pilot Feedback	Corresponding '12 / '13 Feedback
Group Assessment of Risk Capital	<ul style="list-style-type: none"> Assess each key risk identified in Sections 1 & 2. 	<ul style="list-style-type: none"> Not applicable
	<ul style="list-style-type: none"> Describe and justify risk methodology used to quantify risk capital for each risk. 	<ul style="list-style-type: none"> Not applicable
	<ul style="list-style-type: none"> Maintain consistency with key risks identified in Section 1 and 2. 	<ul style="list-style-type: none"> Not applicable
	<ul style="list-style-type: none"> Provide evidence of “fitness for purpose” of the risk capital metric. 	<ul style="list-style-type: none"> Explain how that capital number was derived (2012/2013).
	<ul style="list-style-type: none"> Explain diversification benefits. 	<ul style="list-style-type: none"> Discuss how correlation amounts are developed (2013).
Prospective Assessment of Risk and Capital Adequacy	<ul style="list-style-type: none"> Describe the validation framework used for the capital model. In the case of less mature capital models, describe future plans to validate. 	<ul style="list-style-type: none"> The regulator may ask about the validation process (2013).
	<ul style="list-style-type: none"> Estimate future capital needed to determine future solvency position. 	<ul style="list-style-type: none"> Not applicable
	<ul style="list-style-type: none"> In the case of potential insolvency, identify additional sources of capital to cover any shortfall. 	<ul style="list-style-type: none"> Not applicable

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