



Own Risk and Solvency Assessment (ORSA) in the U.S.

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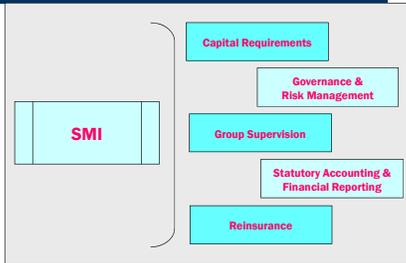
Outline

- What is the Solvency Modernization Initiative?
- Why are We Proposing a U.S. ORSA?
- What is the U.S. ORSA Proposal?
- What are the Challenges in U.S. ORSA Implementation?

What is the SMI?

- Describe the U.S. system based on a coherent set of principles.
- Examine international developments and their potential use in U.S. insurance regulation.
- Critically review the entire solvency regulatory framework in the U.S.

SMI Focus Areas



U.S. Solvency “Arsenal” *It's more than RBC.*

- Financial Surveillance
 - Reporting – Extensive Database
 - Analysis, “FAWG”
 - Prioritization
 - Examination
- Regulatory Approval for Significant, Risk-related Transactions/Activities
- Hazardous Financial Condition Regulation
 - Most often used for enforcement
- Risk-Based Capital – RBC
 - Legal authority without a lengthy court battle

What Are Some of the Changes that Might Impact Actuaries?

- Holding Company Requirements
 - “Form F” Enterprise Risk Reporting
- Statutory Accounting
 - influence of international accounting - reserve discounting & risk margins?
- Risk-Based Capital (RBC) Requirements
 - Continued focus on *weakly* capitalized companies
 - potential replacement of Square Root Formula
 - Focus on Catastrophe risk
- ORSA – Own Risk and Solvency Assessment

Why Are We Proposing an ORSA?

- Comply with FSAP
 - "Each country pledges to review and report on its regulatory system . . . (A)ll G-20 members commit to undertake a Financial Sector Assessment Program (FSAP) report."
 - November 2008 G20 Financial Summit declaration
- Supervise internationally active groups
 - International Association of Insurance Supervisors (IAIS) develops the insurance supervisory standards through Insurance Core Principles (ICPs) that are used by the International Monetary Fund (IMF) to perform the FSAP.
 - Internationally Active Groups – IAIS ComFrame; Solvency II

Why Are We Proposing an ORSA?

- Improve Solvency Regulation in the U.S
 - Well-executed risk management improves a company's changes of continuing to operate in a strong and healthy manner.
 - Quantitative analysis should improve the assessment of (hazardous) financial condition.
- Assist the Regulator with Risk-Focused Examinations
 - Frequency and depth of exams
- Aid the Ability to Evaluate the Industry's Ability to Withstand Stresses

U.S. ORSA

- Section 1: Risk Management Policy
- Section 2: Risk Quantification & Stress Tests
- Section 3: *Prospective* Solvency Assessment

U.S. ORSA Section 1: Risk Management Policy

- Identify material risks & describe policies.
- Describe how risks are monitored & managed.
- Describe the relationship between risk tolerance and capital requirements (both regulatory and economic).
- Disclose how this policy is used in day-to-day operations.

U.S. ORSA Section 2: Quantitative & Stress Tests

For each major risk:

- Quantify risk exposure
 - Under Normal Environment
 - Under Stressed Environment
- Reverse stress test
(level of stress which could cause the insurer to fail)

Expect no standard stress tests but some regulatory input on the level of stresses (e.g. a 5% increase).

U.S. ORSA Section 3: Prospective Solvency Assessment

A feedback loop...

Do you have the necessary financial capital or quality of capital to...

- ✦ Execute a 3-5 year business plan?
- ✦ ...under normal and stressed situations?
- ✦ What are your Contingency plans?

U.S. ORSA – Not Yet Adopted; Issues/Challenges Remain

- Confidentiality
- Proportionality/Exclusions
- Implementation Authority
- Reward/Penalty
- Group or Legal Entity
- Fit within the US regulatory framework/Overlap
- Reporting Requirements
 - Regulatory influence on the ORSA (prescriptive), Uniformity/International Convergence, Frequency

Want More Info.?

NAIC Website www.naic.org

- Solvency Modernization Initiative button
- Consultation papers on capital requirements, accounting/valuation issues, governance, and risk management
- Links to Task Forces & Working Groups
- Updates & SMI Roadmap

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