TO: Becky Meyer
FROM: The INS Companies
DATE: May 16, 2014
SUBJECT: Proposed ORSA Guidance

Introduction:

The INS Companies are pleased to provide comments concerning the Financial Condition Examiners Handbook Revisions issued March 18, 2014, by the Financial Examiners Handbook (E) Technical Group. First, we would like to thank the working group and NAIC staff for all their hard work.

The proposed revisions included two items. Our comments follow.

ORSA Analysis Guidance:

- The initial review and walkthrough of the ORSA Summary Report should involve a multi-functional team of department staff (for example, analyst, examiner, and actuary) and the findings/suggestions be discussed by the multi-functional team before being documented and referred to the financial examination staff. While that seems to be included in the analysis handbook, we suggest similar wording for the examiners’ handbook.

- We would like to see a list of suggested verification/areas of focus for the financial examination as well as the purpose of such suggestions.

- Under the section, “More Specific Considerations for Reviewing Section III – Group Capital,” we believe that this suggestion should be revised to have the actuary participate in any discussions between the analyst and company. The actuary could ask clarifying questions and provide input during the interview process.
ORSA Exam Guidance:

- Due to the extent and purpose of the ORSA assessment, could this be done earlier and separately from the general RFS exam?

- Section I should acknowledge other ERM frameworks besides RIMS, such as COSO, ISO, IAIS ICP’s, Sol II 3-Pillars, EU/EIOPA Directives.

- In Section 1, it is not clear whether the ORSA Summary Report will include a work plan for the examiners’ testing of the risk management processes and practices.

- We feel that some discussion of the use of CPA or Internal Audit workpapers during the ORSA review should be included, if applicable.

- We feel that some discussion of the impact of IT general controls should be included.

- We feel that the mixing of the Branded Risk Classifications and 10 Critical Risk Categories as a measuring guide for the ORSA evaluation is confusing.

- Current guidance uses corporate governance ratings of favorable/unfavorable and risk assessments of low, moderate, and high. The relationship between those ratings and the ORSA review of the Five Key Principles and Six Levels of Corporate Governance Practices should be clarified.

- There should more guidance on a direct link from the ORSA review to exam procedures.

- We would like to see guidance on how the ORSA review relates to Enterprise Risks reported on Form F of the Holding Company filing.

- Under the Key Principle of Risk Culture and Governance, Leadership Practices section, it states, “The Board of Directors establishes the framework and the risk culture and approves the risk appetite statement in collaboration with the chief executive officer (CEO), chief risk officer (CRO) where applicable, and chief financial officer (CFO).” We feel that the wording of “establishes the framework” should be replaced with “is responsible for and oversees the framework.” The changed wording would then be consistent with wording in the NAIC Model Holding Company Act.

- The Initial Analyst Assessment under Risk Reporting and Communication provides examples. It is not clear if that is intended to be one compound example or separate examples.

- Under the section concerning Internal Capital Models the document states that risk diversification should theoretically reduce the amount of capital that an entity may need to hold
at one time. We feel that adding some examples of risk diversification would clarify the explanation.

- We feel additional guidance is necessary on how to document the impact of the ORSA review on the assessment of inherent risks.

- Risk tolerances and limits set by the company may represent strategies / controls that can be relied upon to mitigate risks in Phase 3 of the examination process or to address overarching prospective risks. Is that understanding correct?

- In Section E. Review of Section III Group Assessment of Risk Capital, the guidance should indicate the role of the actuary in the review.

It has been our pleasure to provide the foregoing comments. Should you have any questions or wish to discuss these comments further, please contact Pat Casey Davis at pcasey@insris.com or 239-673-7716 or Barry Armstrong at barmstrong@insris.com or 267-239-8914.