

## Financial Institution Compliance Update



April 8, 2014

*This communication is designed to provide you with quick snapshots and timely perspective on recent regulatory developments.*

### ORSA Update: New reporting requirements and what these rules mean for your organization

#### Background

On January 30, 2014, the ORSA Subgroup of the National Association of Insurance Commissioners (NAIC) issued their observations from the review of the ORSA Summary Reports that were filed as a part of the 2012 and 2013 ORSA pilot project.

Below is a summary of the ORSA's Subgroup's comments that will help insurers improve their compliance with the ORSA Subgroup's filing expectations. Various items will be included in the updated *ORSA Guidance Manual* which is currently under development. We believe a comprehensive ORSA filing, including a strong ERM function and robust solvency assessment, will not only achieve the compliance and risk management objectives set by the NAIC but also provide insurance organizations with an enhanced ability to achieve their strategic goals.

The full report may be found [here](#).

#### Contact us

If you have specific questions regarding the regulatory content and commentary of this message, please contact:  
[knowledge@experis.com](mailto:knowledge@experis.com)

## ***Overview of ORSA's reporting requirements***

1. Foundation of Report. Filers should consider developing the ORSA report from the reporting of ERM results to the board of directors with the report including the same basic elements of what is reported to the board. The ORSA Summary Report should not be viewed as a regulator only compliance report that is different and apart from information provided to the board of directors.

2. Table of Contents. A comprehensive table of contents should be provided.

3. Provide an executive summary for large, complex ORSA reports. The length and format of an executive summary will vary depending on the size and complexity of the ORSA.

4. Provide comparative view of multi-years of financial data provided in the report.

Trending of certain information is important to understand evolutionary changes in risk models. For certain data in the report, it is beneficial to see the historical trend illustrated over a multi-year period of three to five years, such as:

- Economic model parameters to allow reader to view how the parameters changed.
- Liquidity ratios.
- A variety of graphs depicting different risks.

5. Mapping of legal entities to business units described in the report. A chart showing the various legal and operating entities is helpful to understanding the organizational risk structure.

6. Glossary of terms and acronyms that are not defined in the body of the report.

7. Detail of actual risk limits to support the assertion that the Company has risk limits. The listing of key risk limits that are significant to the insurer should be stated in the report.

8. If risk limits, appetites and tolerances have changed, discuss the change. An explanation of why the change was made to the risk appetite and tolerances, the approval process for the change, and the decision process for implementing these types of changes are important to understanding the risk profile and risk management process.

9. Discuss risks prospectively. Including a prospective discussion of risks, including an overview of risk exposures expected to increase or decrease in the coming years and steps the insurer/group plans to take that may change risk exposures, is a significant element of the reporting process. The term "prospective" includes both known and potential future risk.

10. Discuss Risk Mitigation. This overview will aid understanding the management and control of significant risks and to also recognize where residual risks exist that are not mitigated.

11. Perform combined stress scenarios in addition to single stress scenarios. For example, combine market distress, interest rate changes and catastrophes.

12. When using tables and graphs, provide an explanation of the table or graph. Explanations help clarify the intent of a table or graph and their impact on risk management.

13. Provide an explanation of how capital models are calculated and discuss the group capital analysis performed by the insurer/group. Graphs are easier to understand when sharing capital amounts if they are accompanied by an explanation of how the insurer calculates

its capital model.

14. If the insurer is international, include overall group capital computation.

While there is a group capital assessment in the U.S., the international standards for group capital may differ. As a result, it was determined beneficial to include a description of their group's overall group capital.

15. Provide a list of risk owners (i.e. department accountable for the risk). This information helps regulators understand the structure of the overall ERM Framework for the insurer/group.

16. Flowchart of Risk Management & Control. A flowchart or detailed explanation of how enterprise risk management and control processes flow within the organization, bottom-up, top-down or both, provides the regulator with an understanding of the overall risk management structure.

17. Explanation of how compensation and incentives are tied to risk management. This information should help with understanding the corporate risk culture.

18. Inclusion of Heat Maps. The inclusion of heat maps along with an explanation helps identify key risks of the insurer.

19. When using multiple capital models, create a graphical illustration to compare the different model results. Where necessary, include a table that shows each model side-by-side including such information as the definition, assumptions, and target versus actual capital.

20. Use of Most Current Data. Identify available capital and required capital for the most current reporting period. In addition, when the report identifies that ERM data and reports are evaluated or calculated quarterly, it is helpful to include information for the most recent quarter.

21. References to other ORSA documents. If other documents were referenced in lieu of further explanation, such documents should be readily available upon request, and/or attached to the ORSA Report. Also, an appendix of reports and tools actually used by the insurer provides the regulator a good sense of what information is used by ERM committees and the board of directors who oversee the insurer ERM.

22. Provide more stress testing on liquidity, especially for life insurance business, rather than a single focus on capital. As an example, provide detailed stress scenarios regarding liquidity position along with a brief explanation. Also consider including a discussion on sources of liquidity and contingent financing.

23. Discuss emerging risks in the prospective risk section of the ORSA.

As the risk of future events is a key component of the regulatory risk-focused process, understanding the emerging/prospective risks identified in the ORSA will help regulators focus their examination and analysis of the insurer. In addition to knowing that emerging risks are monitored, commentary on process of identifying the key emerging risks and how those emerging risks are elevated from an emerging status to a current risk should be presented in the report.

24. Identify risks associated with intercompany dependencies. Intercompany business operations and risks that have an impact on the insurer should be described in the report.

25. Include a discussion of information technology risk. Information technology risks

should include details such as information security, business system failure, and costly use of resources, etc.

26. Risk Ranking/Rating. Risk rating can be provided in varying formats such as lists, charts, graphs, or dashboards. Risk ratings should be fully explained.

27. Attestation Placeholder. The ORSA filing contains a requirement for an attestation and signature. Reports must include a section for the attestation along with contact information.

28. Expected Filing Date. In advance of the filing year, the insurer and lead state regulator may want to consider gaining clarity regarding when the insurer expects to file the ORSA Summary Report.

29. Walk-Through Discussion with Regulator. After filing the ORSA report annually, the insurer and lead state regulator may want to schedule a meeting to jointly walk through their ORSA report and answer questions from the regulator.

### ***What do these new ORSA rules mean for you?***

- ORSA will have significant implications for many insurance organizations. From a risk management perspective, we expect insurance organizations will need to perform a comprehensive review of their current risk management governance structure and overall risk management framework to determine that they meet the compliance requirements of the new regulations.
- In addition to review of the risk framework, we envision further board involvement in approving risk appetites, tolerances and enhancements to existing “risk assessments” and policy and procedure documentation to demonstrate compliance. Further, the Solvency Assessment portion of ORSA will place significant emphasis on the validity of risk models and the underlying data integrity of the information used in the models.
- We believe the evaluation of the existing framework should include a comparison of an insurance organization’s current risk management practices against a globally framework such as the Enterprise Risk Management Framework prepared by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) or other widely recognized enterprise risk management framework. From this evaluation, resourcing, technology support and a program management office should be evaluated to ensure timely compliance.
- The NAIC announced a 2014 ORSA pilot project which will allow companies participating in the project to provide their ORSA for regulator review of their specific filing. To participate in this pilot, insurers should e-mail their regulator of their intent to participate by May 1, 2014 and submit their ORSA by July 1, 2014. We encourage insurers to take advantage of this opportunity to get an advance assessment and enhance their actual ORSA filing in 2015.

### ***Final considerations***

These new ORSA rules may seem overwhelming. However, by becoming familiar with the changes and how they affect your organization, your company can be better prepared to comply with the new rules and for your next examination. Deadlines for compliance with these new requirements are aggressive. We strongly encourage organizations to start now to reach compliance by 2015.

If you have any questions regarding these changes or how to prepare for this compliance, contact your local Experis Finance professional or email us at [knowledge@experis.com](mailto:knowledge@experis.com). Experis Finance

offers industry experience in all aspects of ERM including: organizational design, infrastructure, governance, program initiation, comprehensive risk assessments, controls and monitoring techniques, management information systems and board reporting.

