ORSA
Has Anything Changed?

Commitment Beyond Numbers

Laura A. Maxwell, FCAS, MAAA
John E. Wade, ACAS, MAAA
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About the Presenters

Laura A. Maxwell, FCAS, MAAA
• Consulting Actuary
• San Ramon, California
• 30 Years Experience, 11 Years with Pinnacle
• CAS Webinar Committee Chair
• CABA Secretary/Treasurer

John E. Wade, ACAS, MAAA
• Consulting Actuary
• Greenwood, Indiana
• 35+ Years Experience, 20+ Years Consulting
• CLRS Vice Chair
Agenda

- ORSA Regulations
- Standards of Practice
- Value of ORSA
- OSFI ORSA Reviews
- JRMS ORSA Survey
What is Own Risk Solvency Assessment (ORSA)

- **NAIC** - a component of an insurer’s enterprise risk management framework; 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.

- **IAA** - ORSA is an ongoing process by which a company's senior management team routinely assesses its own risk and solvency position; it provides a declaration of the company's assessment of its position in terms of profit, risk and capital, both now and in the future, under different scenarios and relative to the company's appetite for risk. ORSA needs to consider and be consistent with an insurance company’s business strategy and the business planning process.
Polling question #1

Has your company completed an ORSA Report:

A. Yes
B. No, Not Required by Domicile
C. No, Not Required Due to Applicability Threshold
D. No, Other
Regulatory Environment

- **NAIC Model Law**
  - Adopted by 48 states
  - Will become full accreditation requirement on 1/1/2018

- **International Association of Insurance Supervisors**
  - ORSA required as part of Insurance Core Principal 16
  - Adopted October 2010

- **Office of the Superintendent of Financial Institutions**
  - Guideline E-19
  - 2012 Draft
  - 2013 Final

- **Bermuda Monetary Authority**
  - CISSA 2011 Instruction Handbook
ORSA Regulatory Requirements

- **Bermuda**: January 1, 2011
- **Canada**: January 1, 2014
- **EEA**: January 1, 2016
- **United States**: January 1, 2015 (varies by state)
ORSA Regulatory Requirements

- **Bermuda**: Class E, 3A, Class 3B and Class 4 Insurers
- **Canada**: All federally regulated insurers
- **EEA**: All insurers and insurance groups subject to the Solvency II directive
- **United States**: Insurers with gross premium over $500M or Insurance Groups with premium over $1B
ORSA Regulatory Requirements

- **Bermuda**: Group reporting required
- **Canada**: Group or Individual Insurer basis
- **EEA**: Group or Individual Insurer basis
- **United States**: Group reporting required
ORSA Regulatory Requirements

Bermuda
Presented to the board and a copy submitted to the Bermuda Monetary Authority

Canada
ORSA report to the Board, Key Metrics Report to OSFi

EEA
Report to AMSB, Local and Group Supervisor, Summary information of certain aspects to the Public

United States
Report provided to lead state regulator
ORSA Regulatory Requirements

- **Bermuda**: Economic Balance Sheet
- **EEA**: Solvency II basis can be used
- **Canada**: IFRS
- **United States**: Insurer’s choice but must disclose

**Valuation Basis**
ORSA Regulatory Requirements

Bermuda
CISSA 2011 Instructions Handbook

Canada
OSFI Guideline E-19

EEA
EIOPA Guidelines on ORSA

United States
NAIC ORSA Guidance Manual - July, 2014. Also applicable state law(s).
NAIC Guidance Manual

• Adopted March 2012
• Revised March 2013
• Revised July 2014

  – Added to the General Guidance section clarification that the foundation of the ORSA Summary Report should be tied to the insurer’s reporting to the Board of Directors
  – Added to the General Guidance section clarification regarding ORSAs encompassing only US insurance operations
  – Added to Section 3 clarification of prospective solvency assessment related to projected changes in risk exposures
NAIC Guidance Manual

• Introduction
  – Exemption
  – Application for Waiver
  – General Guidance
• Section 1 – Description of the Insurer’s Risk Management Framework
• Section 2 – Insurers Assessment of Risk Exposures
• Section 3 – Group Assessment of Risk Capital and Prospective Solvency Assessment
  – Group Assessment of Risk Capital
  – Prospective Solvency Assessment
• Glossary
Bermuda

- Commercial Insurer’s Solvency Self Assessment (CISSA) 2011 Instruction Handbook
  - Introduction
  - Overview
  - CISSA Capital Summary
  - CISSA General Questions
  - CISSA Assessment of Material Risks of the Insurer
Canada

• Guideline E-19 (November 2016)
  – Introduction
  – Scope
  – ORSA and Enterprise Risk Management
  – Key Elements
  – Interaction of the ORSA with the Supervisory Review
  – Appendix – Supplementary Risk Considerations
European Economic Area

• Insurance Core Principals Number 16 – Enterprise Risk Management for Solvency Purposes
  – Requires ORSA
  – Adopted October 2010
• Insurance Core Principals Number 17 – Capital Adequacy
• EIOPA Guidelines on Own Risk and Solvency Assessment
  – Focus on what is to be achieved by the ORSA rather than how it is performed
Standards of Practice

• International Actuarial Association Council
  – ISAP 5 – Insurer Enterprise Risk Models

• Actuarial Standards Board
  – ASOP No. 46 – Risk Evaluation in Enterprise Risk Management
  – ASOP No. 47 – Risk Treatment in Enterprise Risk Management
  – ASOP Draft – Capital Adequacy Assessment for Insurers

• International Association of Insurance Supervisors
  – ICP 6 – Enterprise Risk Management for Solvency Purposes
  – ICP 17 – Capital Adequacy
International Standard of Actuarial Practice 5

- Insurer Enterprise Risk Models
- Adopted by the IAA Council
- November 21, 2016
- This ISAP provides guidance to actuaries when performing actuarial services involving the use of enterprise risk models for insurers.
ISAP 5, Section 2. Appropriate Practices

- Understanding of Risk and Uncertainty
- Proportionality
- Assumption Setting
- Stress Testing & Scenario Testing
- Assessing Consistency Among Models
ISAP 5, Section 3. Communication

• Any significant inconsistency that exists between the insurer’s financial strength, risk profile, business management, and risk environment and the insurer’s own risk management framework and approach
• An explanation of the differences between experience data and potential extreme adverse values in the risk model
• An explanation of the differences between the experience data and the incidence of multiple extreme events in the enterprise risk model
• The significant assumptions used in the stress test or scenario test, including the actions assumed to be taken by management
• Any known limitations of the stress tests or scenario tests and an assessment of the potential impact of these limitations on results
• An appropriate explanation of any material differences in results if multiple models and multiple stress tests and scenario tests are used by the insurer
Value of ORSA

Board Perspective

• International Actuarial Association Paper
• Produced by Joint Own Risk Solvency Subcommittee of the Insurance Regulation Committee and the Enterprise and Financial Risk Committee of the IAA
• April 2015
Value of ORSA

Assessing the Adequacy of the Risk Evaluation

Identification
- Identify unique nature of company’s risk profile
- Linkage between risk profile and management of risk

Priorities
- Not all elements of the company’s risk are equally demanding of the Board’s attention
- Enable Board to effectively challenge and advise management

Treatment
- Not all risks are quantifiable or worth quantifying
- Some risks may be treated by risk treatment techniques rather than capital
Value of ORSA

Assessing the Adequacy of the Risk Evaluation

What-if analysis
- Starting point is a series of scenarios that express certain adverse future events that will affect solvency and management's potential responses
- Boards should be made aware of the appropriateness of the economic, strategic and operational scenarios tested

Capital Adequacy
- ORSA may reveal that an insurer has a positive or negative gap of available capital to that required by the company
- The forward looking perspective of ORSA has to be understood to encompass strategic options that may be taken in the future

Emerging Risks
- Special attention is needed to identify such risks using input from both the Board and the company
- What-if analyses can be useful for assessing the potential impact of such emerging risks on the company
Value of ORSA

Assessing the Adequacy of the Risk Evaluation

**Model Validation**
- Models being used are subject to independent validation
- Appropriate controls around the inputs to the models (including assumptions and the quality of data), changes to the models, model outputs, and model execution

**Regular Review**
- Regular assessment of the whole ORSA process, even if the result is that no change is necessary, should be part of the ORSA process itself
- Periodic independent reviews of the entire ERM framework will benefit both the company and the Board
Value of ORSA

Strategic Risk-Based Decisions

• ORSA has the potential of shifting the Board’s discussion with management away from a strict focus on growth and profits
• It can lead to a more holistic understanding of how management balances and ultimately plans to optimize the risks it takes on, the return that can be expected, and the capital required to support the business plan
• Strategic risk decision making involves a keen understanding of how risk can be diversified within the company
• Before adopting a strategic plan, the Board should receive sufficient information to ensure that management has identified and quantified the risks inherent in various alternatives, and that sufficient risk mitigation plans have been developed to limit the risk associated with execution of the plan
Value of ORSA

Limitations

• Risk of incompleteness
• Risk of unnecessary complexity
• Risk of over-reliance
• Risk of under-reliance

Major risks related to an ORSA process risks can be addressed by making sure that
• ORSA includes an idea of how the undertaking assesses the risks from unknown unknowns,
• ORSA results are routinely used for high level decisions of the undertaking; and
• The management culture of the undertaking encourages second opinions and critical views of everybody involved in the ORSA-process.
Office of the Superintendent of Financial Institutions (OSFI)

- Preliminary review of more than 125 life and P&C ORSA Reports
- 3 Approaches
  - Compliance Exercise
  - Communication or Risk Summary
  - Description of Process and Conclusions
- Reports ranged from 4 to over 200 pages
Polling question #2

If you have completed an ORSA Report, which approach did you use:

- Compliance Only
- Risk Summary
- Description of Process
- N/A or Other

Polling Question #2
OSFI Key Findings

- Link to Internal Targets
- Risk Identification
- Quantification Methodology
- Stress Testing Own Capital
- Diversification Methodology
- Other
ORSA Process Survey

- Sponsored by CAS/CIA/SOA Joint Risk Management Section
- September 2015
- Survey focused on
  - Stress and scenario development processes
  - Incentives, governance, and other behavioral aspects
  - Evaluating the impact of the ORSA on a company’s overall results
  - Evaluating the level of buy-in of the ORSA within an organization
  - Board involvement
  - Implementation
  - Challenges faced by companies in the ORSA process
ORSA Process Survey

Profile of Respondents

Geography

- North America
- Europe
- Asia

Industry

- Life
- Health
- Casualty
ORSA Process Survey

Stress Test

- 90% surveyed stress test Market Risk
- 50% - 70% surveyed stress test Life, Credit, Spread, Catastrophe, Liquidity
- 39% surveyed stress test Operational Risk

- Number of Stress Tests
  - Fewer than 5 most common response
  - 25% surveyed apply more than 10 stress tests
ORSA Process Survey

Derivation of Stresses and Scenarios

- Risk appetite framework
- Consultation with internal stakeholders
- Consultation with external experts
- Discussions with regulator
- Detailed analysis of risk exposures
- Actual historical scenarios
- Stochastic simulation
- Other
ORSA Process Survey

Motivation

- Improve Risk Management
- Regulatory Compliance
- Good Risk Management Practice
- Better Capital Management
- Increased Board Involvement in Risk Management
- Other
ORSA Process Survey

Main Nonfinancial Benefits

• 70% Better Communication of Risk and Solvency Requirements throughout Organization
• 68% Improved Stakeholder Understanding of Risk
• 65% More Informed Strategic Decision-Making
• 58% Improved Risk Culture
• 41% Improves the Effectiveness of Engagement with the Regulator
• 3% Other
ORSA Process Survey

Attitude of Board and Senior Management

- Fully Supportive
- Supportive but Time Needed
- Regulatory Requirement Only
ORSA Process Survey

Processes in Which ORSA is Used

- Capital Management
- Business Planning
- Determining Reinsurance and Risk Mitigation
- Determining Investment Policy
- Product Development
- Contingency Planning
- Mergers & Acquisitions
- Other
ORSA Process Survey

Number of Person-Months Required for Risk Function

- More than 1 Year
- Less than 3 Months
- Between 3 Months & 1 Year
ORSA Process Survey

Departments Involved in Process

- Actuarial
- Finance
- Accounting
- Asset Management
- Information Technology
- Legal
- Underwriting
- Operations
- Other
- Marketing
ORSA Process Survey

Most Challenging Aspect of Inputs

- Adopting a Common Group View on Assumptions, Risk Appetite and Methodology
- Determining Appropriate Correlation Assumptions
- Determining Appropriate Management Actions
- Proving that the assumptions underlying the standard formula are appropriate to the business
- Identifying the triggers for performing an ORSA outside the normal cycle
- Coming up with scenarios to test in the ORSA
- Other
ORSA Process Survey

Most Challenging Aspect of Modeling

- Addressing the forward looking aspect of calculating capital requirements
- Level of capital in respect of operational risk
- Reverse stress testing (identifying the events or combinations of events that would make the company insolvent)
- Mitigating model risk
- Level of capital in respect of operational risk
- Model run time
- Other
ORSA Process Survey

Most Challenging Aspect of Output Process

• Embedding the ORSA in the risk culture
• Documentation
• Consolidation of results across legal entities
• Communication with Regulators
• Communication with non-actuarial function areas
• Other
Questions
Join Us for the Next APEX Webinar

Actuarial Considerations for Allocating IBNR Reserves

Join Pinnacle Managing Principal and Consulting Actuary Joe Herbers and Consulting Actuary Aaron Hillebrandt as they explore different actuarial approaches to allocation of IBNR, considerations in the basis of the allocation, strengths and weaknesses of the various approaches, and unusual situations.
Final notes

• We’d like your feedback and suggestions
  • Please complete our survey

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Thank You for Your Time and Attention

Laura Maxwell
LMaxwell@pinnacleactuaries.com

John Wade
JWade@pinnacleactuaries.com