

Risk Management and Own Risk and Solvency Assessment (ORSA) Model Act

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Own Risk and Solvency Assessment (ORSA)

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WHY???



WHO comes up with this stuff???



WHAT is an ORSA???

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WHY???

- Rooted in the 2008 global financial crisis.
- **Regulators** needed an enhanced view of an insurer's ability to withstand financial stress to help better foresee the potential for contagion effects on regulated entities from a financial crisis.

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WHO comes up with this stuff???

- ▲ The NAIC adopted a significant new addition to U.S. insurance regulation: the U.S. Own Risk and Solvency Assessment (ORSA) in November 2011, which requires insurance companies to issue their own assessment of their current and future risks through an internal risk self-assessment process.
- ▲ The NAIC's Risk Management and Own Risk Solvency Assessment Model Act (#505) went into effect on Jan. 1, 2015.



**National Association *of*
Insurance Commissioners**

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ORSA's overall requirement

- Requires large and medium-size U.S. insurers and insurance groups to regularly perform an ORSA and file a confidential ORSA Summary Report with regulators upon request and with the lead state regulator for each insurance group whether or not any request is made.



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What is an ORSA?

- An internal process to assess the adequacy of an entity's risk management and current and prospective solvency positions under normal and severe stress scenarios.
- Requires insurers to analyze all reasonably foreseeable and relevant material risks (i.e., underwriting, credit, market, operational, liquidity risks, etc.) that could have an impact on its ability to meet its policyholder obligations.

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What is an ORSA?



Anticipate potential capital needs and take proactive steps to reduce solvency risks.



Not a one-off exercise – should be a component of an insurer's Enterprise Risk Management (ERM) framework.



Specific process, actual results, and contents of report will vary from company to company.



Output that demonstrates the results of management's self-assessment.

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What is the goal?

ORSA Guidance Manual

- 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 risk identified by the insurer, using techniques that are appropriate to support risk and capital decisions; and
 - 2) to provide a group-level perspective on risk and capital, as a supplement to the existing legal entity view.

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ORSA Guidance Manual

- ▲ Applies to any individual U.S. insurer that writes more than \$500 million of annual direct written and assumed premium, and/or insurance groups that collectively write more than \$1 billion of annual direct written and assumed premium.
- ▲ An insurer that is subject to the ORSA requirements is expected to:
 - ▲ 1) regularly, no less than annually, conduct an ORSA to assess the adequacy of its risk management framework and current and estimated projected future solvency position;
 - ▲ 2) internally document the process and results of the assessment; and
 - ▲ 3) provide a confidential high-level ORSA Summary Report annually to the lead state commissioner if the insurer is a member of an insurance group and, upon request, to the domiciliary state regulator.

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Section 5. ORSA Summary Report

- ▲ A. Upon the commissioner's request, and no more than once each year, an insurer shall submit to the commissioner an ORSA Summary Report or any combination of reports that together contain the information described in the ORSA Guidance Manual, applicable to the insurer and/or the insurance group of which it is a member. Notwithstanding any request from the commissioner, if the insurer is a member of an insurance group, the insurer shall submit the report(s) required by this subsection if the commissioner is the lead state commissioner of the insurance group as determined by the procedures within the Financial Analysis Handbook adopted by the National Association of Insurance Commissioners.

Drafting Note: In order to ensure that the commissioner is receiving the most current information from an insurer, Section 5.A. recognizes that the time for filing the ORSA Summary Report during the calendar year may vary from insurer to insurer depending on when an insurer or insurance group conducts its internal strategic planning process. In any event, the report shall be filed once each year, with the insurer apprising the commissioner as to the anticipated time of filing.

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Section 5. ORSA Summary Report

- ▲ B. The report(s) shall include a signature of the insurer or insurance group's chief risk officer or other executive having responsibility for the oversight of the insurer's enterprise risk management process attesting to the best of his/her belief and knowledge that the insurer applies the enterprise risk management process described in the ORSA Summary Report and that a copy of the report has been provided to the insurer's board of directors or the appropriate committee thereof.



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Section 5. ORSA Summary Report

C. An insurer may comply with subsection A by providing the most recent and substantially similar report(s) provided by the insurer or another member of an insurance group of which the insurer is a member to the commissioner of another state or to a supervisor or regulator of a foreign jurisdiction, if that report provides information that is comparable to the information described in the ORSA Guidance Manual. Any such report in a language other than English must be accompanied by a translation of that report into the English language.

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Section 6. Exemption

- ▲ A. An insurer shall be exempt from the requirements of this Act, if:
 - ▲ (1) The insurer has annual direct written and unaffiliated assumed premium, including international direct and assumed premium but excluding premiums reinsured with the Federal Crop Insurance Corporation and Federal Flood Program, less than \$500,000,000; and,
 - ▲ (2) The insurance group of which the insurer is a member has annual direct written and unaffiliated assumed premium including international direct and assumed premium, but excluding premiums reinsured with the Federal Crop Insurance Corporation and Federal Flood Program, less than \$1,000,000,000.

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Section 6. Exemption

- ▲ B. If an insurer qualifies for exemption pursuant to paragraph (1) of subsection A, but the insurance group of which the insurer is a member does not qualify for exemption pursuant to paragraph (2) of subsection A, then the ORSA Summary Report that may be required pursuant to Section 5 shall include every insurer within the insurance group. This requirement may be satisfied by the submission of more than one ORSA Summary Report for any combination of insurers provided any combination of reports includes every insurer within the insurance group.

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Section 6. Exemption

- ▲ C. If an insurer does not qualify for exemption pursuant to paragraph (1) of subsection A, but the insurance group of which it is a member qualifies for exemption pursuant to paragraph (2) of subsection A, then the only ORSA Summary Report that may be required pursuant Section 5 shall be the report applicable to that insurer.



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Section 6. Exemption

- ▲ D. An insurer that does not qualify for exemption pursuant to subsection A may apply to the commissioner for a waiver from the requirements of this Act based upon unique circumstances. In deciding whether to grant the insurer's request for waiver, the commissioner may consider the type and volume of business written, ownership and organizational structure, and any other factor the commissioner considers relevant to the insurer or insurance group of which the insurer is a member. If the insurer is part of an insurance group with insurers domiciled in more than one state, the commissioner shall coordinate with the lead state commissioner and with the other domiciliary commissioners in considering whether to grant the insurer's request for a waiver.

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Section 6. Exemption

- ▲ E. Notwithstanding the exemptions stated in this section,
 - ▲ (1) The commissioner may require that an insurer 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 and volume of business written, ownership and organizational structure, federal agency requests, and international supervisor requests, regulatory concerns about rapidly growing concentration of risk or risk exposure.

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Section 6. Exemption

- ▲ E. Notwithstanding the exemptions stated in this section,
 - ▲ (2) The commissioner may also require that an insurer 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.

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Section 6. Exemption

- ▲ F. 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 statement or in the most recent annual 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.

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Section 7. Contents of ORSA Summary Report

- ▲ A. The ORSA Summary Report shall be prepared consistent with the ORSA Guidance Manual, subject to the requirements of subsection B of this section. Documentation and supporting information shall be maintained and made available upon examination or upon request of the commissioner.
- ▲ B. The review of the ORSA Summary Report, and any additional requests for information, shall be made using similar procedures currently used in the analysis and examination of multi-state or global insurers and insurance groups.

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ORSA Guidance Manual – I. Introduction – C. General Guidance

- ▲ The ORSA Summary Report should discuss three major areas:
 - ▲ Section 1 – Description of the Insurer’s Risk Management Framework
 - ▲ Section 2 – Insurer’s Assessment of Risk Exposure
 - ▲ Section 3 – Group Assessment of Risk Capital and Prospective Solvency Assessment

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ORSA Guidance Manual – I. Introduction – C. General Guidance

- The ORSA Summary Report should discuss three major areas:
 - Section 1 – Description of the Insurer’s Risk Management Framework
 - Risk Culture and Governance
 - Risk Identification and Prioritization
 - Risk Appetite, Tolerances and Limits
 - Risk Management and Controls
 - Risk Reporting and Communication

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ORSA Guidance Manual – I. Introduction – C. General Guidance

- The ORSA Summary Report should discuss three major areas:
 - Section 2 – Insurer’s Assessment of Risk Exposure – quantitative and/or qualitative assessments or risk exposure in both normal and stressed environments for each risk category in Section 1.

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ORSA Guidance Manual – I. Introduction – C. General Guidance

- The ORSA Summary Report should discuss three major areas:
 - Section 3 – Group Assessment of Risk Capital and Prospective Solvency Assessment – 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).

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ORSA Guidance Manual – I. Introduction – C. General Guidance

- ▲ The content of the ORSA Summary Report should be consistent with the ERM information reported to senior management and/or board or other group.
- ▲ The ORSA Summary Report should include certain key information, identify the basis(es) of accounting for the report and the date or time period that the numerical information represents, and should explain the scope of the ORSA conducted such that the report identifies which insurer(s) are included in the report.
- ▲ 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.

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ORSA Guidance Manual – I. Introduction – C. General Guidance

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

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Section 8. Confidentiality

- ▲ A. Documents, materials or other information, including the ORSA Summary Report, in the possession of or control of the Department of Insurance that are obtained by, created by or disclosed to the commissioner or any other person under this Act, is recognized by this state as being proprietary and to contain trade secrets. All such documents, materials or other information shall be confidential by law and privileged, shall not be subject to [insert open records, freedom of information, sunshine or other appropriate phrase], shall not be subject to subpoena, and shall not be subject to discovery or admissible in evidence in any private civil action. However, the commissioner is authorized to use the documents, materials or other information in the furtherance of any regulatory or legal action brought as a part of the commissioner's official duties. The commissioner shall not otherwise make the documents, materials or other information public without the prior written consent of the insurer.

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Section 9. Sanctions

- Any insurer failing, without just cause, to timely file the ORSA Summary Report as required in this Act shall be required, after notice and hearing, to pay a penalty of \$[insert amount] for each day's delay, to be recovered by the commissioner and the penalty so recovered shall be paid into the General Revenue Fund of this state. The maximum penalty under this section is \$[insert amount]. The commissioner may reduce the penalty if the insurer demonstrates to the commissioner that the imposition of the penalty would constitute a financial hardship to the insurer.

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Section 10. Severability Clause

- ▲ If any provision of this Act, or the application thereof to any person or circumstance, is held invalid, such determination shall not affect the provisions or applications of this Act which can be given effect without the invalid provision or application, and to that end the provisions of this Act are severable.

The End

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ORSA is codified
in FS 628.8015
of the Florida
Insurance Code.

Easy Questions?

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