Own Risk and Solvency Assessment (ORSA) Summary
Sample Outline Including Explanations

Per the National Association of Insurance Commissioner’s October 2012 CIPR Newsletter,

“An ORSA is an internal process undertaken by an insurer or insurance group to assess the adequacy of its risk management and current and prospective solvency positions under normal and severe stress scenarios. An ORSA will require insurers to analyze all reasonably foreseeable and relevant material risks (i.e. underwriting, credit, market, operational, liquidity risks, etc.) that could have an impact on an insurer’s ability to meet its policy holder obligations.”

Title/Cover Page
- Insurer or Insurance Group Name (GM p3)*
- Basis of Accounting (ex. GAAP, IFRS, SAP) (GM p3)
- Date or Time Period the Numerical Information Represents (GM p3)
  - The ORSA Summary should be based on the most current reporting period (FB #20)
- Date of Submission to Department of Insurance (DOI) (GM p4)
  - The NAIC recommends each insurer/group work with their DOI to determine a filing date, as the NAIC and DOI understand that each insurer/group’s enterprise risk management (ERM) process, which is the foundation of the ORSA, may conclude at different times throughout the year. (FB #28)
  - Upon submission, the NAIC recommends each insurer/group schedule a meeting, webinar or conference call with the DOI to walk through the ORSA Summary and answer any DOI questions. (FB #29)

Table of Contents (FB #2)

Summary of Material Changes from the Prior Year ORSA Summary (GM p3)

Organization Chart (GM p3)

Mapping of Legal Entities to Business Units (GM p7)
Examples of business units may include types of insurance or lines of business, among others.
- Flowchart by business unit (FB #5)
- Table listing business units in the first column and the corresponding legal entity(s) in the second column (FB #5)
Section 1: Description of the Insurer’s Risk Management Framework (GM p6)

Although the title uses the word Insurer’s, this section is required to be completed by insurers and insurance groups.

- Risk Culture and Governance (GM p6)
  - Table of Risk Owners (FB #15)
    - List of departments or business units that identifies responsibilities/accountabilities (FB #15)
    - Identify individuals/groups/committees responsible for establishing:
      - ERM strategies
      - Risk appetites
      - Tolerances and limits
      - Managing risk day-to-day
      - Assessing ERM effectiveness
      - Other
    - Table identifying: (FB #15)
      - Risk owner
      - Assigned risk
      - Role and responsibility
      - Committee, department or chief officer they report for risk governance purposes
  - Explain how compensation and other incentives are tied to ERM; brief explanations of the compensation and incentive plans are helpful (FB #17)

- Risk Identification and Prioritization (GM p6)
  - Describe how the insurer/group identifies risks, categorizes those risks and manages those risks (GM p6)
  - Risk categories may include, but are not limited to: (GM p7)
    - Credit risk (GM p7)
    - Market risk (GM p7)
    - Liquidity risk (GM p7)
    - Underwriting risk (GM p7)
    - Operational risk (GM p7)
    - Reputational risk (GM p7)
    - Risks associated with intercompany dependencies (FB #24)
    - Information technology risks, including, but not limited to: (FB #25)
      - Information security (FB #25)
      - Business system failure (FB #25)
      - Costly use of resources (FB #25)
  - Include heat maps to identify key risks; include a brief explanation/interpretation (FB #18)
  - Identify the priority ranking/rating of each material risk using lists, charts, graphs or dashboards (FB #26)

- Risk Appetite, Tolerances and Limits (GM p6)
  - Formal risk appetite statement(s) (GM p6)
  - Formal risk tolerance statement(s) (GM p6)
  - Formal risk limit statement(s) that identify actual limits (FB #7)
  - Explain the relationship between risk tolerances and the amount and quality of risk capital (GM p6)
  - Explain changes made to prior statements and relationships, including the following: (FB #8)
    - Why the change was made
    - Who within the risk management structure approved the change
    - The decision process for implementing such changes
• Risk Management and Controls (GM p6)
  o Describe the risk monitoring process, including but not limited to: (GM p6)
    ▪ Assessment tools used to monitor and respond to changes in the insurer/groups risk profile
      resulting from: (GM p6)
      • Economic changes (GM p6)
      • Operations changes (GM p6)
      • Business strategies changes (GM p6)
    ▪ Risk mitigation activities (FB #10)
  o Include a flow chart to illustrate how ERM and controls flow within the organization (FB #16)
• Risk Reporting and Communication (GM p6)
  o Describe how the insured/group reports on the risk monitoring process to key constituents
    ▪ Include a table of key constituents (GM p6)
  o Describe the frequency of the communications (GM p6)
Section 2: Insurer’s Assessment of Risk Exposure (GM p7-8)

Although the title uses the word Insurer’s, this section is required to be completed by insurers and insurance groups.

- High level summary of quantitative and/or qualitative assessment or risk exposure in: (GM p7)
  - Normal environment (GM p7)
  - Stressed environment (GM p7)
    - Consider a range of outcomes using appropriate risk assessment techniques (GM p7)

- For each risk identified in Section 1, include detailed descriptions and explanations of: (GM p7)
  - Assessment methods used (GM p7)
    - Qualitative (GM p7)
    - Quantitative (GM p7)
    - The likelihood and impact of each risk on the balance sheet, income statement and future cash flows (GM p7)
      - Stress tests (GM p7)
        - Single (FB #11)
        - Combined (FB #11)
        - Market distress (FB #11)
        - Interest rate changes (FB #11)
        - Catastrophe(s) (FB #11)
    - Capital focused (GM p7)
    - Liquidity focused (FB #22)
      - Especially important for life insurers/groups (FB # 22)
      - Discuss sources of liquidity and contingent financing (FB # 22)
  - Stochastic analysis (GM p7)
  - Consider impacts of stresses on capital, including: (GM p7)
    - Risk capital requirements (GM p7)
    - Available capital (GM p7)
    - Regulatory view of capital requirements (GM p7)
    - Economic rating agency view of capital requirements (GM p7)
    - Other views as needed (GM p7)
  - Describe process for model validation (GM p7)
    - Factors considered (GM p7)
    - Model calibration (GM p7)
    - Key assumptions made (GM p7)
      - Current anticipated experience (GM p7)
      - Future anticipated experience (next year or multiple future years) (GM p7)
      - Consideration of expert judgment (GM p7)
  - Outcomes of any plausible adverse scenarios (GM p7)

- Analysis should be conducted consistent with how the business is managed (GM p7)
Section 3: Group Assessment of Risk Capital and Prospective Solvency Assessment (GM p8-11)

Although the title uses the word Group, this section is required to be completed by insurers and insurance groups.

- Group Assessment of Risk Capital (GM p8)
  - Provide an overall determination of risk capital needs of the insurer/group based on (GM p10)
    - Nature of risk (GM p10)
    - Scale of risk (GM p10)
    - Complexity of risk (GM p10)
    - Risk appetite (GM p10)
  - Risk capital is the capital needed by an insurer/group to achieve its business objectives, not the minimum amount of capital before regulatory action is triggered (GM p10)
  - Compare risk capital to available capital to assess adequacy (GM p10)
  - Provide a comparative view of the current year to prior year risk capital; explain changes that are not explained in another section of the summary (GM p9)
  - Describe the approach used to analyze the assessment of risk capital requirements, including, but not limited to:
    - Key methodologies (GM p9)
    - Assumptions (GM p9)
    - Considerations, such as (GM p9)
      - Definition of solvency (GM p9)
      - Accounting or valuation basis (GM p9)
      - Business included in the analysis (GM p9)
      - The time horizon over which risks were modeled and measured (GM p9)
    - Risks included in the modeling (GM p9)
      - Credit risk (GM p9)
      - Market risk (GM p9)
      - Liquidity risk (GM p9)
      - Insurance risk (GM p9)
      - Operational risk (GM p9)
    - Method used to quantify the risk exposure (GM p9)
      - Deterministic stress tests (GM p9)
      - Stochastic modeling (GM p9)
      - Factor-based analysis (GM p9)
    - Measurement metric used to determine aggregate risk capital (GM p10)
      - Value at Risk (VAR) (GM p10)
      - Tail Value at Risk (TVAR) (GM p10)
      - Probability of Ruin (GM p10)
    - Describe the defined security standard used in the determination of risk capital requirements; include links to business strategy and objectives (GM p10)
    - Describe the method used to aggregate risks and any diversification benefits contemplated in the group risk capital determination (GM p10 & FB #13)
      - Describe how complex capital models are calculated (FB #13)
      - When multiple capital model are used, include graphical illustrations for easy comparison of the model results (FB #19)
  - Prospective Solvency Assessment (GM p11)
    - Demonstrate the insurer/group has the financial resources to execute its multi-year business plan (GM p11)
Project the future financial position, including projected economic and regulatory capital, to assess the ability to meet regulatory capital requirements; consider the following current conditions: (GM p11)
- Risk profile (GM p11)
- Risk management policy (GM p11)
- Quality and level of capital (GM p11)
- Anticipated changes to the current risk profile caused by executing the business plan (GM p11)
- The assessment should be conducted using normal and stressed environments (GM p11)
  - Discuss prospective risks, including (FB #9)
    - Risk exposures expected to increase in the future (FB #9)
    - Steps the insurer/group plans to take to manage the risk exposure (FB #9)
    - “Prospective” refers to known and potential or “emerging” future risks (FB #9 & #23)
      - Identify key emerging risks (FB #23)
      - Describe how emerging risks are elevated to current risk status within the risk identification and management process (FB #23)
  - If the insurer/group does not have sufficient available capital (quantity and/or quality), describe management actions taken (or planned) to remedy capital adequacy concerns. (GM p11)
  - If the prospective solvency assessment is prepared at the group level, explain the methodology used to allocate group capital to individual legal entities (GM p11)
Attestation by Chief Risk Officer (CRO) (GM p4)
- Signature of CRO or other executive with risk management oversight responsibility (GM p4)
- Contact information of signing CRO or other executive (FB #27)

Glossary of Terms (FB #6)
- Include terms and acronyms specific to the insurer/group
- Include terms that may be defined or interpreted differently

Appendix (FB #21)
- Attach any documentation that is incorporated by reference, OR (FB #21)
- Include a chart that lists all documentation incorporated by reference and the contact information of the person responsible for providing the documentation upon request (FB #21)
- Examples of such documentation are as follows:
  - Risk Management Policies and Programs (GM p4)
    - Underwriting Policy (GM p4)
    - Investment Policy (GM p4)
    - Claims Policy (GM p4)
    - Duration or Asset-Liability Management Policy (GM p4)
    - Reinsurance Counterparty Policy (GM p4)
    - Operational Risk Policy (GM p4)
  - ORSA Process Results (internal risk management materials) (GM p3)

General Comments
- The ORSA Summary report should contain the same basic elements of what is reported to the Board of Directors regarding the ERM process. (FB #1)
- For certain data elements, provide a illustration of the historical trend over a multi-year period (three to five years) (FB #4)
  - Economic model parameters (FB #4)
  - Liquidity ratios (FB #4)
  - Graphs depicting different risks (FB #4)
- When using tables and graphs, include a key/legend or explanatory text when such tables and graphs include complex data elements, abbreviations or acronyms (FB #12)

*Sources*
GM: NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual:
The GM references point to the page number within the Guidance Manual.

FB: Own Risk and Solvency Assessment (ORSA) Feedback Pilot Projects Observations of the ORSA (E) Subgroup 2012-2013 Feedback to Industry:
http://www.naic.org/documents/committees_e_orsa wg_related_docs_pilot_feedback.pdf
The FB references point to the observation number within the Feedback.