Mr. James Hattaway,
Co-Chair, Risk-Focused Surveillance Working Group
National Association of Insurance Commissioners
Attn: Ms. Becky Meyer, Financial Examination Manager
Via e-mail: bmeyer@naic.org

Re: Draft ORSA Financial Analysis and Examiners Handbook Guidance

Dear Mr. Hattaway:

The undersigned Interested Parties thank you for the opportunity to comment on the Risk-Focused Surveillance (E) Working Group’s (RFSWG) draft ORSA Financial Analysis and Examiners Handbook Guidance, both of which were re-exposed during the Working Group’s June 13th conference call. We appreciate the Working Group’s willingness to incorporate many of our previous comments as outlined in the comment letter submitted on May 19th. We welcome the opportunity to provide additional comments that we have noted in the currently re-exposed versions.

Many of the additional comments are either intended to address concerns from our May 19th letter that may have not been fully addressed or to ensure that both Handbooks treat related areas in a similar manner. We have outlined our general concerns below with both the Analysis and Examiners Handbooks and have included specific comments as to each Handbook in the attached track changes versions of the Handbooks. We appreciate the opportunity to provide these additional comments and look forward to a continued collaboration as the Working Group continues to refine the ORSA Handbook additions.

GENERAL CONCERNS

1) **Conflict with ORSA Guidance Manual** – Both Handbooks reference “required” documentation and filings that are not referenced by the guidance provided in the ORSA Guidance Manual. While we recognize that the Manual has an intended audience of industry representatives and filers, and that the Handbooks have the analysts and examiners as their intended audience, nevertheless, the NAIC should not be providing conflicting guidance to the different audiences. Analysts and Examiners must be trained to review the ORSA Summary Report in accordance with the Manual with which it was prepared or the entire purpose of creating an ORSA Summary Report that is consistent with the guidance in the Manual is undermined. Furthermore, we have included revisions to the preamble and background sections of the Examiners Handbook to better align it with the Analysis Handbook, which more accurately follows the Manual.

2) **Premature** – High level ORSA Summary Reports are still in the testing and pilot phase, with only a limited number of preliminary reports reviewed to-date. Therefore, there is a very limited set of experiences upon which regulators and industry can draw for any generalizations regarding expectations for the ORSA Summary Reports, as they get filed for
the first time in 2015. Therefore, the depth and breadth of the Handbooks at this time is premature. We suggest that developing detailed specifications about how each aspect of the Manual should be reviewed should be undertaken only after we have learned from the pilot projects and the initial submission of the ORSA Summary Reports in 2015. Rather than rushing to develop draft guidance before industry and regulators have learned from the new submissions, we urge the Working Group to undertake the same process that was used when risk-focused examinations were first introduced, which was to post general guidance on the NAIC’s website while simultaneously developing and rolling-out specific training programs.

3) **Use of the ORSA Summary Report** – The Handbooks throughout reference the “use” of the ORSA Summary Report by company Boards of Directors. We suggest this reflects a possible misunderstanding of the intent behind the creation of the ORSA Summary Report. Companies, in the absence of regulatory requirements, do not create an “ORSA Summary Report” for their own use. Companies *perform* their “own risk and solvency assessment” in order to ensure that they have an understanding of their own risks, and that the company is well positioned to maintain its solvency in the face of those risks. This is an ongoing series of processes and analyses that have no real “beginning” and no real “end” but are instead, a continuous cycle of self-evaluation. In order to require companies to report on this self-evaluation, the NAIC developed a “Summary Report” which is created only and solely for use by regulators. Boards of Directors are involved in the company enterprise risk process in real time, and on an on-going basis. They (i.e. Boards) do not need the same reporting process or report required by a regulator because they are involved in the ORSA process and company oversight. Instead they would typically rely on their own reporting process designed to meet their needs, not regulator needs.

Reporting to the Board of Directors will be informed by the ORSA framework; however, the Board oversees management’s actions. It does not manage the day-to-day operations of the company.

4) **Inclusion of ORSA Summary Report in work papers** – The draft guidance should make it clear that under no circumstances should the ORSA Summary Report itself be included in the analysis or examination work papers. The ORSA Summary Report contains highly confidential business model and trade secret information. ORSA Summary Reports included in work papers may not always receive the same high level of confidentiality protection as is afforded to the ORSA Summary Report under the Risk Management and Own Risk and Solvency (RMORSA) Model Act.

5) **Lead State** – We appreciate the inclusion of Lead State before many references to analyst and examiner. However, there remain several instances in the draft guidance that should include direct references to Lead State. We have attempted to include these additional references in the attached track changes versions of the Handbooks submitted with this letter, where applicable.
6) **Too much expected from a “high level” summary** – The draft guidance is extraordinarily detailed, and instructs analysts and examiners to perform a detailed evaluation and analysis of what the Manual itself describes as a “high level” Summary Report. The Handbooks require the analysts and examiners to make fine, granular assessments that normally would be impossible without significantly more detail than will be included in an ORSA Summary Report. The ORSA Summary Report is not designed or intended to provide this level of detail. Therefore, the Handbooks are setting the analysts and examiners up for an impossible task, given the material provided, and underscore the need to develop detailed training, and high-level guidance, rather than the list of specifics currently included in the Handbooks. Furthermore, this document focuses more on the ORSA Summary Report than on the ORSA process itself. This is also a problem in that even companies exempted from filing an ORSA Summary Report will still be subject to ERM requirements.

7) **Capital modeling and capital assessments** – The draft guidance regarding group capital assessment implies far more precision than the science of risk assessment and risk modeling can produce. The draft guidance should focus more on ranges of results and acknowledge shades of gray in the science, rather than looking for precise values.

8) **Incorrect focus on the nine branded risk categories** – The ORSA process and reports are intended to provide for insight into an insurer’s own unique risks and view on those risks. The risk-focused exam is then meant to focus on the most material and relevant risks, ideally utilizing the ORSA to provide insight on where to focus the examination. This may be undermined by focusing the draft guidance on the nine branded risk categories, especially where the Handbooks direct the analysts and examiners to use those categories for their documentation of the analysis and exam. Rather than focusing on the risks identified by the ORSA, this draft guidance seems to direct the analyst and examiner to focus on the “nine branded risks” in structuring their analysis and examination and documenting the result. The risk to this approach is that the analyst and examiner, by focusing on the “nine branded risks,” may omit or ignore real risks, because companies are being required to assess their risks in the same manner. A non-standardized assessment will better highlight areas for further discussion.

9) **Risk review – generally** – The language throughout the draft guidance should include the phrase “reasonably foreseeable and relevant material” before “risk” in all instances. Risks that are not reasonably foreseeable, or are not either relevant or material should not be considered. It is important that analysts and examiners exercise their educated, professional judgment in determining that which is important to solvency oversight, and that which is immaterial. While we appreciate that the draft guidance now includes many of our suggested uses of this phrase, several additions of the phrase are still required.

10) **Use of Insurer and Insurance Group** – The draft guidance should use the term “company” throughout rather than the terms insurer or insurance group. By avoiding the latter two terms, the Working Group will simplify the draft guidance, making it more reader friendly.
It does not appear to add any clarity by differentiating between insurer and insurance group given the draft guidance’s focus on the Lead State concept.

We thank you for your consideration and response to our concerns. The Interested Parties, as noted below, agree with the comments contained in this letter.

<table>
<thead>
<tr>
<th>Organization</th>
<th>Name</th>
<th>Phone Number</th>
<th>E-mail Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Council of Life Insurers</td>
<td>Kelly Ireland</td>
<td>202-624-2387</td>
<td><a href="mailto:kellyireland@acli.com">kellyireland@acli.com</a></td>
</tr>
<tr>
<td>American Insurance Association</td>
<td>Adam E. Kerns</td>
<td>202-828-7163</td>
<td><a href="mailto:akerns@aiadc.org">akerns@aiadc.org</a></td>
</tr>
<tr>
<td>America's Health Insurance Plans</td>
<td>Bob Ridgeway</td>
<td>501-333-2621</td>
<td><a href="mailto:bridgeway@ahip.org">bridgeway@ahip.org</a></td>
</tr>
<tr>
<td>BlueCross BlueShield Association</td>
<td>Joseph E. Zolecki</td>
<td>312-297-5766</td>
<td><a href="mailto:joseph.zolecki@bcbsa.com">joseph.zolecki@bcbsa.com</a></td>
</tr>
<tr>
<td>National Association of Mutual Insurance Companies</td>
<td>Michelle Rogers</td>
<td>307-875-5250 x1070</td>
<td><a href="mailto:mrogers@namic.org">mrogers@namic.org</a></td>
</tr>
<tr>
<td>Property Casualty Insurers Association of America (PCI)</td>
<td>Stephen W. Broadie</td>
<td>847-553-3603</td>
<td><a href="mailto:steve.broadie@pciaa.net">steve.broadie@pciaa.net</a></td>
</tr>
<tr>
<td>Reinsurance Association of America</td>
<td>Joseph B. Sieverling</td>
<td>202-783-8312</td>
<td><a href="mailto:sieverling@reinsurance.org">sieverling@reinsurance.org</a></td>
</tr>
</tbody>
</table>