

## ORSA Review Template

---

**Group/Insurer:** \_\_\_\_\_  
**Group Code/Cocode:** \_\_\_\_\_  
**Valuation Date:** \_\_\_\_\_  
**Submission Date:** \_\_\_\_\_

### General Instructions:

This template is intended to be used to document a review and assessment of the ORSA Summary Report by the lead/domestic state. Regulators should document the results of their annual review of the ORSA and utilize the appendixes to track and communicate feedback to the company and procedures for regulatory follow-up. See VI.E. Group-Wide Supervision – Enterprise Risk Management Process Risks Guidance for additional guidance in completing this template.

<b>Prepared/Reviewed By:</b>	<b>Date:</b>

<b>Date of Last Exam:</b>	
<b>Date of Next Exam:</b>	

## **Background Information**

Summarize and assess background information provided in the report, where available. Key documentation elements are presented below.

1. **Attestation:**
2. **Entities in Scope:**
3. **Accounting Basis:**
4. **Key Business Goals:**
5. **Changes from Prior Filing(s):**
6. **Planned ERM Enhancements:**

## **Section I – Description of the Insurer’s ERM Framework**

Summarize and assess key information from Section I of the ORSA Summary Report for each of the five principles of a risk management framework.

1. **Risk Culture and Governance:**
  
2. **Risk Identification and Prioritization:**
  
3. **Risk Appetite, Tolerances and Limits:**
  
4. **Risk Management and Controls:**
  
5. **Risk Reporting and Communication:**

**Overall Section 1 Assessment**—After reviewing and considering each principle individually, develop an overall assessment of the group’s/insurer’s risk management framework including any concerns or areas requiring follow-up investigation or communication:

## Section II – Insurer Assessment of Risk Exposures

Prepare documentation summarizing a review and assessment of information provided on the reasonably foreseeable and relevant material risks of the insurer/group.

**THE FOLLOWING TABLE SHOULD BE COMPLETED FOR EACH KEY RISK**

<b>Risk Title/Description</b>	
<b>Branded Risk(s)</b>	
<b>Controls/Mitigation</b>	
<b>Risk Limits</b>	
<b>Assessment (QT/QL)</b>	
<b>Normal Exposure</b>	
<b>Stress Scenario(s)</b>	
<b>Stressed Exposure</b>	
<b>Inclusion on GPS/IPS</b>	
<b>Regulator Review &amp; Assessment:</b>	

**Overall Section 2 Assessment**—After reviewing and considering each key risk individually, develop an overall conclusion regarding the group’s/insurer’s process to assess key risk exposures including any concerns or areas requiring follow-up investigation or communication:

### **Section III – Assessment of Risk Capital and Prospective Solvency**

Prepare documentation summarizing a review and assessment of key elements of the risk capital and prospective solvency process as follows.

1. **Discussion of Capital Metric(s) Used:**
2. **Group Risk Capital (GRC) – By Risk and In Aggregate:**
3. **Impact of Diversification Benefit:**
4. **Available Capital:**
5. **Excess Capital:**
6. **Impact of Stresses on GRC:**
7. **Governance and Validation:**
8. **Prospective Solvency Assessment:**

**Overall Section III Assessment**—After reviewing and considering each of the key elements individually, develop an overall assessment of the risk capital and prospective solvency of the insurer/group including any concerns or areas requiring follow-up investigation or communication:

## **Appendix A – Feedback to Insurer**

Feedback to the insurer on the ORSA Summary Report is critical for the compliance and effectiveness of future filings. The purpose of this form is to help the lead/domestic state gather and provide constructive and practical feedback to the insurer.

### **Positive Attributes:**

- 1.
- 2.
- 3.

### **Constructive Feedback:**

- 1.
- 2.
- 3.

### **Requests for Additional Information:**

- 1.
- 2.
- 3.

## **Appendix B – Recommended Exam Procedures/Areas for Follow-up Investigation**

In completing a review of the ORSA Summary Report, the lead state/domestic regulator should consider whether certain elements could benefit from verification/testing in an examination or additional monitoring and follow-up investigation by the financial analyst. Such procedures and issues can be accumulated here for communication and tracking.

### **Background Information**

- 1.
- 2.
- 3.

### **Section I - ERM Framework**

- 1.
- 2.
- 3.

### **Section II - Risk Assessment**

- 1.
- 2.
- 3.

### **Section III - Risk Capital and Prospective Solvency**

- 1.
- 2.
- 3.

## VI.E. Group-Wide Supervision – Enterprise Risk Management Process Risks Guidance

---

### Introduction

---

The process for assessing enterprise risk management (ERM) within the group will vary depending upon its structure and scale. Approximately 90 percent of the U.S. premium is subject to reporting an annual Own Risk Solvency ~~assessment~~ Assessment (ORSA) Summary Report. However, all insurers are subject to an assessment of risk management during the risk-focused analysis and examination, and this review is a responsibility of the lead state. In addition, all groups are required to submit the Form F - Enterprise Risk Report under the requirements of the NAIC *Insurance Holding Company System Regulatory Act* (#440). In addition, both the ORSA Summary Report and the Form F are subject to the supervisory review process, which contemplates both off-site and on-site examination of such information proportionate to the nature, scale and complexity of the insurer/group's risks. Those procedures are discussed in the following two sections. In addition, any risks identified throughout the entire supervisory review process are subject to further review by the lead state in either the periodic meeting with the insurer/group and/or any targeted examination work. When reviewing the ORSA and Form F, the lead state analyst should consider consistency between the documents, as well as information provided in the Corporate Governance Annual Disclosure.

### ORSA Summary Report

---

The NAIC *Risk Management and Own Risk and Solvency Assessment Model Act* (#505) requires insurers above a specified premium threshold, and subject to further discretion, to submit a confidential annual ORSA Summary Report. Model #505 gives the individual insurer and the insurance group discretion as to whether the report is submitted by each individual insurer within the group or by the insurer group as a whole (See the NAIC *Own Risk Solvency Assessment Guidance Manual* for further discussion).

- **Lead State:** In the case where the insurance group chooses to submit one ORSA Summary Report for the group, it must be reviewed by the lead state. The lead state is to perform a detailed and thorough review of the information and initiate any communications about the ORSA with the group. The suggestions below set forth some possible considerations for such a review. At the completion of this review, the lead state should prepare a thorough summary of its review, which would include an initial assessment of each of the three sections. The lead state should also consider and include key information to share with other domestic states that are expected to place significant reliance on the lead state's review. The lead state should share the analysis of ORSA with other states that have domestic insurers in the group. The group ORSA review and sharing with other domestic states should occur within 120 days of receipt of the ORSA filing.
- **Non-Lead State:** Non-lead states are not expected to perform an in-depth review of the ORSA, but instead rely on the review completed by the lead state. The non-lead states' review of ~~an~~ the lead state's ORSA review should be performed only for the purpose of having a general understanding of the work performed by the lead state, and to understand the risks identified and monitored at the group-level so the non-lead state may better monitor and communicate to the lead state when its legal entity could affect the group. Any concerns or questions related to information in the ORSA or group risks should be directed to the lead state.
- **Single Insurer ORSA:** In the case where there is only one insurer within the insurance group, or the group decides to submit separate ORSA Summary Reports for each legal entity, the domestic state is to perform a detailed and thorough review of the information, which would include an initial assessment of each of the three sections and initiate any communications about the ORSA directly with the legal entity. Such a review should also be shared with the lead state (if applicable) so it can develop an understanding of the risks within the entire insurance group. Single insurer ORSA reviews should be completed within 180 days of receipt of the ORSA filing.



## VI.E. Group-Wide Supervision – Enterprise Risk Management Process Risks Guidance

Throughout a significant portion of the remainder of this document, the term “insurer” is used to refer to both a single insurer for those situations where the report is prepared by the legal entity, as well as to refer to an insurance group. However, in some cases, the term group is used to reinforce the importance of the group-wide view. Similarly, throughout the remainder of this document, the term “lead state” is used before the term “analyst” with the understanding that in most situations, the ORSA Summary Report will be prepared on a group basis and, therefore reviewed by the lead state.

### Background Information

To understand the appropriate steps for reviewing the ORSA Summary Report, regulators must first understand the purpose of the ORSA. As noted in the *ORSA Guidance Manual*, 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 addition, separately, the *ORSA Guidance Manual* discusses the regulator obtaining a high-level understanding of the insurer’s ORSA, and discusses how the ORSA Summary Report may assist the commissioner in determining the scope, depth and minimum timing of risk-focused analysis and examination procedures.

There is no expectation with respect to specific information or specific action that the lead state regulator is to take as a result of reviewing the ORSA Summary Report. Rather, each situation is expected to result in a unique ongoing dialogue between the insurer and the lead state regulator focused on the key risks of the group. For this reason, as well as others, the lead state analyst may want to consider ~~including in its initial~~ additional support in the form of a broader review team as necessary in reviewing of the ORSA Summary Report, subject to the confidentiality requirements outlined in statute. In reviewing the final ORSA filing prior to the next scheduled financial examination, the analyst should consider inviting the lead state examiner or any other individual acting under the authority of the commissioner or designated by the commissioner with special skills and subject to confidentiality to participate on the review team. Regardless of which individuals are involved on a review team, the 120-day or 180-day timeliness standards are applicable to the review. Additionally, the lead state analyst and examiner may want to include ~~them~~ the review team in ~~possible ongoing~~ dialogues with the insurer since the same team will be part of the ongoing monitoring of the insurer and an ORSA Summary Report is expected to be at the center of the regulatory processes. ~~A joint review such as this prior to the lead state analyst documenting its summary of the ORSA Summary Report may be appropriate.~~

These determinations can be documented as part of each insurer’s ongoing supervisory plan. However, the *ORSA Guidance Manual* also states that each insurer’s ORSA will be unique, reflecting the insurer’s business model, strategic planning and overall approach to ERM. As regulators review ORSA Summary Reports, they should understand that the level of sophistication for each group’s ERM program will vary depending upon size, scope and nature of business operations. Understandably, less complex organizations may not require intricate processes to possess a sound ERM program. Therefore, regulators should use caution before using the results of an ORSA review to modify ongoing supervisory plans, as a variety of practices may be appropriate depending upon the nature, scale and complexity of each insurer.

~~Collectively, the goals above are the basis upon which the guidance is established. However, the ORSA Summary Report will not serve this function or have this direct impact until the lead state becomes fairly familiar and comfortable with evaluating each insurer’s report and its processes. This could take more than a couple of years to occur in practice, since the lead state would likely need to review at least one or two ORSA Summary Reports to fully understand certain aspects of the processes used to develop the report.~~

## General Summary of Guidance for Each Section

The guidance that follows is designed to assist the lead state analyst in the review of the ORSA and to allow for effective communication of analysis results with the non-lead states. It is worth noting that this guidance is expected to evolve over the years, with the first couple of years focused on developing a general understanding of ORSA and ERM. It should be noted that each of the sections can be informative to the other sections. As an example, Section II affords an insurer the opportunity to demonstrate the robustness of its process through its assessment of risk exposure. In some cases, it's possible the lead state analyst may conclude the insurer did not summarize and include information about its framework and risk management tools in Section I in a way that allowed the lead state analyst to conclude it was at Level 5 (defined below) on effectiveness, but in practice by review of Section II, it appears to meet the levels such a conclusion was able to be reached. Likewise, the lead state analyst may assess Section II as Level 5 effective but may be unable to see through Section III how the totality of the insurer's system is Level 5 effective because of a lack of demonstrated rigor documented in Section III. Therefore, the assessment of each section requires the lead state analyst to consider other aspects of the ORSA Summary Report. This is particularly true of Section I, because as discussed in the following page (or paragraphs), the other two sections have very distinct objectives, whereas the assessment of Section I is broader.

Background Information procedures are provided to assist the regulator in gaining an overall understanding of the ORSA Summary Report and assessing compliance with reporting requirements in several critical areas.

Section I procedures are focused on assessing the insurer's maturity level with respect to its overall risk management framework. The procedures are presented as considerations to be taken into account when reviewing and assessing an insurer's implementation of each of the risk management principles highlighted in the NAIC's ORSA Guidance Manual. The maturity level may be assessed through a number of ways, one of which is through the incorporation of concepts developed within the Risk and Insurance Management Society's (RIMS) Risk Maturity Model (RMM). While insurers or insurance groups may utilize various frameworks in developing, implementing and reporting on their ORSA processes (e.g., COSO Integrated Framework, ISO 31000, IAIS ICP 16, other regulatory frameworks, etc.), elements of the RMM have been incorporated into this guidance to provide a framework for use in reviewing and assessing ERM/ORSA practices. However, as various frameworks may be utilized to support effective ERM/ORSA practices, lead state regulators should be mindful of differences in frameworks and allow flexibility in assessing maturity levels. The RMM, which is only one of a number of processes that may be used to determine maturity levels, provides a scale of six maturity levels upon which an insurer can be assessed. The six maturity levels can generally be defined as follows:

Level 5: Risk management is embedded in strategic planning, capital allocation and other business processes and is used in daily decision-making. Risk limits and early warning systems are in place to identify breaches and require corrective action from the board of directors or the appropriate committee thereof (hereafter referred to as the "board" for this chapter) and management.

- Level 4: Risk management activities are coordinated across business areas and tools and processes are actively utilized. Enterprise-wide risk identification, monitoring, measurement and reporting are in place.
- Level 3: The insurer has risk management processes in place designed and operated in a timely, consistent and sustained way. The insurer takes action to address issues related to high-priority risks.
- Level 2: The insurer has implemented risk management processes, but the processes may not be operating consistently and effectively. Certain risks are defined and managed in silos, rather than consistently throughout the organization.
- Level 1: The insurer has not developed or documented standardized risk management processes and is relying on the individual efforts of staff to identify, monitor and manage risks.
- Level 0: The insurer has not recognized a need for risk management, and risks are not directly identified, monitored or managed.

The guidance developed for use in this Handbook integrates the concepts of RIMS maturity level scale of the RMM with the general principles and elements outlined in Section I of the *ORSA Guidance Manual* to assist lead state regulators in reaching an overall assessment of the maturity of an insurer's risk management framework. In

## VI.E. Group-Wide Supervision – Enterprise Risk Management Process Risks Guidance

~~assessing implementation, regulators should consider whether T~~the design of ERM/ORSA practices ~~should~~ appropriately reflect the nature, scale and complexity of the insurer. ~~Lead state regulators should understand the level of maturity that is appropriate for the company based on its unique characteristics. Attainment of “Level 5” level maturity for ERM/ORSA practices is not appropriate, nor should be expected, for all insurers or for all components of the framework.~~

**Section II** takes a much different approach. It provides guidance to allow the lead state analyst to better understand the range of practices they may see in ORSA Summary Reports. However, such practices are not intended to be requirements, as that would eliminate the “Own” aspect of the ORSA and defeat its purpose. ~~As such, analysts should not expect or require insurers to organize or present their risks in a particular manner (i.e. by branded risk classification).~~ Rather, the guidance can be used in a way to allow the lead state analyst to better understand the information in this section. Section II guidance has been developed around ~~reviewing key risks assessed by the company/insurer, evaluating information provided on the assessment and mitigation of those risks and classifying them within~~ the nine branded risk classifications ~~contained elsewhere in this~~outlined in the Handbook, which are used as a common language in the risk-focused surveillance process ~~for ongoing tracking and communication. As such, the analyst should attempt to classify each key risk assessed by the insurer into a branded risk classification(s) for incorporation into general analysis documentation (IPS or GPS) as appropriate. The branded risk classifications are intentionally broad in order to allow almost any risk of a company to be tracked within one or more categories, but the analyst may also use an “Other” classification as necessary to track exposures.~~The primary reason for utilizing this approach is that it is not uncommon for insurer’s to identify within their ORSA Summary Reports, many of the same types of risks, therefore the lead state analyst can leverage this information in their analysis of the insurer. However, lead state regulators should not restrict their focus to only the nine branded risk classifications; as such an approach may not encourage independent judgment in understanding the risk profile of the insurer. Therefore, the reference to the nine branded risk classifications provides a framework to organize the lead state’s summary, but it should not discourage regulators from documenting other risks or excluding branded risk categories that are not relevant. From this standpoint, Section II will also provide regulators with information to better understand current insurance market risks and changes in those risks as well as macroeconomic changes and the impact they have on insurers risk identification and risk management processes.

**Section III** is also unique in that it provides a specific means for assisting the lead state analyst in evaluating the insurer’s determinations of the reasonableness of its group capital ~~and its prospective solvency position on an ongoing basis.~~ Section III of the ORSA Summary Report is intended to be more informative regarding capital than other traditional methods of capital assessment since its sets forth the amount of capital the group determines is reasonable to sustain its current business model ~~rather than setting a minimum floor to meet regulatory or rating agency capital requirements.~~

### **Background Information**

~~The ORSA Guidance Manual encourages discussion and disclosure of key pieces of information to assist regulators in reviewing and understanding the ORSA Summary Report. As such, the following considerations are provided to assist the regulator in reviewing and assessing the information provided in these areas.~~

- ~~**Attestation** – The report includes an attestation signed by the Chief Risk Officer (or other executive responsible for ERM oversight) indicating that the information presented is accurate and consistent with ERM reporting shared with the Board of Directors (or committee thereof).~~
- ~~**Entities in Scope** – The scope of the report is clearly explained and identifies all insurers covered. The scope of a group report also indicates whether material non-insurance operations have been covered. The lead state analyst should utilize Schedule Y and other related tools/filings to verify that all appropriate entities are accounted for.~~
- ~~**Accounting Basis** – The report clearly indicates the accounting basis used to present financial information in the report, as well as the primary valuation date(s).~~

## VI.E. Group-Wide Supervision – Enterprise Risk Management Process Risks Guidance

- **Key Business Goals** – The report provides an overview of the insurer’s/group’s key business goals in order to demonstrate alignment with the relevant and material risks presented within the report.
- **Changes from Prior Filing(s)** – The report clearly discusses significant changes from the prior year filing(s) to highlight areas of focus in the current year review including significant changes to the ERM framework, risks assessed, stress scenarios, overall capital position, modeling assumptions, etc.
- **Planned ERM Enhancements** – The report provides information on planned enhancements for improving the effectiveness of the insurer’s/group’s ERM practices to demonstrate ongoing development and a functioning feedback loop.

### Review of Section I - Description of the Insurer’s Risk Management Framework

The *ORSA Guidance Manual* requires the insurer to discuss the key principles below in Section I of the ORSA Summary Report. For purposes of evaluating the ORSA Summary Report, and moreover, the lead state analyst’s responsibility to assess the insurer’s risk management framework, the lead state analyst should review the ORSA Summary Report to ascertain if the framework meets the principles. Additional guidance is included to provide further information on what may be contemplated ~~when considering in assessing~~ such principles ~~as well as examples of attributes that may indicate the insurer is more or less mature in its handling of key risk management principles. These attributes are meant to assist the lead state analyst in reaching an initial high-level assessment of the insurer’s maturity level for each key principle as “Level 5” through “Level 0”.~~

#### Key Principles:

- Risk Culture and Governance
- Risk Identification and Prioritization
- Risk Appetite, Tolerances and Limits
- Risk Management and Controls
- Risk Reporting and Communication

#### Documentation for Section I

##### Consideration When Reviewing for Key Principles:

When reviewing the ORSA Summary Report, the lead state analyst should consider the extent to which ~~of~~ the above principles are present within the organization. In reviewing these principles, examples of various ~~attributes/traits associated with various maturity levels (e.g., “Level 5” practices)considerations~~ are provided for each principle in the following sections. The intent in providing these ~~attributes or traitsconsiderations~~ is to assist the lead state analyst in assessing the risk management framework. However, these ~~attributes considerations~~ only ~~demonstrate common practices associated with each of the various maturity levels~~ highlight certain elements associated with the key principles and practices of individual insurers that may vary significantly ~~from the examples provided. The lead state analyst should document a summary of the review of Section I by outlining key information and developing an assessment of each of the five principles set forth in the ORSA Guidance Manual using the template located in the next section of this Handbook.~~

#### **A. Risk Culture and Governance**

It is important to note some insurers view risk culture and governance as the cornerstone to managing risk. The *ORSA Guidance Manual* defines this item to include a structure that clearly defines and articulates roles, responsibilities and accountabilities, as well as a risk culture that supports accountability in risk-based decision making. Therefore, the objective is to have a structure in place within the insurer that manages reasonably foreseeable and relevant material risk in a way that is continuously improved. Key considerations in reviewing and assessing risk culture and governance might include, but aren’t limited to:

- **Roles and Responsibilities** - Roles and responsibilities of key stakeholders in risk and capital management are clearly defined and documented in writing, including members of the board (or committee thereof),

## VI.E. Group-Wide Supervision – Enterprise Risk Management Process Risks Guidance

officers and senior executives, risk owners, etc.

- **Board or Committee Involvement** – The Board of Directors or appropriate committee thereof demonstrates active involvement in and oversight of ERM activities through regular monitoring, reporting and recommendations.
- **Strategic Decisions** – Directors, officers and other members of senior management utilize information generated through ERM processes in making strategic decisions.
- **Staff Availability and Education** – The insurer maintains suitable staffing (e.g. sufficient number, educational background, and experience) to support its ERM framework and deliver ofn its risk strategy. Staff is kept current in its risk education in accordance with changes to the risk profile of the insurer.
- **Leadership** – The Chief Risk Officer (CRO), {or equivalent position,} possesses an appropriate level of knowledge and experience related to ERM and receives an appropriate level of authority to effectively fulfill responsibilities. This includes clear and direct communication channels between the CRO and the BOD or appropriate committee thereof.
- **Compensation** – The insurer demonstrates that incentives, compensation and performance management criteria have been appropriately aligned with ERM processes and do not encourage excessive risk taking given the capital position of the insurer.
- **Integration** – The insurer integrates and coordinates ERM processes across functional areas of the organization including human resources, information technology, internal audit, compliance, business units, etc.
- **Assessment** – The insurer’s ERM framework is subject to regular review and assessment, with updates made to the framework as deemed necessary.

### • Level 5

Risk culture is analyzed and reported as a systematic view of evaluating risk. Executive sponsorship is strong, and the tone from the top has sewn an ERM framework into the corporate culture. Management establishes the framework, and the risk culture and the board reviews the risk appetite statement in collaboration with the chief executive officer (CEO), chief risk officer (CRO) where applicable, and chief financial officer (CFO). Those officers translate the expectations into targets through various practices embedded throughout the insurer. Risk management is embedded in each material business function. Internal audit, information technology, compliance, controls and risk management processes are integrated and coordinate and report risk issues. Material business functions use risk-based best practices. The risk management lifecycle for business process areas are routinely evaluated and improved (when necessary).

### • Level 4

The insurer’s ERM processes are self-governed with shared ethics and trust. Management is held accountable. Risk management issues are understood and risk plans are conducted in material business process areas. The board, CEO, CRO (if applicable) and CFO expect a risk management plan to include a qualitative risk assessment for reasonably foreseeable and relevant material risks with reporting to management or the board on priorities, as appropriate. Relevant areas use the ERM framework to enhance their functions, communicating on risk issues as appropriate. Process owners incorporate managing their risks and opportunities within regular planning cycles. The insurer creates and evaluates scenarios consistent with its planning horizon and product timelines, and follow-up activities occur accordingly.

### • Level 3

ERM risk plans are understood by management. Senior management expects that a risk management plan captures reasonably foreseeable and relevant material risks in a qualitative manner. Most areas use the ERM framework and report on risk issues. Process owners take responsibility for managing their risks and opportunities. Risk management creates and evaluates scenarios consistent with the business planning horizon.

### • Level 2

Risk culture is enforced by policies interpreted primarily as compliance in nature. An executive champions ERM management to develop an ERM framework. One area has used the ERM framework, as shown by the department head and documented team activities. Business processes are identified, and ownership is defined. Risk management is used to consider risks in line with the insurer’s business planning horizon.

## VI.E. Group-Wide Supervision – Enterprise Risk Management Process Risks Guidance

### • Level 1

Corporate culture has little risk management accountability. Risk management is not interpreted consistently. Policies and activities are improvised. Programs for compliance, internal audit, process improvement and IT operate independently and have no common framework, causing overlapping risk assessment activities and inconsistencies. Controls are based on departments and finances. Business processes and process owners are not well defined or communicated. Risk management focuses on past events. Qualitative risk assessments are unused or informal. Risk management is considered a quantitative analysis exercise.

### • Level 0

There is no recognized need for an ERM process and no formal responsibility for ERM. Internal audit, risk management, compliance and financial activities might exist but are not integrated. Business processes and risk ownership are not well defined.

## B. Risk Identification and Prioritization

The *ORSA Guidance Manual* defines this as key to the insurer. Responsibility for this activity should be clear, and the risk management function is responsible for ensuring the processes are appropriate and functioning properly. Therefore, an approach for risk identification and prioritization may be to have a process in place that identifies risk and prioritizes such risks in a way that potential reasonably foreseeable and relevant material risks are addressed in the framework. Key considerations in reviewing and assessing risk identification and prioritization might include, but aren't limited to:

- Resources – The insurer utilizes appropriate resources and tools (e.g. questionnaires, external risk listings, brainstorming meetings, regular calls, etc.) to assist in the risk identification process that are appropriate for its nature, size and structure.
- Stakeholder Involvement – All key stakeholders (i.e. directors, officers, senior management, business unit leaders, risk owners, etc.) are involved in risk identification and prioritization at an appropriate level.
- Prioritization Factors – Appropriate factors and considerations are utilized to assess and prioritize risks (e.g. likelihood of occurrence, magnitude of impact, controllability, speed of onset, etc.).
- Process Output – Risk registers, key risk listings and risk ratings are maintained, reviewed and updated on a regular basis.
- Emerging Risks – The insurer has developed and maintained a formalized process for the identification and tracking of emerging risks.

### • Level 5

Information from internal and external sources on reasonably foreseeable and relevant material risks, including relevant business units and functions, is systematically gathered and maintained. A routine, timely reporting structure directs risks and opportunities to senior management. The ERM framework promotes frontline employees' participation and documents risk issues or opportunities' significance. Process owners periodically review and recommend risk indicators that best measure their areas' risks. The results of internal adverse event planning are considered a strategic opportunity.

### • Level 4

Process owners manage an evolving list of reasonably foreseeable and relevant material risks locally to create context for risk assessment activities as a foundation of the ERM framework. Risk indicators deemed critical to their areas are regularly reviewed in collaboration with the ERM team. Measures ensure downside and upside outcomes of risks and opportunities are managed. Standardized evaluation criteria of impact, likelihood and controls' effectiveness are used to prioritize risk for follow up activity. Risk mitigation is integrated with assessments to monitor effective use.

### • Level 3

An ERM team manages an evolving list of reasonably foreseeable and relevant material risks, creating context

## VI.E. Group-Wide Supervision – Enterprise Risk Management Process Risks Guidance

~~for risk assessment as a foundation of the ERM framework. Risk indicator lists are collected by most process owners. Upside and downside outcomes of risk are understood and managed. Standardized evaluation criteria of impact, likelihood and controls’ effectiveness are used, prioritizing risk for follow-ups. Enterprise level information on risks and opportunities are shared. Risk mitigation is integrated with assessments to monitor effective use.~~

- ~~Level 2~~

~~Formal lists of reasonably foreseeable and relevant material risks exist for each relevant business unit or function, and discussions of risk are part of the ERM process. Corporate risk indicators are collected centrally, based on past events. Relevant business units or functions might maintain their own informal risk checklists that affect their areas, leading to potential inconsistency, inapplicability and lack of sharing or under-reporting.~~

- ~~Level 1~~

~~Risk is owned by specialists, centrally or within a business unit or function. Risk information provided to risk managers is probably incomplete, dated or circumstantial, so there is a high risk of misinformed decisions, with potentially severe consequences. Further mitigation, supposedly completed, is probably inadequate or invalid.~~

- ~~Level 0~~

~~There might be a belief that reasonably foreseeable and relevant material risks are known, although there is probably little documentation.~~

### C. Risk Appetite, Tolerances and Limits

The *ORSA Guidance Manual* states that a formal risk appetite statement, and associated risk tolerances and limits are foundational elements of a risk management framework for an insurer. While risk appetites, tolerances and limits can be defined and used in different ways across different organizations, this guidance is provided to assist the regulator in understanding and evaluating the insurer’s practices in this area.

Risk appetite can be defined as the amount of specific and aggregate risk that an organization chooses to take during a defined time period in pursuit of its business objectives. Understanding Articulation of the risk appetite statement ensures alignment ~~with of~~ the risk strategy with the business strategy set by senior management and reviewed and evaluated by the board. Not included in the Manual, but widely considered, is that risk appetite statements should be easy to communicate, be understood, and be closely tied to the insurer’s strategy.

After the overall risk appetite for the insurer is determined, the underlying risk tolerances and limits can be selected and applied to business units and ~~specific key risks identified areas as deemed appropriate~~ by the ~~company~~insurer. Risk tolerance can be defined as the aggregate risk-taking capacity of an organization. Risk limits can be defined as thresholds used to monitor the actual exposure of a specific risk or activity unit of the organization to ensure that the level of actual risk remains within the risk tolerance. The ~~company~~insurer may apply appropriate quantitative limits and qualitative statements to help establish boundaries and expectations for risks that are hard to measure. These boundaries may be expressed in terms of earnings, capital, or other metrics (growth, volatility, etc.). The risk tolerances/limits provide direction outlining the insurer’s tolerance for taking on certain risks, which may be established and communicated in the form of the maximum amount of such risk the entity is willing to take. However, in many cases these will be coupled with more specific and detailed limits or guidelines the insurer uses.

Due to the varying level of detail and specificity that different insurers incorporate into their risk appetites, tolerances and limits, lead state regulators should consider these elements collectively to reach an overall assessment in this area and should seek to understand the insurer’s approach through follow-up discussions and dialogue. Key considerations in reviewing and assessing risk appetites, tolerances and limits might include, but aren’t limited to:

- Risk Appetite Statement – The insurer has adopted an overall risk appetite statement consistent with its

## VI.E. Group-Wide Supervision – Enterprise Risk Management Process Risks Guidance

business plans and operations that is updated on a regular basis and approved by the board of directors (or committee thereof).

- Risk Tolerances/Limits – Tolerances and limits are developed for key risks in accordance with the overall risk appetite statement.
- Risk Owners – Key risks are assigned to risk owners with responsibility for monitoring and reporting on risk tolerances and limits, including actions to address any breaches.

### • Level 5

~~A risk appetite statement has been developed to establish clear boundaries and expectations for the insurer to follow. A process for delegating authority to accept risk levels in accordance with the risk appetite statements is communicated throughout the insurer. The management team and risk management committee, if applicable, may define tolerance levels and limits on a quantitative and/or qualitative basis for relevant business units and functions in accordance with the defined risk appetite. As part of its risk management framework, the insurer may compare and report actual assessed risk versus risk tolerances/limits. Management prioritizes resource allocation based on the gap between risk appetite and assessed risk and opportunity. The established risk appetite is examined periodically.~~

### • Level 4

~~Risk appetite is considered throughout the ERM framework. Resource allocation decisions consider the evaluation criteria of business areas. The insurer forecasts planned mitigation's potential effects versus risk tolerance as part of the ERM framework. The insurer's risk appetite is updated as appropriate, and risk tolerances are evaluated from various perspectives as appropriate. Risk is managed by process owners. Risk tolerance is evaluated as a decision to increase performance and measure results. Risk reward tradeoffs within the business are understood and guide actions.~~

### • Level 3

~~Risk assumptions within management decisions are clearly communicated. There is a structure for evaluating risk and gauging risk tolerance on an enterprise-wide basis. Risks and opportunities are routinely identified, evaluated and executed in alignment with risk tolerances. The ERM framework quantifies gaps between actual and target tolerances. The insurer's risk appetite is periodically reviewed and updated as deemed appropriate by the insurer, and risk tolerances are evaluated from various perspectives as appropriate.~~

### • Level 2

~~Risk assumptions are only implied within management decisions and are not understood outside senior leadership with direct responsibility. There is no ERM framework for resource allocation. Defining different views of business units or functions from a risk perspective cannot be easily created and compared.~~

### • Level 1

~~Risk management might lack a portfolio view of risk. Risk management might be viewed as risk avoidance and meeting compliance requirements or transferring risk through insurance. Risk management might be a quantitative approach focused on the analysis of high volume and mission-critical areas.~~

### • Level 0

~~The need for formalizing risk tolerance and appetite is not understood.~~

## **D. Risk Management and Controls**

The *ORSA Guidance Manual* stresses managing risk as an ongoing ERM activity, operating at many levels within the insurer. This principle is discussed within the governance section above from the standpoint that a key aspect of managing and controlling the reasonably foreseeable and relevant material risks of the insurer is the risk governance process put in place. For many companies, the day-to-day governance starts with the relevant business units. Those units put mechanisms in place to identify, quantify and monitor risks, which are reported up to the next level based upon the risk reporting triggers and risk limits put in place. In addition, controls are also



## VI.E. Group-Wide Supervision – Enterprise Risk Management Process Risks Guidance

put in place on the backend, by either the ERM function or the internal audit team, or some independent consultant, which are designed to ensure compliance and a continual enhancement approach. Therefore, one approach may be to put controls in place to ensure the insurer is abiding by its limits. Key considerations in reviewing and assessing risk management and controls might include, but aren't limited to:

- Lines of Defense – Multiple lines of defense (i.e. business unit or risk owners, ERM function, internal audit) are put in place to ensure that control processes are effectively implemented and maintained.
- Control Processes – Specific control activities and processes are put in place to manage, mitigate and monitor all key risks.
- Implementation of Tolerances/Limits – Risk tolerances and limits are translated into operational guidance and policies around key risks through all levels of the organization.
- Indicators/Metrics – Key risk indicators or performance metrics are put in place to monitor exposures, provide early warnings and measure adherence to risk tolerances/limits.

### • Level 5

ERM, as a management tool, is embedded in material business processes and strategies. Roles and responsibilities are process driven with teams collaborating across material central and field positions. Risk and performance assumptions within qualitative assessments are routinely revisited and updated. The insurer uses an ERM process of sequential steps that strive to improve decision making and performance. A collaborative, enterprise wide approach is in place to establish a risk management committee staffed by qualified management. Accountability for risk management is woven into material processes, support functions, business lines and geographies as a way to achieve goals. To evaluate and review the effectiveness of ERM efforts and related controls, the insurer has implemented a “Three Lines of Defense” model or similar system of checks and balances that is effective and integrated into the insurer’s material business processes. The first line of defense may consist of business unit owners and other front line employees applying internal controls and risk responses in their areas of responsibility. The second line of defense may consist of risk management, compliance and legal staff providing oversight to the first line of defense and establishing framework requirements to ensure reasonably foreseeable and relevant material risks are actively and appropriately managed. The third line of defense may consist of auditors performing independent reviews of the efforts of the first two lines of defense to report back independently to senior management or the board.

### • Level 4

Risk management is clearly defined and enforced at relevant levels. A risk management framework articulates management’s responsibility for risk management, according to established risk management processes. Management develops and reviews risk plans through involvement of relevant stakeholders. The ERM framework is coordinated with managers’ active participation. Opportunities associated with reasonably foreseeable and relevant material risks are part of the risk plans’ expected outcome. Authentication, audit trail, integrity and accessibility promote roll-up information and information sharing. Periodic reports measure ERM progress on reasonably foreseeable and relevant material risks for stakeholders, including senior management or the board. The insurer has implemented a “Three Lines of Defense” model to review and assess its control effectiveness, but those processes may not yet be fully integrated or optimized.

### • Level 3

The ERM framework supports material business units’ and functions’ needs. ERM is a process of steps to identify, assess, evaluate, mitigate and monitor reasonably foreseeable and relevant material risks. ERM frameworks include the management of opportunities. Senior management actively reviews risk plans. The ERM process is collaborative and directs important issues to senior management. The “Three Lines of Defense” are generally in place, but are not yet performing at an effective level.

### • Level 2

Management recognizes a need for an ERM framework. Agreement exists on a framework, which describes roles and responsibilities. Evaluation criteria are accepted. Risk mitigation activities are sometimes identified

## VI.E. Group-Wide Supervision – Enterprise Risk Management Process Risks Guidance

but not often executed. Qualitative assessment methods are used first in material risk areas and inform what needs deeper quantitative methods, analysis, tools and models. The “Three Lines of Defense” are not yet fully established, although some efforts have been made to put these processes in place.

- Level 1

Management is reactive and ERM might not yet be seen as a process and management tool. Few processes and controls are standardized and are instead improvised. There are no standard risk assessment criteria. Risk management is involved in business initiatives only in later stages or centrally. Risk roles and responsibilities are informal. Risk assessment is improvised. Standard collection and assessment processes are not identified.

- Level 0

There is little recognition of the ERM framework’s importance or controls in place to ensure its effectiveness.

## E. Risk Reporting and Communication

The *ORSA Guidance Manual* indicates risk reporting and communication provides key constituents with transparency into the risk-management processes as well as facilitates active, informal decisions on risk-taking and management. The transparency is generally available because of reporting that can be made available to management, the board, or compliance departments, as appropriate. However, most important is how the reports are being utilized to identify and manage reasonably foreseeable and relevant material risks at either the group, business unit or other level within the insurer where decisions are made. Therefore, one approach may be to have reporting in place that allows decisions to be made throughout the insurer by appropriately authorized people, with ultimate ownership by senior management or the board. Key considerations in reviewing and assessing risk reporting and communication might include, but aren’t limited to:

- Training – The importance of ERM processes and changes to the risk strategy are clearly communicated to all impacted areas and business units through ongoing training.
- Key Risk Indicator Reporting – Summary reports on risk exposures (i.e. key risk indicators) and compliance with tolerances/limits are maintained and updated on a regular basis.
- Oversight – Summary reports are reviewed and discussed by directors, officers and other members of senior management on a regular basis.
- Breach Management – Breaches of limits and dashboard warning indicators are addressed in a timely manner through required action by directors and officers.
- Feedback – A feedback loop is embedded into ERM processes to ensure that results of monitoring and review discussions on key risks by senior management and the board are incorporated by business unit leaders and risk owners into ongoing risk-taking activities and risk management processes.

- Level 5

The ERM framework is an important element in strategy and planning. Evaluation and measurement of performance improvement is part of the risk culture. Measures for risk management include process and efficiency improvement. The insurer measures the effectiveness of managing uncertainties and seizing risky opportunities. Deviations from plans or expectations are also measured against goals. A clear, concise and effective approach to monitor progress toward strategic goals is communicated regularly with relevant business units or functional areas. Individual, management, departmental, divisional and corporate strategic goals are linked with standard measurements. The results of key measurements and indicators are reviewed and discussed by senior management or the board, on a regular basis and as frequently as necessary to address breaches in risk tolerances or limits in a timely manner.

- Level 4

The ERM framework is an integrated part of strategy and planning. Risks are considered as part of strategic planning. Risk management is a formal part of strategic goal setting and achievement. Investment decisions for resource allocation examine the criteria for evaluating opportunity impact, timing and assurance. The insurer forecasts planned mitigation’s potential effect on performance impact, timing and assurance prior to

## VI.E. Group-Wide Supervision – Enterprise Risk Management Process Risks Guidance

use. Employees at relevant levels use a risk-based approach to achieve strategic goals. The results of key measurements and indicators are shared with senior management or the board on a regular basis.

- Level 3

The ERM framework contributes to strategy and planning. Strategic goals have performance measures. While compliance might trigger reviews, other factors are integrated, including process improvement and efficiency. The insurer indexes opportunities qualitatively and quantitatively, with consistent criteria. Employees understand how a risk-based approach helps them achieve goals. Accountability toward goals and risk's implications are understood and are articulated in ways frontline personnel understand. The results of key measurements and indicators are shared with senior management or the board.

- Level 2

The ERM framework is separate from strategy and planning. A need for an effective process to collect information on opportunities and provide strategic direction is recognized. Motivation for management to adopt a risk-based approach is lacking.

- Level 1

Not all strategic goals have measures. Strategic goals are not articulated in terms the frontline management understands. Compliance focuses on policy and is geared toward satisfying external oversight bodies. Process improvements are separate from compliance activities. Decisions to act on risks might not be systematically tracked and monitored. Monitoring is done, and metrics are chosen individually. Monitoring is reactive.

- Level 0

No formal framework of indicators and measures for reporting on achievement of strategic goals exists.

### Overall Section 1 Assessment

#### Documentation for Section I

The lead state analyst should prepare a summary of Section I by developing an assessment of each of the five principles set forth in the *ORSA Guidance Manual* using the template at the end of these procedures. After summarizing the information reviewed for each of the key principles individually, the lead state analyst should provide an overall assessment of the insurer's ERM framework, including any concerns or areas requiring follow-up investigation or communication. In preparing the assessment, the lead state analyst should understand that ORSA summary reports may not always align with each of these specific principles. Therefore, the lead state analyst must use judgment and critical thinking in accumulating information to support their evaluation of each of these principles. The overall evaluation should focus on critical concerns associated with any of the individual principles and should also address any other ERM framework concerns that may not be captured within these principles.

The lead state analyst should also be aware that the lead state examiner is tasked to update the assessment bywith supplementing the lead state analyst's assessment with additional onsite verification and testing. The lead state analyst should direct the lead state examiner to those areas where such additional verification and testing is appropriate and could not be performed by the lead state analyst. Where available from prior full scope or targeted examinations, the assessment information from the lead state examiner should be used as a starting point for the lead state analyst to update. Consequently, on an ongoing basis, the lead state analyst's update may focus as much on changes to ERM processes and the ORSA Summary Report (positive or negative) since the insurer was previously examined; and, similar to an initial assessment by the lead state analyst, they may want to prior exam in directing targeted onsite verification and testing for changes that have occurred since the last examination.

The lead state analyst, after completing a summary of Section I, should consider if the overall assessment, or any specific conclusions, should be used to update either the ERM section of the Group Profile Summary (GPS) (if the ORSA Summary Report is prepared on a group basis) or information in the Insurer Profile Summary (IPS) (if the

## VI.E. Group-Wide Supervision – Enterprise Risk Management Process Risks Guidance

ORSA Summary Report is prepared on a legal entity basis). In addition, key information from the review should be incorporated into the Risk Assessment Worksheet (RAW) during the next full analysis (quarterly or annual) of the insurer if/where relevant.

### Review of Section II - Insurer's Assessment of Risk Exposure

Section II of the ORSA Summary Report is required to provide a high-level summary of the quantitative and/or qualitative assessments of risk exposure in both normal and stressed environments. The *ORSA Guidance Manual* does not require the insurer to ~~include-address~~ specif~~ie~~d risks, but does ~~give-possible~~ provide examples of reasonably foreseeable and relevant material risk categories (e.g. credit, market, liquidity, underwriting, and operational risks). In reviewing the information provided in this section of the ORSA, lead state analysts may need to pay particular attention to risks and exposures that may be emerging or significantly increasing over time. To assist in identifying and understanding the changes in risk exposures, the lead state analyst may consider comparing the insurer's risk exposures and/or results of stress scenarios to those provided in prior years.

Section II provides risk information on the entire insurance group, which may be grouped in categories similar to the NAIC's nine branded risk classifications. However, this is not to suggest the lead state analyst or lead state examiner should expect the insurer to address each of the nine branded risk classifications. In fact, in most cases, they will not align, but it is not uncommon to see some similarities for credit, market, liquidity, underwriting and operational risks. A fair number of insurer risks may not be easily quantified or are grouped differently than these nine classifications. Therefore, it is possible the insurer does not view them as significant or relevant. The important point is not the format, but for the lead state analyst or lead state examiner to understand how the insurer categorizes its own risks and contemplate whether there may be material gaps in identified risks or categories of risks.

#### Documentation for Section II

Prepare a summary and assessment of Section II by identifying and outlining key information associated with the significant reasonably foreseeable and material relevant (key) risks of the insurer per the ORSA Summary Report, ~~including those that correspond to the nine branded risk classifications, if applicable.~~ Following the documentation on each ~~of the significant reasonably foreseeable and material relevant risks~~ key risk per the report, the lead state analysts should include an analysis of such risk. In developing such analysis, the lead state analyst is encouraged to use judgment and critical thinking in evaluating if the risks and quantification of such risks under normal and stressed conditions are reasonable and generally consistent with expectations. The lead state analyst should be aware that the lead state examiner is tasked to update the assessment by supplementing the lead state analyst's assessment with additional on-site verification and testing. The lead state analyst should direct the lead state examiner to those areas where such additional verification and testing is appropriate and could not be performed by the lead state analyst. Suggested information to be documented on each key risk, including supporting considerations, is outlined below:

- **Risk Title and Description** – Provide the title for each key risk as identified/labeled by the insurer as well as a basic description.
- **Branded Risk** – Provide information on the primary branded risk classification(s) that apply to the key risk and briefly discuss how they apply/relate.
- **Controls/Mitigation** – Summarize information known about the controls and mitigation strategies put in place by the insurer to address the key risk.
- **Risk Limits** – Provide information on any specific risk tolerances or limits associated with the key risk and how they are monitored and enforced.
- **Assessment** – Discuss how the key risk is assessed by the insurer, including whether the assessment is performed on a quantitative (QT) or qualitative (QL) basis. Describe the methodology used, the key underlying assumptions and the process utilized to set these assumptions.
- **Normal Exposure** – Summarize the insurer's normal exposure to this key risk based on budget information or historical experience.

## VI.E. Group-Wide Supervision – Enterprise Risk Management Process Risks Guidance

---

- Stress Scenario(s) – Discuss the stress scenario(s) identified and applied to the key risk and how they were determined and validated by the insurer.
- Stressed Exposure – Provide information on the impact of the stress scenario(s) on the key risk and potential impact on the insurer’s surplus position and business strategy/operations.
- Inclusion on IPS/GPS – Discuss whether the key risk will be recognized on the IPS/GPS of the insurer, including the risk component it will be incorporated into.
- Regulator Review & Assessment – Assess the adequacy of the risk assessment performed by the insurer on each key risk (including the appropriateness of controls/limits and reasonableness of methodology, assumptions and stress scenarios used) and whether any specific issues or concerns are identified that would require further investigation or follow-up communication

After completing a summary and assessment for each key risk addressed in Section II, the lead state analyst should use the information to update the risk assessment in either the GPS (if the ORSA is prepared on a group basis) or the IPS (if the ORSA is prepared on a legal entity basis) and supporting documentation if deemed necessary. In addition, key information from the review should be incorporated into the RAW during the next full analysis (quarterly or annual) of the insurer if/where relevant.

### **Overall Risk Assessment Summary Section 2 Assessment**

In addition, The lead state analyst should complete an overall assessment of the information provided in Section II, including an evaluation of the insurer’s risk assessment processes and whether all material and relevant risks were assessed and presented at an appropriate level of detail. This should include consideration of whether there is consistency between the insurer’s Risk Identification and Prioritization process discussed in Section I and risks that are assessed and reported on in Section II (i.e. have all key risks been addressed). In addition, this should focus on critical concerns associated with the assessment of individual key risks as well as whether the insurer’s overall assessment process (i.e. methodology, assumptions and stress scenarios) is adequate and well-supported. After considering the various risks identified by the insurer through Section II, develop an overall risk assessment summary of possible concerns that may exist.

### **Review of Section III - Group Assessment of Risk Capital**

---

Section III of the ORSA is unique in that it is required to be completed at the insurance group level as opposed to the other sections which may be completed at a legal entity level. However, in many cases, insurers will choose to also complete Section I and Section II at the group level. This requirement is important because it provides the means for lead state regulators to assess the reasonableness of capital of the entire insurance group based upon its existing business plan.

In reviewing Section III of the ORSA Summary Report, the lead state analyst should recognize this section is generally presented in a summarized form. Although this section requires disclosure of aggregate available capital compared against the enterprise’s risk capital (i.e. the amount deemed necessary to withstand unexpected losses arising from key risks), the report may not provide sufficient detail to fully evaluate the group capital position. As such, the lead state analyst may need to request the assistance of staff actuaries when available in evaluating the reasonableness and adequacy of the stress tests selected, request additional detail from the insurer in order to understand and evaluate the group capital position and/or refer additional investigation to the financial examination function.

The ORSA Guidance Manual (Manual) requires the insurer to estimate its prospective solvency under stressed conditions by identifying stress scenarios that would give rise to significant losses that have not been accounted for in reserves. Furthermore, the Manual requires the insurer to estimate its prospective solvency in Section III by projecting the aggregate capital available and comparing it against the enterprise’s risk capital. Insurers may include information in the ORSA Summary Report developed as part of their strategic planning and may include pro forma financial information that displays anticipated changes to key risks as well as projected capital adequacy

## VI.E. Group-Wide Supervision – Enterprise Risk Management Process Risks Guidance

in those future periods based on the insurer's defined capital adequacy standard. In reviewing information on prospective solvency, the lead state analyst should carefully consider projected changes to the group capital position as well as significant shifts in the amount of capital allocated to different risks, which could signal changes in business strategy and risk exposures.

~~Section III will be directly used as part of the lead state's insurance holding company analysis evaluation of group capital.~~

### Documentation for Section III

Insurance groups will use different means to ~~measure risk (i.e., required)~~ manage capital and they will use different accounting and valuation frameworks. For example, they may determine the amount of capital they need to fulfil regulatory and rating agencies' requirements, but also determine the amount of capital (risk capital) they need to absorb unexpected losses that are not accounted for in the reserves. The lead state analyst may need to request management to discuss their overall approach to ~~both of these items~~ capital management and the reasons and details for each approach so that they can be considered in the evaluation of estimated risk capital.

Many insurers use internally developed capital models to quantify the risk capital. In these cases, the ORSA Summary Report should summarize the insurer's process for model validation to support the quantification methodology and assumptions chosen to determine risk capital, including factors considered and model calibration. The lead state analyst should use the model validation information to assess the reasonableness of the quantification methodology and assumptions used. If the ORSA Summary Report does not provide a summary of the model validation process, the lead state analyst should request copy of the validation report prepared by the insurer. With regard to the determination of the risk capital under stressed conditions, because the risk profile of each insurer is unique, there is no standard set of stress conditions that each insurer should run. However, the lead state regulator should be prepared to dialogue with management about the selected stress scenarios if there is concern with the rigor of the scenario. In discussions with management, the lead state analyst should gain an understanding of the modeling methods used to project available and risk capital over the duration of the insurer's business plan as well as the potential changes to the risk profile of the insurer over this time horizon (i.e. changes to the list of key risks) based on the business plan (e.g., stochastic vs. deterministic) and be prepared to dialogue about and understand the material assumptions that affected the model output, such as prospective views on risks. The aforementioned dialogue may occur during either the financial analysis process and/or the financial examination process.

The lead state analyst, after completing a summary of Section III, should assess the overall reasonableness of the capital position compared to the group's estimated risk capital. Additionally, the lead state analyst should also consider if any of the information, or any specific conclusions, should be used to update either the GPS or IPS.

~~Support the~~ An assessment of the reasonableness of group risk capital and the process to measure it should be provided by developing a narrative that ~~considers~~ provides the following for each individual element of the insurer's assessment of risk capital:

- Discussion of Capital Metric(s) Used – Discuss the method(s) used by the group in assessing group risk capital and their basis for such a decision. Identify the capital metric(s) used to estimate group risk capital, as well as the level of calibration selected. Consider whether the capital metric(s) utilized to assess the group's overall capital target are clearly presented and described. Metrics may consist of internally developed economic capital models (deterministic or stochastic) and/or externally developed models, such as regulatory capital requirements (RBC) or A.M. Best's Capital Adequacy Ratio (BCAR). In discussing calibration, consider both the method used (e.g. Value at Risk, Tail Value at Risk) and its level (e.g. 99.5%) to evaluate whether the results are calibrated to an appropriate confidence level. Discuss whether the capital metric(s) selected address all key risks of the group. Of particular importance is considering whether the metric used fits the approach used to determine the group's risk appetite. Document the extent to which the lead state analyst believes the approach used by the insurer is reasonable for the nature, scale and complexity of the group and if this has any impact on the lead state analyst's assessment of the insurer's overall risk management.
- Group Risk Capital - By Risk and in Aggregate – Provide information on the amount of risk capital determined

## VI.E. Group-Wide Supervision – Enterprise Risk Management Process Risks Guidance

for each individual key risk and in aggregate. In reviewing the results for each individual risk, evaluate whether all key risks are adequately accounted for in the metric by assessing the amount of capital allocated to each risk. Consider significant changes in group risk capital from the prior filing, the drivers of such change, and any decisions made as a result of such movement.

- **Impact of Diversification Benefit** – Discuss the impact of any diversification benefit calculated by the group in aggregating its group risk capital. Diversification benefit is typically calculated by aggregating individually modeled risk capital and then accounting for potential dependencies among those risks to allow for an offset or reduction in the total amount of required capital (group risk capital). In evaluating the group’s diversification benefit, consider whether the benefit is calculated based on dependencies/correlations in key risk components that are reasonable/appropriate.
- **Available Capital** – Provide information on and discuss the amount of capital available to the group. Evaluate the quality of available capital from the standpoint of whether that capital is freely available to meet policyholder obligations. Determine if there is any double counting of capital through the stacking of legal entities or challenges in accessing group capital due to fungibility issues (i.e. capital trapped within various legal entities).
- **Excess Capital** – Discuss the extent to which the group available capital amount exceeds the group risk capital amount per the ORSA Summary Report. In evaluating the overall adequacy of excess capital, consider any concerns outlined above relating to the capital metric(s), group risk capital, impact of diversification and available capital. If the level of excess capital or its availability/liquidity is of concern, evaluate the group’s ability to remediate capital deficiencies by obtaining additional capital or reducing risk where required. If further concerns exist, contact the group to discuss and communicate with department senior management to determine whether additional investigation or regulatory action is necessary.
- **Impact of Stresses on Group Risk Capital** – Discuss whether additional stress scenarios have been applied to the model results to demonstrate the group’s resiliency to absorb extreme unexpected losses. This step is particularly important when reviewing the use of external capital models that may not be tailored to address the enterprise’s specific exposures. Evaluate the range and adequacy of any stress scenarios applied and the resulting impact on the group’s ability to accomplish its business strategy, provide sufficient liquidity and meet the capital expectations of rating agencies and regulators.
- **Governance and Validation** – Discuss and evaluate the group’s model governance process and the means by which changes to models are overseen and approved. Consider whether the board of directors (or committee thereof) and members of senior management are adequately involved. Discuss the extent to which the group uses model validation (including validation of data inputs) and independent review to provide additional controls over the estimation of group capital.
- **Prospective Solvency Assessment** – Discuss the information provided by the group on its prospective solvency position, including any capital projections. Consider whether the business goals of the company/insurer and its strategic direction are adequately discussed and incorporated into the prospective solvency assessment. For example, are expected changes in risk profile presented and discussed? Also consider whether prospective solvency is projected across the duration of the current business plan. To the extent the prospective assessment suggests that the group capital position will weaken, or recent trends may result in certain internal limits being breached, the lead state analyst should understand and discuss what actions the insurer expects to take as a result of such an assessment (e.g., reduce certain risk exposure, raise additional capital, etc.).

### **Overall Section 3 Assessment**

In addition, after summarizing the assessment of each individual element above, the lead state analyst should provide an overall assessment of the insurer’s risk capital assessment process, including any concerns or areas requiring follow-up investigation or communication. The overall evaluation should focus on critical concerns associated with any of the individual elements noted above and should also address any other risk capital assessment concerns that may not be captured within these principles.

The lead state analyst, after completing a summary of Section 3, should consider if the overall assessment, or any

## VI.E. Group-Wide Supervision – Enterprise Risk Management Process Risks Guidance

specific conclusions, should be used to update either the ERM section of the GPS} (if the ORSA Summary Report is prepared on a group basis) or information in the IPS (if the ORSA Summary Report is prepared on a legal entity basis). In addition, key information from the review should be incorporated into the RAW during the next full analysis (quarterly or annual) of the insurer if relevant.

- ~~• Actual Capital Amount—Discuss the extent to which the group available capital amount exceeds the group risk capital amount per the ORSA Summary Report. In the rare situation where the calculation revealed group capital was not sufficient compared to internal/rating agency/regulatory capital, immediately contact the group to determine what steps it is taking to address the issue. Consider in that discussion, the section below, which requires the lead state analyst to consider the controls the group has in place relative to this issue. For all other groups, when considering if group capital is either well in excess of internal/rating capital or currently sufficient, consider all of the following considerations, but paying particular attention to the cushion based upon the use of economic capital scenarios and/or stress testing.~~
- ~~• Cushion Based Upon Use of Economic Capital Scenarios and/or Stress Perhaps the most subjective determination when considering group capital is determining the sufficiency of such amount compared to a predefined minimum. That minimum, be it regulatory, rating agency, or economic, uses certain assumptions, including assumptions that may already provide a cushion. The lead state analyst shall bear in mind the “Own” in ORSA, noting that each insurer’s methodology and stress testing will vary. However, the lead state analyst should be able to develop and document the general methodology applied and how outputs from the prospective solvency calculations compare with recent trends for the group and, in general, be able to determine the sufficiency of capital.~~
- ~~• Method of Capital Measurement  
Discuss the method used (e.g., internal, rating agency) by the insurer in assessing group capital and their basis for such decision. If no information on this issue exists within the ORSA Summary Report, consider asking the insurer the question. Document the extent to which the lead state analyst believes the approach used by the insurer is reasonable for the nature, scale and complexity of the group and if this has any impact on the lead state analyst’s assessment of the insurer’s overall risk management.~~
- ~~• Quality of Capital  
If the insurer uses an internal capital model, evaluate the quality of available capital included in the report from the standpoint of whether that capital is freely available to meet policyholder obligations. In addition, determine if there is any double counting of capital through the stacking of legal entities. If the insurer used rating agency capital, verify if capital used internally in the ORSA Summary Report meets such firm’s requirements. If no information on this issue exists within the ORSA Summary Report, the lead state analyst should consider asking the insurer the question.~~
- ~~• Prior Year Considerations  
Some insurers will provide qualitative information in the ORSA Summary Report that describes their movement of required capital from one period to the next, the drivers of such change, and any decisions made as a result of such movement. If no information on this issue exists within the ORSA Summary Report, consider asking the insurer questions, particularly if there have been material changes in the group capital position year over year or material changes to business plans, operations or market conditions, without a corresponding change in group capital position. This information, as well as the lead state analyst’s existing knowledge of the group, and its financial results, should be used to determine the overall reasonableness of the change in group capital and should be an input into evaluating the group capital calculation.~~
- ~~• Quantification of Reasonably Foreseeable and Relevant Material Risks  
Discuss and document if the group capital fails to recognize any reasonably foreseeable and relevant material risks the lead state analyst is aware of.~~
- ~~• Controls over Capital  
Discuss the extent to which the ORSA Summary Report demonstrates the group has a strategy, including senior management or the board oversight, for ensuring adequate group capital is maintained over time. This includes~~



## VI.E. Group-Wide Supervision – Enterprise Risk Management Process Risks Guidance

~~plans for obtaining additional capital or for reducing risk where required. If no information on this issue exists within the ORSA Summary Report, consider asking the insurer the question.~~

### ● ~~Controls over Model Validation and or Independent Reviews~~

~~If the insurer uses an internal capital model, discuss the extent to which the group uses model validation and independent review to provide additional controls over the estimation of group capital. If no information on this issue exists within the ORSA Summary Report, consider asking the insurer the question. Lead state analysts and lead state examiners are encouraged to: 1) look to the insurer’s own process by which they assess the accuracy and robustness of its models; look how the insurer governs model changes and parameter or assumption setting; and 3) limit lead state examiner lead validation of model output to more targeted instances where conditions warrant additional analysis.~~

### **Review of Section III – Prospective Solvency Assessment**

~~The ORSA Guidance Manual requires the insurer to estimate its prospective solvency. Insurers may include in the ORSA Summary Report information developed as part of their strategic planning and may include pro forma financial information that displays possible outcomes as well as projected capital adequacy in those future periods based on the insurer’s defined capital adequacy standard. The lead state analyst should understand the impact such an exercise has on the ongoing business plans of the insurer. For example, to the extent such an exercise suggests that at the insurer’s particular capital adequacy under expected outcomes the group capital position will weaken, or recent trends may result in certain internal limits being breached, the lead state analyst should understand what actions the insurer expects to take as a result of such an assessment (e.g., reduce certain risk exposure, raise additional capital, etc.). It should be kept in mind, however, that a mere “weakening” of a group capital position, or even trends, are less relevant than whether group available capital exceeds the group’s risk capital over the forecast period. The lead state analyst should document its findings/review of this section.~~

### **Feedback to the Insurer**

After completing a review of the ORSA Summary Report, the lead state should provide practical and constructive feedback to the insurer related to the review. Feedback plays a critical role in ensuring the compliance and effectiveness of future filings. Feedback also provides a means for asking follow-up questions or requesting additional information to facilitate the review and incorporation of ORSA information into ongoing solvency monitoring processes.

During the review, topics for feedback communication to the insurer can be accumulated on **Appendix A** of the template. The appendix encourages the lead state to accumulate positive attributes to reinforce the effectiveness of certain practices and information in the summary report. In addition, the appendix encourages the lead state to identify areas for constructive feedback to encourage the insurer to provide additional information or clarify the presentation of certain items in future filings. Finally, the appendix encourages the lead state to list requests for additional information that may be necessary to complete a review and evaluation of the insurer’s ORSA/ERM processes.

### **Suggested Follow-up by the Examination Team**

~~As noted at the end of each section~~After completing a review of the ORSA Summary Report, the lead state analyst should direct the lead state examiner to those areas where such additional verification and testing is appropriate and could not be performed by the lead state analyst. **These items can be accumulated on Appendix B of the template for follow-up and communication.** If there are specific reports, information and/or control processes addressed in the ORSA Summary Report that the lead state analyst feels should be subject to additional review and verification by the examination team, the lead state analyst is expected to provide direction as to its findings of specific items and/or recommended testing and such amounts should be listed in the template by the lead state analyst. During planning for a financial examination, the lead state examiner and lead state analyst should work together to develop a plan for additional testing and follow-up where necessary. The plan should consider that

**VI.E. Group-Wide Supervision – Enterprise Risk Management Process Risks Guidance**

---

the lead state examiner may need to expand work to address areas of inquiry that may not be identifiable by the lead state analyst.

In addition to this specific expectation, during each coordinated financial condition examination, the exam team as directed by the lead state examiner and with input from the lead state analyst will be expected to review and assess the insurer’s risk management function through utilization of the most current ORSA Summary Report received from the insurer. The lead state will direct the examination team to take steps to verify information included in the report and test the operating effectiveness of various risk management processes on a sample basis (e.g., reviewing certain supporting documentation from Section I; testing the reasonableness of certain inputs into stress testing from Section II; and reviewing certain inputs, assumptions and outputs from internal capital models).

---

**Detail Eliminated to Conserve Space**

---